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Folder Title: Travel Briefings: Germany - Travel briefs 01

Folder ID: 1772868

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: July 16, 2013

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THE WORLD BANK
Washington, D.C.

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McNamera Papers

Travel on
March 6

The Woodward Group
Archives
1772868
A1995-259 Other #: 23 309704B

Foldest 0/2

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A

VISIT TO GERMANY, March 6-10, 1979

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
March 6 Tues.	1330 2335	1830 2235	Depart Washington--Dulles Arrive Paris--de Gaulle (transfer to Orly by Bank car)	AF54 SST
March 7 Wed.	0950 1055 1300 1500 1600 1630	0850 0955	Depart Paris--Orly Arrive Cologne Lunch hosted by Minister Offergeld Meeting w/Chancellor Schmidt Meeting w/Willy Brandt	LH125 B737 nonstop Hotel Königshof " "
March 8 Thurs.	1100 1500 1530 1800		Press Conference together w/Minister Offergeld Meeting w/President of Parliament, Mr. Carstens Meeting w/members of Parliamentary Committee for Economic Cooperation Speech to Discussion Group for economic and political issues, Friedrich-Ebert Foundation, followed by dinner at Political Club given by Board of Directors of Friedrich-Ebert Foundation	
March 9 Fri.	0830 1000 1130 1145 ca. 1230 ca. 1430 1615 1725 2000 1755		Meeting w/Under-Secretary Hermes Depart Bonn Arrive Frankfurt Meeting w/Bundesbank Vice President Poehl Lunch hosted by Mr. Poehl (w/private bankers) Meeting w/Minister of Finance Matthoefer Depart Frankfurt Arrive Paris--de Gaulle Depart Paris--de Gaulle Arrive Washington--Dulles	Foreign Office By car Mr. Rotberg will join you AF749Y B727 nonstop AF053R SST

CKW
March 5, 1979

CONCORDE FLIGHTS TO AND FROM EUROPE

A. To Europe

1. Washington-Paris

Mon., Tues., Thurs., Sat.
Depart 1330 IAD
Arrive 2335 CDG

2. Washington-London

Wed., Fri., Sun.
Depart 1230 IAD
Arrive 2140 LHR

3. New York-Paris

Daily
Depart 1300 JFK
Arrive 2245 CDG

4. New York-London

Daily
Depart 1215 JFK
Arrive 2100 LHR

Mon., Tues., Thurs., Sat., Sun.
Depart 1000 JFK
Arrive 1845 LHR

B. From Europe

1. Paris-Washington

Mon., Wed., Fri., Sun
Depart 2000 CDG
Arrive 1755 IAD

2. London-Washington

Tues., Thurs., Sat.
Depart 1830 LHR
Arrive 1740 IAD

3. Paris-New York

Daily
Depart 1100 CDG
Arrive 0845 JFK

4. London-New York

Daily
Depart 1115 LHR
Arrive 1000 JFK

Mon., Tues., Thurs., Sat., Sun
Depart 0915 LHR
Arrive 0800 JFK

CKW
February 28, 1979

For background see attached notes on:

- (i) Mr. Offergeld's curriculum vitae plus personal sketch
- (ii) the organisation of German aid
- (iii) summary organisation chart of the Ministry for Economic Cooperation

Present: - Minister OFFERGELD (+ interpreter)

- Deputy Under Secretary in charge of multilateral aid, LEISTER

Dr. LEISTER (41 years)

studied law and economics

March 69 - Personnel Dept. Ministry of Economics

April 71 - Assistant to Economics Minister Schiller

July 72 - Assistant to Economics and Finance
Minister Helmut Schmidt

May 74 - Cabinet chief of Chancellor Helmut Schmidt

January 79 - appointed to present position

He has an excellent reputation as an administrator,
knows what is politically feasible and enjoys the
confidence of the Chancellor.

- Deputy Under Secretary in charge of bilateral aid, MOLTRECHT

- Assistant Deputy Secretary of multilateral aid, KERCKHOFF

Dr. KERCKHOFF (50 years)

a teacher by training

1957 - director of German Cultural Institute
New Delhi

1959 - senior official, German academic exchange
program

1963 - Ministry for Economic Cooperation in
charge of bilateral technical assistance

1971 - Director, German Institute for
Development Policy, Berlin

1974 - Ministry for Economic Cooperation in
charge of sector work

January 79 - appointed to present position.

- Division Chief, International financial institutions, BOEHMER.

IBRD

- Executive Director KURTH

- Messrs. MCNAMARA, CLARK, STECKHAN, KOCH-WESER.

Outlook for ODA thru 8/2/83

Issues which may be raised by the Minister:

- IDA replenishment
- capital increase
- possibilities of stepping up co-financing
- disbursement lags
- exchange of information between Bank and BMZ
- UNCTAD V
- salaries and recruitment of Germans

A private meeting between Mr. McNamara and Minister Offergeld before the luncheon seems impossible. Wednesday is cabinet day, and the Chancellor has given standing instructions that no minister is to make appointments before 2 p.m., hence, the 1 p.m. lunch is already a concession and the Minister is not likely to arrive much ahead of time.

If questioned on Germany's inadequate aid record (0.27 percent of GNP in 1977) the Minister may point to:

- the "quality" of German aid (only 10 percent tied)
- the high total flow of ODA and private funds combined (1.12 percent of GNP)
- the growing surplus non-oil LDCs achieve in their trade with Germany.

The Minister may also be interested to hear from you how changes in IBRD voting rights (especially Japan) will affect the position of Germany and Japan.

RAINER OFFERGELD

Minister for Economic Cooperation

Age 41, married, three daughters.

Education:

Highschool, study of law and economics at the universities of Freiburg, Frankfurt, Zurich and Lyon and at the Federal Academy of Finance. Worked as a notary public, as an official of the internal revenue service, and as a partner in a law firm.

Political career:

1963	member of the SPD
1969	member of the Bundestag
1972	Under Secretary for parliamentary relations in the Ministry of Finance
February 1978	Minister for Economic Cooperation.

The politician:

Mr. Offergeld has earned his reputation as a tax expert in the Ministry of Finance and as an efficient administrator. When Mr. Schmidt called him to the post of Minister for Economic Cooperation Mr. Offergeld had virtually no background in development policy. He is the fourth minister for aid since 1974, preceded by Erhard Eppler, Egon Bahr, and Marie Schlei. When Mr. Offergeld took office, it was generally agreed that the ministry did not need another new set of development concepts and new policy directions, but rather better management and consolidation. In January 1979, Mr. Offergeld, probably prompted by Chancellor Schmidt, carried out a drastic reorganization at the upper echelons of his ministry by dismissing three of his four deputy secretaries and by merging four departments into three.

Horst Moltrecht, formerly assistant deputy secretary, responsible for multilateral relations, and Klaus Dieter Leister, the cabinet chief of Chancellor Schmidt's immediate office became the new deputy secretaries. In his public statements about development policy Mr. Offergeld has been a little dry in his reiteration of conventional wisdom, stressing things such as aid for the poorest, rural development, debt cancellation for LLDCs, the need to increase German ODA, and Germany's excellent performance as an importer of LDC manufactures.

THE ORGANISATION OF GERMAN AID

Since 1972, the Federal Ministry for Economic Cooperation (Bundesministerium für wirtschaftliche Zusammenarbeit - BMZ) has had overall responsibility for programming German bilateral and multilateral technical and financial aid. Before that time the ministry, which was founded in 1961, had been responsible for technical assistance only, while capital aid remained with the Ministry for Economic Affairs (Bundeswirtschaftsministerium). The BMZ works in close coordination with the Ministry of Finance on budgetary matters, with the Ministry of Foreign Affairs where foreign policy issues are involved (e.g. Turkey), and with the Ministry for Economic Affairs where large-scale aid projects raise economic policy issues.

While the BMZ in Bonn fulfills essentially a planning and programming function, the appraisal and supervision of the projects themselves is handled by other organisations. Thus, technical assistance projects are mostly handled by a public corporation, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in Eschborn near Frankfurt, whereas investment projects and import programs are appraised and supervised by a government owned bank, Kreditanstalt für Wiederaufbau (KW) in Frankfurt. In case of a conflict between Frankfurt and Bonn (if, for instance, the BMZ insisted on financing a project for political reasons although KW's appraisal showed an inadequate justification), Bonn would be likely to prevail.

KW is a development bank with the dual purpose of promoting both the domestic economy in Germany and development in the Third World. As a domestic development bank, KW provided domestic loans (e.g. for small and medium-sized enterprises, environmental protection and underdeveloped regions in Germany) in 1978 of DM 4.7 billion and export credits etc. of DM 1.2 billion. As a bilateral development bank for the Third World, KW committed in the same period DM 2.2 billion (102 credits and 16 technical assistance grants). In other words, a little more than a quarter of KW's business is development aid. This is handled by a staff of 300 including 150 professionals (equal to about half of KW's overall professional and non professional staff of about 600).

A number of public and private organisations are active in the development field and receive budgetary appropriations from the Federal Government. Among them are the German Corporation for Economic Cooperation (DEG, which is the German IFC equivalent), the German volunteer service

(a kind of peace corps), the German Foundation for International Development with its large training program for LDC professionals, the principal political foundations (Friedrich Ebert Foundation of the Social Democratic party, Konrad Adenauer Foundation of the Christian Democrats and Friedrich Naumann Foundation of the Free Democrats), and church and youth organisations.

MINISTRY FOR ECONOMIC COOPERATION

Minister Rainer OFFERGELD

Under Secretary
(for parliamentary affairs)
Alwin BRÜCK

Under Secretary
Carl-Werner SANNE

Deputy Under Secretary
Horst MOLTRECHT
Bilateral aid
and regional development policy

Deputy Under Secretary
Klaus Dieter LEISTER
Multilateral aid
and sectoral policies

Deputy Under Secretary
Norbert BURGER
Relations with private
organisations and foundations;
administration and budget

Assistant Deputy Secretary
KERCKHOFF
Multilateral aid institutions

Division Chief
BÖHMER
World Bank / Regional banks

Mr. McNamara:

March 6, 1979

I just obtained the "latest news" from Mr. Kurth, who had just met with Minister Offergeld in Bonn:

(a) Increased German IDA Share. According to Offergeld, your meetings with the Chancellor and Matthoefer will be crucial. However, he doubts that you will receive any commitment because the decision will have to be made in the context of the over-all assistance program by the full Cabinet at their late-April "weekend closed session" (Klausur) on foreign aid and N/S strategy. This forebodes badly for the March Paris IDA meeting at which the German representative (Kerckhoff) will have no commitment authority.

(b) Japan/France on IBRD. The Germans want to keep out of it.

(c) GCI Paid-in Portion. It would be essential that Blumenthal and Matthoefer agree on a solution. Offergeld supports 5%; the opposition comes from Finance.

(d) Salary Supplements. Mr. Kurth cannot rule out that it might be raised by his superiors. He urges that you not sound negative at this point.

(e) Press Conference. Mr. Offergeld would like to meet with you 15 minutes before the press conference in order to agree on the line to take.

CKW

15. Disbursements. IBRD disbursements during the first half of FY79 totaled \$1,684 million, or about 50% of the projected level of \$3,400 million for the full year. IBRD disbursements now appear to be recovering from the slowdown experienced in FY77 and FY78. IDA disbursements continue to run at a somewhat lower rate than anticipated and amounted to \$488 million through the first half of FY79, 38% of the earlier estimate of \$1,300 million for the year. Our ongoing review of the Bank Group's disbursement experience indicates that performance in FY77 and FY78 was strongly affected by short-term economic factors in borrowing countries which were reflected in severe budgetary constraints and, in some cases, stagnant or declining investment levels. This resulted in both a slowing of the rate of growth of disbursements from the high rates experienced in FY74-76 and a fall in the disbursement rate. ^{1/} Other lending institutions and aid agencies (ADB, AID, ODM) also experienced these downturns even though the declines were from generally lower initial disbursement rates. The Bank Group disbursement rate was further affected by two other factors--a very high growth of commitments in FY74/75 and a decline in program lending. The rate of growth of IBRD commitments averaged 45.5% in FY74/75 and IDA commitments grew at an average rate of 33% in FY72-75. Total program lending dropped from an unusually high rate of \$430 million in FY75/76 to an average of \$185 million in FY77/78. A review of country programs suggests that the effect of short-term factors is receding and that budgetary stringencies are easing. Thus far this is reflected in the FY79 disbursement record for IBRD borrowers but not yet for IDA countries. Therefore, we are reducing the projection for IDA disbursements in FY79 from \$1,300 million to \$1,200 million. This revised estimate depends on a continuation of disbursement growth in the second half of the fiscal year.

16. Analysis focussing on the behavior of the IBRD/IDA disbursement rate during the past two decades reveals a secular downward shift of about 10 percentage points, from an average disbursement rate of around 34% in the sixties to around 24% in the seventies. The disbursement rate clearly depends on the growth rate of commitments; the acceleration in the average growth rate of commitments between decades explains about 1-2 percentage points of the downward shift in the disbursement rate. A further 2-3 percentage points is explained by the termination of disbursements to Part I borrowers. Another factor has been the change in the sectoral composition of the Bank's lending between decades. Together these factors explain about half of the secular downward shift in the disbursement rates. The remainder is due to other factors which are less readily quantifiable and whose long-term relevance is more difficult to assess. For instance, one element is the fact that IDA's disbursement rate has historically been lower than that of IBRD. The share of IDA commitments in the total was considerably higher in the 1970's than in the 1960's and the proportion of project lending in IDA has increased. A second factor is the increased complexity of the development objectives of member countries and consequently the increasing complexity of projects and programs.

^{1/} The disbursement rate is defined as the disbursements during the year expressed as a percentage of the undisbursed balance at the beginning of the year.

C

A. Differences between views of the LDC's
 The poorest need concessional aid
 II. M.I. C's need direct invest; long-term loans;
 - approx. success to com. base + trade

Stress: Efficiency (affectiveness)
 1. Emphasis on poorest countries (85%)
 2. Help them help themselves (don't give)
 3. Target the poor - low productivity
 helps rural productivity
 4. High rate of net invest cost cutting
 5. Efficiency internally: cost cutting
 6. After the fact evaluation 'reforming'

Meeting with Chancellor Helmut Schmidt (March 7 at 1500)

B. Design policies for mutual interest of plus - seen good
 e.g. trade: not free riding

For background, see attached

C. Recog that in an int. interdependent world
 we need for
 (i) Curriculum vitae
 (ii) statements by Chancellor Schmidt on development cooperation
 (iii) Mahbub ul Haq memorandum
 e.g. EMS
 Present: Chancellor SCHMIDT, probably accompanied by Minister OFFERGELD and Deputy Under Secretary SCHULMANN of the Chancellor's office (the latter is the Chancellor's economic adviser, the architect of the European Monetary System which is still in limbo, a former Deputy Director of IBRD's P&B Department, and previously a secretary-general of the German Council of Economic Advisers).

UNCTAD V FRG for

1. Trade (FRG has good record, stable lead - with int. trade) * + strong analytical or intell found (WBR (WDR) OECD; 3rd W. FRG int. trade)
 2. M.I. C. for stable
 3. Other than expecting
 4. More investment in IDA - support of sub IDA 6 (GDP 2% emphasis)
 8. Vol 7 + int. trade with these

IBRD: Mr. McNAMARA, possibly Messrs. STECKHAN and KOCH-WESER

Issues which may be raised by the Chancellor:

1. Energy, both the development of the sector in LDCs more generally and the Bank's future contribution.
2. Turkey.
3. The agenda for the N/S dialogue, particularly UNCTAD V. *Reaction to his Nigerian + Jamaican trips*
Need a more active rather than reactive policy
4. The contribution of direct investments of the private sector in LDCs. *of OECD approach*
Want to stress potential value of dir. inv.
5. German support for a global Stabex and opposition to the Common Fund; the danger of growing protectionism in OECD countries.
6. Population Growth.
7. With regard to the Bank:
 - a) Amount of and German share in IDA VI;
 - b) IBRD General Capital Increase (possibly touching on the issue of paid-in portion and the Japan/France problem).

The chancellor may also be interested to hear about the position of the U. S. (and particularly Congress) on development aid and the role of the World Bank.

10. Need for int. int. mechanisms in an interdependent world
 EMS as a structure
 increasing multi-l. aid
 strengthening of org. of int. office: IMF + FRG
 will regard an FRG for cred. for credibility

mention of on energy
 as result of summit
 hope Tokyo will give bank -
 e.g. fund

HELMUT SCHMIDT

Federal Chancellor

Age 60, married, one daughter

military service during the war
study of economics at the university of Hamburg

1946	member of the SPD
1949 - 1953	work in the administration of Hamburg
1953	member of the Bundestag
1962 - 1965	Senator (minister) for Internal Affairs in the city state of Hamburg
1967 - 1969	Parliamentary leader of the SPD
1969 - 1972	Minister of Defense
1972 - 1974	Minister of Finance
	since May 1974 Federal Chancellor

Statements by Chancellor Schmidt

on development cooperation

The following are excerpts from remarks made by Federal Chancellor Helmut Schmidt at a conference of the Friedrich-Ebert-Stiftung in Hamburg on April 28, 1978:

"... I want to make a second remark, this time concerning the North-South problem ... We are dealing here, prima facie, with four different groups of countries: first, the developed industrial countries of the West, second, the state trading countries of the COMECON, third, the oil surplus countries, and finally a group of 110 to 120 developing countries. This latter group should be viewed with greater differentiation than is generally done in the public debate. We have grown accustomed to talk in very rough terms about the least developed LDCs, of the commodity rich LDCs and of those LDCs that have been most affected by the quintupling of the oil price.

Inadequate COMECON aid

"I wish to emphasize that the COMECON countries are making virtually no contribution to the group of 120 LDCs, except for sergeants, generals, planes and tanks which they provide to these countries in addition to their ideology and propaganda. That is the opposite of socialist solidarity of which there is so much talk over there. Certainly, these so-called Socialist countries, the COMECON countries, should be in a position to do a little more than they are doing today. Quite certainly they will have to be put under political and moral pressure.

Private investment and guarantees

"This was one of the most important points raised in Dr. Kissinger's speech and it is one that is in the interest of developing countries themselves: we have to demand that investments be guaranteed. This is in the interest of the developing countries as well since otherwise they will receive no further private investment in the future, and without private investment they will be lost. Because we will never be able to raise a sufficient volume of funds in our budgets to finance a sufficient volume of investments in LDCs with which to start ... development, or to keep it going. Without our capital markets, without the transfer of private investment capital, development is impossible. In our democratically organized societies we cannot via parliamentary processes, impose the sacrifices on tax payers that would be necessary to maintain merely the present flow of capital from the industrial countries to the developing world. It is in the interest of LDCs to see to it that no one will have to fear expropriations or nationalizations tomorrow.

←
note BR
which is
diff. sp.
but
differentiate
between
present
& M-I
Need a
unified
OECD effort

"Nationalization in itself would not be so bad in many cases if it were not followed by mismanagement. Public officials may be able to do many things, but one thing they cannot do: manage enterprises.

"Investment guarantees are a matter where we must insist on solidarity and on a two-way movement, in the interest of the recipients of our financial sacrifices. I say sacrifices because every type of development aid means, first and foremost, foregoing part of one's real income. Whether there will be a return later, and how much, remains to be seen.

LDCs have to recognize western aid effort

"These are sacrifices of society's income, a fact which regrettably is not mentioned by those who publicly demand more aid. Neither do they always say who will have to make the sacrifices. It is fashionable these days to demand development aid and to pretend that the only obstacle is the ill-will of parliaments that are unable to form the necessary majorities. But it is not all that easy in a democracy to obtain sacrifices. Quite to the contrary, it is almost the most difficult thing in a democracy to impose sacrifices on all members of society.

"By the way, it should also be part of a two-way movement for the LDCs not only to talk to us sympathetically about the financing of some project or other but also to stop savaging us at meetings of the United Nations. I do not think that we Western countries should accept for long to be treated in international meetings in this manner, since it is we who impose sacrifices on our own democratic voters (admittedly with some reluctance) to provide economic help to those who scold us.

Restructuring industries in rich countries

"We have to help the developing countries. We have to make sacrifices. That is one of the urgent necessities for a peaceful development of the world. It is not only sacrifices of real income which we will have to make but it is also a sacrifice of our own industrial structures. This is inevitable. But for this we are entitled to demand something.

"Hamburg is a shipbuilding city and it was here that some decades ago we started to get excited about Japanese ship-building competition. But Japan is no longer a decisive and central competitor. In the meantime, there are developing countries that are able to build ships even cheaper than the Japanese. We have provided them with the technology ... knowing fully well that they were going to combine technology and investments with relatively cheap labour. Now ship-building has started in developing countries and their products are cheaper on world markets than our own, and they will remain cheaper. This is not only true for ship-building but also for mass-produced steel, for various textiles and cameras - and in the future for even more products.

"Those who might justifiably demand more aid for LDCs must know that this means at the same time a profound restructuring of our own industry because those Third World investments that result in industrial

production provide a supply of goods on world markets that is cheaper than we could provide.

"After what I have said earlier about the capabilities and lack of capabilities of public officials I do not think anyone will be able to visualize that the necessary restructuring of industry in the West could be done by public servants. The need to restructure will have to be recognized by the management of enterprises ... they have to look for new markets and new products. Part of the necessary structural change and the investments accompanying this change may lead to some increase in unemployment at the beginning. That is the way it looks at present, but it may change later ... "

The following are excerpts of an interview given by Mr. Schmidt in Jamaica to the German press agency dpa in January 1979.

Question: To many, "New International Economic Order" seems to denote a reduction in the standard of living in industrial countries in favor of the Third World. Can the North-South gap really be closed without such a reduction?

Mr. Schmidt: I do not think that industrial countries should reduce the living standards of the mass of its population. On the other hand, development aid can only work if the developed countries are ready to reduce somewhat the speed of the improvement of the real living standards of individuals, thus making available parts of the increase in GNP for development purposes.

Question: Critics, among them World Bank President McNamara, have been singling out the Federal Republic, Japan and the United States as those countries that carry a particular responsibility for aid because of their wealth. Couldn't these countries do more?

Mr. Schmidt: Among the countries with the greatest wealth per capita in the world it is certainly unfair to put Japan on the spot. It would be much more equitable to name Switzerland and the Scandinavian countries. It is, however, perfectly justified to name the United States and Germany in this connection.

Yes, these countries could do more. The problem is that all of these countries are democracies where a government cannot issue orders in a dictatorial fashion to raise taxes to pay for development aid, or reduce expenditure on schools or social security just because more money is needed for development aid. The problem is to make it acceptable that more will be spent on aid, and to get parliament to approve it. In the end, the agreement of those who have to pay is required. Acceptance from those in the wealthy countries who have to make sacrifices can only be had if one can explain that such efforts may also reap benefits - perhaps not immediately, perhaps only later.

I would like to add as a footnote that it would be quite wrong to view aid to developing countries only under one aspect, namely to ask what can be paid by the wealthy countries out of their budgets or out of their tax revenues. Because transfers through private investments made by enterprises from industrial countries in developing countries are three times as important. Without private investments LDCs cannot hope to reach their objectives.

Question: Industrial countries often complain that developing countries with whom they have good bilateral relations are attacking them in international organizations, such as the United Nations. Is it unfair to demand that economic aid should be rewarded with good conduct in the political area?

Mr. Schmidt: I would not demand good conduct but I would expect that the attacks be stopped. I have tried to explain this to my interlocutors

from developing countries and I have gained the impression that there is growing understanding that international solidarity cannot be a one-way street.

Question: The Soviet Union and other East Bloc countries are exporting mainly arms and sergeants to the Third World. Shouldn't these countries be put under pressure to provide genuine development aid?

Mr. Schmidt: Yes, and this for several reasons. First, it is difficult to see why wealthy communist countries should not make a sacrifice in favor of the disadvantaged LDCs, why the people living in wealthy communist countries should not accept a certain slowing down in the rise of their standard of living. Second, it is desirable that Communist governments also understand that they are part of one world economy from which they derive benefits, and in which they will therefore have to share the risks and make contributions. I want to add that I consider a reduction of arms supplies in the entire world to be very desirable. The Soviet Union itself plays a major role, according to the statistics.

Question: A former German chancellor is already playing an important role in the North-South dialogue. Is the present chancellor finding a new field of activity, too?

Mr. Schmidt: No, Willy Brandt and I have always agreed with regard to the general objective of our development policy. We discuss among ourselves quite often what should and must happen. I think we are complementing each other. Brandt is the chairman of a commission composed of outstanding representatives from the entire world and I have to take the responsibility for what my own country can contribute, not in abstract programs, but tangibly in dollars and cents.

D

Brentt Commission

Stress: Mutuality of interests

What lies ahead in 80's & end of century: continuing to reveal prospects for improving

Responsibility of LDC gov'ts for initiating sound macro-economic policies & avoid political restructuring

Fundamental importance of trade

Need for more "scholarly" examination of international economic problems, particularly development problems, by both N & S -

Stress the need for particular attention to the problems of the poorest countries, especially sub-Saharan Africa.

Meeting with Willy Brandt

(March 7, 16:00)

For background see attached

- (i) curriculum vitae
- (ii) notes on the Brandt Commission

Present: - WILLY BRANDT

IBRD
- Mr. MCNAMARA

Issues likely to be raised by Mr. Brandt:

- long-term perspectives of development
- population, food, ecological problems
- cooperation among developing countries
- future role and responsibilities of the World Bank.

Mr. Brandt may also raise the question of your appearance before the Brandt Commission at its early May meeting in Europe.

WILLY BRANDT

Chairman of the Social Democratic Party

Age 65, married, four children

primary and secondary education in Lübeck
apprenticeship as a ship-broker

1933 emigration to Norway, worked as a journalist
1940 - 1945 German and Norwegian resistance movements
1945 - 1948 Norwegian press attaché and journalist in Berlin
1948 member of the SPD
1950 - 1969 member of the (West) Berlin city parliament
1957 - 1966 Mayor of (West) Berlin
since 1949 Member of the Bundestag in Bonn
since 1964 Chairman of the SPD
1966 - 1969 Minister of Foreign Affairs and Vice-Chancellor
1969 - 1974 Federal Chancellor
1971 Nobel Peace Prize
March 1977 Chairman of the Independent Commission on International
Development Issues (Brandt Commission)

THE BRANDT COMMISSION

Present schedule

After the meeting of the Brandt Commission on February 22 to 26 in Mont Pélerin, Switzerland, a meeting on May 3 to 7 is scheduled in France. Since Mr. Brandt's illness prevents him from flying for the time being, meetings in such places as Saudi Arabia or South America are excluded. A final meeting is scheduled for early July in Vienna, after which Mr. Brandt will produce a draft with the help of British author Anthony Sampson. Selected members of the Commission and of the Secretariat may also be called upon from time to time to assist with the drafting, although this procedure has not yet been worked out. It is also uncertain whether one more meeting of the Commission will be called in September to examine the draft report.

At any rate, Mr. Brandt is quite firm that he is going to submit the report to U.N. Secretary General Kurt Waldheim in October. Mr. Brandt is resisting pressure from parts of the Secretariat (as well as from some Commission members) to postpone the completion of the report on the grounds that more research or discussions are necessary. Mr. Brandt feels quite strongly that by this summer a sufficient amount of work will have been done to permit the Commission to complete its report. The Secretariat's papers will not be part of the report but there is talk of publishing them as a supplemental volume under the Secretariat's own responsibility.

The report

Mr. Brandt does not want to write a long report. He wants the report to have the character of a manifesto, stating (in uncomplicated language) that the next 20 years will decide the survival of mankind, that armament and ecological carelessness are the two greatest dangers, and that there is urgent need to agree on a new development strategy and to propagate its aims.

Mr. Brandt does not plan to spend much time on topics that are intensively discussed in other fora, such as trade, commodities, the common fund, a reform of the international monetary system.

These are also topics on which the secretariat has produced a considerable amount of material. Rather, Mr. Brandt would like to put the accent on topics which to him are of overriding importance, but which are not being discussed at present with sufficient urgency. Among them are: disarmament, population and its relationship to food production and deforestation, the undue emphasis on capital transfers, the possibility of a development tax, the usefulness of a Third World secretariat, and the need for LDCs to increase their own efforts and to direct them more squarely to their real needs.

Mr. Brandt will also follow some of the reasoning of the World Development Report, namely that increased official aid will continue to be essential for the poorest countries while the more advanced countries will depend increasingly on free access to the industrialized countries' markets for goods and capital. As far as ODA is concerned, Mr. Brandt is likely to propose a new kind of commitment whereby donor countries assure recipients of a steady flow of funds year after year, without the ups and downs of the annual budgeting process.

W McNamara.

I had a conversation with Willy Brandt for about quarter of an hour. I found him much less punchy than before his illness, more mellow, and even more interested in a successful outcome to his Commission.

I have also had much longer conversations with Fritz Fischer and, in London, with Sir Antony Sampson who will assist with the report-writing and who attended the February meeting of the Commission.

It seems clear to me that the main issue you need to discuss tomorrow with W.B. is the issue of the New Financial Institution which Drag A. outlines in his paper. Here is some news about it which I have gathered from various sources:

1. W.B. does not believe it will interfere with the IBRD's G.C.I, nor with IDA6, because if the Commission endorses the proposal it will only come to fruition in the period 1981-5. Incidentally he feels that it is all wrong for the President of the Bank to have to beg for IDA, and would like to urge that the Part I' countries pledge an increasing IDA for a long

(2)

future.

2. It was in relation to some sceptical comment of mine on this that V.B. asked whether I thought the New Financial Institution was a practical venture. I did not reply but asked whether he thought Germany would subscribe to it; he thought there was a chance, especially if it were linked to reduced arms spending & the involvement of the East. I detected a note of exasperation that everything might be held up by the U.S.'s unwillingness to go ahead.

3. At the February meeting of the Commission there was clearly general support for the new Financial Institution. Peterson & Botero are to come to Washington to examine its practicality. (March 26).

4. The reasons for the N.F.I. were that there is a gap in financing e.g. program loans in support of Third World's own programs including some consumption; debt rescheduling; medium term loans. This was spelled out in Dreyfus's paper, but supported fully by all those who attended the Arusha

(3)

conference in December (Mahlant reported to you on that).

5. There was very surprising support for this from Heath and Mori (Japan). Brandt probed as to whether these functions could not be performed by the existing Bretton Woods institutions. The reply from a more or less unanimous Part II front was: The I.M.F. is hopeless, the objection to their conditionality is not that it is imposed on countries in trouble but that the conditions bear no relation to growth and development. The World Bank was generally far more highly esteemed, and your efforts were especially praised BUT the World Bank is wedded to its project system, it is subject to fads (e.g. rural development, the poorest) and it is unreliable for the future when the Americans may regain control from you or your successor. (There was some support of this last from the Europeans). In brief Part II countries do not trust the World Bank through the 80's.

6. Brandt has said to me that he wonders whether the World Development Fund could not be placed under

(4)

the Bank at first and then hived off. He said there was a lot of feeling that the Bank was too big and should not be permanently increased, and that the NFI/WDF should not end up in America. He is very sympathetic to your current needs to get G.C.I & IDAG through, and would consider saying in his report (dated Jan 1, 1980) that the N.F.I. should be studied further. He is thoroughly tired of the advocates of N.I.E.O. but was very impressed by the Arusha group putting up \$1 million per country for the Comma Fund, because it showed they were prepared to 'do something for themselves.

Attached is Brandt's opening speech to the February meeting. The important parts are sidelined - they are all you need glance at beginning p7.

Other topics in which Brandt is particularly interested:

1. Disarmament & Development.
2. Involvement of the Soviet Union.
3. Mineral exploitation in Third World
(Ranghal is producing a paper)
4. Health (Mablen is producing a paper, after a meeting with Brandt).
5. Other "non-economic" aspects e.g. education; the role of women etc
(Brandt cannot get the Secretariate to work on these).
6. Energy (the special Bank paper)

I C I D I

Mont Pèlerin
22 February 1979

CHAIRMAN'S REPORT

1. Obviously I have had no opportunity these last few months to enlarge and extend our contacts with leading politicians and other personalities of importance to our work. That is why I am all the more grateful for what members of the Commission and the Secretariat have achieved in this respect.

I am thinking - not merely but particularly - of the numerous meetings and talks which took place before and after Kuala Lumpur. I should also like to thank Mrs. Khatijah once more for the hospitality which the Commission encountered in her country. The preceding meetings in New Dehli and the subsequent visits in other Asian countries were also very important. I owe special thanks to Governor Jha for helping us in India and for chairing the meeting in Kuala Lumpur. My thanks also go to Mr. Malik, who was the host in Indonesia and who intends to realize a personal invitation to participate in the meeting of the Trilateral Commission in Tokyo at the end of April.

As the Commission meetings in Kuwait and Saudi Arabia and in Latin America will not take place in the way originally planned, I am quite anxious - as I emphasized in my opening remarks - to have some members of the Commission visit these parts of the world. This is more than a matter of courtesy. There are many other reasons to go there; apart from that we must also think of preparing the ground for a good reception of our report.

In this context, I would like to raise a question which I hope Göran Ohlin will answer, who will supplement my report anyway and present his views and that of his colleagues. Is the impression correct that the Secretariat, which in accordance with the work programme has concentrated its efforts on the Secretariat papers, still has much material which it has not yet been able to analyze? If that is so, will the Commission have a brief review on such subjects for its May meeting? In that case, it would seem to me not only possible but very sensible to put part of such material directly in the form of drafts for individual parts of our report.

2. In today's report I shall be very brief on events of recent months and weeks that may be relevant to our work. But I believe we are all anxious to hear about the results of the Arusha Conference of the Group of 77, especially as this important meeting took place under the chairmanship of our friend Amir Jamal. I would be very pleased if the results from Arusha could contribute to our own work. Perhaps he could tell us a little about this later tonight or on another occasion in the course of our meeting.

3. I would first like to consider our report and the question which was raised in Kuala Lumpur whether the time frame for its publication should be allowed to impair the quality of this Report. Obviously this must be avoided. However, I should like to emphasize that the Report must be on the market in the autumn.

The principle reason for this is not that we have certain obligations towards those who support our work financially, although this also counts.

The essential reason why we have to get ready in the course of

the summer and publish in the autumn follows from the calendar of international negotiations. Mr. Waldheim, whom I am meeting in Geneva in the beginning of April, told me last October, just before my illness, how much it mattered to him to have our Report submitted in the coming month of October. The Report would then be useful for the forthcoming Special Assembly of 1980.

We could either turn this into a permanent task or an ad hoc mission. The first is out of the question. The second can be realized without any essential change of our time schedule. I shall try to explain the implications, as I see them.

4. In my view we should not discuss any new outline during this meeting which does not exclude the possibility of such discussions outside of the Agenda, in various circumstances. The discussion on this subject in Kuala Lumpur seems to have been useful. For that matter I do not believe that the outline discussed there was quite so bad as some of the members seem to have thought. In the Summary Record it says the text had been "scrapped" but I suppose that condemnation need not be taken to mean that any chance of inclusion in a recycling process must be held to be excluded.

We should of course be most grateful to Peter Peterson for distributing his first suggestions for an outline already in Bamako, and since then there have been many discussions about it and written suggestions by several other members.

What occasionally was forgotten was perhaps that a certain structure of our Report was already laid down in our Terms of

Reference of 11 December 1977. I would like to remind us of that and in this context also add that the Chairman's remarks at the constituent meeting should not be disregarded either.

To be sure the world has not been standing still since 1977. Additional issues have emerged. And it is not without reason that the Terms of Reference stress that as an independent body we are "free to raise any aspects of the world situation which the Commission considers pertinent".

No-one could seriously dispute this. The question I shall now try to answer is rather how we produce the Report in the time we have allowed ourselves, a report that is presentable to the public and could have an impact on those who make decisions. My proposals will first concern procedural aspects, and I shall then say a few words about the contents.

5. We already have a heavy workload for this meeting. Nevertheless I should like to ask you to give me the opportunity on Saturday or Sunday - at the end of a meeting or in an evening - after consultations with the Secretariat, to discuss at least a rough sketch of the following nature:

- (a) On what issues could one already now formulate recommendations which would command agreement, though perhaps not necessarily unanimity? This I think is the "building material" of which Olof Palme spoke in Kuala Lumpur.

(b) What would the remaining list of possible recommendations look like? It should be before us - possibly with alternatives - in time for the May meeting so that we can make our decision about basic orientations.

This would mean that in May we would decide on recommendations, unless we advance substantially already here in our discussion towards the end of this meeting.

One question might be whether the recommendations should be placed in front of the Report. In any case the formulation of the recommendations requires even more attention than the accompanying text. (This is not only true in cases where we might have to face dissenting votes.)

6. The text of the Report (including the introduction, to which I shall return) must be adopted at the meeting in Vienna at the beginning of July, for which we have allotted a whole week.

The question then arises whether the Chairman once the text is approved will receive a mandate for the final processing. If things get very difficult it might be necessary to contemplate another meeting for strictly editorial purposes.

The Vienna meeting at the beginning of July must so far be taken to be the terminal point in our work. That also means that it should then be possible to publicize something about the results of our work without compromising the publication in October.

7. In order to be finished by July we have to concentrate our discussions. To repeat longer statements already made seems unnecessary. The Chairman asks for your understanding in reminding us of this need.

It will be a considerable help in the drafting of the Report that Mr. Anthony Sampson will join us as editorial consultant.

8. I have asked the Secretariat to produce a list of important UN resolutions and their follow-up. I believe this corresponds to a wish that our friend Yaker and others have expressed. There is also the question of whether and how we can take account of the conferences scheduled for this year, particularly UNCTAD V in Manila but also, e.g. the Conference on Science and Technology in Vienna starting in August.

9. I would also recall that in paragraph 11 of the Summary Record from Kuala Lumpur it is said "that the Secretariat should prepare resumées and possible bases for agreement in the Commission on topics already discussed". And that "at the same time work on the more general tasks of the Report ... could go ahead on the basis of existing Secretariat papers and the discussion in the Commission". In this context I think also of the reports of the Working Group on

Economic Cooperation between Developing Countries and about the problems of the least developed countries under the guidance of Governor Jha and Monsieur A.K. Dakouré respectively.

I also assume that Mr. Morris will continue to call to our attention the importance of ILO recommendations and that Mr. Mori will tell us something about the Japanese views on GATT reform.

10. It was and is my understanding that besides the Report itself there will be a second volume, at first only in English, in which Secretariat papers and other expert documents might be published. The editing of this volume will have to be the responsibility of the Secretariat, but the Commission should, at least in Vienna, be informed of its structure and be given the possibility of making suggestions.

11. In consultation with me the Executive Secretary has had preliminary discussions with a reputable literary agent in Zurich about the publication of the Report. We shall continue discussions with him next Tuesday after the end of this meeting.

An important question is how the press treatment of our meetings in May and July might enhance the interest in our final Report. In October presumably we could not be sure that the normal staff of UN reporters would give appropriate attention to our Report. Regional press conferences in the context of the publication of the Report might be helpful.

Already in Mali we envisaged a plan for worldwide dissemination of the message of our Report by radio and television. I should like to ask Mrs. Graham, Mr. Ramphal, Mr. Pronk and other interested commissioners together with Mr. A. Sampson to meet for a discussion of these questions in the course of one of the following days.

(Mr. Jan Pronk has suggested some rather far-reaching ideas about the follow-up, and he will surely have a chance to speak about these problems.

12. I would like to explain that the introduction by the Chairman self-evidently must be an integral part of the Report and therefore be submitted to the Commission for discussion. This introduction cannot be confined to such matters as the origin, the spirit and the work of the Commission. Technical data, acknowledgements, etc. should rather be relegated to a short annex. Natural themes for the introduction seem to be:

The transformation of the international debate between the 50s and the beginning of the 80s and why a new international order involving fundamental changes is now on the Agenda;

North-South problems must be seen not only as a call for justice and fairness, and as a protest against the shame of bitter poverty, but also as a new dimension of a forward-looking policy to secure world peace and thus a question of whether mankind wishes to survive, which is the most comprehensive manifestation of mutuality of interests;

The conviction that a solution of these problems between North and South constitute the main economic and social questions

for the rest of the century;

That the transformation of the international order cannot be seen as a once and for all event but as a process;

A great contribution that could come from a new awareness among the young generation of international solidarity.

The reference to these themes does not mean that they must all be discussed in the introduction, and above all not with equal emphasis. Nor does it mean that there might not be reference to other aspects. This can only be decided in connexion with the full thrust of the Report itself.

13. In my view one of the obvious common denominators of the Commission is the recognition that the "North-South problem" is a moral challenge, a main issue of the future of mankind and therefore - without any attempt to diminish conflicts and divergencies - also an area of interlinked interests.

That is why it is correct, where possible, to promote the idea of a restructuring aiming at a new international order by (a) persuasive recommendations, and (b) pressing appeals.

In any case nothing is to be gained by repeating stale and worn-out formulas. One of the opportunities of our Commission is precisely that it does not have to regurgitate old ideas but might help those who come up with new ones and want to cope with them.

This makes it easier to see the necessary changes in the world as a process and to indicate roads - and I emphasize the plural -

to a new international order. From the first to the last line it should be made clear that we are concerned with the fate of individual human beings who are our co-fellows and that our proposals are anchored in major humanitarian objectives. (The subject of development should be "people, not things".)

14. I should like to recall something Mr. Heath, and others have advised us of at an early stage: the Commission should not be over-ambitious. In other words we should not take upon ourselves more than we can produce or achieve. Thus we should not imagine that we can offer magic formulas to solve the problems of inflation and unemployment or to produce solid forecasts for the world, superior to those which so many others are busily turning out, and which so often are bypassed by events. But indeed much would be gained if one could explain the complexity of the increasing economic difficulties a little bit better than is normally done.

It seems to me realistic to take the view of our friend Ramphal who recently stressed the need for qualitative change and added that it was not enough to persuade governments. Against that background he said about our Commission: "it ... can put before the world issues that have to be negotiated, and make suggestions, and indicate the direction in which the answers lie."

I would also like to agree with our friend Al-Hamad who said at the last meeting that we were "just a punctuation mark in world history", and I understand why he added, "we are not able to restructure the globe".

The Commission should not try to hide that for both objective and subjective reasons it would have been too much to expect that it could provide comprehensive and unanimous answers to all outstanding difficulties.

The value of the observations which the Commission can make and the recommendations which it can submit lie precisely in the fact that the Commission is independent, and that its members bring to it a great variety of experience and a spectrum of convictions.

However, it cannot be the task of our Commission to seek to produce a conciliatory interpretation of the course of world history over the last centuries. Nor could we in the short time available to us seek to give the concept of development itself an adequate interpretation. But it should be made perfectly clear that we are no longer the captives of the idea that the whole world has to follow certain western models of development. Or that development can today be taken to be nothing but an economic phenomenon.

On the whole the Commission would be well advised not to overreach itself in philosophical matters if it wants to convey its "message" in a convincing fashion.

15. The Report should depart from ends rather than means. Thus, as I deliberately repeat, the Report must be anchored in major issues before humanity;

The need to consolidate peace and strengthen cooperation and the importance of a link between arms limitation and development.

Therefore, but not only for that reason, an internationalization of North-South matters through the involvement of the East.

(I use that expression to avoid an even more inappropriate terminology at this point but I would like to serve notice that I object to the use of "CPE" in our Report as it is void of content and leads to a false classification);

Peace has to be secured also against the threats arising from mass poverty and chaos: ("Where hunger rules peace cannot prevail. He who wants to ban war must also ban hunger"); The interest in mutual survival should be linked also to the overriding issues of the environment, not just the problems of non-renewable resources (risk of self-destruction).

A few weeks ago Richard N. Gardner spoke in a lecture about: "A mutual survival pact between developed and developing countries", and others have expressed similar thoughts.

16. The ingredients of a new international order must not be presented in a technocratic manner but with clear reference to man. Only against such a background can the idea of "mutuality of interest" be presented without sounding like a new slogan. It includes joint interests for the future prosperity, and in increasing areas there is already reverse dependence in the sense that North depends on the South. But this should not lead to an over-estimate of the southern "engines of growth" in the short term, considering what Heath, Palme, and Pronk, and others recalled at an early stage.

17. Since we began our work we have assumed that our recommendations would refer to the 1980s, with a view also to the situation in the year 2000.

It should be made an international commitment to conquer mass hunger by year 2000. The experts seem, in spite of some doubt, to consider this feasible if one attacks the problem with sufficient speed and determination. I consider this a major area of our concerns, and I am glad that Senator Pisani will talk to us about this matter and, as I understand, will propose recommendations for action in this field.

Mr. ul Haq has proposed that there should be a "summit at the highest level" concerning "the objectives and dimensions of a global enterprise to meet basic needs substantially by the year 2000."

In my view we should make up our minds about other objectives for the year 2000 that we wish to endorse or promote. What do we make of the objectives of UNIDO and WHO in this context?

18. It seems impossible to me that the Commission could be silent on the growth of world population. One must agree with the DAC report of 1978 which says, "development strategies have consistently erred in underestimating the demographic factor in development; many continue to do so."

There might not be much to be said that is new. But the dimensions of the problem must be made clear. Experience has shown that it is just not true that there is an automatic connexion between standard of living and population growth, regardless of cultural and political circumstances.

One would like to know whether the new trends to which the President of the World Bank pointed in his speech in 1977 have been confirmed. Many people, including political decision-makers apparently

do not want to realize that it makes an enormous difference whether the population of the world in the next century will stabilize at the level of 8 or 11 billion people, but this difference corresponds to the total population of the world only a decade ago. The link between population growth and the need for social services, education, etc. is quite obvious.

It is not only in this connexion, but not least here, that the role of women in the development process must be raised. We were agreed to raise this matter in more than one part of our Report. I assume that at the May meeting we can have a paper, which does not have to be very extensive. (I recall a German report whose English text was distributed after the Mali meeting.)

I should also like to remind you of the issue of health which cannot be ignored. And it would not only be polite but quite correct to enquire into the experiences of UNICEF. A letter from the Director General of WHO, whom I shall meet next week, was distributed in Kuala Lumpur. The Chairman of DAC stated in his recent report that "very little attention has been paid to the problems of health and particularly malnutrition and to sanitary engineering for the poor populations in the rural areas". I fear that he is quite right, and I was struck when reading the other day that of the 40-50 million blind people in developing countries most could have been saved by adequate cure in due time, and that some 500 million are likely to become blind if better services are not provided.

N.B.
River
Blindness
campaign

19. My efforts to bring considerations into our work that are not economic in the strict sense of the word have so far had limited success. I suppose that this is chiefly explained by the concentration on the important themes treated in the secretariat papers, in accordance with our work programme. But it was with some pleasure that I read in Galbraith's forthcoming book a quote from my old friend Gunnar Myrdal: "Economists are generous in stating general reservations about the importance of "non-economic" factors, without however, letting this change their approach."

Without diminishing the importance of the conventional subjects of commodities, and trade and finance as elements of a new international order, or without deviating from the Terms of Reference, I believe that the Commission must try to bring some neglected areas into the forefront also, if it wants to secure added attention. Some such areas include:

The link between disarmament and development where, no matter how difficult, realistic proposals have to be discussed;

The internationalization of development policy and the institutions where I would make a reference to the major contribution which Mr. Avramović has made in bringing this problem to the forefront of our attention;

International environment, energy, and resource problems, which seem to have less and less to do with ideological ballast.

I have not mentioned the neglected matter of education, both in schools and in public information. It is not enough to persuade

governments which is hard enough. The need of a new international order must be brought home to ordinary people, not just to experts and bureaucrats. I hope that our contacts in UNESCO and with international youth organizations might give us some useful clues. They might also provide guidance as to what we might do with Senator Pisani's suggestion of a textbook, or a "livre du maître".

20. On previous occasions I have reported to you about useful contacts with representatives of the so-called "CPE" countries. Professor Ohlin will give us some important information about a contact with representatives of the Peoples Republic of China. I shall not comment on that now but only mention that Egon Bahr, who has considerable experience of negotiations with Eastern countries will be here tomorrow evening and will be available for discussion with those who are interested in these matters.

21. The very important suggestions on the international financial and monetary issues including the establishment of a World Development Fund which are on our agenda this time I shall not comment on now.

Obviously, we should not stray away from institutional questions even when they are of such a nature that they cannot rapidly be acted upon.

That may be true, for instance, in the context of international taxation and/or mobilization of automatic resources, and - in the long run - creation of an international central banking institution (with the possibility to develop the IMF in that direction).

One of the characteristics of many proposals that seem revolutionary is that Lord Keynes submitted them about 40 years ago.

I think it would be wise not to propose too many new agencies. However, without pre-judging the discussion on SPIJ, it seems to me that there is an urgent need for an international organization to assume certain specific and limited tasks in connection with world energy problems.

This d World Secretariate

I think that we should also carefully examine the question of how developing countries, and particularly the weakest among them, could be given the support of an organization comparable to the OECD.

22. It is still an open question how we should respond to the non-fulfilment of the ODA targets. In any case discussion so far suggests a preference for channeling ODA mostly to the least developed countries.

It would also be surprising if the Commission, given the experience of development assistance so far, did not engage in a critical review and in addition examined whether various international organizations could not be better coordinated. (The DAC report for 1978 suggests that much development aid is still based on assumptions from 20 years ago.)

23. The differentiation which has taken place in the world and continues to do so should be recognized as a matter of fact. Our friend Botero pointed to it at the beginning of our work. No-one is well served by the myth of two or three worlds. It must be clear however that the Commission will not participate in any attempt to play out one group of developing countries against another.

Developing countries should perhaps also realize more clearly that inside "the West" and OECD there as well are numerous differences, and that they cannot be considered as economically homogenous either.

In many instances it would be useful to show how empty of content some words are. The CPE example has already been mentioned. And the Commission should not give way to ideas that are remote from reality. It should, for example, refrain from pretending as if all old or new problems in the countries of the Third World are to be explained in terms of North-South.

There are on the contrary more and more ecological and technological problems which bridge all systems: Also, I feel, that all the problems cannot be reduced to a transfer of capital and technology either. Galbraith, in his new book on the "Nature of Mass Poverty" (to be published soon), recalls the importance of climate and demography, and of ethnic and religious factors;

The Commission might also endorse the notion that justice cannot be brought about by resolutions in the international sphere anymore easily than it can be done inside nations.

And finally, we should be aware in general that one does not really "decide" about a complex historical process, even if the process can be influenced.

24. The hazards for mankind and the difficulties besetting constructive economic cooperation have increased rather than abated since the Commission began. It is true both in the political sense and in the economic field. A look not necessarily into diplomatic reports but even into newspapers of the last weeks gives sufficient proof of that.

After a period of decolonization which happily is pulling to a close - but I suppose that we might wish to say a clear word on this. as far as South Africa is concerned, new problems are arising from the lack of relations to the outside world in which many of the smallest independent states now find themselves.

The so-called North-South dialogue does not really deserve that name. As Richard Gardner recalled in his Rome lecture in January which I have already quoted, U Thant warned in May 1969 that the members of the UN probably had only ten years:

"To launch a global partnership to curb the arms race,
to protect the human environment,
to check the population revolution,
and to supply the required momentum to world
development efforts."

25. However, in the last months there are also some encouraging signs. I take the Agenda 1979 from the Overseas Development Council, including a remarkable contribution by Mahbub ul Haq, as one such sign.

I could site other examples and would mention only that
Barbara Ward has offered the contribution of the Soccity for International

Development in seeing to it that our report "reaches the ordinary citizen and become a real issue in local politics - both in North and South".

In Agenda 79 our Commission and its Report are referred to repeatedly. From the beginning we faced the risk that some expected much, if not too much from us. On the other hand, I think that we can say, without exaggerating our own importance that we already have influenced the climate of the international debate and advanced a number of issues. In that sense our joint work does not show results only when we publish our Report.

It seems important, considering all the dangers and risks of the situation, that there are also some signs of reconsideration on the governmental level. Apart from the recent Arusha Conference I should like to mention a few examples:

The unpublished deliberation of four western government leaders at Guadeloupe;

The preceding conversations in Jamaica under the presidency of Prime Minister Manley, in which the German Chancellor participated and from which he reported his interesting impressions to me:

President Carter's establishment of a Commission on World Hunger;

Japan's decision to increase its development assistance considerably;

Soviet references to global issues going beyond the different economic systems;

Chinese references to their interest in perhaps joining the IMF and the World Bank;

French suggestions, as well as Scandinavian about the possibility of linking disarmament and development.

In my view our Report should:

- (a) point to the enormous dangers and appeal to the conscience of people, in particular those with a greater sense of responsibility;
- (b) try to bring out both the self-interest and the common interest in the perspective extending beyond tomorrow;
- (c) above all make it clear that mankind is not facing a hopeless task.

26. Our Commission has no other power than that of argument and conviction. Let me remind you of some advantages that I pointed out in Gymnich:

We are under no instructions, we do not carry the burden of national governments prestige. And we are not forced to try and win victories for particular views. We can afford to meet the common interests.

Right now we see in more than one part of the world that there are other influences than those of capital accumulations or armed power. I am thinking, as you will understand, not only of events in Iran which would hardly be comprehensible to anyone who wants to view everything in economic terms. I am, for example, also thinking of the impact of the journey of the new Pope to Latin America.

I ask myself, although I am far from sure whether we could succeed, if some of the fundamental convictions and ideas of our Report should not be derived from converging convictions of the world religions and humanistic thoughts.

One of us has remarked, "the Commission's task lies in the high ground of perception of the direction that humanity must take in the years ahead - rather than the low ground of agreement on what must be done tomorrow. We must be avant-garde or we will be irrelevant".

I would only add that as a political animal with some experience I know that one should always try to be ahead of the thinking of the people. But if one is too far ahead one gets into trouble. This certainly applies not only to the national but also to the international level.

Therefore, I think that our suggestions have to be bold but also realistic in the sense that the goals we envisage can be reached if all parties concerned make the necessary effort.

Please forgive me that this introduction has grown to such length. I hope that it still will be helpful. In any case I trust everyone will now know how I look at our task.

I have asked the Secretariat to prepare copies of these remarks in case you wish to read them.

E

Press Conference

(March 8, 11:00)

For background see attached notes on:

- (i) "Bundespressekonferenz"
- (ii) The German media

You will be accompanied by Minister Offergeld who will make an introductory statement about the talks you have had. Minister Offergeld may then ask you whether you have anything to add. It might be useful to say a few words on the new directions of the work of the World Bank, the need for more funds, the efficiency of Bank operations.

Thereafter, questions and answers.

If you want to generate questions on subjects of interest to you, it might be useful to provide a hand-out to the press conference (e.g. a summary of your statement to the Friedrich Ebert Foundation).

The following questions are likely to come up:

- What is the purpose of the Bonn talks?
- What do you think of German aid performance, after having criticized it in your last speech?
- What is the World Bank expecting from Germany?
- How is the Brandt Commission doing? What effect will its report have?
- What are prospects of Third World development? Isn't the forecast of 600 million poor by the end of the century too pessimistic?
- Is the basic needs approach working?
- How does the recent oil price rise affect LDCs?
- World Bank activities: interesting new fields, such as energy?
- Since the German disbursement record has been poor recently, what is the Bank's experience?
- Are there limits to the absorptive capacity of LDCs?
- What is your assessment of the future of the dollar and of the European Monetary System (from a journalist who may be ignorant of the difference between the Bank and the Fund)
- What are your views on Iran, China, Vietnam versus Cambodia, Southern Africa, Turkey?

How long will it last

What will he say; how long; will he say; should I not start with questions; Cas will pick -

could we do this with a "hand for release" Cas will pick -

Stress efficiency, not welfare; help those who help themselves; increase productivity

"BUNDESPRESSEKONFERENZ"

This is an association of Bonn correspondents of German nationality. It organizes press conferences three times a week to which the spokesmen of the Federal government and of the various ministries are invited to make statements and to answer questions. Radio and TV are normally present. The association has a membership of roughly 400, of which one half to two thirds may show up for the event which will be shared between Cooperation Minister Rainer Offergeld and Mr. McNamara. In addition, the "Verein der Ausländischen Presse" (Foreign Press Association) will be invited to come. About 250 foreign correspondents are members.

The Bonn press corps is one of the most numerous and sophisticated of any capital. Their questions may be sharp and incisive, but markedly less so than from a comparable group of Washington reporters. There will be few aid specialists among them, and probably no more than four or five with more than a superficial knowledge of the World Bank.

THE GERMAN MEDIA

(i) Quality papers with national readership:

Frankfurter Allgemeine Zeitung (FAZ), Frankfurt, circulation 300,000, conservative; Süddeutsche Zeitung, München, circulation 306,000, liberal; Die Welt, Bonn, circulation 237,000, conservative; Frankfurter Rundschau, Frankfurt, circulation 164,000, leftist-liberal; Handelsblatt, Düsseldorf, circulation 75,000, business-oriented.

(ii) Major regional papers:

Westdeutsche Allgemeine Zeitung, Essen, circulation 1.5 million; Hamburger Abendblatt, Hamburg, circulation 550,000; Stuttgarter Zeitung, Stuttgart, circulation 492,000; Rheinische Post, Düsseldorf, circulation 373,000; Hannoversche Allgemeine Zeitung, Hannover, circulation 347,600; Münchner Merkur, München, circulation 328,000. Regional papers as a rule are moderately conservative.

(iii) Weeklies:

Der Spiegel, Hamburg, circulation 920,000, liberal; Die Zeit, Hamburg, circulation 363,000, liberal; Welt am Sonntag, Hamburg, circulation 314,000, conservative.

(iv) News agencies:

Deutsche Presse-Agentur (dpa),
Vereinigte Wirtschaftsdienste (VWD - financial news wire).

(v) Radio and TV:

Radio (and subsequently the first television channel) are organized on the basis of regional public corporations, whose areas roughly coincide with the various states. The most important are Westdeutscher Rundfunk in Cologne, Norddeutscher Rundfunk in Hamburg, and Bayerischer Rundfunk in Munich. These corporations are financed through tax-like licensing fees that are raised from radio and TV users, plus advertising revenues. The corporations are governed by boards in which all "relevant social groups" are represented -- political parties, churches, trade unions. In practice, the political parties rule the boards in proportion to the strength they have in the state concerned. As to programming, regional stations produce independent radio programs, and for TV they contribute to the common national program broadcast on channel 1. (In addition, they produce culturally oriented regional TV programs on channel 3 whose audience is insignificant.)

Apart from the regional radio and television network, there is a national TV station, channel 2 in Mainz. It is financed and organised in the same manner as the regional corporations, except that its governing board reflects national rather than regional political strengths. It broadcasts a single program without regional variations throughout the country.

There is no privately-owned commercial radio and TV in Germany.



Call on Karl Carstens, President of the Bundestag

(March 8, 15:00)

For background see curriculum vitae plus personal sketch.

Present: Mr. CARSTENS, probably one or two associates
IBRD - Mr. McNAMARA, Messrs. STECKHAN and KOCH-WESER

It is assumed that this is essentially a courtesy call.

KARL CARSTENS

President of the Bundestag

Age 64, married

study of law at the universities of Frankfurt, Dijon, Munich, Königsberg, Hamburg and Yale.

1939 - 1945	military service
1945 - 1949	law practice in Bremen
1949 - 1954	representative of the city state of Bremen to the Federal Government in Bonn
1954 - 1966	service in the Ministry of Foreign Affairs, rising to the rank of Under Secretary
1966 - 1967	Under Secretary in the Ministry of Defense
1968 - 1969	Head of Chancellor Kurt-Georg Kiesinger's office
1960 - 1973	Professor of law at the University of Cologne
1972	member of the Bundestag
1973	parliamentary leader of the Christian Democrats
since December 1976	President of the Bundestag

The politician:

Mr. Carstens belongs to the protestant group of the Northern Germans in the Christian Democratic Party (members from the Southern Germany being mostly Catholics). He is a conservative by nature who has acquired a vast knowledge of international politics at the Foreign and Defense Ministries. His personal interest as a jurist focuses on constitutional law, his political interest on European integration, security and defense policy. He has never had much exposure to economic, trade and development issues.

As President of the Bundestag, he ranks immediately after the Federal President and before the chairman of the Bundesrat and the Federal Chancellor.

Mr. Carstens is the opposition CDU/CSU candidate for the presidential election to be held on a date yet to be specified in May. The Federal President is elected by a special body, the Federal Assembly (Bundesversammlung), which consists of the Bundestag members plus an equal number of representatives from the state parliaments. Based on its strength in a number of state parliaments the CDU/CSU has a chance of getting a majority in this Assembly.

But Mr. Carstens' candidacy is not without controversy. First, there is no doubt that the incumbent Federal President Walter Scheel, a member of the FDP, is immensely popular and that he would win the election easily if it were based on a popular vote. (Mr. Scheel has not yet declared whether he stands for re-election.) Mr. Carstens, if elected, would then appear to be the product of a complex election mechanism rather than of broad popular appeal. Second, Mr. Carstens has been attacked because of his membership in the Nazi party as a young soldier, and also because of an alleged lack of frankness when he was called by a Bundestag committee to give testimony on an illegal arms deal of the German secret service.

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Discussion with the Bundestag Committee for Economic Cooperation

(March 8, 15:30)

For background see notes on:

- (i) The Committee for Economic Cooperation
- (ii) Political parties - their views on aid

Present: - Committee Chairman HOLTZ
and most members of the Committee

IBRD -- Messrs McNAMARA, STECKHAN, KOCH-WESER, KOELLE

Chairman Holtz will introduce Mr. McNamara and it might be useful for Mr. McNamara to say a few words on the new directions of the World Bank, the need for more funds and the efficiency of Bank operations.

The Committee may ask questions along the same lines as at the press conference. In addition, the following questions may come up:

- will the next WDR put more emphasis on private investment?
- the LDC's own efforts, cooperation among themselves
- role and weight of Germany in the World Bank *3rd largest voting power*
- assessment of multilateral vs. bilateral aid

Stress
importance of FRG support: access to Cap 212t
Presently engaged in org: Inv in FRG Cap; IDA Ref. will need FRG support
3 recent deals in FRG may be interested in:
1. WDR - proj of 200t + 500t, adv. -
adv. of actions by LDC & OECD need to achieve it -
shocking consider in extent of about 1/2 at end of cent
2. Dramatic efforts to raise productivity of poor
1452 inv (742 FR vs 69-73) in ag lending in real terms
7527 proj with small proj comp: to double inv of 60m people
3. Energy

THE COMMITTEE FOR ECONOMIC COOPERATION

Since Germany does not have a foreign aid act as the legal basis for its development policy, parliament debates aid issues normally only at the occasion of the annual budget. Aid issues through the year are brought up by Bundestag members in the form of questions to the government, or when the government submits an aid related bill (such as the bill on tax relief for LDC investments) to parliament.

The Bundestag Committee for Economic Cooperation has become, as a group, one of the most consistent supporters of aid. Last year this committee surprisingly managed to raise aid appropriations beyond the government proposed increases. The committee is chaired by 34-year old Dr. Uwe Holtz, an effective advocate of aid who belongs to the left-wing of the Social Democratic party. Mr. Holtz was wrongly accused of having been a spy for an Eastern European power last summer but he was soon completely exonerated. Mrs. Katharina Focke, the former Minister for Youth, Family Affairs and Health, has lately also taken a lively interest in development.

Vice-chairman is Dr. Volkmar Köhler (CDU), a well informed and moderate politician. The spokesman of the Christian Democrats on development issues is Dr. Jürgen Gerhard Todenhöfer, an ambitious party politician who made a name for himself through his sharp attacks on what he thinks are inefficient and misdirected Government aid activities. In the process he has made a lot of enemies and he has been noticeably silent in recent months.

The spokesman of the FDP is Dr. Manfred Vohrer, a young professor of economics and a thoughtful supporter of aid.

Overall, the committee has 23 members, 11 Christian Democrats, 10 Social Democrats and two Free Democrats.

In mid-January, the Committee discussed the World Development Report. The discussion took only 45 minutes, and the reception of WDR was friendly and positive. The only criticism was that the WDR could have put more emphasis on the role and the importance of private investments. The chairman expressed the view that perhaps

too much attention was given to the growth in industrial countries as a precondition for LDC development; he felt there was a significant growth potential in the LDCs themselves that could be activated even during periods of low growth in the industrial world.

At the budget discussion in late January, a CDU member on the floor of the Bundestag noted that appropriations for multi-lateral cooperations were rising twice as fast as overall aid in the 1979 budget. In his view, this was wrong because the aid ministry was shunning its responsibility by simply transferring funds to international bureaucracies where Germany was under-represented.

Some of the above views may come to the surface during the meeting with the Committee.

POLITICAL PARTIES - Their views on aid

In recent years, the major political parties have all laid down their views on development in basic policy statements that were discussed and accepted by the party membership: the Christian Democrats (CDU) in 1976, the Social Democrats (SPD) in late 1977 and the Free Democrats (FDP) in March 1978. Still, development policy is not one of the issues of major interest to any party, and development experts are normally among the least prominent party members.

There is much harmony among the parties with regard to the basic principles and objectives of development cooperation, namely to fight poverty, to cover basic human needs, to put the emphasis on rural development, to help LDCs help themselves, to increase international solidarity and to raise German ODA. All parties agree that development aid is also a matter of enlightened self-interest.

The differences between the parties are most often slight and not always relevant to practical development policy. They have varying attitudes on the following more significant issues:

Targets: The SPD wants to concentrate aid on countries and projects where there is reason to expect that progress in the improvement of living conditions for the majority of the population will be made. The CDU is in favor of concentrating aid in areas where the vital political and security interests of Germany are involved but does not want to aid "communist" countries. It also wants to take into account the attitude of aid recipients in the North-South Dialogue.

Political systems in LDCs: Recent developments in Southern Africa have exacerbated the debate on political choices and liberation movements. The SPD is not in favor of exporting the German political and economic system into LDCs. In its view any social or political element in LDCs that advance human rights should be encouraged. The SPD would be willing to give national liberation movements all kinds of support, short of military aid. The CDU is firmly against any kind of assistance for liberation movements. First of all, they say, Germany should support efforts in LDCs to promote a socially balanced market economy, safeguard individual freedom and develop private initiative. The Free Democrats emphasize the need for LDC governments to respect basic human rights; countries that spend a large part of their national income on arms should not benefit from German aid.

ODA: None of the parties has stated a fixed deadline for Germany reaching the 0.7 percent ODA target. The Social Democrats favor a yearly regular increase of ODA and the Free Democrats wish to reach the target before 1984 "if possible". The CDU is least committed, saying that the target can be reached only gradually, in harmony with the economic and financial capabilities of Germany.

Private Investments: The CDU is clearly in favor of private investments in LDCs. Although private investments are not aid in the strictest sense, they make a decisive contribution to the development of the Third and Fourth World, according to the CDU. Thus, the CDU calls on the German government to provide more tax incentives for private investments in LDCs and to minimize risk through government guarantees. The Free Democrats, too, feel that the industrialisation of LDCs should be promoted through increased use of private investment capital and of technical knowhow. On the other hand, the SPD (but not necessarily Chancellor Schmidt) is rather skeptical. It says that private business activities in LDCs will only succeed if they are undertaken in the spirit of partnership. In a supplement to the main SPD paper, the statement is made that the developmental effects of private investment are heavily disputed, and that in many cases negative effects can be shown.

Trade: The CDU clearly rejects any demands by LDCs for interventionist measures as they are voiced in the context of the new world economic order, since such measures cannot solve the problems of LDCs. Instead, the CDU advocates an "international social market economy" including the gradual dismantling of protectionist obstacles by industrial countries, particularly for goods that are produced more competitively by LDCs. The SPD says, however, that the old world economic order is not only detrimental to the LDCs, but it is also not in the long-term interest of the industrial countries to maintain it. The integrated commodity program contains justified demands of the LDCs, particularly their demand for commodity agreements and a common fund. (Chancellor Schmidt, who still believes that a common fund will not work, deviates from the party line in this respect.) The Free Democrats' attitude reflects a compromise between its left and right wings. It says that on the one hand the idea of a world-wide planned economy and of interventionist decisions is unacceptable, but on the other hand that weaker market participants ought to be protected. This could be achieved, among other things, by stabilising the commodity revenues of LDCs. The common fund would be a useful instrument but it should be used in such a manner as not to collide head on with the market economy.

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Summary Record on the Discussion about the World Development Report
in the Parliamentary Committee for Economic Cooperation (AwZ)

1. Members of the AwZ expressed their appreciation for the presentation of this excellent report. There was a broad consensus on the urgent need for such a comprehensive overall analysis of the development process. The members of the AwZ welcomed the idea that such an analysis would be presented annually.

The main findings of the report have been generally supported. Differing views and criticism can be summarized as follows:

- The report does not seem to be sufficiently balanced analysing the role of private capital flows to DC as compared with ODA-flows; very little is said about foreign private investment and about the maintenance of an appropriate investment climate; new incentives in this respect would have been appreciated;
- it is the opinion of many members of the AwZ that economic growth in the developing countries is not so closely linked with economic growth in the industrialized countries as suggested in the report; more emphasis should be given to the development efforts of the DCs themselves and to thorough analysis of the development policies and the underlying strategies in the DCs should be added to the findings of the report.

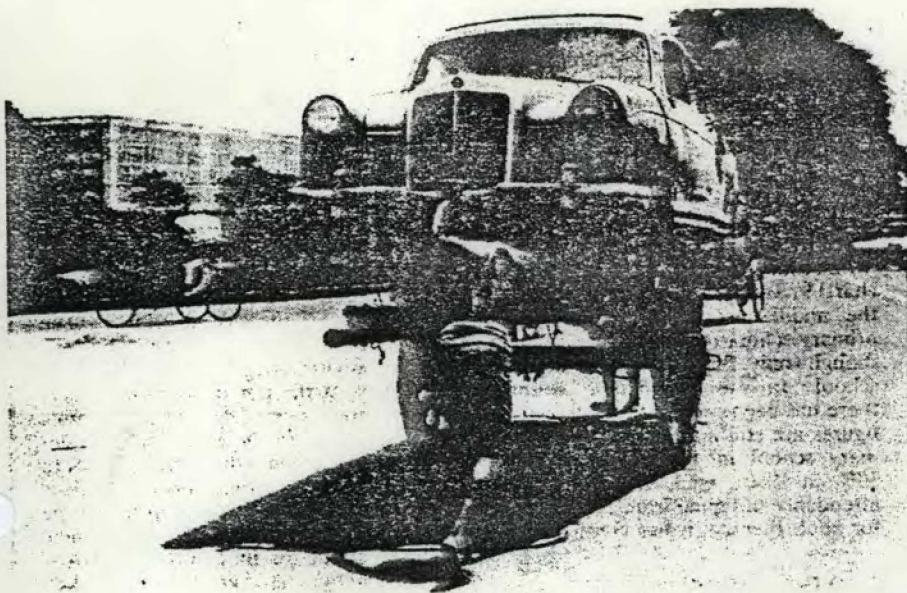
2. Proposed points of discussion with members of the AwZ

- The Bank's disbursement experience and alternative ways to reduce the disbursement pipeline
- the Bank's experience in the field of operations evaluation
- evolvment of the Bank's administrative expenses
- reasons for the decline of private direct investments in the field of natural resources
- conclusions from the "Petroleum Paper"
- is economic growth in the developed countries indispensable for economic growth and development in the developing countries?
- importance of the developing countries' own efforts in the process of development

BUSINESS

Development

This is the complete version of the item which appeared in a previous issue of the *Financial Times Review*.



The not-impossible dream

When the world's economic leaders meet for summitry, their minds are full of the short-term economic twitches that affect pay packets and pensions over the short lifetime of an elected government. These one-night stands are played out against the backdrop of a much bigger drama: the great movements in population and production that may take the poor three quarters of the world from poverty to prosperity, or cast all four quarters into crisis and starvation. Over the past six years, a series of price shocks, and the experience of the first real slump since the second world war, have reawakened a sense of looming crisis. This brief survey draws on two publications which complement each other in floodlighting the backdrop to this Wagnerian epic. One, the World Bank's first Development Report*, which shows the progress that has been made in the third quarter of the twentieth century, the fragile basis for this success, and the enormity of the problems that still remain. Two, a long overview by Professor Walt Rostow of the stages of economic development, and the problems that confront the world economy over the twentieth century's last quarter.†

The world's poor countries have become less poor encouragingly fast. In the 25 years from 1950, income per head rose by just under 3% a year—while today's industrialised countries managed less than 2% during their century of industrialisation.

That is the light which the World Bank

* World Development Report. World Bank.
† The World Economy: History and Prospect, already published by the University of Texas Press and to be published by Macmillan at £25 on September 16th.

sees at the end of the development tunnel. But its report pulls no punches about the length of the tunnel:

about 800m people in the developing world still live in absolute poverty, with incomes too low to ensure adequate nutrition, and without access to essential public services. Many of these people have experienced no improvement in their living standards; and in countries where economic growth has been slow, the living standards of the poor may even have deteriorated.

Defining the poor

The World Bank report divides the ldecs into two groups. It treats communist countries separately, so China—a huge exclusion—is missing from this picture of the less-developed world.

(a) Low-income countries, with a gnp per head of \$250 or less. There are 34 of them, ranging from Bhutan (where gnp per head was \$70 in 1976, and had fallen by an average 0.3% every year since 1960) to the Yemen Arab Republic.

(b) Middle-income countries, of which there are 58 varieties from Togo to Israel (with a gnp per head of \$3,920).

The first law of economic growth is biblical: to him who hath shall even more be given. So the low-income countries have seen gnp per head grow by 0.9% a year between 1960 and 1976; middle-income countries have managed 2.8%; while the industrialised countries (topped by Switzerland's \$8,880 per head) have had growth of 3.4%. Of course exchange rates do not always accurately reflect purchasing power, so this rank ordering of countries by dollar gnp per head is rough and ready. But it is the best reasonably up-to-date measure there is.

See-saws for development

There lies the rub. Less developed countries (ldecs) they may all be, but that term spans a wide range of economies (see box). They have faced different challenges, and tackled them in very different ways. But every one has had to cope with two particular see-saws. First, each wants to shift the domestic balance from slow-growing agriculture to fast-growing industry and services—though if any thought this could be done by neglecting agriculture, they no longer think so. Second, each must balance its external see-saw, through foreign trade and attracting capital.

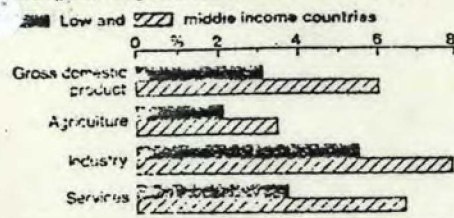
This is how they have gone about it:

● Agriculture. It is much the largest source of employment in the low-income countries (85% of the workforce worked there in 1970), but not so important (51%) in the middle-income countries. Food production has been losing the race with population in the low-income countries. Their agricultural output grew at an

continued ...

Industry means growth

Average annual growth rates, 1960-75 (at 1975 prices)



Source: World Bank

annual rate of 2.1% (1960-75), compared with 3.5% in the middle-income countries. Population grew by 2.4% and 2.7%.

Without this gap, the whole picture would have looked much brighter: over half the 800m people living in absolute poverty are in the rural areas of four Asian countries (Bangladesh, India, Indonesia and Pakistan). And the gap is bridgeable, even without extra money: the World Bank reckons that India's agricultural production could be increased by 1-2% annually for 10 years just by better farming techniques.

Industry. Both groups of ldc's have managed the structural shift from agriculture to industry. While all ldc's benefit from this, the low-income ones do so particularly, because industrial growth there is faster relative to the other sectors than it is in the middle-income countries (see chart). Of the low-income ldc's, two (Malawi and Niger) have average industrial growth rates above 10%, while in the other group Taiwan and Korea have exceeded 15% a year.

Investment holds the key to industrial expansion, and the ldc's have managed to set aside a growing proportion of their gdp for both public and private investment. In the low-income countries, the share went from 14.7% (1960) to 19.1% (1975), and from 20.2% to 26.4% in the middle-income group. This increase has been helped by inflows of foreign capital, which have risen particularly sharply in middle-income countries.

Foreign trade. The changing balance of the ldc's domestic see-saw has been reflected in their foreign trade. Raw materials still account for the great bulk of ldc exports, but they are less bulky than they were. Only 5% of middle-income countries' exports were manufactures in 1960; by 1975 this was 17%.

While total ldc exports have not grown as rapidly as industrialised countries' have, in manufactures they have run well ahead (see chart). That conceals some startling individual achievements—and none more so than South Korea, whose exports grew by over 30% a year during 1960-75. That country and 12 others account for about 80% of ldc manufactured

Growth is good for you

The World Bank report confirms that gnp is not a bad measure of the ldc's social wellbeing. Along with economic growth, the key social indicators show impressive improvements:

(a) Life expectancy has increased, in the low-income countries from 36 years (1960) to 44 (1975), in the middle-income group from 49 to 58 (compared with 72 in the industrialised countries).

(b) Birth and death rates have both fallen (the latter more rapidly—hence rising populations). The death rate in middle-income countries—at 12 per thousand of population—was down within sight of the 10 per thousand rate in the industrial countries. Infant mortality has also been falling (see chart).

(c) Education is spreading. By 1975 (see chart) 97% of children of the right age in the middle-income countries were at primary school (up from 79% in 1960), though only 35% were at secondary school. In the low-income countries there has been progress too, though the figures are still lamentable: 52% at primary school in 1975 (compared with 30% in 1960), while secondary school attendance has gone from 2% to 8%. As for adult literacy, it has crept up in the

Many very poor

	1975		2000	
	% of population	Number of absolute poor (millions)	% of population	Number of absolute poor (millions)
Low-income countries	52	630	27	540
Middle-income countries	16	140	4	60
All developing countries	37	770	17	500

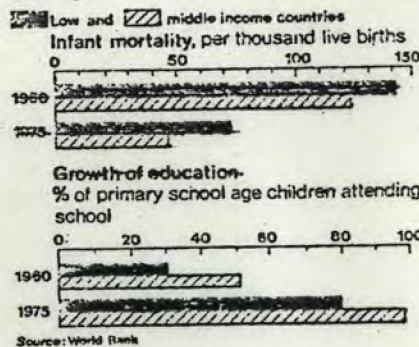
middle-income group—from 61% (1960) to 63% (1975), but gone from 10% to 23% in low-income countries.

Aggregate figures reveal little of how the economy's fruits are distributed. The World Bank report is gloomy: "historical experience suggests that the poorer members of the population are unlikely to share equitably in economic growth. . . . In the early stages of development, income distribution tends to become more unequal: only later does this turn around. But this need not be so: where land and education are widely spread about (as in Taiwan and South Korea) before rapid growth begins, then everyone will share in it as well.

The World Bank shows how intractable is the position of the "absolute poor"—those without enough food or access to education and health care. The table suggests what might happen to them by the year 2000, on the assumption that gdp in the industrial countries grows by 4.2%, in ldc's by 5.7%.

But if gdp grows everywhere by 1% more a year, then the World Bank estimates that the numbers of absolute poor could be halved in the low-income countries, and disappear altogether in the middle-income group.

Life gets better



Source: World Bank

exports. Even so, more ldc's are following their recipe. In 1975, 40 ldc's could boast manufactured exports above \$100m, compared with only 18 who could have done so 10 years earlier (in real terms, so the numbers are not artificially inflated).

Geographically too there has been a shift. Ldc trade is still heavily north-south; but less than it was. The industrial countries took nearly 80% of ldc exports in 1960: this had fallen to 70% by 1976, entirely as a result of increased trade amongst themselves. Here again, manufactures played the leading role, growing by 10.6% a year during 1960-75. They accounted for 39% of the growth in south-south trade during that time; although barely 10% of ldc manufactured imports come from other ldc's.

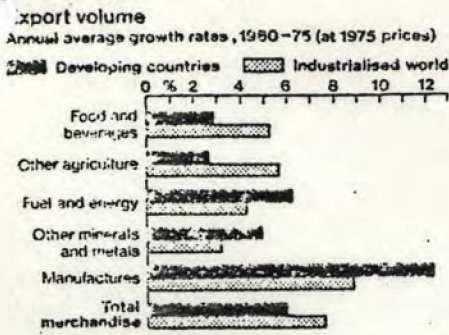
Financial flows. Given the ldc's habit-

ual current-account deficits, capital inflows have played a crucial role in balancing their external see-saw. These are debts—around \$200 billion at the end of 1976—which will have to be repaid or refinanced. Roughly one third of them originate from the official aid programmes of the industrial countries. These have become less and less generous—falling, as a proportion of rich country gnp, from 0.52% in 1960 to 0.31% last year (compared with the UN target of 0.7%). But the poorest ldc's now receive their aid as grants, not loans, and terms for the rest have been getting softer.

To make up for the official aid shortfall—and to fill the hole caused by higher oil prices—ldc's have turned increasingly to private finance. This borrowing—mainly from the Eurocurrency markets—

continued .../

Winning one race



Source: World Bank

grow at an average 38.3% a year between 1972-76. But comparatively few ldc are creditworthy enough for western bankers: last year 80% of ldc bank borrowing was done by just nine countries. Much the same group has attracted the bulk of private direct investment, which grew in volume by 64% a year during 1960-75.

Higher borrowing means higher debt servicing costs, particularly painful if export earnings are not rising as fast. As a proportion of their exports, debt service for the low-income countries rose from 4.6% in 1970 to 7.2% in 1976; for middle-income countries—heavy borrowers, but also more successful exporters—the ratio went from 7.5% to 8.0%.

Where now?

So much for the past. The ldc face some daunting difficulties.

➊ **Population growth.** While detailed demographic projections are invariably wrong, the World Bank figures do offer some general guide. They show the ldc population rising from 2.1 billion in 1975 to 3.5 billion by 2000, with two thirds of the countries not reaching a stationary population until well into the twenty-second century.

➋ **Food supplies.** The World Bank (like other international bodies) doubts that these will keep up with demand—except in Latin America, where a small surplus is projected. This will mean more imports, so even more foreign borrowing.

➌ **Debt.** The World Bank reckons that the ldc's foreign capital requirements will rise from \$63 billion (1975) to \$276 billion (1985): some of this is due to inflation (an assumed 7% a year), but even so the need will more than double in real terms. On all the other World Bank assumptions about trade, etc, this would raise debt service ratios from 11.8% to 21.0%. Not unmanageable, thinks the World Bank, "provided exports can grow at the projected rates". That raises the last real obstacle, and biggest question mark.

➍ **Protectionism in the industrial countries.** Manufactures are presumed to provide

vide the thrust of the ldc's future export growth. If trade barriers remain roughly as they are today, the World Bank projects that ldc will account for 13.6% of the industrial countries' manufactured imports by 1985, compared with 8.9% 10 years earlier. In terms of the total market, however, they will be supplying only 2.7% (1.2% in 1975). But that will be much higher for some individual products: and with restrictions like those now on textiles and clothing, the ldc would have no hope of meeting their export targets—nor much else besides. The rich world's prolonged recession overcasts the future with pessimism.

Eight steps to optimism

Professor Rostow is, as ever, on the side of the optimists. He believes still, as he did in 1960, that the world's latecomers to industrialisation can catch up with their forerunners in the rich world, just as the nineteenth century's latecomers (Japan, Sweden, Canada) caught up in the twentieth. Some who entered "take-off" in the second and third quarters of this century are already proving his case for him (Brazil, Iran, South Korea, Taiwan); the vicissitudes of those who have patently failed at growthmanship need not, he believes, be permanent.

For all the constraints, he believes the poor three quarters of the world can aspire to the kind of growth that will bring mass affluence. And whether the argument among the academics of the affluent west goes his or the doomsters' way, the poor will try for growth; so serious policy-making must be framed accordingly:

... the disadvantaged of this world are about to buy tickets for the show; they are quite unmoved by the affluent emerging from the theatre and pronouncing the show bad; they are determined to find out for themselves.

But, for these latecomers, the difficulties are compounded by the population explosion: the sheer weight of numbers of people in simultaneous pursuit of the life beyond poverty, and the huge expansion this implies in demand for food, raw materials and energy.

The anxiety this causes is almost as old as economic history. Rostow puts the debate firmly in its place with four similar ones in the past, each at the beginning of the upswing into a long-run "Kondratieff" growth cycle. These phases were all characterised by high or rising prices for basic products and pressure on food or raw material supplies: at the turn of the



Rostow smiles at the future

eighteenth century, in the 1860s (concentrated on coal supplies), in the years before the first world war and those after the second. After each (in the 1940s, even before the inevitable American commission had concluded its deliberations) prices yielded and the crisis dissolved.

But Rostow is not one who believes that energy or food will this time lurch quickly into glut. The pace of population growth now is too massive; even if disaster can be averted, the threat casts all previous crises into the shade. At best, he sees the near future as a phase of history in which the price of energy, food, raw materials, even clean air and water, stay higher than they have been in the generation up until the 1970s. For the resumption of high and stable rates of growth, he argues that a different set of policies are needed, and that the world has been dangerously slow in rejigging them.

By the year 2000, says Rostow, a world that is both lucky and clever will have succeeded in eight Herculean tasks:

- ➊ Gross birth rates in the developing world will have been halved.
- ➋ The productivity of agriculture will have been raised enough to avoid the crudest kind of Malthusian crisis.
- ➌ An energy source based on renewable, or essentially infinite, resources will have been found.
- ➍ Air and water pollution will be under control.
- ➎ Expanded production, substitution, economy and recycling will provide sufficient raw materials to permit industrialisation to continue.

continued ...

Where births drop

Middle-income countries with the highest and lowest fall in birth rates

Country	Birth rate (per 1000 population) 1975	% change 1960-75
Singapore	18	-52.6
Hongkong	18	-48.6
Taiwan	23	-42.5
South Korea	24	-41.5
Trinidad and Tobago	23	-39.5
Costa Rica	29	-38.3
Chile	23	-37.8
Tunisia	34	-27.7
Columbia	33	-26.7
Thailand	34	-26.1
Liberia	50	+16.3
Congo, People's Rep	45	+2.3
Zambia	51	+2.0
Mauritania	45	0.0
Jordan	47	0.0
Togo	50	-2.0
Sudan	49	-2.0
Nigeria	49	-2.0
Ghana	49	-2.0
Senegal	47	-2.1
All middle-income countries	40	-9.2
All industrial countries	18	-13.6

- Patterns of investment will have been restructured to permit this expansion.
 - High and steady rates of growth will have been reconciled with price stability.
 - The ldes will have doubled their income per head; another quarter century of modernisation will have fitted them better to face the inevitable crises of changing circumstance.
- What are the world's chances of sufficient fortune and wisdom?

Getting out of transition

It is probable that, sometime in the mid-1970s, the rate of growth of the world's population passed its explosive peak. But that does not mean the population crisis is over. As Professor Rostow shows, when the old world industrialised, death rates dropped slowly and a fall in birth rates followed swiftly; so Europe was not stuck dangerously long in the "demographic transition" of spectacular population growth. In the less-developed world, death rates will now fall more slowly, which is why population growth rates should decelerate: but they will remain alarmingly high until birth rates come down. These drop at a higher level of economic development and, even then, erratically: the table shows the wide difference between two extreme groups of middle-income countries. In some of the Asian economic high-flyers, birth rates are nearly down to western levels; in Africa, they have barely shifted.

Only in the industrial world is population growth down to 1%: the level that prevailed in the world as a whole before population exploded in the third quarter of this century. If world population continued to grow at only 2%, there would be nearly five times as many people in the

world by the middle of the next century as there are today.

That is too pessimistic. Projecting present trends, country by country, in mortality changes, the World Bank arrives at a figure for world population of 10 billion, when it finally stabilises in about 200 years—ie, 2½ times today's figure.

There are only two ways to hasten a drop in birth rates fast enough to score a plus on Professor Rostow's task sheet. First (as favoured by the rich world) by government action. Professor Rostow notes with approval that the number of ldes with family planning programmes increased from only 4 in 1960 to 53 in 1974. Second (as emphasised by the poor) by a transfer of resources from, and access to the markets in, the rich world, so that the less-developed can quickly raise their incomes to the levels at which birth rates traditionally begin to fall fast.

Faster growth is the key that unlocks so many doors that appear to have been slammed against optimism over the past six years. Total food production has risen faster than total population, defying the prophets of Malthusian doom. But it has not kept pace with demand. And even with the kind of productivity increases in agriculture that Professor Rostow sees as a minimum task, many countries will still need to import to keep their expanded populations fed (see chart).

Neither raw materials nor energy sources are evenly distributed. Even with new energy sources, new raw materials and the recycling of limited ones, the lubrication of high growth is needed to diffuse them throughout the world. Professor Rostow is right to reject the pessimism of vertical technical limits to growth; but equally ready to admit that the growth track has been uncomfortably steepened. He provides, for example, two projections of ldes' growth at different energy prices, based on World Bank figures: a 25% cut in the oil price nearly doubles the growth of gnp per head in the

poorest countries.

Big fleas have little fleas

The critical lesson that both the World Bank and Professor Rostow believe the world is learning too slowly is the interdependence of rich and poor. The slow-moving, low-achieving, infinitely tedious sets of north-south trade and aid "dialogues" prove the point. The rich have grown on the back of the poor, the poor at the tail of the rich.

The poor need the rich to grow for four reasons. First, because otherwise the ldes' export markets simply do not grow fast enough: in the past three years, the annual growth in their exports to OECD countries has braked from 23% to 9% to 2%. Second, because slow growth in the industrial world breeds protectionism, which means their markets for imports actually contract. Third, because recession cracks the frail generosity of the rich—in the transfer of resources and direct aid. And fourth, because one of the poor world's major exports—labour—is totally rejected when unemployment rises in the developed world. But the rich need the poor, too; the fifth danger of recession is that they forget that the balance of trade generated by high lde growth lies in the industrial world's favour.

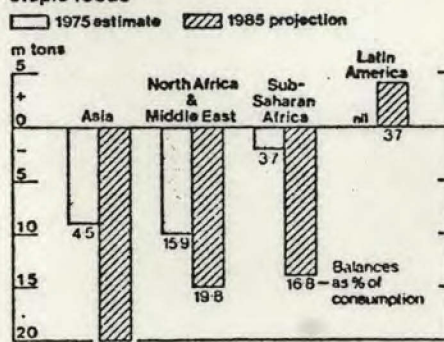
The World Bank's "neutral" base projection is that the industrial world will recover, not to the 5% growth that it averaged in the 1960s, but to an average growth rate of 4.2%. Professor Rostow, who uses the same basic assumption, shows the likely consequences if growth instead remains stuck at the 3½% it has achieved this year and last: real growth in the developing world barely keeps pace with population growth, and the rise in living standards of the third quarter of a century slows to a halt.

The middling-poor can, and should, buttress their economies against slow world growth by raising domestic savings and domestically financed investment. And all ldes can strengthen their own bootstraps by birth control and raising agricultural productivity. But before they can recover the growth needed to drag their populations out of poverty, the rich world must drag itself out of recession.

In Professor Rostow's view, that will involve more—and more difficult—planning by governments, with the successful countries living "in a setting somewhere between a mixed Keynesian welfare economy and a war economy". However they fumble their way forward, the existing industrial countries will continue to dominate the world economy for at least the next quarter century. The fate of the rest of the world hangs, relatively helplessly, on their success.

Thought for food

Developing countries' balances in major staple foods



Source: World Bank

H

TALK TO THE ROUND TABLE ON ECONOMY AND POLITICS OF

THE FRIEDRICH EBERT FOUNDATION

(March 8, 18:00)

See attached: (i) notes on the Friedrich Ebert Foundation
(ii) your speech

Participants: Invitations were sent to 200-300 persons.

The Foundation invites to its Round Table ("Gesprächskreis Wirtschaft und Politik") personalities of all political shades, such as all Cabinet members and Under Secretaries, members of the Bundestag Committee for Economic Affairs and of the Bundestag Committee for Economic Cooperation, all state prime ministers, members of the German UNESCO Committee (some well-known professors and writers), some senior civil servants (Mr. Schulmann), the chairmen of the 16 industrial trade unions and the board of the federation of trade unions, the heads of the Catholic and Protestant aid organizations, the chief executives of major German business firms, banks and insurance companies. Secretary Ohlin of the Brandt Commission was also invited. The Foundation expects between 80-150 acceptances.

Simultaneous translation is available. The interpreters would like to have a text of the speech a few hours ahead of time.

The meeting will start around 6 p.m. The Chairman will be Dr. HESSELBACH, Chairman of the board of a holding company which controls trade union-owned banks, insurance companies, building societies, cooperatives etc. Mr. NAU, the President of the Foundation will also be there.

Dr. HESSELBACH will introduce you with a few words and you will then talk about "The international development scene - problems and prospects". This will be followed by a 60-90-minute question-and-answer period.

Thereafter, there will be a buffet-type reception at the "Political Club" for which about half of the participants of the discussion are expected to come and where some may want to speak to you privately.

The reception will last a good two hours.

THE FRIEDRICH EBERT FOUNDATION

"Friedrich-Ebert-Stiftung" is the Social Democratic Party's political foundation. It was founded in 1925 in honor of the first President of the German republic after World War I, Social Democrat Friedrich Ebert. It is financed by the SPD, and it receives federal funds in support of some of its international activities. The foundation's main activities are: political education, social and economic research, support of German and foreign students through scholarships, and international cooperation.

In the field of international cooperation, the foundation attempts not only to promote understanding between peoples, but also to make a contribution to the German aid effort. The international work consists of support for trade unions, cooperatives, institutions of adult education, universities, research organisations, journalists, radio and television in LDCs.

Within these various areas, the foundation gives priority to adult education. Support is given financially, through the provision of advisors and consultants, and through the organisation of training courses and seminars.



Meeting with Foreign Minister Hans-Dietrich Genscher

(March 9, 8:15 for breakfast
in the Ministry of Foreign
Affairs)

As of February 9, Mr. Genscher is still at home with some heart trouble, but is expected to be in the office next week.

For background see attached curriculum vitae plus personal sketch.

Present: - Minister GENSCHER (+ interpreter)
- two Foreign Affairs officials

IBRD

- Messrs. MCNAMARA, STECKHAN, KOCH-WESER.

Issues likely to be raised by the Minister:

- UNCTAD V and North-South relations
- common fund
- the need for COMECON to increase its aid
- assistance to middle-income countries to "graduate" and to bring them closer to the OECD
- Southern Africa, in particular Namibia
- Turkey.

HANS-DIETRICH GENSCHER

Federal Minister for Foreign Affairs and Vice-Chancellor

Age (52), married, one daughter

1943 - 1945	Air force auxiliary, labor service, military service prisoner of war
1946 - 1952	Study of law and economics at the universities of Halle and Leipzig; completion of legal training in Bremen and Hamburg, after settlement in the Federal Republic of Germany
1952	Member of the FDP
1965	Member of the Bundestag
1969 - 1974	Federal Minister of the Interior under Chancellor Willy Brandt
1974	Elected as <u>chairman of the FDP</u>
since 1974	Federal Minister of Foreign Affairs and Vice-Chancellor in Chancellor Helmut Schmidt's cabinet which was formed following Mr. Brandt's resignation in the wake of a spy scandal. Walter Scheel, the previous foreign minister, vacated his seat because of his candidature for the Federal Presidency.

The politician:

Mr. Genscher was one of the chief engineers of his party's shift in 1969 from coalition with the CDU to a new coalition with the SPD which brought the Social Democrats into government for the first time since the foundation of the Federal Republic. He is not a doctrinaire politician; his thinking is rather centrist than leftist-liberal. He believes in basic democratic freedoms which must be protected against incursions of powerful organisations, both big business and big labor.

Of the three main areas of German foreign policy, Mr. Genscher has been most active in North-South relations; his predecessors under Chancellor Adenauer concentrated on relations with the West and under Chancellor Brandt on relations with the East. In the North-South area, the Foreign Ministry shares responsibility with the Ministry of Economic

Affairs and the Ministry for Economic Cooperation. Mr. Genscher has shown greater flexibility than the rigidly free-market oriented Economics Ministry, particularly with regard to commodity agreements and the common fund. He has also been more active and diplomatic in his dealings with LDCs in the U.N. and through bilateral contacts, often upstaging the cooperation ministers who have followed upon each other in quick succession.

J

KARL OTTO PÖHL

Vice chairman Deutsche Bundesbank

Age 49, married, two children

Up to 1955	Study of economics at the University of Göttingen
Until 1960	Department head at the IFO Institute for Economic Research, Munich
1961 - 1967	Financial journalist in Bonn
1968 - 1969	Member of the Board of Management of the Federation of German Banks, Cologne
1971 - 1972	Head of the Department of Economics and Finance at the Chancellor's Office
1972 - 1977	Under Secretary in the Ministry of Finance
Since June 1977	Vice chairman of the Deutsche Bundesbank, Frankfurt

Mr. Pöhl is Vice chairman of the eight-member Bundesbank board. Its chairman, 67-year old Dr. Ottmar Emminger, is scheduled to go into retirement at the end of this year. Mr. Pöhl, although a highly regarded monetary expert, is still considered not to possess sufficient experience in the field of central banking to be the most likely candidate for Mr. Emminger's succession. Recently it was rumored that Chancellor Helmut Schmidt had made up his mind to nominate 60-year old Dr. Wilfried Guth as Bundesbank chairman when Mr. Emminger's contract expires. (At present, Mr Guth is a member of the board of management of Deutsche Bank.) The Chancellor's office has strongly denied that there was any truth in the rumor. The fact remains that Mr. Guth would be one of the most attractive candidates for the chairmanship of the Bundesbank because of the depth of his national and international experience.

Outlook for the Economy

Profits & investment

since July & LDC captured 14 points

Long-term energy plan (incl. growth, nuclear)

Outlook for growth in FRG low ER net of demands on LDC's

Outlook for interest rates

K

Meeting with Finance Minister Hans Matthöfer

(Afternoon of March 9
in Frankfurt, exact time
and place to be determined)

For background see attached curriculum vitae plus personal sketch.

Present: - Minister MATTHÖFER (plus associates)

IBRD - Messrs McNAMARA, STECKHAN, KOCH-WESER

Issues likely to be raised by the Minister:

- capital increase
- IDA replenishment
- Bank borrowing on German capital market
- LDC debt
- the Bank's rural development activities
- transfer of technology

(Mr. Matthöfer's personal assistant mentioned that the Minister might be interested in the Bank's views on a campaign against corruption in LDCs. In addition, the Minister may bring up issues that were discussed at the Interim Committee meeting in Washington, from where he returns.)

HANS MATTHÖFER

Federal Minister of Finance

Age 53, married

1942 - 1945 labor service, military service
1950 member of the SPD
1948 - 1953 study of economics and social sciences in Frankfurt and Madison, Wisc.
1953 - 1961 work at the head office of the metal workers trade union
1961 member of the Bundestag
1972 Under Secretary for parliamentary relations at the Ministry for Economic Cooperation
1974 Federal Minister for Research and Technology
1978
to present Federal Minister of Finance

The politician:

The son of a foundry worker, Mr. Matthöfer belongs to the left wing of the Social Democratic Party. He is motivated by a highly moral sense of social justice which makes him very critical of big business and oppressive governments. He is, however, not a revolutionary and he has always taken great pains to keep his distances from communists. He is a man of keen political temperament who provides color to the often drab political scene in Bonn. His statement that the Pinochet government in Chile was a "gang of murderers" with which he would not have the slightest contact, is characteristic. This statement was considered to be an embarrassing one for a member of the German government, and Mr. Matthöfer had to submit to public criticism by Foreign Minister Hans-Dietrich Genscher. While at the Ministry for Economic Cooperation, he underlined the moral and political side of the development. He said that a development policy which increased inequality in LDCs frustrated both democracy and economic growth. In his view aid should only be given where it helps to increase "the democratic potential".

When in February 1978 Chancellor Schmidt asked Mr. Matthöfer to leave the Ministry for Research and Technology to become Finance Minister, Mr. Matthöfer followed rather reluctantly, pointing out that neither qualification nor temperament fitted him for the job. However, Mr. Schmidt was insistent in view of Mr. Matthöfer's outstanding qualities as a man of duty and responsibility. Since then, he has managed the Finance Ministry quietly and efficiently.

L

1. WORLD BANK GROUP: FINANCIAL AND OPERATING DATA THROUGH FY83
(\$ millions, fiscal years)

	Thru 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1964-68	1969-73	1974-78	1979-83	
IDA																										
Cash & Securities	1738	1589	1585	1417	1305	1167	1707	2049	2549	3218	3734	3824	5110	6317	7846	8857	9490	9409	9728	10028	10332	1167	3734	8857	10332	
Receivable from Delayed Deliveries	5	18	18	234	234	141	43	17	11	43	17	11	43	17	11	43	17	11	43	17	11	43	17	11	43	17
Receivable from Loans - Part I b/	1426	1491	1689	1712	1774	1712	1630	1357	1378	1433	1427	1324	1220	1097	980	807	778	678	575	488	417	1481	1481	1481	1481	
- Part II	3294	3712	4291	4828	5258	5774	6907	8322	9754	11855	14673	20578	24394	29491	36353	43514	50286	57428	65948	73301	7774	14185	36353	73301	10332	
- IFC	1720	2203	2980	3540	4132	4837	5637	6579	7687	8973	10400	12044	13850	15824	17983	20353	22943	25784	28881	32141	35660	40496	46823	54823	64611	
Receivable from Subscribed Capital	436	437	465	509	502	479	492	432	458	482	507	521	515	515	515	515	515	515	515	515	515	515	515	515	515	
Land & Buildings Net of Deprec. Res.	21	21	21	23	24	29	34	37	37	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	
Accruals, Prepayments & Other Assets	79	79	95	103	118	125	163	209	281	360	447	513	592	656	722	785	855	924	997	1074	1156	1245	1340	1440	1545	
TOTAL ASSETS	6999	7329	8174	8590	9315	9620	11144	12638	14602	17282	20819	23314	28506	34448	40380	48359	56733	63187	70567	79123	88139	9620	20819	48359	88139	
Due to IDA c/	1535	1731	2149	2314	2381	2371	3007	3905	4741	5480	6279	7978	10148	12577	15370	18462	21856	25327	28831	32286	35723	2371	6279	18462	35723	
Undisbursed Loans d/	2524	2492	2742	2806	3309	3524	4222	4612	5441	6962	8925	9650	12407	15444	18478	22602	26479	29043	36331	40616	3524	3524	22602	40616	7774	
Miscellaneous Liabilities	466	42	43	49	53	59	89	100	137	211	297	297	338	647	561	772	689	870	952	1044	1146	59	297	772	1146	
Capital & - Special Reserves	255	288	289	290	290	290	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	
Reserves - Retained Earnings e/	2081	2120	2168	2247	2288	2294	2307	2316	2372	2461	2506	2531	2552	2582	2622	2652	2682	2712	2742	2772	2802	2832	2862	2892	2922	
- Paid-in Capital f/	2894	3004	3200	3344	3488	3632	3776	3920	4064	4208	4352	4496	4640	4784	4928	5072	5216	5360	5504	5648	5792	5936	6080	6224	6368	
TOTAL LIABILITIES & CAPITAL	6999	7329	8174	8590	9315	9620	11144	12638	14602	17282	20819	23314	28506	34448	40380	48359	56733	63187	70567	79123	88139	9620	20819	48359	88139	
Total Unallocated Capital g/	18656	19066	19501	20184	20565	20648	20733	21484	23946	27357	27388	27729	27725	27782	27821	27871	27921	27971	28021	28071	28121	28171	28221	28271	28321	
Income from - Securities	320	62	62	63	63	66	88	149	187	215	267	383	425	536	614	690	771	852	933	1014	1095	1176	1257	1338	1419	
- Loans: Part I g/	485	64	68	70	76	84	91	92	72	74	74	74	87	85	89	87	84	80	75	71	76	362	403	437	386	
- Part II	589	125	137	157	180	200	224	253	311	378	457	567	677	811	984	1237	1567	1858	2150	2444	2888	362	1629	4276	10957	
Other Income	127	19	22	30	31	34	41	45	56	66	79	91	110	122	141	148	162	184	212	242	273	136	287	612	11430	
Less: Administrative Expenses	631	100	106	116	129	151	195	242	305	392	487	614	765	977	1252	1542	1835	2016	2239	2514	2826	602	1621	5150	10430	
Interest on Borrowings	23	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
Financial Expenses	23	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
NET INCOME	891	131	138	143	170	170	172	214	212	183	186	216	225	220	209	238	327	392	434	489	563	752	967	1158	2205	
Net Loss (-) or Gain (+) on Deval.	-8			-3		-23		-2	-2	-20	-81	-54	-14	-151	-10	+110	+74					-26	+135	-91	+74	
IDA																										
Securities	75.0	90.0	44.3	35.3	34.4	52.2	78.0	171.6	243.4	258.8	319.3	506.1	315.4	213.7	174.3	205.8	64	49	41	49	57	52	319	206	57	
Unrestricted Subscriptions h/	338.5	352.4	340.3	376.0	358.0	345.7	324.3	275.1	281.6	1153.1	2061.4	2415.4	2523.8	2430.6	2516.6	4514.4	7142	8503	9715	10491	11000	346	2662	4514	11000	
Receivable from IDA e/	495.2	476.4	1085.5	1366.2	1624.2	1788.4	2170.2	2772.9	4518.9	6197.9	8794.7	12749.8	17949.9	22722.5	27702.2	33958.6	41738.6	49711.1	58278.8	67034.4	76034.4	85034.4	94034.4	103034.4	112034.4	121034.4
Receivable from Credits j/	122.2	176.4	228.1	222.8	222.7	233.5	234.6	229.2	233.1	250.3	263.4	236.4	203.6	220.3	244.5	244.6	335	335	335	335	335	335	335	335	335	335
Restricted Subscr. & Other Assets																										
TOTAL ASSETS	1030.9	1397.2	1729.8	2078.2	2401.6	2462.5	2899.3	4061.5	4927.7	6479.7	9283.9	10865.7	12391.9	13996.9	15391.3	19757.2	25069	29519	33701	37691	41379	4662	9284	19758	41379	
Undisbursed Credits k/	426.8	585.9	670.8	683.6	670.5	572.0	1031.5	1363.7	2099.1	3336.6	3878.1	4273.4	4279.9	5910.2	6994	8699	9799	10702	11234	11664	12104	446	2989	5510	11294	
Loans from Switzerland																										
Transfers from IDA g/																										
Accumulated Net Income	2.4	4.1	6.7	9.8	14.4	21.4	31.9	38.6	45.7	64.2	89.9	124.8	169.9	224.8	294.8	374.8	454.8	534.8	614.8	694.8	774.8	854.8	934.8	1014.8	1094.8	
Paid Subscriptions & Supplements	601.7	807.2	1102.3	1259.8	1516.7	1773.1	2029.3	2285.5	2541.7	2797.9	3054.1	3310.3	3566.5	3822.7	4078.9	4335.1	4591.3	4847.5	5103.7	5359.9	5616.1	5872.3	6128.5	6384.7	6640.9	
TOTAL LIABILITIES	1030.9	1397.2	1729.8	2078.2	2401.6	2462.5	2899.3	4061.5	4927.7	6479.7	9283.9	10865.7	12391.9	13996.9	15391.3	19757.2	25069	29519	33701	37691	41379	4662	9284	19758	41379	
Income	5.7	4.3	5.5	6.5	8.8	12.2	14.6	22.5	27.0	28.1	35.4	67.9	60.6	65.2	72.4	80	80	91	106	125	137	128	324	482		
Less: Administrative Expenses	3.2	2.6	2.9	3.4	4.2	4.1	4.2	15.8	19.3	29.1	30.9	43.2	47.6	62.8	72.3	91.9	111	120	126	135	146	17	99	318		
NET LOSS (-) OR GAIN (+) ON DEVAL.	2.5	1.7	2.6	3.1	4.6	7.0	10.4	6.7	7.1	18.5	4.9	11.8	8.0	-4.2	-1.0	-23.4	-23	-40	-35	-29	-21	19	48	-37	-179	
NET INCOME	2.5	1.7	2.6	3.1	4.6	7.0	10.4	6.7	7.1	18.5	4.9	11.8	8.0	-4.2	-1.0	-23.4	-23	-40	-35	-29	-21	19	48	-37	-179	
IFC																										
Balance Sheet																										
Cash & Securities	71.5	66.4	63.5																							

2nd BR
Looking For

TABLE 1. PRELIMINARY PROJECTIONS OF NON-OPEC DEVELOPING COUNTRIES' (NODCs) ENERGY BALANCE 1975-85 1/
(million barrels per day of oil equivalent)

	1975	1980	1985	Growth Rates (% per annum)		
				1976-80	1981-85	1976-85
OIL-IMPORTING DEVELOPING COUNTRIES (OIDCs)						
Consumption: Oil	4.33	5.35	7.20	4.3	6.2	5.2
Non-Oil	3.73	4.95	7.30	5.8	8.1	6.9
Total	8.06	10.30	14.50	5.0	7.1	6.0
Production: Oil	1.21	1.66	2.85 <i>could be 5.4% or + 2.65</i>	6.5	11.4	8.9
Non-Oil	3.62	4.88	7.35	6.2	8.5	7.3
Total	4.83	6.54	10.20	6.2	9.3	7.8
Net Energy Imports 3/	3.23	3.76	4.30	3.3	2.7	3.0
Oil Imports	3.12	3.69	4.35 <i>could be 1.80</i>	3.4	3.4	3.4
Oil Imports as % of Total Imports	14.4	12.6	7.2			
Value of Oil Imports (current \$ billion/year)	14.3	24.3	38.3 <i>could be 15.2, as a % of 236 ba</i>			
NON-OPEC OIL-EXPORTING DEVELOPING COUNTRIES 4/						
Consumption: Oil	1.14	1.36	1.88	3.6	6.7	5.2
Non-Oil	0.49	0.85	1.37	11.6	10.0	10.8
Total	1.63	2.21	3.25	6.3	8.0	7.1
Production: Oil	2.36	4.09	5.55	11.6	6.3	8.9
Non-Oil	0.61	1.14	1.91	13.3	10.9	12.1
Total	2.97	5.23	7.46	12.0	7.4	9.6
Net Energy Exports	1.30	3.02	4.21	18.4	6.9	12.5
Oil Exports	1.22	2.73	3.67	17.5	6.1	11.6
Oil Exports as % of Total Exports	22.0	29.6	32.1			
Value of Oil Exports (current \$ billion/year)	4.3	13.8	25.0			
TOTAL NON-OPEC DEVELOPING COUNTRIES						
Consumption: Oil	5.47	6.71	9.08	4.2	6.3	5.2
Non-Oil	4.22	5.80	8.67	6.6	8.4	7.5
Total	9.69	12.51	17.75	5.2	7.2	6.2
Production: Oil	3.57	5.75	8.40	10.0	7.9	8.9
Non-Oil	4.23	6.02	9.27	7.3	9.0	8.2
Total	7.80	11.77	17.67	8.6	8.5	8.5
Net Energy Imports	1.90	0.75	0.08	-17.0	-36.1	-27.2
MEMO ITEM 5/						
Bunkers (all oil)	0.46	0.57	0.67	4.4	3.3	3.8

1/ Refers to commercial energy sources only and assumes that OPEC crude oil prices remain constant in real terms through 1985 (\$11.50 per barrel in 1975). OIDs are projected to grow at 5.3% per annum in 1976-80; 6.4% in 1981-85; and 5.8% per annum for the whole of the decade. Corresponding growth rates for non-OPEC oil exporters are 5.5%, 6.6%, and 6.1%; and for all NODCs the growth rates assumed are 5.4%, 6.4% and 5.9%. Totals may not add due to rounding.
2/ Non-oil includes coal, gas, and hydropower, nuclear and geothermal. The breakdown for energy from these sources for all NODCs is:

	Non-Oil Energy Consumption and Production (Million BDOE)			
	1975		1985	
	Production	Consumption	Production	Consumption
Coal	2.17	2.30	3.74	3.75
Gas	0.85	0.71	2.53	1.92
Hydro, Nuclear, and Geothermal	1.20	1.21	3.00	3.00
Total Non-Oil	4.23	4.22	9.27	8.67

3/ As indicated, the bulk of energy imports is in the form of oil; coal and gas account for almost all of the remainder.
4/ Non-OPEC oil exporters include: Angola, Bahrain, Bolivia, Congo, Egypt, Malaysia, Mexico, Syria, Oman, Trinidad and Tobago, Tunisia, and Zaire.
5/ Deliveries to bunkers (for fuelling vessels) are excluded from net imports and net exports.

Source: Bank Staff estimates.

SIZE OF POTENTIAL PETROLEUM RESOURCES, EXPLORATION ACTIVITY AND ACTIONS NEEDED
IN 70 DEVELOPING COUNTRIES

Country	Size of Potential Resources				Exploration Activity			Actions Needed									
	Very High	High	Fair	Low	Adequate	Moderate	Inadequate	S	T	U	V	W	X	Y	Z		
A. Oil Producer/Net Importer																	
Afghanistan		H					I	S	T	U					Z		
Argentina							I	S	T	U					Z		
Bangladesh		H			A		I	S	T	U			X		Z		
Brazil	VH						I	S	T	U			X		Z		
Burma			F		A			S	T	U					Z		
Chile	VH							S	T	U					Z		
Colombia	VH					M		S	T	U			X		Z		
India	VH					M		S	T	U					Z		
Morocco				L		M		S	T	U					Z		
Pakistan			F			M		S	T	U				Y	Z		
Peru	VH						I	S	T	U					Z		
Turkey	VH						I	S	T	U					Z		
Sub-Total	6	3	2	1	2	4	6	8	6	11	0	0	3	1	10		
B. Proven Reserves/Non-Producer																	
Benin			F				I	S							Y		
Cameroon		H			A												
Chad	VH				A			S	T	U					Y		
Guatemala		H			A	M		S	T	U					Y		
Ivory Coast			F					S	T	U					Y		
Papua NG				L		M		S			V	W			Y		
Philippines	VH					M		S		U					Y		
Tanzania			F					S	T	U					Y		
Thailand	VH				A			S	T	U					Z		
Vietnam	VH						I	S	T	U			X		Z		
Sub-Total	4	2	3	1	4	3	3	2	2	3	1	1	1	3	2		
C. Non-Producer/No Discoveries																	
Burundi				L			I			U		W					
C.A.E.				L	A										Z		
Costa Rica				L			I	S	T	U				Y			
Cyprus			F				I	S	T	U				Y			
Dominican Rep.				L			I	S	T	U		W					
El Salvador				L			I	S	T	U				Y			
Eq. Guinea				L			I	S	T	U				Y			
Ethiopia			F				I	S					X		Y		
Fiji				L			I	S					X		Y		
Gambia				L			I	S									
Ghana		H			A					U		V					
Grenada			F				I	S							Y		
Guinea Bissau			F				I	S	T	U					Y		
Guinea Rep.				L			I	S	T	U					Y		
Guyana				L		M		S	T	U					Y		
Haiti				L		M		S	T	U					Y		
Honduras				L		M		S	T	U			X		Y		
Jamaica			F				I	S	T	U		V	W	X	Z		
Jordan				L		M		S	T	U				Y	Z		
Kenya				L			I	S	T	U					Z		
Korea		H		L			I	S	T	U				X	Y		
Lebanon				L			I	S	T	U					Y		
Liberia			F				I	S	T	U					Y		
Madagascar				L			I	S	T	U		V	W		Z		
Mali				L			I	S	T	U		V	W				
Mauritania			F				I	S	T	U					Y		
Mauritius				L		M		S	T	U					Y		
Mozambique				L			I	S	T	U			W		Y		
Nepal				L		M		S	T	U					Y		
Nicaragua			F		A			S	T	U		V	W		Y		
Niger	VH						I	S	T	U		V	W		Y		
Panama				L		M		S	T	U					Y		
Paraguay				L	A			S	T	U					Y		
Rwanda				L			I	S				V					
Senegal			F				I	S				V					
Sierra Leone		H		L			I	S	T	U					Y		
Somalia				L		M		S	T	U					Z		
Sri Lanka				L			I	S	T	U					Y		
Sudan		H					I	S	T	U					Y		
Surinam			F			M		S	T	U					Y		
Togo				L			I	S							Y		
Upper Volta				L			I	S							Y		
Uruguay				L		M		S	T	U				X	Y		
Yemen A.R.				L			I	S	T	U		V	W	X	Y		
Yemen P.D.R.				L			I	S	T	U		V	W	X	Y		
Sub-Total	1	4	10	30	4	13	28	28	20	32	6	7	18	23	6		
D. Non-OPEC/Exporters																	
Congo	VH					M		S		U				Y	Z		
Syria	VH							S		U					Z		
Zaire		H				M		S	T	U	V	W		Y	Z		
Sub-Total	2	1	0	0	0	2	1	2	1	3	1	1	0	2	1		
TOTAL	13	10	15	32	10	22	38	43	31	51	8	9	12	33	19		

CODES:

Size of Potential Resources
 VH = Very High -- over 1,500 million barrels
 H = High -- 750-1,500 " "
 F = Fair -- 100-750 " "
 L = Low -- under 100 " "

Exploration Activity Code:
 A = Adequate
 M = Moderate
 I = Inadequate

Actions Needed Code:
 S = Possibility of increased exploration.
 T = Increased cooperation with foreign interests.
 U = Reappraisal of past exploration data.
 V = Additional geophysical surveys.
 W = Drill stratigraphic test well.
 X = Negotiate new contracts; positive action to be taken by Bank.
 Y = Assistance to government.
 Z = Assistance to State Oil Company.

BURDEN SHARING IN AN IDA6 REPLENISHMENT OF \$13 BILLION

	GDP		IDA5				IDA6 ^{3/}				% Increase ^{4/} in Nat'l Curr.	IDA6 as % GDP ^{5/}
	p.c. ^{1/}	% of Total ^{2/}	Nat'l Curr. (mil.)	Exchange Rate 3/14/77	US\$ Equiv. as of 3/14/77 (mil.)	% Share	Nat'l Curr. (mil.)	Exchange Rate 1/31/79	US\$ Equiv. as of 1/31/79 (mil.)	% Share		
Decreasing												
United States	8720	26.1	2,400.000	1.0000	2400.00	31.22	3,666.000	1.0000	3666	28.2	53	.041
Canada	8500	3.7	470.788	1.0511	447.90	5.83	686.686	1.2005	572	4.4	46	.069
Sweden	9500	1.5	1,239.102	4.2175	293.80	3.82	1,591.517	4.3723	364	2.8	28	.101
Italy	3430	4.4	262,307.953	886.4750	295.90	3.85	338,923.000	841.0000	403	3.1	29	.040
France	7120	8.8	2,063.400	4.9925	413.30	5.38	2,889.562	4.2745	676	5.2	40	.033
Sub-Total		44.5			3850.90	50.10			5681	43.7		
Increasing												
Japan	6020	19.8	223,462.800	282.1500	792.00	10.30	340,197.000	201.3000	1690	13.0	52	.039
Germany	8360	10.8	2,006.913	2.3926	838.80	10.91	3,146.104	1.8616	1690	13.0	57	.064
Austria	6380	1.1	844.279	16.9875	49.70	0.65	1,417.260	13.6275	104	0.8	68	.041
Belgium	8080	1.8	4,582.009	36.7738	124.60	1.62	6,475.300	29.3000	221	1.7	41	.051
Denmark	8470	1.0	515.167	5.8675	87.80	1.14	803.634	5.1515	156	1.2	56	.068
Netherlands	7650	2.3	540.775	2.4955	216.70	2.82	757.582	2.0095	377	2.9	40	.067
Norway	8860	0.8	423.714	5.2570	80.60	1.05	797.316	5.1110	156	1.2	88	.084
Sub-Total		37.6			2190.20	28.49			4394	33.8		
New Donors												
									130	1.0		
Unchanged												
Australia	7190	2.1	133.764	0.9106	146.90	1.91	217.928	0.8823	247	1.9	63	.051
Finland	6270	0.6	156.169	3.8090	41.00	0.53	258.635	3.9790	65	0.5	66	.048
Iceland	8140	*	421.190	191.4500	2.20	0.03	1,287.600	321.9000	4	*	206	.063
Ireland	2890	0.2	5.000	0.5820	8.59	0.11	6.514	0.5011	13	0.1	30	.025
Korea	870	1.0	484.000	484.0000	1.00	0.01	968.000	484.0000	2	*	100	.001
Kuwait	11640	0.3	51.942	0.2886	180.00	2.34	82.016	0.2743	299	2.3	58	.410
Luxembourg	4960	0.1	132.386	36.7738	3.60	0.05	205.100	29.3000	7	*	55	.047
New Zealand	4550	0.3	8.000	1.0462	7.65	0.10	12.284	0.9449	13	0.1	54	.018
Saudi Arabia	9010	2.5	1,235.500	3.5300	350.00	4.55	2,000.310	3.3450	598	4.6	62	.099
South Africa	1420	0.9	8.696	0.8696	10.00	0.13	11.305	0.8696	13	0.1	30	.006
Spain	3200	2.8	1,444.464	68.7840	21.00	0.27	2,726.022	69.8980	39	0.3	89	.005
UAE	22570	0.4	200.000	3.9405	50.75	0.66	349.258	3.8380	91	0.7	75	.095
United Kingdom	4380	5.6	473.899	0.5820	814.30	10.59	697.030	0.5011	1391	10.7	47	.105
Yugoslavia	1810	1.1	143.995	18.3944	8.10	0.11	242.228	18.6329	13	0.1	63	.005
Sub-Total		17.9			1645.09	21.39			2795	21.5		
GRAND TOTAL		100.00			7686.19	100.00			13000	100.0	50	

* Less than 0.1%.

1/ GDP at market prices converted to current US\$ at average 1977 exchange rates divided by mid-1977 population estimates. The results have been rounded to the nearest ten.

2/ Shares in FY81-83 US \$ GDP at market prices.

3/ The US\$ equivalents for IDA6 result from the given shares of a \$13b Replenishment.

4/ The weighted average increase in national currencies was obtained by using the US\$ equivalents in IDA6 as weights.

5/ Possible contributions to the Sixth Replenishment in national currencies expressed as a percent of the estimated or projected GDP of contributors in national currencies for the three years FY81-83.

SVP
3/3/79

Shares in IDA Replenishments a/
(%)

Country	Initial Subscr.	First Replen.	Second Replen.	Third Replen.	Total Through Third Replen. (% for 1960\$ amount)	Fourth Replen.	Total Through Fourth Replen.	Fifth Replen.	Total Through Fifth Replen.
Australia	2.47	2.66	2.00	1.97	2.12	2.03	2.08	1.91	2.05
Austria	0.62	0.68	0.68	0.67	0.66	0.69	0.69	0.65	0.66
Belgium	1.01	1.11	1.70	1.67	1.47	1.72	1.57	1.62	1.59
Canada	4.63	5.60	6.25	6.14	5.77	6.19	5.92	5.83	5.87
Denmark	1.07	1.01	1.10	1.08	1.34	1.22	1.29	1.14	1.22
Finland	0.47	0.31	0.34	0.50	0.43	0.57	0.48	0.53	0.50
France	6.48	8.31	8.10	6.14	6.86	5.72	6.37	5.38	5.94
Germany	6.48	9.75	9.75	9.58	9.03	11.60	10.05	10.91	10.38
Iceland	0.01			0.02	0.01	0.03	0.02	0.03	0.02
Ireland	0.37			0.16	0.13	0.17	0.15	0.11	0.14
Italy	2.22	4.03	4.03	3.96	3.66	4.09	3.82	3.85	3.82
Japan	4.11	5.54	5.54	5.90	5.41	11.16	7.74	10.30	8.78
Kuwait	0.41	0.45	0.45	0.44	0.43	0.61	0.50	2.34	1.37
Luxembourg	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Netherlands	3.39	2.22	2.44	2.77	2.67	2.99	2.79	2.82	2.84
New Zealand					0.11	0.26	0.17	0.10	0.14
Norway	0.82	0.89	0.89	0.98	0.93	1.12	1.01	1.05	1.05
South Africa	1.23	0.54	0.25	0.12	0.38	0.20	0.31	0.13	0.23
Sweden	1.23	2.01	2.47	4.18	3.91	4.06	3.95	3.82	3.89
United Kingdom	16.04	12.97	12.96	12.74	13.16	11.26	12.33	10.60	11.59
United States	39.17	41.89	40.00	39.31	39.28	33.82	36.89	31.22	34.46
Total Part I Members	92.27	100.00	98.99	98.38	97.82	99.55	98.16	94.39	96.61
Switzerland			1.01	1.30	0.83		0.87		0.51
UAF							0.66		0.27
Part II Countries									
Initial Subscr. - 10%	3.31				0.51		0.30		0.18
-90%: Released	4.41				0.69		0.40		0.23
Add. Subscr.				0.05	0.02	0.02	0.02		0.01
Supplementary Resources									
- Israel						0.02	0.01		0.01
- Korea								0.01	0.01
- Saudi Arabia								4.56	1.88
- Spain				0.10	0.05	0.30	0.15	0.27	0.20
- Yugoslavia				0.17	0.08	0.11	0.09	0.11	0.10
Total Part II Members	7.73			0.32	1.35	0.45	0.97	4.95	2.61
Unallocated									
GRAND TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

a/ Shares based on Standard Table VIIb - IDA: Contributions by Country, P&B, 6/6/78.

P&B
3/3/79

VIIb. IDA: CONTRIBUTIONS BY COUNTRY
(1960 \$ millions, unless otherwise noted)

Country	Initial Subscr.	First Replen.	Second Replen.	Special Contrib.	Third Replen.	Total Through Third Replen. 1960\$	Current \$ ^{a/}	Fourth Replen. ^{b/}	Total Through Fourth Replen.	Fifth Replen. ^{b/}	Special Contrib. ^{b/}	Total Through Fifth Replen. ^{c/}
Australia	20.18	19.80	24.00		48.00	111.98	135.09	90.00	225.09	146.90		380.99
Austria	5.04	5.04	8.16		16.32	34.56	41.69	30.60	72.29	49.70	9.00	121.99
Belgium	8.25	8.25	20.40		40.80	77.70	93.73	76.50	170.23	124.60		294.83
Canada	37.83	41.70	75.00		150.00	304.53	367.37	274.50	641.87	447.90		1089.77
Denmark	8.74	7.50	13.20	15.00	26.40	70.84	85.46	54.00	139.46	87.80		227.26
Finland	3.83	2.30	4.08		12.24	22.45	27.08	25.20	52.28	41.00		93.28
France	52.96	61.87	97.20		150.00	362.03	436.73	253.55	690.28	413.30		1103.58
Germany	52.96	72.60	117.00		234.00	476.56	574.90	514.50	1089.40	838.80		1928.20
Iceland	.10				.45	.55	.66	1.35	2.01	2.20		4.21
Ireland	3.03				4.00	7.03	8.48	7.50	15.98	8.59	1.41	25.98
Italy	18.16	30.00	48.36		96.72	193.24	233.12	181.35	414.47	295.90		710.37
Japan	33.59	41.25	66.48		144.00	285.32	344.20	495.00	839.20	792.00		1631.20
Kuwait	3.36	3.36	5.40		10.80	22.92	27.65	27.00	54.65	180.00	20.00	254.65
Luxembourg	.38	.37	.60		1.20	2.55	3.08	2.25	5.33	3.60		8.93
Netherlands	27.74	16.50	29.28		67.56	141.08	170.19	132.75	302.94	216.70	8.60	528.24
New Zealand				5.60		5.60	6.95	11.74	18.69	7.65		26.34
Norway	6.72	6.60	10.68	1.32	24.00	49.32	59.50	49.50	109.00	80.60	5.00	194.60
South Africa	10.09	3.99	3.00		3.00	20.08	24.22	9.00	33.22	10.00		43.22
Sweden	10.09	15.00	29.64	49.50	102.00	206.23	248.78	180.00	422.78	293.80		722.58
United Kingdom	131.14	96.60	155.52		311.04	694.30	837.57	499.50	1357.07	814.30	1.50	2152.87
United States	320.29	312.00	480.00		960.00	2072.29	2499.91	1500.00	3999.91	2400.00		6399.91
TOTAL PART I MEMBERS	754.48	744.73	1188.00	71.42	2402.53	5161.16	6226.36	4415.79	10642.15	7255.34	45.51	17943.00
Switzerland ^{d/}			12.10		31.80	43.90	93.98 ^{e/}		93.98			93.98
UAE ^{f/}										50.75		50.75
Part II Countries:												
Initial Sub. - 10%	27.09					27.09	32.68		32.68			32.68
- 90%: Released ^{g/}	36.08					36.08	43.53		43.53			43.53
Add. Sub. ^{d/}					1.21	1.21	1.46	.67	2.13			2.13
Supplementary Resources												
- Israel								1.00	1.00			1.00
- Korea										1.00		1.00
- Saudi Arabia ^{h/}											1.00	1.00
- Spain ^{i/}					2.50 ^{j/}	2.50	3.02	13.33	16.35	350.00 ^{k/}		350.00
- Yugoslavia					4.04	4.04	4.87	5.00	9.87	21.00		37.35
TOTAL PART II MEMBERS	63.17				7.75	70.92	85.56	20.00	105.56	280.10		485.66
Unallocated												
GRAND TOTAL	817.65	744.73	1200.10	71.42	2442.08	5275.98	6405.90	4435.79	10841.63	7686.19	45.51	18573.39

a/ One 1960 dollar equals 1.20635 current dollars.

b/ Fourth and Fifth Replenishment contributions were made in national currencies and have no provision for maintenance of value. Amounts for the Fourth Replenishment are expressed in US dollar equivalents as of September 27, 1973, the agreement date for the Replenishment. Similarly, amounts for the Fifth Replenishment are shown as of March 14, 1977, the date of the Agreement.

c/ This column combines the current dollar amounts for the total through the Third Replenishment with the amounts for the Fourth and Fifth Replenishment expressed in US dollar equivalent as of the dates of the respective agreements.

d/ Switzerland which is not a member of IDA made a loan of SwF52 million to IDA under the second Replenishment and a loan of SwF130 million under the Third Replenishment.

e/ U.S. dollar equivalent as of April 30, 1978.

f/ UAE is not yet a member of IDA but it has contributed Dh200 million under the Fifth Replenishment.

g/ Payments by Part II countries in connection with Initial subscriptions which have not yet been released for use by IDA total \$206.83 million; the grand total of Initial subscriptions including these amounts is \$1025.63 million.

h/ Payments to IDA in connection with the Third Replenishment include about \$10 million in additional subscriptions from Part II members related to adjustments in voting power among Part I members.

i/ This includes the increase of \$100 million in Saudi Arabia's contribution notified in April 1978.

j/ Spain has released \$6.5 million of the 90% portion of its Initial subscription in connection with the Third Replenishment. This amount is included in the total shown in the first column under "Part II Countries: 90% - released".

ANNEX

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Table 1. FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE FROM DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS a/
(Calendar Years, US\$ million and % of Projected GNP)

	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Australia	119 .53	202 .59	507 .60	385 .42	427 .45	510 .46	599 .47	689 .48	786 .49	889 .50	993 .50	1107 .50	1235 .50
Austria	10 .11	11 .07	64 .17	48 .12	118 .24	146 .26	169 .27	196 .28	226 .29	261 .30	291 .30	335 .30	361 .30
Belgium	102 .60	120 .46	378 .59	340 .51	371 .46	481 .50	563 .53	664 .56	775 .59	909 .62	1058 .65	1188 .65	1325 .65
Canada	96 .19	346 .42	880 .55	887 .46	992 .51	1070 .53	1219 .54	1359 .54	1544 .55	1752 .56	1954 .56	2179 .56	2429 .56
Denmark	13 .13	59 .38	205 .58	214 .56	258 .60	338 .67	387 .70	442 .72	504 .74	568 .75	630 .75	700 .75	778 .75
Finland <u>b/</u>	2 .02	7 .07	48 .18	51 .18	49 .17	52 .17	62 .18	73 .19	84 .19	98 .20	109 .20	120 .20	133 .20
France	752 .76	971 .66	2094 .62	2146 .62	2267 .60	2902 .64	3255 .64	3637 .64	4089 .65	4569 .65	5113 .65	5695 .65	6343 .65
Germany <u>c/</u>	DMm 1838 US\$m 456 .40	2192 599 .32	4157 1689 .40	3484 1384 .31	3218 1386 .37	3767 1853 .30	3924 2072 .30	4356 2378 .31	4903 2767 .31	5529 3226 .33	5846 3526 .32	6468 4033 .33	7085 4567 .33
Italy	60 .10	147 .16	182 .11	226 .13	186 .10	255 .11	280 .11	285 .10	315 .10	363 .11	407 .11	453 .11	518 .11
Japan	244 .27	458 .23	1148 .23	1105 .20	1424 .21	1997 .21	2393 .22	2848 .24	3279 .24	3926 .25	4461 .25	5069 .25	5760 .25
Netherlands	70 .36	196 .61	604 .75	720 .82	900 .85	1115 .90	1323 .96	1512 .99	1693 1.00	1877 1.00	2081 1.00	2306 1.00	2557 1.00
New Zealand <u>d/</u>		14 .23	66 .52	53 .41	53 .39	56 .33	59 .32	62 .30	67 .30	75 .30	88 .32	97 .32	108 .32
Norway	11 .16	37 .32	184 .66	218 .70	295 .82	368 .91	437 .96	505 .98	581 1.00	667 1.02	760 1.03	858 1.03	969 1.03
Sweden	38 .19	117 .38	566 .82	608 .82	779 .99	821 .97	909 .99	1015 1.00	1145 1.02	1278 1.03	1412 1.03	1561 1.03	1725 1.03
Switzerland	12 .09	30 .15	104 .19	112 .19	119 .19	147 .18	166 .19	188 .19	211 .19	239 .20	267 .20	295 .20	326 .20
United Kingdom	472 .47	447 .36	863 .37	835 .38	914 .37	1109 .38	1247 .38	1406 .39	1600 .41	1787 .42	1976 .42	2165 .42	2372 .42
United States <u>e/</u>	3418 .49	3050 .31	4007 .26	4334 .25	4159 .22	4824 .23	5162 .22	5772 .22	6638 .23	7652 .24	8515 .24	9475 .24	10544 .24
GRAND TOTAL													
ODA (\$b. - Nominal Prices)	5.9 .44	6.8 .34	13.6 .35	13.7 .33	14.7 .31	18.0 .33	20.3 .33	23.0 .33	26.3 .34	30.1 .35	33.6 .35	37.6 .35	42.0 .35
ODA (\$b. - Const. 1977 prices)	13.1	12.7	15.2	14.8	14.7	15.8	16.5	17.5	18.7	19.9	20.8	21.7	22.6
GNP (\$t. - Nominal Prices)	1.3	2.0	3.8	4.2	4.7	5.5	6.2	6.9	7.7	8.6	9.6	10.7	11.9
Price Deflator <u>f/</u>	.45	.54	.89	.92	1.00	1.14	1.23	1.32	1.41	1.51	1.62	1.73	1.85

a/ Figures for 1977 and earlier years are based on actual data. Those for 1978-85 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements by governments. They are projections, not predictions, of what will occur unless action not now planned takes place.

b/ Finland became a member of DAC in January 1975.

c/ The projections of ODA shown in this table are built up in US dollar terms, and the ratios to GNP are calculated using projections of GNP also made in US dollars. Implicitly, this approach assumes that differences in inflation rates among countries will be reflected in corresponding changes in exchange rates. An explicit assumption about inflation differentials must be made in order to provide the DM figures shown for Germany in this table. The assumed difference in inflation rates between the US and Germany (and hence assumed exchange rate change between the US\$ and the DM) is about 7% in 1979 and about 3% thereafter.

d/ New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1965.

e/ In 1949, at the beginning of the Marshall Plan, US Official Development Assistance amounted to 2.79% of GNP.

f/ The deflator is the US\$ GNP deflator which includes the effects of changes in exchange rates.

Table 2. FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE: PATTERN FOR DAC DONORS a/
(Calendar Years, US\$ million and % of GNP)

	1965-67 Average	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Australia													
Multilateral	12	12	71	67	78	86	90	98	120	125	168	185	208
Bilateral	122	190	436	318	349	424	509	591	666	764	825	922	1027
Total	134	202	507	385	427	510	599	689	786	889	993	1107	1235
Multilateral as % of GNP	.05	.04	.08	.08	.08	.08	.07	.07	.07	.07	.08	.08	.08
Bilateral as % of GNP	.51	.55	.52	.34	.37	.38	.40	.41	.42	.43	.42	.42	.42
Total as % of GNP	.56	.59	.60	.42	.45	.46	.47	.48	.49	.50	.50	.50	.50
Austria													
Multilateral	5	7	14	18	31	36	45	50	54	58	75	79	84
Bilateral	8	4	50	30	87	110	124	146	172	203	216	256	277
Total	13	11	64	48	118	146	169	196	226	261	291	335	361
Multilateral as % of GNP	.05	.04	.04	.05	.06	.06	.07	.07	.07	.07	.08	.07	.07
Bilateral as % of GNP	.08	.03	.13	.07	.18	.20	.20	.21	.22	.23	.22	.23	.23
Total as % of GNP	.13	.07	.17	.12	.24	.26	.27	.28	.29	.30	.30	.30	.30
Belgium													
Multilateral	10	28	126	111	109	179	174	188	219	231	275	326	343
Bilateral	79	92	252	229	262	302	389	476	556	678	783	862	982
Total	89	120	378	340	371	481	563	664	775	909	1058	1188	1325
Multilateral as % of GNP	.06	.10	.20	.17	.14	.19	.16	.16	.17	.16	.17	.18	.17
Bilateral as % of GNP	.43	.36	.39	.34	.32	.31	.37	.40	.42	.46	.48	.47	.48
Total as % of GNP	.49	.46	.59	.51	.46	.50	.53	.56	.59	.62	.65	.65	.65
Canada													
Multilateral	36	78	268	358	516	452	510	622	639	643	857	877	893
Bilateral	125	268	612	529	476	618	709	737	905	1109	1097	1302	1536
Total	161	346	880	887	992	1070	1219	1359	1544	1752	1954	2179	2429
Multilateral as % of GNP	.06	.09	.17	.19	.27	.22	.23	.25	.23	.21	.25	.23	.21
Bilateral as % of GNP	.22	.33	.38	.27	.24	.31	.31	.29	.32	.35	.31	.33	.35
Total as % of GNP	.28	.42	.55	.46	.51	.53	.54	.54	.55	.56	.56	.56	.56
Denmark													
Multilateral	11	22	94	97	111	137	153	174	194	215	246	270	297
Bilateral	9	37	111	117	147	201	234	268	310	353	384	430	481
Total	20	59	205	214	258	338	387	442	504	568	630	700	778
Multilateral as % of GNP	.10	.14	.27	.25	.26	.27	.27	.28	.28	.28	.29	.29	.29
Bilateral as % of GNP	.08	.24	.31	.31	.34	.40	.43	.44	.46	.47	.46	.46	.46
Total as % of GNP	.18	.38	.58	.56	.60	.67	.70	.72	.74	.75	.75	.75	.75
Finland b/													
Multilateral	-	6	21	22	22	32	37	37	45	46	56	69	70
Bilateral	-	1	27	29	27	20	25	36	39	52	53	51	63
Total	3	7	48	51	49	52	62	73	84	98	109	120	133
Multilateral as % of GNP	-	.05	.08	.08	.08	.10	.11	.10	.10	.09	.10	.12	.11
Bilateral as % of GNP	-	.01	.10	.10	.09	.07	.07	.09	.09	.11	.10	.08	.09
Total as % of GNP	.04	.07	.18	.18	.17	.17	.18	.19	.19	.20	.20	.20	.20
France													
Multilateral	35	103	303	300	350	498	548	545	634	654	756	896	935
Bilateral	739	868	1791	1846	1917	2404	2707	3092	3455	3915	4357	4799	5408
Total	774	971	2094	2146	2267	2902	3255	3637	4089	4569	5113	5695	6343
Multilateral as % of GNP	.03	.07	.09	.09	.09	.11	.11	.10	.10	.09	.10	.10	.10
Bilateral as % of GNP	.69	.59	.52	.53	.51	.53	.53	.54	.55	.56	.55	.55	.55
Total as % of GNP	.72	.66	.62	.62	.60	.64	.64	.64	.65	.65	.65	.65	.65
Germany													
Multilateral	52	133	528	340	358	658	530	658	747	871	1058	1210	1370
Bilateral	409	466	1161	1044	1028	1195	1542	1720	2020	2355	2468	2823	3197
Total	461	599	1689	1384	1386	1853	2072	2378	2767	3226	3526	4033	4567
Multilateral as % of GNP	.04	.07	.12	.08	.07	.11	.08	.09	.08	.09	.10	.10	.10
Bilateral as % of GNP	.34	.25	.28	.23	.20	.19	.22	.22	.23	.24	.22	.23	.23
Total as % of GNP	.38	.32	.40	.31	.27	.30	.30	.31	.31	.33	.32	.33	.33
Italy													
Multilateral	31	84	123	148	151	246	273	279	292	346	401	411	481
Bilateral	67	63	59	78	35	9	7	6	23	17	6	42	37
Total	98	147	182	226	186	255	280	285	315	363	407	453	518
Multilateral as % of GNP	.05	.09	.07	.09	.08	.11	.11	.10	.09	.10	.11	.10	.10
Bilateral as % of GNP	.10	.07	.04	.04	.02	.00	.00	.00	.01	.01	.00	.01	.01
Total as % of GNP	.15	.16	.11	.13	.10	.11	.11	.10	.10	.11	.11	.11	.11

Table 2. FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE: PATTERN FOR DAC DONORS a/
(Calendar Years, US\$ million and % of GNP)

	1965-67 Average	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Japan													
Multilateral	38	86	297	352	525	635	716	772	788	800	1168	1180	1215
Bilateral	267	372	851	753	899	1362	1677	2076	2491	3126	3293	3889	4545
Total	305	458	1148	1105	1424	1997	2393	2848	3279	3926	4461	5069	5760
Multilateral as % of GNP	.03	.04	.06	.06	.08	.07	.07	.07	.06	.05	.07	.06	.05
Bilateral as % of GNP	.26	.19	.17	.14	.13	.14	.15	.17	.18	.20	.18	.19	.20
Total as % of GNP	.29	.23	.23	.20	.21	.21	.22	.24	.24	.25	.25	.25	.25
Netherlands													
Multilateral	35	42	239	224	256	300	332	374	415	468	552	608	668
Bilateral	57	154	365	496	644	815	991	1138	1278	1409	1529	1698	1889
Total	92	196	604	720	900	1115	1323	1512	1693	1877	2081	2306	2557
Multilateral as % of GNP	.17	.13	.30	.25	.24	.24	.24	.24	.24	.25	.27	.26	.26
Bilateral as % of GNP	.27	.48	.45	.57	.61	.66	.72	.75	.76	.75	.73	.74	.74
Total as % of GNP	.44	.61	.75	.82	.85	.90	.96	.99	1.00	1.00	1.00	1.00	1.00
New Zealand c/													
Multilateral	-	3	16	10	11	12	13	14	15	16	24	27	30
Bilateral	-	11	50	43	42	44	46	48	52	59	64	70	78
Total	11	14	66	53	53	56	59	62	67	75	88	97	108
Multilateral as % of GNP	-	.05	.13	.08	.08	.07	.07	.07	.07	.06	.09	.09	.09
Bilateral as % of GNP	-	.18	.39	.33	.31	.26	.25	.23	.23	.24	.23	.23	.23
Total as % of GNP	.20	.23	.52	.41	.39	.33	.32	.30	.30	.30	.32	.32	.32
Norway													
Multilateral	9	22	82	112	130	168	187	216	240	264	317	345	375
Bilateral	4	15	102	106	165	200	250	289	341	403	443	513	594
Total	13	37	184	218	295	368	437	505	581	667	760	858	969
Multilateral as % of GNP	.12	.20	.29	.36	.36	.42	.41	.42	.41	.40	.43	.41	.40
Bilateral as % of GNP	.05	.12	.37	.34	.46	.49	.55	.56	.59	.62	.60	.62	.63
Total as % of GNP	.17	.32	.66	.70	.82	.91	.96	.98	1.00	1.02	1.03	1.03	1.03
Sweden													
Multilateral	30	54	193	206	293	316	337	412	434	458	572	592	612
Bilateral	22	63	373	401	486	505	572	603	711	820	840	969	1113
Total	52	117	566	608	779	821	909	1015	1145	1278	1412	1561	1725
Multilateral as % of GNP	.13	.18	.28	.28	.37	.37	.37	.41	.39	.37	.42	.39	.37
Bilateral as % of GNP	.10	.20	.54	.54	.62	.60	.62	.59	.63	.66	.61	.64	.66
Total as % of GNP	.23	.38	.82	.82	.99	.97	.99	1.00	1.02	1.03	1.03	1.03	1.03
Switzerland													
Multilateral	5	12	33	45	50	62	73	79	87	91	102	114	128
Bilateral	8	18	71	67	69	85	93	109	124	148	165	181	198
Total	13	30	104	112	119	147	166	188	211	239	267	295	326
Multilateral as % of GNP	.03	.06	.06	.06	.08	.08	.08	.08	.08	.08	.08	.08	.08
Bilateral as % of GNP	.05	.09	.13	.12	.11	.10	.11	.11	.11	.12	.12	.12	.12
Total as % of GNP	.08	.15	.19	.19	.19	.18	.19	.19	.19	.20	.20	.20	.20
United Kingdom													
Multilateral	54	48	297	254	359	422	453	538	620	707	924	1022	1137
Bilateral	427	399	566	581	545	687	794	868	980	1080	1052	1143	1235
Total	481	447	863	835	914	1109	1247	1406	1600	1787	1976	2165	2372
Multilateral as % of GNP	.05	.04	.13	.12	.15	.14	.14	.15	.16	.16	.20	.20	.20
Bilateral as % of GNP	.40	.32	.24	.26	.22	.24	.24	.24	.25	.26	.22	.22	.22
Total as % of GNP	.45	.36	.37	.38	.37	.38	.38	.39	.41	.42	.42	.42	.42
United States													
Multilateral	115	393	1066	1496	1262	1343	1460	1635	1751	1896	2485	2692	2946
Bilateral	3298	2657	2941	2838	2897	3481	3702	4137	4887	5756	6030	6783	7598
Total	3413	3050	4007	4334	4159	4824	5162	5772	6638	7652	8515	9475	10544
Multilateral as % of GNP	.02	.04	.07	.09	.07	.07	.06	.06	.06	.06	.07	.07	.07
Bilateral as % of GNP	.43	.27	.19	.16	.15	.16	.16	.16	.17	.18	.17	.17	.17
Total as % of GNP	.45	.31	.26	.25	.22	.23	.22	.22	.23	.24	.24	.24	.24
Total DAC													
Multilateral	475	1124	3770	4161	4612	5582	5931	6691	7294	7889	10036	10903	11792
Bilateral	5643	5667	9815	9506	10084	12462	14371	16340	19010	22247	22605	26733	30258
Total	6118	6791	13585	13665	14696	18044	20302	23031	26304	30136	32641	37636	42050
Multilateral as % of GNP	.03	.06	.10	.10	.10	.10	.10	.10	.09	.09	.10	.10	.10
Bilateral as % of GNP	.39	.28	.25	.23	.21	.23	.23	.23	.25	.26	.25	.25	.25
Total as % of GNP	.42	.34	.35	.33	.31	.33	.33	.33	.34	.35	.35	.35	.35

a/ Source: Figures through 1977 are from OECD/DAC. Figures for 1978-85 are projections by Bank Staff. Projections for 1983-85 are based on the assumption that the ODA/GNP ratio achieved in 1982 will be maintained.

b/ Finland became a member of DAC in January 1975.

c/ New Zealand became a member of DAC in 1973.

Table 3. CONCESSIONARY FLOWS TO MULTILATERAL INSTITUTIONS BY DONOR COUNTRY ^{a/}
(Calendar Years; US\$ million)

	GERMANY *												
	1965-67 Average	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
CAPITAL SUBSCRIPTION PAYMENTS ^{b/}													
IBRD: ^{c/} Past Increases Selective Increase General Increase	1.9	0.6			-3.1	12.0	15.9	19.9			36.0	36.0	36.0
IDA: ^{d/} Payments For 1-4 5 6 7	24.2	40.0	171.7	-	-	207.0 36.1	75.8	134.5 16.9	164.6 54.9	146.5 152.9	105.1 272.1 24.7	71.5 334.6 80.3	51.7 297.4 223.5
IFC: ^{e/}						5.9	5.9	5.9	5.9	5.9			
Sub-Total Bank Group	26.1	40.6	171.7	-	-3.1	261.0	97.6	177.2	225.4	305.3	437.9	522.4	608.6
IDB: Ordinary Capital Concessional Capital				1.7 6.0	1.7 4.1	3.5 9.7	1.4 10.9	1.4 17.5	1.4 23.5	1.4 30.1	2.2 38.7	2.2 41.4	2.2 44.1
ADB: Ordinary Capital Concessional Capital	22.2)	33.4)	5.0 25.2	16.6	2.4 -	13.0 6.3	6.5 8.1	6.5 15.5	6.5 20.0	3.9 24.0	3.9 24.8	3.9 29.5	3.9 35.0
Other		0.2	6.0	11.2	27.7	12.5	20.5	19.9	20.2	20.3	20.5	21.6	21.2
TOTAL CAPITAL SUBSCRIPTIONS	28.3	44.2	207.9	35.5	32.8	306.0	145.0	238.0	297.0	385.0	528.0	621.0	715.0
GRANTS													
UN Agencies	14.1	22.2	74.5	76.2	86.3	93.0	100.0	110.0	119.0	131.0	143.0	164.0	185.0
EEC	4.5	56.6	230.4	200.6	221.5	245.0	254.0	280.0	301.0	325.0	357.0	395.0	440.0
Other	0.2	1.7	12.6	4.8	6.0	10.0	21.0	20.0	20.0	20.0	20.0	20.0	20.0
TOTAL GRANTS	18.8	80.5	317.5	281.6	313.8	348.0	375.0	410.0	440.0	476.0	520.0	579.0	640.0
CONCESSIONAL LENDING													
TOTAL MULTILATERAL ODA	4.9	8.2	2.5	22.8	6.1	4.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
- As % of Total ODA	11	22	31	25	25	36	26	28	27	27	30	30	30
MEMO ITEM													
TOTAL MULTILATERAL ODA (CALLS BASIS)	52.0	132.9	527.9	339.9	352.7	658.0	530.0	658.0	747.0	871.0	1058.0	1210.0	1370.0
KEY RATIOS													
Bank Group Subscriptions													
- As % of Total ODA	6	7	10	0	0	14	5	7	8	9	12	13	13
- As % of GNP	.02	.02	.04	.00	.00	.04	.01	.02	.03	.03	.04	.04	.04
IDA													
- As % of Total ODA (As Reported)	5	7	10	0	0	13	4	6	8	9	11	12	13
- As % of GNP	.02	.02	.04	.00	.00	.04	.01	.02	.02	.03	.04	.04	.04
- As % of Total ODA (Calls Basis)	5	7	10	0	0	13	4	6	8	9	11	12	13
MEMO ITEMS (Fiscal Years) ^{f/}													
IDA Cash/Note Deposits (\$m)	24.2	32.0	161.3	-	185.6	317.8	325.5	325.5	563.3	563.3	563.3	823.3	823.3
DMm	96.8	142.7	423.0	-	438.4	668.9	668.9	668.9	1066.6	1066.6	1066.6	1588.8	1588.8
IDA Calls (\$m) - 5							331.0	141.4	191.9	190.5	143.8	100.9	71.7
6									18.6	91.3	214.6	329.6	339.7
7											27.2	27.2	133.4

* Germany reports multilateral ODA on a calls basis. However, IDA4 payments made in cash and released in the year of deposit were reported as ODA flows in that year. The third tranche of IDA4 was deposited as a note, but will be called fully in calendar year 1978. Therefore only calls on IDA5-IDA7 are recorded.

- ^{a/} Source: Historical figures through 1976 from DAC. Preliminary estimates for 1977. All other figures are projections made by Bank staff after consultation with IDB and ADB staff.
- ^{b/} Capital subscription payments are not reported uniformly by DAC countries. While some donors report cash/note deposits; others report draw-down of notes (calls). Capital subscription payments reported here reflect the reporting system used by the individual country. However, for comparison purposes, the memo item projects multilateral ODA adjusted so that capital subscription payments are based on calls.
- ^{c/} Assumes: (1) a Selective Capital Increase of about \$8.5 billion approved in FY78 and released over the three-year period FY78-80; and (2) an illustrative General Capital Increase of about \$40 billion approved in FY82 with 5% paid in and released over the three-year period FY83-85.
- ^{d/} Assumes: (1) contributions to IDA5 will total \$3,022 million, i.e. total pledges valued at exchange rates of 12/31/77; (2) IDA6 will be \$13 billion and IDA7 \$19 billion; (3) Germany's share in IDA6 and IDA7 will be 13%; and (4) all contributions to IDA5, IDA6 and IDA7 will be paid in three approximately equal annual installments, will be drawn pro rata, and IDA6 contributions will begin in FY81 and IDA7 in FY84.
- ^{e/} Assumes: Germany will participate in an IFC Capital Increase of \$480 million paid in and released over a five-year period.
- ^{f/} Projected using exchange rates of 7/14/78. Differences in dollar figures reported by DAC and by IBRD result from DAC's use of the annual average exchange rate and IBRD's use of the end-period rate for the quarter in which payment is made.

TABLE 4: ESTIMATED EFFECT OF IBRD AND IDA OPERATIONS ON GERMANY'S
BALANCE OF PAYMENTS THROUGH FY78
(US\$ millions: Fiscal Years)

	Through 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
IBRD EFFECT										
Current Account										
Procurement of Goods <u>a/</u>	1096	106	113	139	128	158	255	298	290	291
Interest to Bond Holders <u>b/</u>	307	70	83	97	127	176	184	193	240	339
Interest to Loan Holders <u>b/</u>	5	1	1	1					1	11
Administrative Expenses including Issuance										
Costs of Bonds	11	2	4	3	4		3	9	15	13
Less: IBRD Investment Income	6	3	4	4	5	6	5	19	35	21
Less: Loan Charges										
Equals: Balance on Current Account	<u>1113</u>	<u>176</u>	<u>197</u>	<u>236</u>	<u>254</u>	<u>328</u>	<u>437</u>	<u>481</u>	<u>511</u>	<u>633</u>
Capital Account										
Loans Disbursed and Outstanding										
Less: 1% Subscription	13		1							5
9% Subscription	105	10	2	2	4					10
Net IBRD Bond Sales <u>b/</u>	1171	28	142	191	145	-12	207	408	916	529
Net IBRD Loan Sales <u>b/</u>	13	-1	-5	-4	-1	-1	6	4	87	49
Equals: Balance on Capital Account	<u>-1302</u>	<u>-37</u>	<u>-140</u>	<u>-189</u>	<u>-148</u>	<u>13</u>	<u>-213</u>	<u>-412</u>	<u>-1003</u>	<u>-593</u>
Balance on Current and Long-term Capital Account	<u>111</u>	<u>139</u>	<u>57</u>	<u>47</u>	<u>106</u>	<u>341</u>	<u>224</u>	<u>69</u>	<u>-492</u>	<u>40</u>
IDA EFFECT										
Current Account										
Procurement of Goods <u>a/</u>	211	15	35	27	43	67	114	146	155	77
Administrative Expenses										
Less: IDA Investment Income		3	4							
Equals: Balance on Current Account	<u>211</u>	<u>12</u>	<u>31</u>	<u>27</u>	<u>43</u>	<u>67</u>	<u>114</u>	<u>146</u>	<u>155</u>	<u>77</u>
Capital Account										
Contributions to IDA	164	39	39	72	74	120	20	95	65	186
Equals: Balance on Capital Account	<u>-164</u>	<u>-39</u>	<u>-39</u>	<u>-72</u>	<u>-74</u>	<u>-120</u>	<u>-20</u>	<u>-95</u>	<u>-65</u>	<u>-186</u>
Balance on Current and Long-Term Capital Account	<u>47</u>	<u>-27</u>	<u>-8</u>	<u>-45</u>	<u>-31</u>	<u>-53</u>	<u>94</u>	<u>51</u>	<u>90</u>	<u>-109</u>
COMBINED IBRD/IDA EFFECT										
Current Account	1624	188	228	263	297	395	551	627	666	710
Capital Account	<u>-1466</u>	<u>-76</u>	<u>-179</u>	<u>-261</u>	<u>-222</u>	<u>-107</u>	<u>-233</u>	<u>-507</u>	<u>-1068</u>	<u>-779</u>
Balance on Current and Long-term Capital Account	<u>158</u>	<u>112</u>	<u>49</u>	<u>2</u>	<u>75</u>	<u>288</u>	<u>318</u>	<u>120</u>	<u>-402</u>	<u>-69</u>

a/ Includes procurement specifically identified as originating in Germany and the same proportion of procurement not identifiable by country of origin.

b/ US\$ bonds and loans in other than Deutsche Mark are included.

GENERAL NOTE: The amounts shown are in US\$ equivalents, using the exchange rates prevailing at the time the transactions took place, therefore they will not necessarily agree with those shown in the Bank's financial statements.

TABLE 5: FLOW OF RESOURCES FROM DAC MEMBERS
(Net Disbursements, US\$ millions)

Ranking ^{a/}	Country	ODA				Total Flows		
		Actual		Preliminary	Projected	Actual		
		1971	1976	Estimates		1971	1976	1977
				1977	1982			
1	United States	3324	4334	4123	7652	6867	12344	11910
2	France	1075	2146	2267	4569	1624	5316	5212
3	Japan	511	1105	1424	3926	2141	4003	5535
4	Germany	734	1384	1386	3123	1915	5314	5754
5	Canada	391	887	992	1752	924	2471	2423
6	United Kingdom	561	835	914	1787	1342	2176	5929
7	Netherlands	216	720	900	1877	438	1727	2013
8	Sweden	159	608	779	1278	244	1134	1555
9	Australia	202	385	427	889	530	527	624
10	Belgium	146	340	371	909	317	1222	913
11	Norway	42	218	295	667	65	462	547
12	Denmark	74	214	258	568	153	485	451
13	Italy	183	226	186	363	871	1476	1989
14	Switzerland	28	112	119	239	245	1350	3928
15	Austria	12	48	118	261	93	372	503
16	New Zealand	17	53	53	75	26	60	76
17	Finland	13	51	49	98	31	66	70
	Total DAC	<u>7688</u>	<u>13666</u>	<u>14696</u>	<u>30033</u>	<u>17826</u>	<u>40505</u>	<u>49492</u>

a/ Ranking is by ODA Flows for 1977.

Source: Historical figures through 1977 from DAC/OECD; 1982 figures are Bank Staff projections.

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TABLE 6: COMPARATIVE AID PERFORMANCE OF DAC MEMBER COUNTRIES
(ODA as % of GNP)

Ranking ^{a/}	Country	ODA				Total Flows		
		Actual		Estimated	Projected	Actual		
		1971	1976			1977	1971	1976
1	Sweden	.44	.82	.99	1.03	.67	1.53	1.98
2	Netherlands	.58	.82	.85	1.00	1.18	1.96	1.96
3	Norway	.33	.70	.82	1.02	.50	1.51	1.53
4	France	.66	.62	.60	.65	1.00	1.53	1.37
5	Denmark	.43	.56	.60	.75	.88	1.27	1.05
6	Canada	.42	.46	.51	.56	1.00	1.28	1.24
7	Belgium	.50	.51	.46	.62	1.09	1.83	1.13
8	Australia	.53	.42	.45	.50	1.38	.57	.66
9	United Kingdom	.41	.38	.37	.42	.96	.99	2.42
10	New Zealand	.23	.41	.39	.30	.36	.48	.56
11	Germany	.34	.31	.27	.33	.88	1.19	1.12
12	Austria	.07	.12	.24	.30	.56	.92	1.04
13	United States	.32	.25	.22	.24	.65	.72	.63
14	Japan	.23	.20	.21	.25	.95	.72	.81
15	Switzerland	.12	.19	.19	.20	1.00	2.28	6.20
16	Finland	.12	.18	.17	.20	.28	.24	.24
17	Italy	.18	.13	.10	.11	.86	.87	1.02
	All DAC Countries	<u>.35</u>	<u>.33</u>	<u>.31</u>	<u>.35</u>	<u>.80</u>	<u>.97</u>	<u>1.05</u>

a/ Ranking is by ODA/GNP ratio for 1977.

Source: Historical figures through 1977 from DAC/OECD; 1982 figures are Bank Staff projections.

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TABLE 7: CONCESSIONALITY OF ODA COMMITMENTS

Ranking ^{b/}	Country	Overall Grant Element of the ODA Program ^{a/}			Grants as a % of Total ODA Commitments		
		1975	1976	1977	1975	1976	1977
1	Australia	100.0	100.0	100.0	100.0	100.0	100.0
2	Norway	99.8	100.0	100.0	99.6	100.0	100.0
3	New Zealand	99.1	97.4	99.8	98.2	95.7	99.7
4	Sweden	99.2	99.9	99.8	95.4	98.4	98.1
5	Belgium	98.1	98.2	98.3	92.2	91.7	90.9
6	Switzerland	91.2	90.9	98.1	66.6	77.0	95.6
7	Italy	90.5	93.1	97.7	83.5	85.4	94.2
8	Canada	96.4	97.3	97.5	72.7	80.7	77.3
9	Denmark	96.0	96.6	97.3	74.1	81.0	85.6
10	Finland	91.5	90.8	97.0	63.5	70.9	89.9
11	United Kingdom	96.9	97.6	96.7	91.1	94.8	94.6
12	France	90.7	90.6	93.0	83.1	83.4	85.2
13	Netherlands	93.9	87.0	91.1	83.9	70.6	77.3
14	United States	85.4	85.6	88.9	58.1	58.8	67.8
15	Germany	84.8	85.2	86.0	55.8	55.9	58.9
16	Japan	70.2	74.9	70.2	35.4	48.2	37.7
17	Austria	92.3	95.8	67.5	84.9	90.7	53.1
	Average, all DAC Countries	<u>88.6</u>	<u>88.5</u>	<u>89.4</u>	<u>69.3</u>	<u>69.6</u>	<u>72.1</u>

a/ The grant element of the ODA program is obtained by converting all loans and grants to their grant equivalent. For loans, the grant element is calculated as: $1 - \frac{\text{The present value of all repayments (at 10\%)}}{\text{Face value of the loan}}$

b/ Ranking is based on the grant element of ODA commitments made in 1977.

Source: DAC/OECD

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TABLE 8: DISTRIBUTION OF ODA TO HIGHER INCOME LDC'S, 1976
(% of Bilateral ODA, Net)

<u>Ranking</u> ^{a/}	<u>Country</u>	<u>Share to Countries with Per Capita Income > \$521</u>	<u>Share to Countries with Per Capita Income \$521 - \$1074</u>	<u>Share to Countries with Per Capita Income > \$1075</u>
1	France	60.4	8.6	51.8
2	Italy	55.8	41.0	14.8
3	Netherlands	43.3	9.4	33.9
4	United States	38.6	12.9	25.7
5	Austria	37.3	29.3	8.0
6	Germany	35.6	22.0	13.6
7	New Zealand	28.8	26.8	2.0
8	Finland	27.9	26.4	1.5
9	United Kingdom	20.3	16.0	4.3
10	Canada	18.0	16.3	1.7
11	Norway	17.7	15.0	2.7
12	Japan	17.3	13.9	3.4
13	Switzerland	16.7	10.1	6.6
14	Belgium	15.8	12.1	3.7
15	Sweden	10.3	10.2	0.1
16	Denmark	6.1	4.3	1.8
17	Australia	3.6	2.9	0.7
	All DAC	<u>35.1</u>	<u>13.0</u>	<u>22.0</u>

^{a/} Ranking is by share to countries with per capita income > \$521 in 1975.

Source: DAC/OECD

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TABLE 9: DISTRIBUTION OF ODA TO THE POOREST COUNTRIES - 1976
(% of Bilateral ODA, Net)

Ranking ^{a/} /Country	Share to the Poorest Countries Per Capita Income \leq \$265	Share to Countries with Per Capita Income \$266 - \$520	Share to LLDC's ^{b/}	Share to MSA's ^{c/}
1 Sweden	79.3	10.3	30.0	60.0
2 Belgium	74.2	10.0	23.7	30.0
3 Denmark	73.9	20.1	45.8	63.6
4 Switzerland	72.4	10.8	19.6	67.7
5 Finland	68.1	3.7	57.9	65.2
6 Canada	63.8	18.2	27.6	66.3
7 United Kingdom	60.5	19.1	19.6	59.0
8 Japan	59.1	23.5	8.1	32.9
9 Norway	58.9	23.3	37.3	65.8
10 Netherlands	48.0	8.7	17.3	42.2
11 Austria	47.3	15.3	9.3	54.7
12 Germany	37.6	26.8	23.4	51.4
13 United States	36.1	26.8	11.0	41.5
14 Italy	31.7	12.4	12.5	17.3
15 New Zealand	20.6	50.9	10.9	13.4
16 France	19.8	19.8	10.4	26.5
17 Australia	19.1	77.2	4.5	10.4
Total DAC	<u>41.3</u>	<u>23.6</u>	<u>15.6</u>	<u>41.0</u>

a/ Ranking is by percentage of aid to countries with per capita income \leq \$265 in 1975.

b/ Least developed countries.

c/ Most seriously affected countries.

Source: DAC/OECD

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TABLE 10: NET ODA FLOWS TO MULTILATERAL AGENCIES, 1977

<u>Ranking</u> ^{a/}	<u>Country</u>	<u>Net Multilateral ODA</u>		<u>IDA as a % of Total Net Multilateral Flows</u>	<u>Multilateral Aid as a % of Total DAC Multilateral</u>
		<u>\$ Million</u>	<u>% Total Net ODA</u>		
1	Italy	151.2	81.2	-	3.3
2	Canada	516.1	52.1	39	11.2
3	Finland	21.8	44.8	27	0.5
4	Norway	130.1	44.1	19	2.8
5	Denmark	110.8	43.0	13	2.4
6	Switzerland	49.8	41.9	-	1.1
7	United Kingdom	358.7	39.2	42	7.8
8	Sweden	293.3	37.6	31	6.3
9	Japan	525.2	36.9	53	11.4
10	United States	1262.0	30.3	41	27.3
11	Belgium	109.1	29.4	-	2.4
12	Netherlands	256.0	28.4	9	5.5
13	Austria	31.3	26.6	30	0.7
14	Germany	357.9	25.8	-	7.8
15	New Zealand	10.8	20.6	29	0.2
16	Australia	77.9	18.3	29	1.7
17	France	349.9	15.4	21	7.6

^{a/} Ranking is by percentage of net ODA multilateral flows in total net ODA flows for 1977.

Source: DAC/OECD

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PRELIMINARY GROWTH RATES FOR GDP PER CAPITA

(in percent per year at 1975 prices)

	Population 1978 (millions)	Population			GDP			GDP Per Capita			GDP/PC Am't in \$'75
		1960-70	1970-80	1980-90	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90	
Low Income Countries:											
Africa	164	2.5	2.7	2.7	4.1	3.0	4.0	1.6	0.3	1.3	151
Asia	1084	2.4	2.3	2.1	4.2	4.2	5.1	1.8	1.9	3.0	168
Sub-total	1248	2.4	2.5	2.7	4.2	4.1	4.9	1.8	1.8	2.7	166
Middle Income Countries:											
Africa, South of Sahara	198	2.5	2.6	2.8	5.0	4.3	4.4	2.5	1.7	1.6	557
North Africa	153	2.7	2.7	2.6	7.3	5.7	5.6	4.6	3.0	3.0	952
Asia	171	2.9	2.4	2.2	7.7	8.5	7.6	4.8	6.1	5.4	829
Latin America	334	2.8	2.7	2.6	5.7	5.3	5.7	2.9	2.6	3.1	1232
Southern Europe	126	1.4	1.5	1.3	7.2	4.9	5.5	5.8	3.4	4.2	2086
Sub-total	982	2.5	2.5	2.4	6.4	5.5	5.8	3.9	3.0	3.4	1067
All Developing Countries	2230	2.5	2.4	2.3	5.9	5.2	5.6	3.4	2.8	3.3	564
Capital Surplus Oil Exporters	15	2.6	1.9	1.6	11.7	5.6	5.2	9.1	3.7	3.6	7782
Industrialized Countries	667	1.1	0.7	0.6	4.9	3.4	4.2	3.8	2.7	3.6	6938
Centrally Planned Economies	1264	1.5	1.4	1.1	7.0	5.5	4.2	5.5	4.1	3.1	1176
Total	4176	1.95	1.82	1.78							

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By per capita income of the borrowing countries the FY79 lending is expected to be distributed as follows:

<u>Per Capita GNP</u>	<u>Distribution of</u> <u>IBRD/IDA Commitments</u>	
	<u>FY78</u>	<u>FY79</u>
Up to \$280:		
IBRD	7%	8%
IDA	79%	80%
Total	27%	29%
\$281-\$550:		
IBRD	24%	25%
IDA	20%	20%
Total	23%	24%
\$551-\$1135:		
IBRD	39%	38%
IDA	1%	-
Total	28%	26%
Over \$1135:		
IBRD	30%	29%
IDA	-	-
Total	22%	21%

The table below shows the sector composition of the current FY79 lending programs:

	<u>Distribution of</u> <u>IBRD/IDA Commitments</u>	
	<u>FY78</u>	<u>FY79</u>
Ag./Rural Devt.	39%	27%
Communications	3%	2%
Education	4%	4%
Energy (including coal)	-	1%
Industry	15%	17%
Non-Project	2%	4%
Population	1%	1%
Power	14%	13%
Tourism	1%	1%
Transportation	13%	18%
Urban	4%	3%
Water Supply	4%	9%

IBRD VOTING POWER AT FISCAL YEAR-END
(%)

	FY60	FY61	FY62	FY63	FY64	FY65	FY66	FY67	FY68	FY69	FY70	FY71	FY72	FY73	FY74	FY75	FY76	FY77 ^{a/}	FY78 ^{b/}	After Selectiv Capital Increase
Non-Oil LDC's	23.25	24.19	24.68	25.92	28.21	28.37	28.84	28.91	29.22	29.71	30.06	30.06	29.64	30.74	30.92	30.67	30.85	31.11	31.28	29.99
Capital Surplus OPEC	.47	.45	.45	.83	.80	.78	.85	.83	.83	.82	.82	.86	.84	1.10	1.10	1.10	1.09	1.09	1.08	2.67
Other OPEC	2.39	2.81	3.30	3.23	3.57	3.51	2.74	3.85	3.84	3.80	3.94	3.82	3.97	3.92	3.91	3.97	3.97	3.95	3.94	6.47
Total Part II	26.11	27.45	28.42	29.98	32.58	32.66	32.43	33.59	33.89	34.33	34.82	34.74	34.45	35.76	35.93	35.74	35.91	36.15	36.30	29.14
Total Part I	73.89	72.55	71.58	70.02	67.42	67.34	67.57	67.41	66.11	65.67	65.18	65.26	65.55	64.24	64.07	64.26	64.09	63.85	63.70	60.86

a/ June 30, 1977; also includes memberships of Sao Tome and Principe and Maldives.

b/ Includes the membership of Solomon Islands.

c/ Assumes that all subscriptions under the Selective Increase will be taken up, except that of Singapore.

Note: Totals may not add due to rounding.

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Attachment II

Analysis of IBRD Paid-In Capital Requirements
Selected Financial Ratios a/

	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90
Interest Coverage Ratio												
Doubling with: no paid-in	1.19	1.19	1.19	1.19	1.18	1.17	1.16	1.16	1.16	1.16	1.17	1.18
5% paid-in	1.19	1.19	1.19	1.20	1.20	1.19	1.19	1.19	1.20	1.20	1.21	1.21
7½% paid-in	1.19	1.19	1.20	1.20	1.21	1.20	1.20	1.21	1.21	1.22	1.22	1.23
10% paid-in	1.19	1.19	1.20	1.20	1.21	1.22	1.22	1.23	1.23	1.23	1.24	1.25
Reserves/Disbursed Loans (%)												
Doubling with: no paid-in	12.0	11.7	11.5	11.2	10.9	10.6	10.4	10.3	10.2	10.3	10.6	11.0
5% paid-in	12.0	11.7	11.5	11.2	11.0	10.8	10.8	10.8	10.9	11.1	11.6	12.0
7½% paid-in	12.0	11.7	11.5	11.2	11.0	11.0	10.9	11.0	11.2	11.5	12.0	12.6
10% paid-in	12.0	11.7	11.5	11.2	11.1	11.1	11.1	11.3	11.6	12.0	12.5	13.1
Usable Equity/Disbursed Loans (%)												
Doubling with: no paid-in	25.2	24.0	22.8	21.6	20.0	18.6	17.5	16.6	15.9	15.5	15.3	15.3
5% paid-in	25.2	24.0	22.8	22.4	21.5	20.7	20.0	19.6	18.8	18.3	18.1	18.1
7½% paid-in	25.2	24.0	22.8	22.8	22.3	21.8	21.3	21.0	20.2	19.7	19.5	19.5
10% paid-in	25.2	24.0	22.8	23.3	23.0	22.8	22.6	22.5	21.7	21.1	20.9	20.9
Usable Equity & "Relevant" Callable/Disb. Loans^{b/} (%)												
Doubling with: no paid-in	134	121	108	113	115	115	114	113	102	94	87	82
5% paid-in	134	121	108	113	115	115	114	113	103	94	88	83
7½% paid-in	134	121	108	113	115	115	114	113	103	95	88	83
10% paid-in	134	121	108	113	115	115	114	113	103	95	89	84
Funded Debt + Due to IDA/Usable Equity (Ratio)												
Doubling with: no paid-in	4.68	4.75	4.94	5.16	5.50	5.90	6.10	6.31	6.51	6.71	6.82	6.80
5% paid-in	4.68	4.74	4.90	4.88	4.99	5.17	5.16	5.19	5.34	5.49	5.58	5.57
7½% paid-in	4.68	4.72	4.87	4.76	4.76	4.86	4.78	4.74	4.88	5.02	5.09	5.08
10% paid-in	4.68	4.72	4.85	4.63	4.55	4.57	4.44	4.36	4.49	4.61	4.68	4.66
Funded Debt/"Relevant" Callable^{b/} (Ratio)												
Doubling with: no paid-in	1.05	1.15	1.29	1.19	1.14	1.13	1.09	1.07	1.18	1.31	1.44	1.56
5% paid-in	1.05	1.15	1.28	1.18	1.13	1.12	1.08	1.07	1.18	1.30	1.43	1.54
7½% paid-in	1.05	1.14	1.27	1.18	1.12	1.12	1.08	1.07	1.18	1.30	1.43	1.54
10% paid-in	1.05	1.14	1.27	1.17	1.12	1.11	1.08	1.06	1.17	1.30	1.42	1.53
Memo:												
Commitments (\$m)	6800	7600	8400	9300	10400	10900	11450	12050	12650	13250	13950	14650
Disbursed Loans (\$m)	23126	26196	29770	33974	38888	44232	50009	56035	62412	63887	75063	81160

a/ Projections assume: capital increases of double the subscriptions after the Selective Increase; real growth in commitments of 5% p.a. through FY83 and 0% thereafter (see memo items); subscriptions are made over the 5-year period FY82-86; capital subscriptions are converted into current dollars at a rate of 1 SDR = 1.20635 current dollars; lending rate spread of 0.5%; and IDA transfers of \$100 million p.a.

b/ "Relevant" callable is the callable capital of Part I countries plus long term capital surplus OPEC members.

Selected IBRD Financial Ratios: FY60-79^{c/}

	<u>FY60</u>	<u>FY65</u>	<u>FY70</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>Projected FY79</u>
Interest Coverage Ratio	2.14 ^{a/}	2.31 ^{a/}	1.88	1.35	1.36	1.23	1.17	1.15	1.19
Reserves/Disbursed Loans (%)	18.0	26.9	26.2	18.9	17.9	15.8	14.2	12.8	12.0
Usable Equity/Disbursed Loans (%)	74.3	71.4	58.2	43.2	39.3	35.5	30.6	27.0	25.2
Usable Equity + "Relevant" Callable/Disbursed Loans (%)	542	438	313	230	203	183	158	137	134
Funded Debt + Due to IDA/ Usable Equity (Ratio)	.99	1.02	1.39	2.20	2.68	3.33	3.98	4.46	4.68
Funded Debt/"Relevant" Callable (Ratio) ^{b/}	.16	.20	.31	.49	.62	.77	.92	1.06	1.05

a/ Revenues includes Special Commission.

b/ "Relevant" callable capital is the callable capital of the Part I countries plus long-term capital surplus OPEC members.

c/ Data are as of end of year except for Interest Coverage Ratio.

ESTIMATED CO-FINANCING OPERATIONS FOR FY79

(Amounts in US\$ Million)

Mr. McNamara

REGION	TOTAL PROJECTS WITH CO-FINANCING		SOURCES OF CO-FINANCING						BANK	IDA	TOTAL PROJECT COST
	No.	Amount	OFFICIAL		EXPORT CREDIT		PRIVATE				
			No.	Amount	No.	Amount	No.	Amount			
Eastern Africa	24(4)	516.1(180.9)	23(4)	510.0(180.9)	1	6.1(---)	---	---	165.0 (30.0)	285.2 (70.0)	1,232.1 (348.0)
Western Africa	15(7)	379.8 (51.5)	15(7)	379.8 (51.5)	---	---	---	---	67.6 (7.6)	143.5 (64.6)	774.1 (140.2)
E. Asia & Pacific	14(5)	583.5(249.5)	13(5)	341.4(219.5)	1	58.7(---)	4(1)	183.4(30.0)	827.2(216.5)	93.6 (60.0)	2,642.2 (947.0)
South Asia	12(4)	499.5(143.0)	12(4)	499.5(143.0)	---	---	---	---	---	871.8(149.5)	2,498.4 (492.0)
EMENA	27(10)	984.2(370.9)	21(7)	625.4(208.2)	7(4)	153.0(103.9)	7(3)	205.8(58.8)	783.5(278.0)	207.1 (91.5)	4,564.4(1,522.7)
Latin America & Caribbean	23(4)	2,516.1 (80.3)	13(3)	555.4 (19.6)	7(2)	1,095.7 (30.7)	10(1)	865.0(30.0)	1,192.5(185.5)	52.5 (---)	8,677.4 (447.1)
FY79 TOTAL	115(34)	5,479.2(1,076.1)	97(30)	2,911.5(822.7)	16 (6)	1,313.5(134.6)	21(5)	1,254.2(118.8)	3,035.8 (717.6)	1,653.7(435.6)	20,388.6 (3,897.0)
FY78 TOTAL	79	2,411.6	68	1,710.4	12	480.6	12	220.6	1,811.7	634.3	11,242.3
FY77 TOTAL	72	1,974.0	62	1,266.3	10	333.3	10	374.4	1,805.2	394.5	8,333.4

Note: The grand total and the total for official co-financing includes 25 EEC: Special Action Account Credits totalling US\$M 196.9. This is a non-recurring item. The number of projects includes those for which co-financing is expected but amounts are not yet certain. The figures in parentheses relate to projects approved by the Executive Directors as of February 6, 1979.

Source: Quarterly estimates submitted by the Regions, January 1979.

VPO
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January 17, 1979

WORLD BANK TO EXPAND LENDING FOR OIL AND NATURAL GAS

Following a meeting of the World Bank's Executive Directors, Robert S. McNamara, President of the Bank, announced that the World Bank will substantially expand its assistance for oil and natural gas production in the developing countries during the early 1980's. Under certain conditions, it will also be prepared to consider loans for oil and gas exploration.

Some 60 developing countries could benefit from an accelerated program of exploration and development for oil, natural gas and coal, the Bank estimates. The Bank's program will give priority to countries that depend heavily on imported oil and have the greatest need for technical assistance. Of the 30 oil and gas projects now being prepared with the help of the World Bank, approximately half are in countries with per capita incomes of below \$500 a year.

The Executive Directors first approved an expansion of the Bank's lending for fuel and non-fuel minerals in July 1977. During the past year, greater involvement by the World Bank in assistance for petroleum development in the developing countries has been endorsed at the Bonn Summit of July 1978, and in a report entitled "Multilateral Development Assistance for the Exploration of Natural Resources" issued by the Secretary-General of the United Nations.

The "energy gap" in the developing countries

The Bank's latest estimates (see table attached) forecast that while, in aggregate terms, the gap between energy consumption and production in the non-OPEC developing countries will be virtually eliminated by 1985, there will be a marked difference in the circumstances of the non-OPEC oil-exporting countries and oil-importing developing countries.

Energy exports of the non-OPEC oil-exporting countries 1/ are expected to increase rapidly, by about 12% a year, during the decade 1975 to 1985, despite an increase of about 7% a year in energy consumption. By 1985, their exports of energy are projected to rise to 4.21 million barrels per day of oil equivalent (m bdoe), of which 3.67 m bdoe will consist of oil. These exports will reach a value of \$25 billion in 1985 2/, or about one-third of the estimated total

1/ Non-OPEC oil exporters include: Angola, Bahrain, Bolivia, Congo, Egypt, Malaysia, Mexico, Oman, Syria, Trinidad and Tobago, Tunisia, and Zaire.

2/ These estimates assume that the rise in the price of oil will keep pace with world inflation.

Production of OPEC's by
'85 could rise from
2.85 to 5.4 or by 2.55 m. bdoe
& reduce foreign exchange
+ imports from 15.6, 14.7
to 38.3 - 2 -
14.7

export earnings of this group of countries. Energy production will be an important stimulus to these countries' economic growth and a major source of foreign exchange earnings.

The oil-importing developing countries will be in a very different position. Their net energy imports are projected to rise from 3.2 m bdoe in 1975 to 4.3 m bdoe in 1985, all in oil. Although the share of oil imports is expected to fall sharply from 14.4 percent to 7.2 percent of total imports, the cost of oil imports will rise from \$14.3 billion in 1975 to \$38.3 billion in 1985. Progress in substituting other energy sources for oil is reflected in the projection that 55 percent of the increase in energy consumption and 70 percent of the projected increase in energy production will be from non-oil sources.

Forty-eight of the 74 developing countries which import oil depend on it for at least 90 percent of their commercial energy requirements. Although oil production has increased, consumption is increasing more rapidly. Many developing countries are moving into the energy-intensive phase which the developed countries experienced during rapid industrialization. Unless the developing countries' energy deficit can be narrowed by exploiting indigenous sources of energy more fully, scarce foreign exchange will have to be diverted to oil imports, to the detriment of long-term development and economic growth.

Higher oil prices have given developing countries new incentives to explore for and develop petroleum and other forms of primary energy. Some countries now have opportunities to produce fuels from domestic resources more cheaply than importing them, and to achieve rates of return that would justify the investment of scarce capital.

The Bank's analysis indicates that, in the longer term, the potential resources of the developing countries will become more important and more attractive to foreign investment as oil consumption throughout the world continues to grow and as reserves in the industrialized countries are further depleted.

A vigorous effort to improve the available data on the location, scale and commercial exploitability of petroleum reserves is needed. This would narrow the range of uncertainty and improve the chances of contracts being negotiated between host countries and oil companies that would be fair to both parties.

The World Bank's Program

The mandate given to the Bank in July 1977 for an expanded program for fuel mineral production was in the expectation that relatively modest Bank financing would attract a much larger flow of investment from private sources.

The lending program has been given wider scope under the new proposals just approved by the Executive Directors and will, where appropriate, consider qualified assistance for exploration as well as production of oil and natural gas.

During the fiscal years 1979 to 1981, 30 oil and natural gas projects will be under preparation, 22 of which are expected to advance to the stage of being formally considered for financing within this period. In addition, five loans for coal production are expected to be considered.

More than half of the petroleum projects under preparation are for the development of known but previously unexploited reserves of natural gas (e.g. Egypt, Thailand and Tunisia). Of the oil projects, several (e.g. Chad and Pakistan) are for financing production from reserves that are small but which are still capable of substantially reducing the countries' dependence on oil imports. A significant number of projects are for secondary recovery in countries (e.g. Bolivia and Ecuador) where oil production and reserves have been declining. The share of cost of production projects to be financed by the Bank is expected to average about 20 percent.

By 1983, it is projected that the volume of the Bank's annual lending for oil development will exceed \$1 billion per year. The operations supported by the Bank would have a total cost in excess of \$4 billion. Activity in the energy sector will, along with work in other sectors, be reviewed annually in the context of the Bank's overall lending program.

Apart from providing financial assistance for oil, gas and coal production, the Bank's proposed program in the energy sector will include advice on national energy planning and assistance for pre-development activities as summarized below.

National Energy Planning. Some 60 oil-importing developing countries need help in devising national plans and policies for the energy sector, and in creating or strengthening a national energy authority. The Bank's present program of sector and sub-sector work will cover about 35 of these countries during the next five years. Help will also be given in legal, technical and administrative areas and in training local personnel. Financing of experts will be provided in technical assistance, engineering and production loans and credits and if necessary in the Bank's administrative budget.

Pre-development: (a) Survey Work. Fifty-four countries need assistance in evaluating and updating data from earlier surveys or in commissioning new surveys. Where assistance is not available from other sources, the Bank expects to finance such surveys with technical assistance loans or credits. (b) Exploratory Drilling. The Bank is willing to help and advise member governments and foreign collaborators in concluding agreements for petroleum exploration and production. It is also willing to finance the eventual production facilities, provided the project meets its usual criteria. One such arrangement (in Pakistan) has already been concluded and others are under consideration. The Bank would consider making loans (or credits) to member governments of oil-importing developing countries to cover their share of exploration costs undertaken in association with a foreign enterprise. In countries where foreign investors are unwilling to invest capital

in petroleum exploration, the Bank would be prepared to consider lending to cover costs of exploration done by an exploration company under a service contract. (c) Project Preparation. Engineering loans and credits would also be available to finance appraisal drilling for fuel mineral projects.

This program, which will be revised annually, has been approved by the Executive Directors as a basis for the Bank's operations during the next year.

More than half of the petroleum projects... are still capable of substantially reducing the countries' dependence on oil imports. A significant number of projects are for secondary recovery in countries (e.g. Bolivia and Ecuador) where oil production and reserves have been declining. The share of cost of production projects to be financed by the Bank is expected to average about 10 percent.

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TABLE 1. PRELIMINARY PROJECTIONS OF NON-OPEC DEVELOPING COUNTRIES' (NODCs) ENERGY BALANCE 1975-85 1/
(million barrels per day of oil equivalent)

	1975	1980	1985	Growth Rates (% per annum)		
				1976-80	1981-85	1976-85
OIL-IMPORTING DEVELOPING COUNTRIES (OIDCs)						
Consumption: Oil	4.33	5.35	7.20	4.3	6.2	5.2
Non-Oil	3.73	4.95	7.30	5.8	8.1	6.9
Total	<u>8.06</u>	<u>10.30</u>	<u>14.50</u>	5.0	7.1	6.0
Production: Oil	1.21	1.66	2.85	6.5	11.4	8.9
Non-Oil	3.62	4.88	7.35	6.2	8.5	7.3
Total	<u>4.83</u>	<u>6.54</u>	<u>10.20</u>	6.2	9.3	7.8
Net Energy Imports 3/	3.23	3.76	4.30	3.3	2.7	3.0
Oil Imports	3.12	3.69	4.35	3.4	3.4	3.4
Oil Imports as % of Total Imports	14.4	12.6	7.2			
Value of Oil Imports (current \$ billion/year)	14.3	24.3	38.3			
NON-OPEC OIL-EXPORTING DEVELOPING COUNTRIES 4/						
Consumption: Oil	1.14	1.36	1.88	3.6	6.7	5.2
Non-Oil	0.49	0.85	1.37	11.6	10.0	10.8
Total	<u>1.63</u>	<u>2.21</u>	<u>3.25</u>	6.3	8.0	7.1
Production: Oil	2.36	4.09	5.55	11.6	6.3	8.9
Non-Oil	0.61	1.14	1.91	13.3	10.9	12.1
Total	<u>2.97</u>	<u>5.23</u>	<u>7.46</u>	12.0	7.4	9.6
Net Energy Exports	1.30	3.02	4.21	18.4	6.9	12.5
Oil Exports	1.22	2.73	3.67	17.5	6.1	11.6
Oil Exports as % of Total Exports	22.0	29.6	32.1			
Value of Oil Exports (current \$ billion/year)	4.3	13.8	25.0			
TOTAL NON-OPEC DEVELOPING COUNTRIES						
Consumption: Oil	5.47	6.71	9.08	4.2	6.3	5.2
Non-Oil	4.22	5.80	8.67	6.6	8.4	7.5
Total	<u>9.69</u>	<u>12.51</u>	<u>17.75</u>	5.2	7.2	6.2
Production: Oil	3.57	5.75	8.40	10.0	7.9	8.9
Non-Oil	4.23	6.02	9.27	7.3	9.0	8.2
Total	<u>7.80</u>	<u>11.77</u>	<u>17.67</u>	8.6	8.5	8.5
Net Energy Imports	<u>1.90</u>	<u>0.75</u>	<u>0.08</u>	-17.0	-36.1	-27.2
MEMO ITEM 5/						
Bunkers (all oil)	0.46	0.57	0.67	4.4	3.3	3.8

1/ Refers to commercial energy sources only and assumes that OPEC crude oil prices remain constant in real terms through 1985 (\$11.50 per barrel in 1975). OIDCs are projected to grow at 5.3% per annum in 1976-80; 6.4% in 1981-85; and 5.8% per annum for the whole of the decade. Corresponding growth rates for non-OPEC oil exporters are 5.5%, 6.6%, and 6.1%; and for all NODCs the growth rates assumed are 5.4%, 6.4% and 5.9%. Totals may not add due to rounding.

2/ Non-oil includes coal, gas, and hydropower, nuclear and geothermal. The breakdown for energy from these sources for all NODCs is:

	Non-Oil Energy Consumption and Production (Million BOOE)			
	1975		1985	
	Production	Consumption	Production	Consumption
Coal	2.17	2.30	3.74	3.75
Gas	0.85	0.71	2.53	1.92
Hydro, Nuclear, and Geothermal	1.20	1.21	3.00	3.00
Total Non-Oil	<u>4.23</u>	<u>4.22</u>	<u>9.27</u>	<u>8.67</u>

3/ As indicated, the bulk of energy imports is in the form of oil; coal and gas account for almost all of the remainder.

4/ Non-OPEC oil exporters include: Angola, Bahrain, Bolivia, Congo, Egypt, Malaysia, Mexico, Syria, Oman, Trinidad and Tobago, Tunisia, and Zaire.

5/ Deliveries to bunkers (for fuelling vessels) are excluded from net imports and net exports.

Source: Bank Staff estimates.

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MARKINGS

WE ALL NEED A NEW INTERNATIONAL ORDER

by Jan Pronk ^{1/}

Although the aim of building a New International Economic Order (NIEO) was generally accepted at the 7th Special Session of the United Nations General Assembly (September 1975) not much progress has been made in its implementation. The Conference on International Economic Cooperation, held in 1976 and 1977 to negotiate main elements of the NIEO, was a failure; nor did UNCTAD IV produce concrete results. Moreover, in some specific fields, for which perspectives were created by a chain of international conferences between the 6th and 7th Special Sessions, a standstill seems to have been reached or even steps taken backwards.

This is due to a variety of reasons. The negotiation position of the South, for instance, turned out to be weaker than envisaged in the two years following the oil crisis. The negotiation behaviour of these countries was also softer and more incidental than might have been expected. However, the main reason why the efforts made to build a NIEO have so far met with little success is the lack of political will on the side of the industrialized countries. Most of them still do not want to change the present system.

The North-South dialogue seems to be in a deadlock. In my view this is to the detriment not only of the developing countries but also of the world economy as a whole. Therefore, a political initiative is necessary to break through this deadlock. I firmly believe that the Socialist International is in an ideal position to do so: it consists of political parties from countries

both in the North and in the South, all by nature having a sound economic and political analysis of society at hand, and all by nature being both forward-looking and internationally oriented.

I would like to make the following proposals on short and long run action with regard to such a necessary initiative.

Redefinition of Common Interests

Given the fact that it was the developing countries that urged the creation of a new international order it has, too hastily, been concluded that this new order is contrary to the legitimate interests of the industrialised countries. The demands for a new order have been too hastily viewed in terms of "they win, we lose". This zero-sum game approach only holds true for short-term economic considerations. Any deviation from what the free market decides is, after all, detrimental to the most powerful actors in the market, that is the developed countries.

But there is more than simple short-term economics. Although the market system as such cannot cope with them, long-term economic and political considerations are as valid and necessary for analysing whether a new international order is in the interests of industrialised countries or not.

In the short term, and economically speaking, a NIEO could very well be disadvantageous to the developed countries. Higher prices for raw materials and industrial redeployment will not be applauded by the public in the rich countries. However, an important lesson of the recession

^{1/} Text of a paper delivered by the former Dutch Minister for Development to the Dakar Bureau meeting of the Socialist International, May 1978. Jan Pronk is now a member of the Dutch Parliament and of the Council of IFDA. He is also a member of the Brandt Commission, of the McBride Commission on Communications and of the Steering Committee of the IFDA Third System Project.

of the last few years is the increased degree of interdependence in the world.

It is not only the developing countries that need crucial imports from industrialised countries, but increasingly the industrialised countries need the developing countries as sources of raw materials, energy and manufacture and also, in view of distinct signs of saturation and diminished growth possibilities in the industrialized world, progressively as export markets.

There are also political considerations. The proliferation of nuclear knowledge to developing countries and the power of OPEC countries to control, to a certain degree, the availability of crucial energy supplies have given new dimension to the question of whether a NIEO is desirable from a peace and security viewpoint. I am convinced that it is. There is nothing more likely to provoke violence than a lack of perspectives for a better future. Poverty and unemployment are only bearable when there is hope for improvement in the not too distant future. If this hope is lacking, then violence enters the picture. Creating opportunities for the poverty-stricken masses in the Third World by changing the existing order is, therefore, in the interest of all mankind, including its rich minorities.

If left to the charity and goodwill of the traditionally powerful industrialized countries, a NIEO will not be brought about. Requests on this basis have traditionally received a negative answer. One may deplore it, but powerful nations will only cooperate in the building of a new order if they view it as being in their interest to do so. To a certain extent, this now seems to be the case. The oil crisis, the growing awareness of overall scarcities, the international recession, characterized by inflation, unemployment and monetary instability, the growing unity of the Third World, the unstable political and military situation in various parts of the world (e.g. the Middle East and Southern Africa) and the proliferation of nuclear knowledge together have shifted some of the power of the traditionally rich countries to the Third World. It is therefore in the interest of the traditionally rich countries to solve world problems in close harmony with the Third World.

It is important to define this common

interest of rich and developing nations into much greater detail, so that a lasting basis may be found for ongoing negotiations. At present many studies analysing the present world system and forecasting its future have been made by scientists, economists, agriculturalists, ecologists, political scientists and others. I refer, for instance, to the report on Reviewing the International Order, by Jan Tinbergen and others, to the work being done by scientists getting incentives from the Club of Rome, and to the forecast for the world economy in the year 2000 made by Leontief. What is lacking is the political answer to these and other studies, which all point in the same direction: survival of the world economy as a whole including the very poor strata of the world's population, calls for a fundamental change in our international system, which can only be brought about through common action.

NIEO Concept

Do we really need a new world order? Still many people doubt, saying it is too ambitious to aim at a new world order, and that just a few changes in international policies will do. I do not agree. I am convinced that the world needs a new order, because of three reasons.

The first reason is that we need a new system. The present system has failed. It has created ever increasing inequalities between and within societies. Moreover, it has led to waste, to an inefficient use of natural, material and human resources. Now the degree of equity and the degree of efficiency are the two main criteria to judge a system: if that judgement leads to the conclusion that the system fails fundamentally, then we need something new.

My second reason to urge for a new world order is that we need a system that is really worldwide. The problems we face — inequality, scarcity, recession, stagflation, pollution, economic, political and military insecurity — can neither be solved by individual countries, whether superpowers or not, nor by specific country-groups. Maybe they can reach some preliminary solutions favouring only themselves, at the expense of people's welfare in other countries. However, this will turn out to be just a postponement of overall stag-

nation, because in the longer run, due to the worldwide economic interdependence, also the wealthier, more powerful nations will not be able to solve their own problems affecting their own people. It is in the interest of all people, within both poor and rich countries, that worldwide solutions are being aimed at.

A third reason that a new world order is necessary is that we really need a new world order, a new world system of decision-making, not just a new set of policies.

I am afraid that policy-change, in itself very necessary, will not come about if we do not change the system which determines the policy room of manoeuvre. After all, everything depends upon the distribution and utilization of power, and to reach a more equitable distribution and a better use of power, the power system itself should be changed.

Changes in Value Systems

Now, any system, any social-economic or political order is characterised by three basic elements:

- a set of norms and values;
- a set of policies;
- a set of institutions, determining the structure of decision-making.

Also a new international economic order may be described in this way.

Let me first speak about the norms and values which should direct both our policies and the choice of a structure of decision-making. These norms and values together should form the basic concept of development to be made possible by a new order. We need new concepts indeed. Following decolonization a concept of development was formulated based on western models. Growth was considered inevitable, spreading automatically through all sectors of the economy and of society as a whole. Thereby the specific socio-economic and political setting of underdevelopment in a situation of dependency was neglected. In fact, growth policies based upon such a concept of development resulted in more inequality, more unemployment and social disruption. The concept of national and international development underlying a new international order should be based upon an analysis of under-development as a result of an unequal distribution of economic and political

power which is not taken for granted.

Which are the main elements of such a new concept of development? Hans Singer once defined development as growth plus structural change. In my view that means change of the economic, social and political structures underlying a development process. But at the same time it means structural change of the distribution of the fruits, the results of the development process. And therefore a new concept of development should imply growth, self-reliance and social justice.

It has to imply self-reliance because in any society the people themselves should be able to determine their goals, their policies, their future, their economic, social and political structure: they should be able to rely on their own strength to realize them, and not be dominated by foreign economic, political and military powers. Self-reliance means choices and decisions can be made freely.

In 1978 the greatest part of the world population does not have that chance: therefore, in 1978, self-reliance, and thus development, still means "liberation". But at the same time it means: social justice and equality. In many societies and certainly in the world as a whole, elitist decisions are being made, only advantageous to the rich and already emancipated, thereby worsening, both in relative and absolute terms, the position of the poor.

If social justice and self-reliance, together with welfare increase, form the basic concept of development, the following additional norms and values underlying an optimum international economic order should be mentioned.

- It should foster a development process which is people-oriented instead of capital- or technology-oriented, so that a maximum participation of the people both in decision-making and in the fruits of production is ensured.
- It should foster a development process in which natural resources are being utilized efficiently and not being wasted.
- It should foster a development process which is based upon harmony, both between people amongst themselves, and between people and their natural environment.
- It should foster a development process which is based upon harmony between the

present and the future, and lead to an equitable distribution of perspectives between people living now, and forthcoming generations, in order not to deprive them beforehand of their self-reliance.

- It should foster a development process which is based on the preservation of human rights, both economically, socially, culturally and politically. Every individual has the right to a social life, and the right to emancipate, provided that it does not violate the rights of his neighbour to the same.

- It should foster a development process based on solidarity, taking place in freedom and leading to equality.

Short and Long-run Policy

Turning now to the second element to describe a new international order, the set of policies, it is important to stress from the outset the need for again an integrated approach. We have followed a piece-meal, haphazard approach, doing something in one sector, and nothing in other, complementary or more important sectors, with the effect that there is no result at all. The most striking example is international development-aid: rich countries, while on the average growing by about 3 per cent per annum, during the last 15 years on the average spent no more than 0.3 per cent of their national income to poor countries, very often in a way which was more beneficial to the donor than to the recipient. At the same time the necessary fundamental steps to tackle the roots of inequality in the fields of international trade, monetary relations, private investment, labour migration, were hardly being made, so that aid became a marginal and often counterproductive instrument. Only within the framework of an integrated policy to fight the roots of inequalities can aid play a positive role. In the context of a new international economic order such an integrated policy should consist of at least the following elements:

- A selective growth policy which should lead to a stabilization of material consumption of scarce irreplaceable resources, including energy, for the world as a whole, aiming at long-term equilibrium between world demand and world supply. This longer term stabilization has to be reached through a decrease in consumption in rich

and an increase in developing countries.

- A policy aiming at the restructuring of productive activities in the world, leading to a better distribution of labour between countries in order to improve the development opportunities of the Third World. Thereby special efforts are necessary to speed up the industrialization in the developing countries in local industries, also to deploy local resources, on the basis of cost relations reflecting real scarcity. This all should lead to an increase in employment.

- An international trade policy leading to a stabilization and to a real increase of the export-earnings of developing countries, and to an improvement of their terms of trade. Therefore an integrated commodity policy should be carried out, industrial products of Third World countries should be given free entry to the markets of the industrialized countries, and protection should not be accepted. A choice should be made not in favour of an overall liberalization of international trade, but of a planned increase of international trade, linked with a planned restructuring of international production.

- An international monetary policy which provides for greater international control over the creation and equitable distribution of liquidity.

- An international agricultural policy which results in food security for all people in each period, to the benefit of the poorest people.

- An international technology policy aiming at an equitable distribution of technological knowledge and at a choice of techniques which is adjusted to macro-economic, social and natural conditions and to the cultural situation of the society concerned. The application of technology thereby should be related to what are considered to be essential priorities: the struggle against scarcity, contribution to employment and the provision of basic instead of luxury needs.

- A population policy aiming at a decrease of natural population growth, in combination with other resources based upon the view that this adds to the provision of basic needs of all people and that this in itself may lead to a lower actual growth rate of population.

- An international aid policy which is

based upon automaticity which leads to high transfers of income to be spent especially for the benefit of the poorest people.

● A foreign policy not being based upon national self-interest but aiming at disarmament, peace, decolonization and non-intervention.

Main elements of this set of policies we find in resolutions on the new international economic order as accepted by the Heads of State and the Ministers of Foreign Affairs of the non-aligned countries, and in resolutions of the 6th and 7th Special Session of the United Nations.

The negotiations in the framework of the North-South dialogue however have centred around only a few of these elements, especially the Common Fund to finance an integrated commodity policy and measures to deal with the debt problems of the developing countries. These negotiations, in CIEC and in UNCTAD, until now did not bear tangible results. It is important to renew the dialogue and to negotiate all the necessary policy instruments, not only the two mentioned. Some of them, for instance, policy instruments regarding the international trade in manufactures, are perhaps more important than those which by the developing countries have been considered test cases of the good will of their negotiating partners.

I would like to add — and socialists undoubtedly will agree — that in a new international economic order the leading principle on the international markets of capital, labour, technology, commodities and manufacturers cannot be the so-called free market mechanism.

This free market mechanism has quite a few drawbacks:

● it does not prevent sharp short-term price fluctuations, and thus adds to uncertainty;

● it cannot cope with the problem of absolute scarcity of non-renewable resources;

● given the fundamental economic inequality between richer and poorer nations, it does not lead to capital accumulation, controlled by the poorer countries themselves;

● it does not result in an allocation of economic means on the basis of real needs, but only on the basis of concrete purchasing power, which especially in the field

of basic human needs (for instance food) has catastrophic results.

Therefore in the North-South dialogue agreement is necessary on other principles guiding investment, production and distribution. Such a principle must be a price criterion, and which in specific scarcity situation should be substituted by physical distribution.

Decision-making Changes

This brings us to the third main element of a new international order, the institutions determining the structure of international decision-making. For the sake of brevity I shall confine myself to some suggestions for change in the present structure, which still is being dominated by some super-powers, which either neglect the interests of the people in smaller or poorer countries, or even intervene in their domestic affairs.

In my view we should instead aim at:

● a strengthening of the United Nations as the unique forum in which all people of the world via their governments are being represented;

● the introduction of new procedures of negotiation between countries, in small negotiating groups with feed-back procedures, assisted by what may be called not supra-national but extra-national institutions with co-ordinating, advisory, executive and controlling powers and which fulfil catalytic functions;

● the control of the activities of transnational institutions such as multinational private companies;

● the international guarantee of non-intervention, in conjunction with the territorial principle of pure and permanent national sovereignty; which might be substituted by a functional system of mutual rights and duties of nations.

With regard to this last proposal I would like to explain that, while in theory the principle of non-intervention is accepted by all nations, in practice a lot of intervention takes place.

This happens both directly politically and militarily and economically (for instance by putting conditions on development aid or by taking decisions on prices, tariffs and monetary instruments without adequate international consultation) as well as indirect-

ly, through transnational companies. Mostly this intervention takes place to the detriment of the poorest strata of the population.

Non-intervention means that more powerful nations should abstain from maintaining on purpose the international status quo in their own interest. This should be complemented by rights and duties of nations, internationally agreed upon, such as:

- the international guarantee of territorial freedom;
- the right to self-reliance;
- the duty to implement policies for the well-being of all inhabitants, including the poorest and minority-groups, guided by international criteria;
- the duty of international cooperation;
- the duty of international consultation as soon as a nation wants to take a decision which may affect the well-being of people abroad.

The review of the Second Development Decade, which is taking place now in the United Nations with the purpose of preparing a strategy for a third development decade might take principles and policy proposals like the foregoing into account. Such a strategy should differ from the earlier strategies in the following respects:

- It should contain an elaboration of elements of a new international economic order in a specific time period, for instance between now and the year 2000.
- It should not deal with only global policy instruments benefiting all developing countries in the same way. Instead a differentiated approach should be followed, the differentiation being based upon differences between developing countries due to their specific development situation. This, however, should by no means lead to a divide-and-rule approach. The only way for the richer countries to take the proposals on a new international economic order seriously, besides a good analysis of their own long term self-interest, is a negotiation with a strong negotiation partner which has a real power to negotiate.
- It should not only deal with macro-relations between nations, but also with the translation of those changing international macro-relations into policies within both developing and developed countries benefiting especially the poorer and weaker strata

of the population. In the last two sections of my speech I will elaborate on the consequences of a new international economic order for the domestic economic policies of the Southern and Northern countries.

Basic Needs Strategy

The question may arise whether, if and when a new international economic order has been created, the poor and deprived masses will benefit. The answer is: no, not automatically. A new international economic order is a necessary, but not a sufficient, precondition for more justice and equality for all people. If we want to create a real perspective for all people, especially for the poorest, complementary to a new international system and policies, fundamental changes in domestic national systems and policies should be aimed at. If we fail to do so, we will not be able to spread the positive effects which a new international economic order has for individual nations through their societies, both in rich and in poor countries.

When we speak about development we mean "human development" or "people-oriented development". Let me be very clear: given the present and growing inequalities between people, human development means development oriented towards poor people. Therefore, it means much more than economic growth. The pursuit of economic growth in terms of increased production and investment in the hope that the benefits will trickle down to the poor has been a mistake. Neither poverty nor inequality have decreased.

Growth cannot be a panacea. It is not good or bad in itself. It is the aim that counts. If our aim is to increase the well-being of all people on this earth, then the key elements for a new strategy for development should be: employment, equality, the provision of basic needs and a balanced relationship between man and his society, as well as his natural, social and cultural environment.

If we want to focus our policies on the poor, as I believe we should, the fruits of our developmental efforts should be made available to them immediately rather than in the long run. Social justice has to be an initial measure, an essential pre-condition of growth, and not its consequence, after

an adequate increase of production has been realised.

From the outset people must be an effective part of the development process, both politically by means of an equal participation in the decision-making, and economically by providing employment to draw people into production and to utilise their skills and potentialities, and by providing them with at least a desirable minimum of goods and services in return for their contribution to production. A basic needs strategy implies that priority will have to be given to the production of essentials. This is also an incentive to greater efforts.

Development is an integrated process that should not be limited to elite groups, but that requires the involvement of all strata of the population. Active participation cannot be expected from people who live at a bare minimum subsistence level, if there is no real prospect of improvement for themselves and their children. A redistribution of income and wealth is not only important per se, but also in the interest of growth. A basic needs strategy serves both justice and growth.

I am aware of the reservations of many governments of developing countries with regard to the issue of social development, income distribution and justice. I note, however, that the Colombo conference has stressed that the focal point of the process of growth with social justice should be the eradication of unemployment and poverty and the recognition that structural changes would be required to achieve the objective of satisfying the basic minimum needs of the population of the developing world. I am, of course, aware of a potential conflict in international development cooperation between the sovereignty of recipient countries on the one hand and the call for social justice and income distribution in development cooperation on the other hand. And yet, I cannot see development without human development, without eradication of poverty and without participation and social change. Conditionality in development cooperation is a two way street. Developed countries can add their voice to the discussion of the critical issue of growth only if they themselves accept and carry out their international obligations. No developed country has the right to talk to develop-

ing countries on social justice and human rights, unless it is prepared to practice in its own country what is preached for others. This implies industrial readjustment to a better international division of labour, less conspicuous consumption patterns and a preparedness to apply the basic needs strategy to oneself. Similarly: developing countries cannot expect aid if resources are not used for the whole of the population and for the benefit of the poor.

Now at present an important political problem has arisen concerning the relation between the NIEO and a basic needs strategy. In fact, the basic needs concept has not been defined in a real dialogue with the people of the developing countries themselves. Many policy makers within developing countries are hostile to the concept because they feel that it is again a new Western invention with which they do not know exactly what to do. When they were told by Westerners that the basic needs of their people should be met, they did not get a guarantee that international income transfers would increase for that very purpose. And in practice many policy-makers within the Western world, claiming that their development aid is an instrument to the benefit of poor people within the Third World, at the same time decrease their financial and technical assistance.

And policy-makers within the Third World at the moment get the impression that we invented the basic needs target as a new device behind which we can hide away, using the fact that basic human needs have not been met as an argument to decrease instead of increase our aid. We also have not made clear by concrete policy measures that our acceptance of basic needs targets does imply the necessity of basic structural changes in the system itself. In practice, we are not implementing the structural changes which are so necessary to create a greater perspective for peoples in the Third World, and their policy-makers think that we have invented the basic needs targets just as another instrument to go on with charity instead of an instrument which is related to their aim — a new international economic order.

It seems also as if the policy-makers in the Western countries themselves are paying lip-service to the basic needs approach.

So for instance it hardly has been considered a challenge for the aid and investment policies vis-à-vis the Third World. Aid has not been decommericalised which is a first condition to implement a basic needs strategy in order to increase the welfare of the poorest people.

This all has led us into a huge credibility gap. There is such a gap with regard to the developing countries themselves because, due to the political system which in many of these countries was created on the basis of unbalanced maximum economic growth policies, there are many governments which indeed are not very much interested in the welfare situation of larger parts of their own population. But there is also a credibility gap on the side of the developed nations in so far as they do not implement their promises in the field of aid, trade, food, etcetera. I have come to the opinion that this dilemma — the political relation between a NIEO and a basic needs strategy within the developing countries — can only be solved politically if at the same time the NIEO is taken seriously as a guidance for necessary structural changes in the industrialised countries. If not, we will be stuck in a one-sided approach.

We need however a balanced approach, with three pillars:

- a NIEO;
- consequent structural changes within developing countries;
- concomitant structural changes within industrialised countries.

In the last section I will try to elaborate some consequences for the richer countries.

Changes in Richer Countries

Industrialised countries, having defined their own interests in the implementation of the NIEO, should accept its consequences for their own domestic economic policies. If they are not willing to do so, new instabilities in international economic relations will arise, especially in the fields of investment, production and employment.

The structure of production. It is desirable that every country specializes more than at present in the production of the goods in which it is most competitive. A rational distribution of production of this kind should take account not only of differences

in location, natural resources, climate, etc., but also of the level of development that a particular country has attained and the related availability or non-availability of production factors as manifested, for instance, in differences — sometimes considerable — in capital wealth and in wage levels.

Therefore, industrialised countries, with their relatively large reserves of technological know-how, highly skilled labour and capital, should concentrate on producing the goods dependent upon these factors. The production of goods by simpler and highly labour-intensive processes should, as far as possible, be entrusted to the economically less developed countries.

This is, of course, only an approximate picture. It applies only to the production of goods and services that are mobile (the so-called "international products"). Moreover, there are cost factors other than labour and capital: the availability of natural resources, transport costs, etc. An optimum division of labour should, therefore, be pursued, based on an optimization of the various cost factors, and also taking account of some specific demand conditions.

Readjustments in the production structure of the industrialised countries are not a new phenomenon. Exports of manufactured products from developing to industrialised countries have increased considerably. However, this autonomous process leads to instability due to the stop and go manner in which the private investment decisions concerned are taken. And this instability leads to protective measures which impede improvements in the international division of labour.

Therefore, a restructuring policy is called for consisting of the following measures. Firstly, sector structure studies should be undertaken particularly of these industries confronted with serious difficulties or threatened by such difficulties.

Secondly, a system of indicative planning should be initiated to guide investment and production decisions in these sectors in order to implement restructuring of the sectors concerned within a specific time period, which should be neither too long nor too short (e.g. 10 years). Such a sector restructuring policy should be concerned both with bolstering existing restructuring

processes and with preparing for the future. Adverse effects of the autonomous process on employment should be countered, compensated for or eliminated by means of alternative investments.

As far as a forward looking policy is concerned, the course that the restructuring process is to take should be recognized in good time; it should be taken to anticipate the course of events so that restructuring can take place with a minimum of negative effects. At the same time, trade and other barriers erected against the competing imports from the developing countries should be removed in order to enable these countries to gradually take over the production of those goods and services in which the industrialised countries are not competitive and which are to be cut back. This should also be done by means of planning and international consultation so as to avoid destroying the sections of the production structure in the industrialised countries which should be preserved but which are technically, economically or institutionally linked to the marginal sections.

Employment. Even if planned properly, the readjustment of productive activities in the framework of a changing international division of labour will, at least in the short term, add to the unemployment in the industrialised countries. I say "add" because increasing imports from so-called "low-wage countries" are by no means the only or even the most important cause of unemployment. Increasing scarcity and therefore higher prices for basic commodities, including energy, saturation of demand for certain goods and services (in particular consumer durables), inflation, labour saving investments and structural shifts towards the tertiary or commercial services sector where productivity increases are also limited contribute to structurally lower growth rates and thus to a worsening of the employment situation.

Given this multiplicity of unemployment causes in the industrialised countries, the way in which unemployment is tackled is clearly of crucial importance. After all, a rational and more equitable international division of labour can only in the long run contribute substantially to employment creation in the industrialised countries, whereas the adjustments needed in the short

run will lead to a deterioration in the situation. In this sense, the address of present employment problems is a condition for the establishment of the NIEO.

Two main employment policies have so far been implemented in the industrialised countries. First, there is the old Keynesian policy of stimulating effective demand. In so far as this policy has been aimed at stimulating private demand, its effects have been insufficient. Part of the increased purchasing power is used for imports or for the production of "nonsense goods" which does not contribute to a structural and long term increase in employment. Moreover, there seems to be a structural decline in both the growth rate of private consumption and in the propensity to invest, which seemingly cannot be influenced by a policy of stimulating private demand.

Secondly, there is the neo-classical approach of the relative decrease in production costs, in particular labour costs. In as far as this approach leads to higher business profits, it is becoming increasingly clear that there is no such thing as an automatic link between higher profits and increased employment. In a number of cases, higher profits are not reinvested (but consumed or transferred abroad) or are only invested in labour-saving processes. Unless there are provisions for social assessment of the allocation of business profits, the neo-classical approach is also bound to fail.

Conventional approaches seem thus to have either no effect or to have effects which run counter to the interests of the weaker sections of the population. New ways of dealing with unemployment should be added to a more socialized application of the conventional approaches. I see two of them.

Firstly, a selective growth policy should be pursued with respect to production. Such a policy implies the provision of government support to specific investments on the basis of certain criteria designed to reconcile the objective of growth and employment with the need to be selective on the grounds of considerations with regard to the environment, the use of energy and other scarce commodities, the spatial distribution of activities and the international division of labour. Special instruments, such

as investment subsidies and investment controls, the promotion of technological innovation in some and of small scale production in other sectors, are in this case necessary.

In the second place, new ways of dealing with the employment problem should be applied to the consumption side. We see at present tendencies towards a saturation of demand for certain consumer goods. However, there is at the same time an unfulfilled demand in the so-called developed countries for certain non-material goods which cannot be bought on the market. There are many unfulfilled needs in the spheres of education, health, welfare, culture, urban renewal to mention but a few. They are rapidly increasing, due in part to certain over-development tendencies in the rich countries, and they lead to social inequities and to a growing gap between economic growth and technological innovation on the one hand and individual psychic well-being and social welfare on the other. These needs have as yet not been identified fully, and virtually no progress has been made in their measurement. This, together with the fact that they have in common a lack of endogenous individual demand, points to the need for a socialization of demand, whereby society itself creates a demand for the satisfaction of needs that cannot be fulfilled via the market. Such a creation of demand would require an expanded service sector, in particular the non-commercial or "quaternary" sector, which offers important employment possibilities. Here, perhaps, also lies an answer to the burning question of where to find alternative investment opportunities in a restructuring policy leading to a reduction in investment in marginal sectors. Such a lack of investment in new sectors, substituting declining ones, during the recession prevailing since 1972 has constituted a serious impediment to the implementation of a new international division of labour as an essential element of a NIEO.

The more effective use of conventional employment policies combined with the non-conventional approaches described above will not solve but only lessen the unemployment problem. The structurally lower growth prospect will not enable a

return to full employment, not even when an integrated employment policy is implemented. The problem thus calls for more than the adaptation of employment policies: it calls for modifications to the very concepts of labour, consumption and our way of life.

When unemployment becomes a long term and structural phenomenon, a better distribution of existing employment will be necessary. This should not in the first place be achieved by decreasing the number of hours worked per day because of the productivity losses this will mean. A better distribution will have to be achieved primarily by decreasing the number of years a person is involved in the labour process. Earlier retirement, longer schooling, sabbatical periods and re-education are among the ways to achieve this. It will in any event require that the population of the industrialised countries be prepared to afford a less central position to materially productive labour. These countries have, after all, entered post-industrial stages in their economic development, with an increasing part of the national income to be spent on collective services. The production of these services in the transitional period is being left to volunteers. Their efforts should be professionalized and rewarded. All this will affect our way of life: less material consumption in general and of "nonsense goods" in particular, creative leisure and more consumption of education, culture etc.

A New National Economic Order. The required changes in the industrialised countries go further than the structure of production and employment. The population of these countries, and especially their economically weaker parts, will only accept, let alone support, a NIEO if they are sure that they will not become weaker as a result of change in international economic relations. For that reason it is important that the employment and income effects of this change for the industrialized countries, which in the short run may be negative and will only become positive in the longer run, are spread among their populations in an equitable way, whereby the heaviest burden is carried by the strongest shoulders. A policy aimed at increased income equality and social security within the

richer countries is, therefore, a condition sine qua non for the construction of a NIEO, in itself the basis for attaining more equality and security in the world as a whole. And it goes without saying that such a policy should go hand in hand with policies aimed at the economic, social, cultural and political emancipation of women, minority groups and foreign labourers (the latter category providing an additional human link between the industrialized and the developing countries).

From what has been said concerning the required changes in investment, production, employment and income policies, it will be clear that these changes imply an expansion of government activities. This points to the necessity of a change in the national economic order of industrialized countries to enable them to implement the right domestic policies, complementary to changes in the international economic order. An increasing part of what used to be private decisions will henceforth have to be taken by the government, whether it concerns decisions on major industrial investments, the conversion of profits into employment, the kinds of demand which should be stimulated, what constitutes fair personal income, and so on.

According to some critics in the industrialized countries, the government sector has already reached a critical limit. In their view, an expansion of this sector would be detrimental to the economic potential of the private sector. This criticism, however, neglects the fact that the government sector itself is part of the economic potential of society. The government produces goods and services that contribute to national income and wealth and its consumption is consumption by private individuals, but not on the basis of the primary income distribution.

The centralization of decisions at the governmental level, however, requires a democratization of the decision-making process. Participation by those affected by the decisions is essential. The ultimate aim: the greatest possible material and non-material welfare for as many people as possible. This aim cannot be attained in a decision-making process dominated by a small group of powerful individuals remote from the masses, nor can it be reached

by a government which takes decisions on a level far above the heads of its people.

Creative thinking about the possibilities of obtaining a higher degree of participation in political and economic decisions which must be made at higher levels is a very important challenge. It is obvious that the educational system is in this respect very important (and also to enable society to implement the necessary employment and income policies).

Conclusion

In recent years, the link between the NIEO and policies within the developing countries aimed at the satisfaction of basic human needs has been stressed. That link indeed exists. It is, however, equally important to stress the link between a NIEO and the required changes in the policies and structures of the industrialized countries. Without these changes a NIEO simply cannot be brought about; without them the powerful interest groups and the weaker sections of the population in the richer countries can be expected to resist efforts aimed at the establishment of a NIEO.

For some decades now, Jan Tinbergen, on the basis of careful research, has made proposals for changes both in the international economic system and in the structural policies within the industrialized countries. Not only his ideas on "shaping a world economy" and on an optimum international division of labour, but also his creative thinking on employment policies on income distribution, on education and on an optimum economic regime may serve to guide us.

It is high time. The spirit of 1974/1975 appears to have faded. The power of the developing countries to demand a new international economic and political system is diminishing. That power was based on oil, solidarity and reason. It is being confronted by the industrialized countries' nuclear energy, arms deliveries and sham deafness. It is crucial, therefore, that within the industrialized countries a new process of awareness-building starts to identify longer term interests and to understand what justice really means, both between and within nations.

IFDA DOSSIER 4, FEBRUARY 1979

MARKINGS

THE SOLIDARITY OF THE INTERNATIONAL LABOUR MOVEMENT AS AN ESSENTIAL ELEMENT IN THE ESTABLISHMENT OF A NEW INTERNATIONAL ORDER

by Edmond Maire*

No one can deny the ideological solidarity of the labour movement in the industrialized countries with the people of the Third World, its internationalist tradition, its active support for Third World struggles for political and economic liberation (from Viet Nam through Latin America to Algeria), and its resolute refusal to isolate itself into a kind of club of well-to-do workers who would join with their employers in the defence of their wages and jobs against the workers of the Third World.

Yet no one can deny, on the other hand, that there are limits to this solidarity; limits on the action that the trade union organizations of the industrialized countries in transnational corporations can take to improve the lot of workers in the Third World; limits on the action we can take to bring pressure to bear on our Governments and employers with a view to a genuine international co-operation favourable to self-reliant development in the Third World and oriented towards the satisfaction of the basic needs of its peoples; and, lastly, limits on the action that can be taken to stem the tide of racism directed against migrant workers and to achieve equality of rights with them.

It is easy to demonstrate that at least some of these shortcomings in our action have their origin in the economic realities and constraints to which workers are subject. But is it enough simply to draw this conclusion and accept the implication that the labour movement is powerless to change the course of events? I say powerless because if the earthenware pot of abstract ideals comes into collision with the iron pot of objective realities, there is no doubt of the outcome...

It must be first emphasized that, under such a problematique, the forces of division have a free hand. For example, the rise in structural unemployment in the industrialized countries is sometimes ascribed to immigrants who supposedly take the places of Europeans, and at others described as the result of competition from industrial products exported in increasing amounts by the Third World - to say nothing of explanations according to which the crisis is due to increases in the price of petroleum and other raw materials. Even the ridiculously small amount of aid made available by the industrialized countries to the Third World is singled out as being the source of unemployment.

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STATEMENT

on the

ARUSHA SOUTH-SOUTH DIALOGUE

1. On December 14-16, 1978, a small group from the Third World - thinkers, policy-makers and negotiators - met at Arusha, Tanzania, for an informal and unofficial review of the North-South Dialogue on the New International Economic Order. Participation in the meeting was purely in a personal capacity. President Nyerere was present during two sessions on 15 December.
2. The Meeting was in the nature of a South-South dialogue and was primarily an exercise in frank and rigorous self-analysis. It was held in closed session. A list of the participants is attached. This Statement attempts to convey the main message of their conversations though it should not be regarded as a complete summary of the Meeting.

Basic Approach

3. The basic approach of the participants was to review the progress made so far on the NIEO, to re-examine the negotiating agenda and the strategy of the South, and to identify concrete proposals through which the objectives of the South could be advanced further in a framework of genuine interdependence between North and South.
4. It was recognised that while the South had succeeded in giving a high political visibility to its concern for an equitable world order, the concrete results of the North-South Dialogue to date had been extremely disappointing. The Dialogue had become one-sided, with the South presenting its case for change and the North rejecting each specific proposal or diluting it out of recognition while offering no creative proposals of its own. The North was failing to perceive its own vital interests in a new world order and was unlikely to be shaken out

of its present negative attitude unless the South became better organised for dialogue and negotiation.

5. The participants felt that a major weakness of the South during the last four years had been the lack of an appropriate organisational framework to provide adequate and sustained technical support to Southern policy-makers and negotiators. The South often faced the North without clearly defined objectives and agreed priorities, without a complete range of technical options, without a full consciousness of its leverage and without effective pre-negotiation to reconcile the diverse national and regional needs of its members.

6. The participants agreed that in the next phase of the North-South Dialogue, the South must adjust more effectively to the era of extremely complex negotiations that had now begun, backing up its organisational efforts by an agenda that balanced the interests of all its members and by the development of increased countervailing power.

7. The real objective of the North-South Dialogue must be viewed in the framework of economic decolonisation of the Third World, as an integral part of an historical process of continuous liberation from the past patterns of economic, cultural and political dependency. This means that the modalities of economic domination (as revealed in the current working of the markets of finance, commodities, technology, manufactures and labour) must first be perceived at a political level and then be exposed at a technical level. This also means that fundamental changes are required in the existing structures and institutions, fashioned and sustained largely by the financial power of the rich nations and their multinationals. Above all, it means that domestic reforms in the countries of the South and a higher order of integration in the production, trade and payments arrangements amongst them are crucial to the economic and political progress of the Third World and to their negotiations with the North

from a position of internal strength.

Principal Negotiating Issues

8. The principal negotiating issues concern the disadvantageous position of the developing countries in the international markets where they sell -- commodities, manufactures and labour -- and where they buy -- technology and finance.

9. The developing countries urgently need to strengthen their market staying power in the export commodity markets, hence the need for the type of Common Fund that can effectively fulfill this objective.

10. They need access to markets for their growing exports of manufactures as well as for their primary products, hence their deep concern about the artificial contraction of their markets in the developed countries.

11. They need an international framework which would accommodate freer movement of their labour across the tightly-fenced borders of the rich nations as well as protect their labour already working abroad from the growing tide of disquieting discrimination.

12. In procuring technology, the developing countries need better regulation of the international technology market to strengthen their present unequal position vis-a-vis transnational companies and to have a fair chance of building up their own indigenous technological capacity.

13. In buying finance, they are being made increasingly dependent on the private international credit market with the result that poorer and weaker countries have no significant access to non-project finance, while for others the unrealistic repayment periods negotiated only recently have already led to unfavourable debt structures.

14. In some of these principal areas, the negotiations between the developing and the developed countries have gone badly; in others they have

not even begun.

Common Fund Negotiations

15. On the commodity issue, the participants expressed deep concern regarding the present state of the negotiations. No commodity agreement has been concluded within the framework of the Integrated Programme for Commodities adopted at the UNCTAD IV two-and-a-half years ago. The negotiations on the Common Fund, stretching over two years, now involve concepts and amounts that differ greatly from the original proposal of the Group of 77. The Common Fund as presently negotiated would to that extent be less effective in influencing commodity markets. The Third World must mobilise its collective negotiating strength to ensure that the Common Fund which eventually emerges from the current negotiations is able to protect effectively the export interests of all developing countries and is capable of further development to meet their financing needs in the commodity markets. In any event, the Third World should make clear the responsibility of the North for any deficiencies in the Common Fund arrangements for which the developing countries may be forced to settle at this stage and it should keep its options open for a major modification of the present arrangements, including the possibility of a Common Fund financed by contributions largely from the Third World itself and from some friendly countries in the industrialised world.

International Monetary and Financial Order

16. One of the central issue for the developing countries and the world economy is the restructuring of the international monetary and financial system and institutions. These arrangements were established 33 years ago in a different world. The international monetary and financial institutions, the principles and methods of their operation, their theoretical bases and practical effects and, above all, their pattern of recruitment, control and management have to

be re-designed to correspond to the present-day requirements. In this context, universalisation of membership of international financial institutions is of particular urgency. It was proposed that international monetary and financial issues should be fully incorporated in the North-South Dialogue and these should be placed as priority items in the negotiating agenda of UNCTAD and other negotiating forums.

17. Several concrete proposals were mentioned by the participants to reform the present international financial and monetary system. For instance:

- exploration of a new common financing institution of developing countries and those developed countries that may wish to join, to provide the type of financing presently not adequately available from existing institutions (e.g. medium-term programme finance, export credit finance for manufactured goods, resource development finance, finance for collective initiatives of the South), based on equitable voting structures;
- renewed stress on the regular creation of Special Drawing Rights (SDRs), their equitable distribution to the developing countries and revival of the proposal for a link between SDRs and resource transfers to the developing countries;
- exploration of the desirability and feasibility of establishing a Third World unit of account, on a global or on a suitable regional basis;
- extension of the present ODA targets so that all countries (developed and developing) would be expected to pledge a share of their GNP for concessional finance, the share rising gradually up to 0.7 per cent for the highest per capita income countries and


the funds thus raised distributed according to per capita income, so that the low-income countries would be net receivers of ODA. These funds, which could be augmented by those arising from the exploitation of the "global commons," must be under genuine international management and control.

18. The above proposals illustrate a few of the many specific ideas that the participants presented to reform the existing international monetary and financial order. It was agreed that these proposals required professional analysis and further elaboration before they could be placed on the negotiating table. The participants suggested that such analysis should be undertaken by the research institutions of the Third World.

Long-Term Negotiating Proposals

19. The participants felt that priority must also be given to developing long-term negotiating proposals for the 1980's and 1990's in order to develop a shelf of well-conceived ideas and to prepare steadily the political ground for their gradual acceptance and implementation over a period of time. In this context, it was suggested that appropriate research forums should organise policy work in at least three areas: (a) an international central bank; (b) approaches to international taxation; and (c) an indicative global planning system.

Countervailing Strength

20. The participants agreed that no visible progress was likely to be made in the North-South Dialogue unless the South took concrete steps to organise and strengthen itself. In the next critical phase of the Dialogue,  the real question was not what the North could do for the South but what the North and South could do together. But the strength of the South in that Dialogue would depend on a demonstration of what the South could do for itself.

Several possible actions were mentioned:

- strengthening of producers' associations of developing countries and organisation of their own multinational enterprises in selected commodities;
- establishment of joint shipping lines, preferably on a regional basis, with their own "conference rules";
- organisation of buyers association in major commodity imports like food, fertilizer, steel, etc.;
- unilateral adoption of codes of conduct collectively by all developing countries for transfer of technology and for regulation of transnationals;
- establishment of a Third World Endowment Fund to finance socially relevant research in the Third World;
- the urgent need for the Third World to develop its own independent mass media, dedicated to the liberation and progress of the South.

Management of Negotiations

21. It was clear that, despite the constraints and frustrations of the current negotiating machinery, the South was in a position to advance its own cause by better management of its human resources and a more concentrated attention to NIEO issues. Some examples mentioned by the participants were:

- securing at all times the best possible country representation to the international institutions and making better use of the limited leverage that did exist, e.g. within the World Bank and IMF, through co-ordinated collective action;
- Improving the contact and co-ordination between the policy

viewpoints of G-77 Groups in such UN centres as New York, Geneva, Washington, Rome and Paris;

- improving national co-ordination between the relevant ministries of each country dealing with NIEO issues in different international forums;
- ensuring that the final stages of negotiations on major specific proposals are at a political level and sending high level ministerial representation to such sessions;
- designating special representatives with responsibilities for co-ordinating national positions on NIEO issues and for assisting in the co-ordination of G77 strategy at important meetings, e.g. the forthcoming Special Session of the General Assembly in 1980;
- organising special task forces from intellectual forums of the Third World to help prepare for important negotiations;
- consciously cultivating support in the Dialogue from like-minded countries in the North;
- encouraging the socialist countries to become more involved in the Dialogue;
- influencing public opinion and attitudes in developed countries, and particularly special groups such as consumers, trade unions, importers and manufacturers; and
- creating public understanding and appreciation within the South of the issues related to global economic and social justice, and their intimate relationship to internal factors.

Southern Research and Co-ordination Facility

22. It was clear that a major weakness of the South in its Dialogue with the North was its lack of effective organisation. Both in the area of economic co-operation between developing countries and that of collective negotiations with the North, there was now urgent need for an immense amount of technical support for the South. The U.N. system -- in particular, UNCTAD and the Regional Economic Commissions -- had important roles to play, and should be strengthened for these purposes. But, beyond them, many participants felt there was an urgent need for a Southern research and co-ordination facility serving the Third World directly and financed and controlled by it.

What the Third World needs, they felt, was a comprehensive system of organisational and technical support for its negotiations with the North and for co-operation within the South. The absence of such a facility was seriously impairing the capacity of the South to succeed in the era of negotiation.

When ranged against Northern organisation, these deficiencies produced tragic imbalances.

23. The first dimension of the support system should be arrangements to secure an adequate flow of technical analysis leading up to the preparation of negotiating positions, continuous back-up during the negotiations themselves and, beyond that, follow-up and implementation of the results. Participants recognised the need for urgent study of the modalities involved in establishing such a facility, taking account of all the resources available to the Third World and the need to put them to optimum use. It was agreed to set up a small group to study this proposal and to prepare the political and technical groundwork for its concrete implementation during 1979.

24. The participants fully recognised that what was at stake here was not merely the setting up of a technical co-ordination facility, but the

momentum of the political movement of the Third World^{for} economic liberation itself. The unity of the Third World was becoming less real than apparent as the action moved from declaration to negotiation. The better organisation of the South through machinery that co-ordinated and constantly updated a balanced programme of Third World co-operation in negotiations with the North and among the countries of the South was becoming critical to the sustained structural integrity of the Third World itself.

25. The participants agreed that the North-South Dialogue had moved from the era of declaration to the era of negotiation. There is urgent need for the South to adjust to the requirements and opportunities of the new situation which its collective efforts produced. The phase of petition is over. That of organised effort for practical action must begin. Political commitment to transforming present relations of dependency into those of equality and genuine interdependence must guide this phase. For the South, that implies a balanced agenda of priorities and consciously enlarging counter-~~vailing~~ strength. Effective organisation and co-ordination are critical elements for sustaining Third World unity and success in the period ahead.

PARTICIPANTS IN ARUSHA SOUTH-SOUTH DIALOGUE

Ismail-Sabri Abdalla - Chairman of Third World Forum

Adebayo Adedeji - Executive Secretary of the UN Economic Commission for Africa

Dragoslav Avramovic - Director of the Secretariat, Independent Commission on International Development Issues

Bernard T.G. Chidzero - Deputy Secretary General, UNCTAD

Altaf Gauhar - Editor-in-Chief, Third World Media

Mahbub ul Haq - Director, Policy Planning, World Bank

Enrique Iglesias - Executive Secretary of the Economic Commission for Latin America

Jagdish N. Bhagwati - Professor of Economics, Massachusetts Institute of Technology

Carlos Diaz-Alejandro - Professor of Economics, Yale University

Ashok Mitra - Minister of Finance, Government of West Bengal, India

Benjamin Mkapa - Foreign Minister of Tanzania

Raul Prebisch - Director of the Revista, UN Economic Commission for Latin America

Shridath S. Ramphal - Secretary-General of the Commonwealth

Alister McIntyre - Director, Commodities Division, UNCTAD

Donald O. Mills - Jamaica's Permanent Representative to the UN and former Chairman of Group of 77

Amir Jamal - Minister of Communications of Tanzania

Justinian Rweyemamu - Senior Economist, Independent Commission on International Development Issues

Soedjatmoko - Adviser to the Chairman, National Development Planning Agency for Social and Cultural Affairs, Indonesia

Albert Tevoedjre - Director of the International Institute for Labour Studies, ILO and Secretary-General of the Association Mondiale de Prospective Sociale

Timothy Thahane - Ambassador of Lesotho to the United States, former Executive Director of World Bank

Cesar E. Virata - Minister of Finance, Government of the Philippines

Joseph S. Warioba - Attorney-General of Tanzania

Azim Husain - Chief Coordinator of the Conference

Khadija Haq - Conference Secretary

Mr. McNamara:

January 10, 1979

Horst Schulmann called to report on the Jamaica meeting. (He mentioned that the information we had provided on the Arusha meeting turned out to be very useful for Chancellor Schmidt.) His main points were the following:

1. The general climate of the meeting was very good. The participants agreed to talk in their individual capacity and not for their governments, but to brief other heads of government on the outcome (in the case of Schmidt, the Guadeloupe meeting and the EC). No formal conclusions were reached but Norway proposed a follow-up meeting.
2. Chancellor Schmidt's proposal that in the future every North/South proposal should only be tabled if it contained a careful analysis of all its international economic implications was well received; also his argument that frequent G-77 attacks on the North were counter-productive in terms of winning public support in OECD countries for increased development efforts ("International solidarity was no one-way street.") The view was generally accepted that--in order to win political support for increased ODA--the medium- and long-term gains for all countries, i.e., the concept of interdependence, had to be better explained. The work of the Brandt Commission in this direction was welcomed.
3. The only participant arguing for a more confrontational course was Perez (and not Manley as some had expected). A certain post-Arusha moderation was noticeable.
4. Schmidt advanced five reasons for the present international economic disorders: (i) the population explosion; (ii) inflation (strongly supported by Fraser on this); (iii) bureaucratically administered economies eliminating private initiative (at this point, Obasanjo criticized the MNCs, whereas Schmidt argued for a meaningful role of private foreign investment, complementary to public resource transfers); (iv) neglect of agricultural development in LDCs (Schmidt did not particularly enjoy the criticism of EC agricultural policies he provoked by that statement); and (v) excessive military budgets.
5. With regard to trade, the CF and the German proposal of a global Stabex were discussed. Although the representatives of the South seemed to have lost much of their earlier enthusiasm for the CF, they kept pushing for the fund. Schmidt said that Germany would support a modest second window but that he did not believe in its justification and benefits. After having briefed the four at Guadeloupe, Schmidt anticipates no U.S. support for the second window. The LDC representatives considered the proposal of a global Stabex to be a complement and not a substitute for the CF, and the compensatory financing facility likely to be more advantageous for the LDCs.
6. On resource transfer, Obasanjo argued that the IMF and the Bank did not meet the needs of the LDCs in the area of commodity financing. Manley added that these institutions did not make loans to groups of countries (Caribbean?) and he attacked the Fund's conditionality. Schmidt urged that one had to distinguish between the Fund's monetary and its development objectives. Conditionality also applied to countries such as England and Italy.

7. There was agreement that the UN system (expressedly excluding the Bank) did not provide a sufficient framework for the North/South dialogue. Increasingly, other more informal and flexible fora for international dialogue and negotiation had to be sought (a la Jamaica, Arusha, Guadeloupe). However, the imprimatur of the UN would of course be desirable for conclusions emerging from such meetings.
8. Schmidt criticized the OPEC cartel and called for the communist world to provide its share of development assistance (to which Pravda reacted rather nervously).

cc: Mr. Stern

Caio Koch-Weser

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Mahbub ul Haq, Director, PPR *juv*

SUBJECT: Some Notes for the Bonn Meeting

DATE: February 12, 1979

1. In your forthcoming conversations with Chancellor Schmidt, I thought it would be useful for you to know West Germany's own development concerns and its perceptions about North-South issues as well as about the role of the World Bank. Peter Jacob, a member of my staff and a German national, has prepared a self-contained briefing paper on this: you may like to glance through it, particularly Annexes III and IV on aid and trade policy.

2. I am summarizing below some of my own ideas, based on the background analysis Messrs. Burki and Jacob prepared for me.

1. The German Concerns

3. It appears that Chancellor Schmidt is now willing to play a reasonably active role in international economic affairs, including the North-South dialogue. However, this role will be played according to the way that Chancellor Schmidt and his advisors perceive the world stage. The following perceptions are distilled from some of their recent statements and may be pertinent to your dialogue:

- stress*
- The major theme that comes through all German pronouncements is efficiency. It conditions German perceptions regarding regional vs. global initiatives, private vs. public flows, bilateral vs. multilateral assistance, trade vs. aid. It is a yardstick by which all else is judged and the more we can relate our efforts and initiatives to global efficiency considerations, the more response we may get. ←
 - Any future German activism should take the form of participation in multinational arrangements. However, the German translation of internationalism is "Euro-centrism." This is why they are putting such a great deal of emphasis on arrangements like the European Monetary System, European Development Fund, and European Investment Bank. Germany is worried that global initiatives often become politicized and lose "efficiency." It would be important to show that the World Bank, despite its international character, has been able to maintain the supremacy of professional efficiency over political considerations.
 - In dealing with the question of capital flows to the developing countries, the Germans place greater emphasis on private as compared to public sector transfers. This apparently results partly from a perception of comparative efficiency, partly from an ideological preference, and partly from the fear of further increases in public sector indebtedness, i.e., budgetary concerns. German administration has aimed at a 1:2 rule of thumb for the distribution of capital flows between public and private channels.

① raise productivity
 ② help LDC's help themselves
 ③ mutual interest + win-win game

- The Germans seem to view the Third World as divided between two parts: the more advanced countries that can be folded into the economic system dominated by the industrial countries and the poor nations whose main concern should not so much be integration into an international economic system but alleviation of poverty. The instruments for relations with these two groups differ: essentially bilateral, private, trade-related contacts with the former; public and preferably multilateral contacts with the latter. The second German rule of thumb - a 70:30 distribution of flows between bilateral and multilateral channels - suggests the degree of emphasis the Germans seem to put on these two Third World blocs.

II. German Aid Policy and World Bank Role

4. I believe that little will be gained by pressing Chancellor Schmidt on the German overall aid performance. Their ODA record (0.27% of GNP) is poor and they have often been reminded about it. Moreover, you may be able to persuade Chancellor Schmidt to move forward only if he finds concrete arguments and a disaggregated, practical approach which he can sell to his own constituency (not a global vision, since he is not much of a visionary). Thus, it is important that we skillfully relate our own concerns to Germany's revealed preferences. This "soft sell" could cover:

- Close working relationships between the Bank, on the one hand, and European Development Fund and European Investment Bank, on the other. These could include not only greater co-financing but also joint appraisal missions, sharing of information on country economic prospects and a certain reorientation of IFC operations with greater emphasis on high-technology industries in the middle-income countries.
- Greater Bank willingness to work with European Non-Governmental Organizations (NGOs). The Germans would like to see the NGOs play a much more active role in poverty-related programs. For the Bank, this may involve greater co-financing with NGOs as well as the use of the NGO resources for technical assistance and project formulation.
- Greater Bank involvement with the projects in the middle-income countries that have linkages (horizontal and vertical) with the European economies. Our move into the energy area is seen favorably from this perspective by the Germans. We can also expect that they would be interested in greater Bank participation in mineral development in Africa, including in such non-members as Angola and Mozambique.

- Somewhat greater Bank interest in the issue of transfer of technology to the middle-income countries in areas such as mineral exploitation and development. The Germans may be interested in the Bank closely collaborating with the newly established German Appropriate Technology Agency (GATE).
- Greater Bank willingness to influence and move the dialogue on international fora along more practical lines. This would include the Bank's willingness to do analytical work - to demonstrate the feasibility (or lack of it) of such demands of the South as 25% share in global industrial output by 2000 AD, the establishment of a new and very restrictive code of conduct for multinationals, and the organization of a common commodity fund that can openly direct the operations of individual multinational commodity arrangements. *Trade activities with OECD-benefits to each*
- The area of Bank activity that Chancellor Schmidt may find particularly interesting and which will link up with German emphasis on efficiency and private flows and with the geographical and sectoral composition of its own assistance:
 - (i) increased productivity of the poor, as against schemes of global welfarism; ←
 - (ii) co-financing, both with public and private agencies; ←
 - (iii) lending for energy and mineral sector; ←
 - (iv) lending to Africa, which figures increasingly more prominently in Germany's own assistance; ←
 - (v) rapid expansion of IFC; and ←
 - (vi) Bank record on project rates of return and disbursements. ←

5. One of the appealing arguments for German support for IBRD capital increase and IDA replenishment will be that the Bank has been able to maintain its efficiency, despite expansion, and that its future expansion will not limit the role of private flows but enhance it through co-financing, improvement of country debt profile, provision of technical assistance and institution building in critical sectors. ←

III. Possible German Initiative in North-South Dialogue

6. Apparently, Chancellor Schmidt is beginning to take more interest in North-South issues, as is confirmed by his participation in the mini-summit with Prime Minister Manley. There may be a complex of motives behind this initiative: growing self-confidence of Germany and its desire to play the role of a leader in international economic affairs; the role of leadership that the Brandt Commission report may thrust upon Germany (unwillingly?); a tacit understanding at Guadeloupe that U.S. finds itself too beleaguered to

February 12, 1979

take major international initiatives and that Germany should take on some of the burden. Whatever the motivation, I believe that Germany is uniquely qualified to take leadership in one crucial area in which other rich nations cannot or probably will not - trade and the threat of growing protectionism.

7. Germans have a good record on trade policy. Their protective barriers are very low. They have strongly condemned growing protectionism. They have been advocating liberalization in the Tokyo round. They can be generous importers as they are successful exporters. German strong balance of payments and domestic economic position enables them to take a lead in freeing imports. There is no other rich nation I can think of which has a cleaner record and stronger vested interest in liberalized trade.

8. In this framework, you may consider:

- sharing your plans for the UNCTAD V speech with Chancellor Schmidt and getting his support for the initiative you will propose for another round of trade negotiations after the Tokyo round (which is largely concerned with North-North trade restrictions);
- persuading Chancellor Schmidt to lower tariff and non-tariff barriers even further in Germany, irrespective of the outcome of the Tokyo round, in order to give a lead to others; and
- enquiring from Chancellor Schmidt about the global STABEX scheme (outside the ambit of the IMF) which he strongly advocated at the Jamaica mini-summit and which FRG proposed to the Development Committee last September (any assistance from the Bank in examining its costs and benefits?).

9. It may also be useful to brief Chancellor Schmidt about the current mood of the Third World - as revealed at Arusha South-South dialogue. (Incidentally, his office was chasing me for a briefing on Arusha before the Jamaica mini-summit: I could brief Horst Schulmann only to a very limited extent on the phone. The Chancellor may be interested in a copy of the Arusha Statement, which I have already sent you). It is possible that Arusha deliberations may lead to the establishment of a Third World Secretariat: a small group of five (including me) was authorized to pursue the idea further, concretely but fairly quietly. If TWS gets established during 1979, it may be the beginning of a more professional North-South dialogue.

Attachment

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Prepared by:
Peter Jacob
1/5/79

GERMANY'S ROLE IN NORTH-SOUTH RELATIONS

Introduction

The Federal Republic of Germany holds a pivotal position in international economic affairs, yet its actions on the international front, particularly in North/South relations, have not been sufficiently conducive to a major breakthrough in the existing stalemate on many important issues. There is apparently growing awareness in German government circles that Germany is perceived as a "hardliner" on North/South issues and is consequently becoming increasingly isolated. To some extent, this puts the country in a position where it might be tempted to "brave" the chill and simply get used to feeling lonely at the top. While some more personal statements by the Chancellor might be interpreted this way, a careful analysis of the underlying conditions of Germany's role in international affairs suggests otherwise. The Federal Republic is indeed in search of a more cooperative strategy because of its own geopolitical interests and global concerns, and it is currently in a favorable position, both at home and within the international context, to take decisive action to assume greater international responsibility.

This paper outlines the basic conditions under which such a role could be played by Germany. It examines briefly the major factors influencing the country's global policy concerns, the current domestic economic situation, and the main issues and policies of German development aid. Detailed Annexes on these three main subjects and on the German attitude towards international trade substantiate and elaborate the points made here.

Germany's Global Policy Concerns and Concepts

The country's geopolitical setting requires careful balancing of its foreign policy initiatives. Security concerns are currently surfacing again as a more dominant factor in policy formulation. While these concerns are partly linked to Germany's delicate position within the East-West context, they are also strongly influenced by wider economic security considerations because of Germany's prominent position as a world trading nation.

There are distinctly institutional elements in the formulation of international cooperation strategy on the part of Germany. This reflects recognition of the role of other small powers in the European context, the desire for super power detente, and appreciation of socio-economic pluralism in international affairs. It also appears that interest in a concept of international management is emerging. While this is particularly true with respect to the monetary area, where the establishment of the European Monetary System is forcefully pursued, similar initiatives relate to the wider context of international development and its structural consequences. Germany's role in the Lome renegotiation, the multilateral trade negotiations, and its apparent support for strengthening of the capacity of the European Investment Bank and of increases in resource flows to developing countries within the context of the OECD/DAC proposals are indications of this.

While any idea of a massive global transfer of additional concessional funds is clearly not favored by Germany, there appears to be support for substantial increases within the present proportions of roughly 1:2 for public and

private sector capital transfers including private foreign investment. The instruments envisaged for additional resource transfers are not different from those already employed; essentially, the major thought is a strengthening of already established mechanisms. To what extent the ratio of 70:30 between bilateral and multilateral mechanisms might be modified still seems to be uncertain.

It is now apparently recognized in German government circles that an accord on raw material agreements and the question of the common fund are required to defuse tension between the North and the South. Recent information suggests that the Chancellor himself is prepared to go along with others on any remaining issues to come to an agreement. At the same time, the Chancellor seems to feel strongly about the establishment of a global STABEX system which he would prefer to keep separate from the IMF Compensatory Financing Facility.

The German desire to break out of its present perceived isolation on North/South issues has not yet prompted any initiatives regarding the increase of its ODA to reach the 0.7 percent of GNP target rapidly. The new concept of international management, which appears to underlie many of the new global and regional strategies, stems from a general recognition of interdependence as a principal element of international cooperation. German development aid policy is presently being reformulated to reflect this recognition as well as the particular circumstances of the poorest countries. This is leading to a two-pronged concept of development aid and the use of more differentiated instruments for cooperation with different groups of countries.

German Development Aid - Issues and Policies

The three major political parties in the Federal Republic do not differ greatly in their basic attitudes on aid. Essentially, all of them seem to support a concentration of aid on the poorest countries and a focus on poverty-oriented projects. Party platforms do, however, often escape into generalities with respect to long-term policies to avoid conflict on controversial issues between ideologically diversely-oriented groups within the parties. This is particularly true for the issue of binding commitments to implement the generally favored increase in the level and percentage of ODA.

The Ministry for Economic Cooperation has frequently been at the center of domestic controversy about the rationale and the direction of Germany's development aid. This not only reflects an underlying dichotomy in the perception German society has of its domestic objectives and of its international role, but also the often seemingly conflicting objectives of economic self-interest and international social responsibility. Recent internal administrative re-arrangements at the top level of the Ministry for Economic Cooperation are apparently intended to restore the Ministry's professional capacity and public image in the wake of severe public criticism of its past record. New policy guidelines and publicly announced new aid approaches are the result of a fundamental rethinking process prompted by the growing awareness of the international significance of Germany's relations with the Third World. They also reflect a more pragmatic and less ideologically oriented approach to aid.

Two main concepts are intended to guide future German development

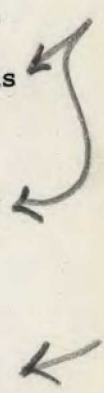
①
cooperation efforts. One is a pronounced emphasis on basic needs oriented projects and programs for the poorest countries and "neglected sectors" in the more advanced developing countries. The other concept is the use of a differentiated approach towards cooperation with the more advanced countries, according to their degree of interrelation with the international trade system. The basic rationale and the sectoral emphasis of technical and financial assistance programs for the so-called "take off" countries is apparently going to be derived from socio-economic indicators and a categorization of countries into several groups with varying degrees of trade relation and regional closeness to Germany and Europe.

While it is recognized that trade relations with "take off" countries generally have a positive impact on employment in Germany, it is also anticipated that increasing pressure for exports of manufactured goods from these countries will lead to the need for long-term adjustment in Germany's structure of production. Support for increasing integration of more advanced developing countries into the international economic system is therefore intended to be coupled with efforts to facilitate and promote domestic restructuring in Germany.

Serious delays or shortfalls in disbursements of official development assistance to the poorest countries appear to present a more immediate problem for German aid administration. Given the keen interest in boosting the dismal performance level of German ODA, German authorities are likely to be especially interested in co-financing arrangements, provided an appropriate project mix consistent with bilateral aid objectives can be achieved.

Perceptions with Respect to International Leadership

Although Germany continues to behave essentially as a bashful economic power when it comes to assuming international leadership, the chances that it is prepared to take a more forceful and positive role in North/South relations should not be underrated. The credibility of German leadership in the context of a distinctly institutionalized international system of management, which appears to appeal to Germany's global interests and conceptual thinking, does, however, require a major financial commitment and a more forceful global, rather than regional, orientation. It appears from our detailed analysis that the chances that such a commitment will indeed be made are the greater, the more convincing the contributions of other partners in the system are. There are signs that a new optimism, after a long period of gloom on the German domestic scene, has invigorated the German sense of international responsibility. Both self-interest and a longer-term view in international affairs should therefore lead to a more active role in international economic management through prominent and material participation in a broad, interrelated and coherent system of regional and supraregional institutions, including the World Bank and IDA.



ANALYSIS OF MAJOR FACTORS INFLUENCING
GERMANY'S GLOBAL POLICY CONCERNS

The Country's Geopolitical Setting

As one part of the divided pre-World War II nation, the Federal Republic of Germany is extremely conscious not only of its authoritarian past with all its still troublesome international implications, but also of its limitations in conducting independent foreign policy. The continued existence of a free, democratic state with a highly industrialized economy in the middle of Europe, largely dependent on export markets for its capital goods, and on imports of raw materials, particularly energy, is believed to require a solid linkage with its Western industrial partners within the framework of NATO and the EEC. Current occasional speculation that the Federal Republic might eventually be tempted to "emancipate" itself through an accommodation with the Eastern Bloc, if the Soviet Union were prepared to let the subject of reunification with the Democratic Republic of Germany resurface for serious consideration, must therefore be regarded largely as a reflection of major global power changes which are bound to reverberate in the usually tense atmosphere of German East-West relations.

The closeness of the Eastern European countries has so far enabled the Federal Republic to achieve remarkable progress in surmounting ideological barriers in its trade relationships with them. German sensitivity with respect to any global power shifts which might endanger the existing detente is currently well illustrated by its somewhat nervous reaction to the U.S.-China rapprochement. Similarly, the allegedly too provocative U.S. human rights policy evoked a nervous response. The Bonn government is interested in the strengthening of NATO defence capacity to achieve "equilibrium" through modernization of the weapons systems, although this is still a controversial subject even within the major coalition party. At the same time, the government wants to take as much advantage of "openings" towards the East, particularly in its dealings with the Democratic Republic of Germany. Recently, the relationship between the two states has further "normalized", despite continuing ideological quarrels.

Even this "normalization", exemplified by agreements about border traffic and transport systems, is, however, cautiously pursued on both sides to avoid Soviet displeasure. In the long run there are nevertheless a number of common practical interests in the areas of transportation, linkage of power grids and environmental protection. Recent emergency shipments of West German coal to the East have highlighted the vulnerability of the East German economy which depends to a large degree on lignite mining for its energy supply. As a source of credit West Germany has long provided major support for its "Eastern twin" which has had payments deficits both with the Federal Republic and with its major trading partner, the Soviet Union.

Apart from the context of these geopolitical circumstances, East-West trade is increasingly becoming a concern from a balance of payments point of view. COMECON countries have recently increased their international indebtedness substantially. This adds a distinctly worrisome note from the

economic perspective to the more political and strategic global concerns. The tolerable extent of international exposure of German foreign investments and loan capital to special risks might become a major constraint in international policy making, particularly when the sizable anticipated demands for supplier's credits to finance China's modernization program are taken into account. Germany is likely to favor a "balanced approach" both for political reasons and reasons of financial prudence. This would mean continued trade with Western industrial countries within a more stable monetary system, and with the more advanced developing countries and COMECON, each of which is expected to provide major impulses to domestic economic growth. At the same time, the Federal Republic of Germany can be expected to participate forcefully in the competition for a sizable share in capital goods exports to the People's Republic of China without, however, being willing to provide extraordinary incentives or preferences, both in terms of interest subsidies or preferences in market access. An even more cautious approach can be expected with respect to military equipment deliveries.

Security concerns are going to have again a much more distinct influence in global policy formulation as a result of recent developments in Iran from which Germany so far has received between 15-18 percent of its crude oil, where sizable German investments have been made and which accounted for 2.3 percent of total German exports in 1977. Among the largest German projects in Iran is the construction of nuclear power plants. Germany's interest in Turkey is likewise prompted by security concerns and the ultimate problem of how to deal with migration of labor in the middle 1980s. German-Yugoslav relationships are even more linked to the unknown and possibly uncertain developments anticipated for the period following President Tito's eventual death. Another major area which will command continued German attention from a strategic point of view is Southern Africa where political developments have so far prompted participation by Germany in the assistance program for Zambia and a role in the transition towards independence of Namibia.

In Latin America, another traditional area of German trade interest, the German presence in Brazil is most importantly linked to that country's nuclear power program through the agreement to provide nuclear reactors and technology. Recently, Germany has signed an agreement for technological cooperation with Venezuela which might provide the basis for closer cooperation between the two countries in the oil sector, particularly development of new technologies for more economic exploration and processing of Venezuelan oil. The agreement reportedly also provides for a study of the possible future use of nuclear energy in Venezuela. All of these strategic relationships illustrate the overall concern about raw material supplies, particularly energy, and safeguarding of major export markets for high technology capital goods.

In the Middle Eastern conflict between the Arab countries and Israel, Germany has generally been able to keep a reasonable balance between the economic interests which favor the Arab side, and the political interests, which are linked to Germany's desire to maintain its historically delicate relationship with Israel. Internal developments in Germany, such as the wave of terrorism in 1977, provided an often traumatic linkage between domestic and global concerns arising from foreign instability. The presence in Germany of sizable contingents of foreign workers from developing countries and of

substantial dissident groups of foreign students (e.g., from Iran) have at times heightened the apprehension about social instability in their home countries and thus injected an internal security element into global policy formulation. Similarly, foreign political developments, such as those in Chile and in Southern Africa, have during the last few years had a distinct influence on the domestic political climate and thus evoked various foreign policy responses.

Socio-economic and Domestic Political Circumstances

Apart from its geopolitical setting, various elements of Germany's socio-economic and domestic political circumstances have contributed to its past international posture and are likely to have a decisive influence in the future. Short-term responses to international developments can most invariably be related to particularly areas of concern such as inflation, currency instability, global military imbalance or political unrest, where German interests are thought to be threatened. Long-term strategy formulation, on the other hand, is more related to Germany's structural condition and problems. The fact that long-term strategy has been less evident in Germany's past international responses and also in its domestic policy prescriptions than short-term responses is, in itself, evidence of a peculiar phenomenon. This phenomenon has its roots in a major structural change in German society during the last thirty years.

The division between groups within the political parties largely reflects a deep dichotomy in Germany's basically conservative society, namely the support for a free market economy, on the one hand, and the demands for further extension of the broad welfare system which requires massive state intervention and social subsidy, on the other. At the same time, faith in the problem solving capacity of government has waned. An often apparent crisis atmosphere in economic and political management results from a unique dilemma brought about by structural problems in population, in production capacity and resource base, as well as in the organization of both the economic and the political systems.

In economic management, familiar Keynesian "house recipes" to counteract cyclical downturns in economic activity by fiscal stimulus, which were for a long time expected to be a potent remedy against economic ills, are increasingly found to be inappropriate. The "public sector quota" (including social security transfers) has reached a high of 48 percent and it is feared that any further extension would stifle entrepreneurial activity and further hamper business investment. Already, the costly welfare system is diverting resources from badly needed capital investment. A declining population will bring with it a contraction of the labor force and lower demand for housing and consumer goods. Appreciation of the German currency has seriously affected business profits in general and structural changes in world markets have further added to the sluggishness in business investment. On the other hand, trade unions hold a dominant position in the political system. They continue to oppose or criticize allegedly business-oriented growth policies and structural change.

At the same time, party platforms influenced by both labor and business are attacked outside the conventional party spectrum by environmental groups who have gained in political influence. Particularly long-term energy planning is seriously hampered by different perceptions regarding the future course of action. Simply put, trade unions and political parties, in which different ideological groups are represented, feel that they have to choose between "more unemployment or more nuclear energy." Similar fundamental opposites are posed in the choice between more state intervention (e.g., as short-term response to structural problems in such vulnerable sectors as shipbuilding) and more freedom from such intervention which might lead to massive reductions in the labor force in such sectors.

The political system, which broadly consists of the three major parties, the trade unions and diverse groups of "popular activists", continues to be shaken from time-to-time by the eruption into daily political life of deeply rooted fundamental differences of opinion with respect to employment and incomes policy, social security, participatory management, structural change including future energy and environmental policy, and the role of the state both in economic and in political life. What is often wrongly perceived as simply a reflection of "growth fatigue", German "Weltschmerz" or the problem of affluence more correctly represents a structural crisis of broad dimensions and great depth. German domestic and international policy responses are both linked to this crisis because Germany's interdependence with its trading partners and its geopolitical setting do not allow domestic policy and international policy to be conducted in isolation from each other. The contentious debate between Germany and the U.S. about Germany's role in international economic management is but one reflection of this fact. While currently responding to some extent to international pressure for more forceful German economic stimulus to help a sluggish world economy, the German government is essentially following a cautious path in shaping a long-term strategy aimed at gradually restructuring the economy.

The principal elements of this strategy are:

- creation of a new European monetary system that is expected to help in stabilizing exchange rates between Germany and its major trading partners and thus to shield German exporters from currency fluctuations;
- expanded government research and development spending to generate new technology (e.g., in such areas as nuclear power and commercial aircraft);
- promotion of a basic understanding between labor and the business community about future growth in real wages and reinvestment of retained business earnings;
- consolidation rather than expansion of the social welfare system; and
- strengthening of the capacity to deal with structural changes within Germany and within the EEC, particularly in view of the eventual enlargement of the community through the entry of Spain, Portugal and Greece (support for substantial enlargement of the resources of the European Investment Bank).

Concepts for Global Cooperation

While the country's geopolitical setting and its socio-economic and political circumstances make it abundantly clear that Germany has a major stake in world affairs, there are at the same time numerous factors which distinguish its potential role in these affairs from those of the super powers. Its firm linkage to the Western European framework of nations moderates its economic power as a single country, quite apart from the particular further complication of its delicate posture towards the Eastern part of Europe. In terms of global cooperation concepts, all of this reinforces the need for reliance on supranational institutions and international organizations rather than direct great power diplomacy. Within the European Economic Community, dominance of one or a few great powers would endanger the compact between all the nations which vary widely, not only in their tradition and culture, but also in their social, economic and political condition. The enlargement of the community will make it even more imperative to avoid creating a multi-tiered European system.

There is thus a distinctly institutional element in the formulation of international cooperation strategy on the part of Germany. This element reflects recognition of the role of small powers, the desire for super power detente and appreciation of socio-economic pluralism. It has been noted by critical observers of the European efforts to forge a more outward oriented common policy that in recent years the European Community has largely been stagnant and ineffective, except in protecting special interests.

No doubt, political cooperation within Europe continues to be tenuous and sometimes unpredictable. Germany is frequently perceived by its partners as the "strict schoolmaster" personified by its Chancellor. Also, Germany has been prone to "contemplate its own navel" and has been hypersensitive to foreign criticism. On the other hand, Germany's predicament as a strong economic power with a latent internal security problem has not been well understood abroad. Many of the socio-political nuances of the internal German developments are either overlooked, misunderstood or all too easily translated into old cliches of what is perceived to be "typically German" in terms of the state's behavior towards its citizens or towards foreign countries. Whatever interpretation one might put on individual responses in this context, it is clear that the German government has been subject to a general erosion of power in two respects. It has neither escaped the generally worldwide trend of a weakening of internal government power in the face of "anti-establishment" forces and general opposition to further encroachments of government activities into everyday life, nor has it escaped the process of international diffusion of power and the loss of control over international events in the areas of its special interest.

The long-term implications of the domestic reduction of government control over developments are difficult to predict. There is a tendency to come to grips with them more forcefully in the face of imminent danger, while periods of seeming tranquility or at least "absence of gloom" favor postponement of inevitably painful conclusions, although they should ideally give just the right kind of breathing space to tackle the more difficult issues. To what extent Germany will be able to avail itself of this opportunity this year,

which appears to have started with more optimism than the preceding year,^{1/} might well depend on the strategy it hopes to pursue in the international field.

Apart from the general concept of "balance" in international power politics, which the Bonn government finds imperative because of its own geopolitical interests, it appears that interest in a concept of international management is emerging. This is certainly true with respect to the monetary area. The "institutional element" of this concept, referred to above, is evident from the forceful pursuit of establishment of the European Monetary System. Similar institutional elements are apparent in the initiatives with respect to a larger role of the European Investment Bank. Further, the renegotiation of the Lome agreement offers an established vehicle for institutionalized foreign trade policy vis-a-vis a large group of developing countries. The GATT negotiations, finally, will be crucial to Germany's proclaimed efforts to control, if not reverse, the powerful trend towards protectionism.

Various other elements appear to influence long-term strategy within a more institutionalized framework. It is recognized in Germany that developing countries in general are increasingly becoming important markets for exports and "some kind of Marshall Plan" for the Third World might be called for to provide an increased flow of resources to bolster their growth. However, this increased resource flow, while being supported within the framework of OECD/DAC, is not thought of as a large transfer of concessional public sector funds. The current 1:2 proportion between public and private sector transfers is considered to be just right and would most likely be favored for allocation of any increases in resource flows. Also, the instruments envisaged for such possible future additional resource transfers are not different from those already employed, namely government export credit guarantees, private capital transfers through the capital markets, and direct foreign investment. The idea of a massive global transfer of concessional funds is clearly not favored. Essentially, the major thought is a strengthening of already established mechanisms. To what extent the present proportions between bilateral and multi-lateral (roughly 70:30 in the case of Germany) should be maintained seems still unresolved.

With respect to the thorny question of international commodities, the German government apparently feels increasingly isolated as a "hardliner". Because this question has been at the center of international debate, the perception among Third World countries has been that Germany's attitude in general is less progressive than that of other industrial countries. Particularly the Chancellor seems to feel that Germany has been unfairly dealt with by the Third World in international political debates. Together with his often reported personal distaste for international bureaucracies, his often blunt expression of views in this respect might sometimes create the impression that international institutions are not favored as a vehicle for international management. However, there does appear to be a major difference between workable, institutionalized international arrangements, which are generally favored by the Germans, and pure international debate and goal articulation which are found to be less useful, particularly in fora where majority rule obviates practical compromise. With respect to the perceived danger of international bureaucratization, the administration of agricultural policy within the EEC is clearly

^{1/} A summary of the current economic situation in Germany is given in Annex II.

a major source of Germany's apprehension. Apart from ideological preference for free market forces over perceived risks of international dirigism in raw materials, the German attitude is most importantly influenced by the unsatisfactory domestic experience with private sector investment activity in the face of growing encroachments of the public sector.

As much as can be ascertained as to the German position on the question of the common fund and raw material agreements, the following general points appear to determine the basic attitudes of the Foreign Ministry:

- the common fund must be a pure instrument of financing. It must not have any direct or indirect influence on the administration and decisions on the agreements: these have to be autonomous and their autonomy vis-a-vis the fund must be legally and practically guaranteed. These conditions can best be fulfilled if the fund were conceived as a "pool" with no means or only symbolic means of its own. Producer countries must not be able to outvote consumer countries in the fund; and
- price stabilization, i.e., the reduction of short- and medium-term fluctuations, must be the only purpose of raw material agreements.

It is apparently recognized that an accord on raw material agreements would defuse tension between the North and the South. Recent information suggests that the Chancellor himself is prepared, albeit reluctantly, "to go along" with others on any remaining issues regarding the common fund. At the same time, the Chancellor seems to feel strongly about the establishment of a global STABEX system outside the jurisdiction of the IMF. 1/

In more general terms, recent German statements appear to reflect a growing awareness that a more active policy towards the Third World is called for instead of a merely "reactive" policy and negotiating stance. The new policy guidelines for the Ministry for Economic Cooperation 2/ reflect a more systematic attempt to formulate a new strategy. A dramatic, long-term resource transfer-oriented initiative, however, has still not emerged in Germany. This "lack of punch" behind many of the other strategic moves is seen as the major weakness of the German government's position in the forthcoming international discussions of North/South issues.

Perceptions with Respect to International Leadership

The new concept of international management, which appears to underlie many of the global and regional strategies reflected in recent initiatives or proposals, mainly within the EEC and the OECD, stems from the general recognition of interdependence as a principal element of international cooperation. At the

1/ The IMF is currently in the process of studying the implications of the "German proposal" within the framework of the Compensatory Financing Facility.

2/ A review of German aid policy is given in Annex III.

same time, it is recognized that international leadership is lacking. The international diffusion of power has weakened the position of the United States and it is widely perceived in Europe to have become more of a follower than a leader. Europe's own position as a potential leader is hampered by its inherent pluralism and diversity of interest except in terms of overall security aspects. Germany's own role continues to be that of a "bashful" economic giant. It sometimes feels called upon as an "international paymaster" more than as a co-manager of an effective international system in which its own interests are adequately taken into account. Nevertheless, the chances that a leadership role on North/South issues will be assumed by the German government, particularly by the Chancellor himself, should not necessarily be underrated.

The analysis of major factors influencing Germany's global policy concerns reveals a growing awareness of the unsatisfactory present state of affairs with respect to North/South issues. The geopolitical setting in which Germany finds itself requires active rather than reactive policies, and this is increasingly recognized. The socio-economic and political circumstances require long-term strategy orientation and they currently favor new initiatives in the international field. Last but not least, concepts for international cooperation, both global and regional, within which a pivotal German management role can be played, are consistent with an effective and efficient international system of management required in an era of increasing interdependence. The credibility of German leadership in this context does, however, require a major financial commitment. It appears from this analysis that the chances that such a commitment will indeed be made are the greater, the more convincing the contributions of other partners in the system are. The views of the German Foreign Minister in this respect are perhaps more reassuring than those of the Chancellor, but there are some signs that the new optimism, after the long period of gloom on the German domestic scene, has invigorated the German sense of international responsibility. Both self-interest and a longer-term view in international affairs should lead to a more active role in international economic management through prominent participation in a broad, interrelated and coherent system of regional and supraregional institutions.

THE CURRENT ECONOMIC SITUATION IN GERMANYEconomic Activity

The Bundesbank reports (December, 1978) that in the last few months, the upswing in the German economy has become more widespread and unmistakably gathered pace in some areas. In most sectors, production has increased and the utilization of capacity has improved. In certain cases, bottlenecks have emerged.

Unemployment as a whole has decreased appreciably. At the end of November some 960,000 persons, or 4.2% of the dependent labor force, were registered as unemployed, after seasonal adjustment; if the number of jobless is related to the entire labor force, the unemployment ratio at that date stood at 3.6%.

The main stimulus to economic activity is being imparted by domestic demand. The demand for construction work has undoubtedly developed the greatest momentum in the last few months. Even though construction activity has risen steeply (since mid-year construction output has been about 10% higher than a year before), the construction industry has not been able to keep pace with demand because of a serious labor shortage, and partly also owing to technical capacity bottlenecks.

The sustained strong growth of private incomes has meant that consumer expenditure has continued to rise. Also capital goods producers reported a 10% larger receipt of orders in September and October. Apart from a more favorable trend in sales, improvements in the profitability of enterprises contributed to the upswing in business investments.

Demand Stimulation

The continued advantageous financing conditions fostered the inclination to invest. The strategy of stimulating private investment by modifying the distribution of income in favor of entrepreneurial income in order to create additional jobs thus seems to be quite promising. It is not certain whether this state of affairs can be maintained. Perhaps the most important decision in this connection will be taken at the beginning of the new year, when management and labor have to decide upon the further course of labor costs in their wage negotiations.

Public authorities have continued to exert an expansionary influence on economic activity in recent months. The budget deficits of the central, regional and local authorities have increased again, though not as much as was to be expected in the light of the budget estimates. The government deficits will grow further in 1979, but they will probably not reach the magnitude anticipated last summer. On the one hand, the inflow of tax revenue will no doubt be greater than originally assumed owing to the sharp upturn in economic activity; on the other, it now seems unlikely that the Länder Governments and local authorities will fully utilize their scope for expenditure in 1978, so that the volume of spending in the coming year, too, will not be quite as large as initially supposed.

In view of the strengthening of the upswing in 1978, and since there is reason to believe that the growth of the economy will continue to be vigorous, it is quite appropriate for the deficits in 1979 to turn out smaller than was at first expected; nevertheless, they will be substantially larger than in 1978. The slightly slower rise in the government's borrowing requirements is also in keeping with the situation in the credit markets, which is mainly characterized at the moment by rapidly growing credit demand in the private sector, including housing.

The stimulus imparted to the German economy by foreign countries has on the whole been small in the last few months. The foreign orders booked by German exporters during this period have admittedly been larger than they were around mid-year; the phase of slack foreign demand that lasted throughout the first half of the year appears to have been overcome under the influence of the revival of economic activity in major partner countries. But in October, when the Deutsche Mark tended to move sharply upwards in the foreign exchange markets, the assessment of export prospects deteriorated again for awhile. In addition, during the period under review, the strong competitive pressure of foreign suppliers on domestic markets persisted; in particular, imported finished products gained ground in Germany.

Monetary Growth and Capital Markets

The increase in economic activity, and especially the growing propensity to invest, have been clearly reflected in the credit markets. ←
Banks were faced with very strong demand for credit from domestic customers. In the light of future credit needs, firms arranged for larger credit facilities, although they remained still exceptionally liquid. Their money holdings have been built up further in the last few months by considerable inflows from abroad deriving partly from the German surpluses on current account and partly from the influx of short-term foreign funds that German enterprises regularly record at times of pronounced monetary speculation. Apart from the strong credit expansion, the even faster growth of the money stock in Germany since the summer has been mainly attributable to these inflows of funds from abroad to non-banks.

Since October, when central and regional public authorities began to use their central bank balances to meet their budget deficits at the end of the fiscal year, the growth of the money stock has been further stimulated by these public transactions. Owing to the combination of expansionary factors, the money stock has increased more rapidly in the last few months than at any time since the period of massive speculative inflows during the final phase of the system of fixed exchange rates against the U.S. dollar in 1972. The average annual growth of money supply will therefore be about 11.5% instead of the original monetary growth target of 8%.

Up to now the Bundesbank has been able to tolerate the very strong expansion of the money in the hands of residents insofar as the movement of the exchange rate of the Deutsche Mark has automatically tended to slow down the rise in domestic prices and costs. But the more success is achieved in stabilizing exchange rates - and the introduction of the European Monetary

System at the beginning of 1979 will also work in that direction - the more necessary it will be for monetary policy to consider and take account of the possible domestic consequences of an excessive expansion of the money stock and the other monetary aggregates.

Most recent measures by the Bundesbank with respect to rediscount rates and minimum reserve levels reflect this concern about disproportionate expansion of money aggregates

With respect to capital markets, it should be noted that owing to the upturn in economic activity and the consequent increase in tax revenue in 1979, the government borrowing requirement is likely to be lower than originally envisaged, although the public sector deficit will probably still be distinctly higher than in 1978. The credit needs of the private sector, notably housing, are likewise rising sharply. On the other hand, there has been a slight increase in households' savings ratio, even though the new financial assets tend to be held in fairly liquid forms. Given the changes in the interest rate structure during the last few months, which have chiefly resulted in the raising of some interest rates at the longer end of the market, more of the funds accruing might be invested at longer term again.

Price Levels

Despite the distinct improvement in the economic picture as described, the price situation in Germany has generally remained easy. Individual international raw material markets admittedly triggered price increases, but owing to the appreciation of the Deutsche Mark these increases were felt only on a reduced scale on domestic markets. Nevertheless, in October, the prices of iron and steel sold in Germany were 5% higher than a year earlier, and the prices of non-ferrous metals have been moving upwards for several months as well. On the whole the producer prices of industrial products sold on the home market have risen relatively little in the last few months. At the end of October they were 1.4% up on the year, compared with about 1% before the summer break.

At the consumer level the price rises have remained moderate. The ample supply of food had a stabilizing effect on prices; in October the producer prices of agricultural products were 5 1/2% down on the year. Moreover, the extremely keen competition of imports still prevented the prices of industrial products from being raised significantly. In October the import prices of goods for private consumption were 2 1/2% lower than a year earlier, and imported food alone was 9% cheaper than in 1977.

Foreign Trade and the Balance of Payments

In the last few months the balance of payments of the Federal Republic of Germany has been characterized by rising surpluses on current account and large speculative inflows of foreign funds. German exports revived noticeably following their previous tendency to stagnate. Seasonally adjusted they rose by no less than 7% against the preceding three-month period in terms of both value and volume. This strong expansion of exports

no doubt owes something to the improvement in the economic situation in major customer countries. In addition, German exporters made great efforts - partly by cutting prices - to retain their foreign markets despite the deterioration in their price competitiveness due to the appreciation of the Deutsche Mark.

Imports grew strongly during recent months although far less than exports. This was reflected mostly in imports of finished goods from Western industrial countries. However, there was also a steep rise in imports from centrally planned economies (+16%) and European developing countries (+10%). On the other hand, imports from non-oil developing countries, which mainly supply raw materials and food, were decidedly slack. These imports were 2% smaller in value because of lower world market prices (in terms of Deutsche Mark) for coffee and cocoa; also imports from OPEC countries declined as much as 16% in value in August/October compared to the previous year.

Trade with OPEC countries was recently marked by steeply rising surpluses due to the appreciation of the German currency, similarly the trade surplus with the U.S. increased further.

GERMAN DEVELOPMENT AID - MAIN ISSUES AND POLICIESThe Domestic Political Context

The three major political parties (Social Democrats, Liberals, Christian Democrats) do not differ greatly in their basic attitudes on aid. Essentially all of them want a concentration of aid on the poorest countries and a focus on poverty-oriented projects, while they are equally vague on how to reach a higher level of concessionary assistance. While political parties have almost universally adopted progressive platforms proclaiming that North-South problems represent the social issue of the 20th century and acknowledging that reaching the 0.7 percent ODA target is of utmost importance, they have so far failed to translate these generally positive attitudes towards the Third World into new initiatives and actual policies. The seemingly existing consensus on aid policies further hides a number of ideological issues which have from time-to-time engulfed the discussion of aid policies and continue to divide different groups within the parties. Critical observers have therefore come to the conclusion that party conventions have a tendency to escape into generalities, particularly with respect to long-term policies, in order to avoid controversy.

Inexpert aid debates there is, for instance, still considerable division between the advocates of the free market system and the advocates of the need for socio-political change through intervention and mass mobilization against "powerful elites" who are seen as perpetuating existing inequalities within developing countries. The theoretical debate on the left wing of the spectrum of aid advocates has more recently shifted to the concepts of "auto-centered development" and "disassociation" from the world market. These concepts challenge the virtue of integration as a result of interdependence by focussing on the allegedly ill-suited development patterns "imposed by industrial countries." Such argumentation finds its counterpart on the right wing of the spectrum in unreconciled advocates of an unmodified free trade system, while little attention is paid to the persistent problem of the poorest countries.

Within the government coalition attitudes on aid and North/South relations are apparently less determined by party line or ideology than by personal temperament of individual officials and their viewpoint as representatives of particular branches of the government. The Foreign Minister (Herr Genscher) has frequently stated his progressive attitude on North/South issues. Although representing the Liberal Party, which is generally most adamant in its opposition to market intervention, he has advocated a more flexible approach on such issues as the "common fund" which continue to divide the representatives of the North and the South in international fora. He has also left no doubt about his dismay that the Federal Republic of Germany is becoming increasingly isolated as a "hardliner" in North/South debates despite its considerable (absolute) financial contribution because of the admittedly relatively low aid percentage and its "reactive" rather than active negotiating strategy. As Foreign Minister he apparently deplores the secondary role that long-term North/South strategy has been forced to play in the government's overall international policy. He also seems to feel that demands which may need to be made of the developing countries with respect to their own contribution (socio-economic and structural political adjustments) can only be made by the industrial countries if they are willing to fulfill

their part of the bargain, viz. reach the 0.7 percent target of ODA and contribute to stabilization measures for raw materials and increase market access for manufactured goods.

While officials of the Finance Ministry and the Economics Ministry generally support more "conservative" policies in line with the "reactive" past policy, the Chancellor, who is himself believed to favor that approach, has nevertheless recently shown at least greater awareness of the unsatisfactory German international profile with respect to North/South relations. His basic sentiment was probably reflected in two speeches made in the summer of 1978 when he broke his customary silence on the subject of development aid. Essentially he seemed to feel that a "better balance" should be achieved in North/South relations. He explained that developing countries would be expected to contribute to this balance by stopping to "harangue" in public those countries that are expected to provide more aid. A more recent speech by the Foreign Minister seems to address the same context and acknowledges the need for reciprocity, but stresses again the need for industrial countries to take more constructive steps themselves.

These public pronouncements, while not necessarily conveying a solid consensus between the two main spokesmen of the German government on international affairs, nevertheless signify a heightened awareness of the unsatisfactory state of affairs. The Chancellor's recent foreign trips to Nigeria and Jamaica are further evidence that North/South issues are given more active attention. Improved economic conditions at home, a currently "safe" domestic basis for the coalition government in view of the opposition's internal disarray, and increasing apprehension about potential new global power shifts (Iran, Turkey, China-USSR) seem to work together towards a realization that a "bashful" economic giant like Germany can no longer avoid being drawn into the central issues of international affairs and is expected to make a more substantial contribution towards solving them.

German development aid policy has domestically been often regarded as a mere administration of funds reluctantly provided by the treasury. At the same time so-called development cooperation policy has been extremely controversial and often engulfed in purely ideological conflict. A succession of top officials has apparently left the Ministry for Economic Cooperation in bad shape, both in terms of public understanding of its activities and in terms of administrative and professional capacity. A series of critical reviews by the General Auditor's office has focussed on administrative inefficiencies and questioned the rationale for past aid programs. Most recently, however, since the appointment of Mr. Offergeld as Minister, a number of new initiatives have been taken which appear to signal a revitalization of the department and a more active role in formulating foreign aid policy.

Main New Policy Initiatives

While internal administrative rearrangements involving a number of personnel changes at the top level of the Ministry for Economic Cooperation essentially seem to reflect the intention of restoring the Ministry's professional capacity and public image, new policy guidelines and publicly announced new aid approaches are a reflection of a fundamental thinking

process prompted by the above mentioned increased awareness of the international significance of Germany's relations with the Third World. Domestic public sensitivities continue to hamper bold new initiatives, though, as the largely negative public reaction to Germany's debt relief decision for the least developed countries showed recently. The Ministry apparently feels that it has a major information problem on its hands and is currently engaged in an education campaign through individual response letters.

While internal administrative measures are taken in response to widespread critique of aid administration, the Ministry has also warned against perfectionist models in measuring the efficiency and effectiveness of aid. Internally greater emphasis is going to be placed on socio-economic criteria in project selection particularly in social sector programs. While the subject of efficiency in aid administration appears to have surfaced as the most frequent new aid theme, two other questions are also attracting attention. First, the question of absorptive capacity in the developing countries particularly with respect to social sector assistance, and second, the question of differentiation of aid instruments with respect to different categories of countries.

A serious delay in disbursements, amounting to approximately DM400 million (about U.S. \$215 million) in 1978 as against earlier estimates, has now apparently led to a conclusion by the Ministry that this does not so much reflect reduced absorptive capacity as earlier believed, as complicated authorization procedures for bilateral aid projects. Nonetheless, various measures are also apparently being taken to improve planning, project preparation and implementation to improve the situation. Given the keen interest to boost the dismal performance level for ODA, German authorities are likely to be ever more interested in co-financing arrangements, provided an appropriate project mix consistent with bilateral aid objectives can be achieved.

Although there appears to be a continuing vagueness about the priorities of German development cooperation policy and more generally about German policy vis-a-vis the Third World, since "hardliners" and progressive elements continue to compete with each other without clear guidance from the Chancellor himself, there are at least some signals that a more coherent strategy is beginning to emerge. Recently the Ministry for Economic Cooperation has internally issued new directives which reflect two main trends.

One of these is the increasing emphasis on the basic needs concept. Country planning papers are systematically going to be prepared to strengthen planning and preparation of basic needs oriented projects. Close cooperation with other bilateral and multilateral donors is envisaged. Particular emphasis is apparently going to be placed on socio-economic criteria in project selection and project planning. The cooperation with non-government agencies is intended to be strengthened since their activities are considered to be particularly consistent with and suitable for social, target group oriented programs. The Ministry has estimated that during the period 1974-77, about 25% of all commitments for financial and technical assistance were related to basic needs oriented projects and programs, while technical assistance channelled through non-government organizations was related to approximately 75% to basic needs oriented activities.

The other trend which appears to be clearly reflected in new guidelines is a more differentiated approach to cooperation with more advanced developing countries. Most importantly, the overall posture of the Federal Republic of Germany vis-a-vis any of these countries and the whole range of its relations is going to be taken into consideration in determining individual cooperation programs. Country program papers are planned to be prepared systematically. Continuous contacts are apparently intended to be maintained in developing cooperation policy with the various aid agencies and non-government organizations as well as with the business community and the trade unions. The basic rationale and the sectoral emphasis of technical and financial assistance programs is apparently going to be derived from socio-economic indicators and a general categorization into the following subgroups of developing countries:

- small, fully integrated international trade oriented countries (e.g., Singapore, Taiwan);
- large foreign trade oriented countries with advanced industrial structures (e.g., Brazil, Mexico, Korea);
- relatively advanced countries in North Africa and the Middle East, which orient themselves towards the EEC and partly, as in the case of Algeria and Syria, towards COMECON; and
- the European developing countries (Greece, Portugal, Cyprus, Malta).

It is recognized that trade relations with these countries generally have a positive impact on employment in Germany because there is a "compatibility" of their import demand with German exports. At the same time, increasing pressure for exports of manufactured goods from these countries is expected to lead to the need for long-term adjustment in Germany's structure of production. Cooperation with the advanced developing countries is therefore intended to be formulated with the objective of supporting increasing integration into the world economy. Assistance efforts are intended to be targetted towards key economic sectors strengthening this gradual integration (training of technical specialists, support for technologic and scientific infrastructure). At the same time neglected sectors (e.g., urban development and environmental protection) are going to be supported.

As instruments for this strategy it is envisaged to employ the whole range of measures from traditional development aid to commercial loans and private investments with official support of various kinds. A graduation process seems to be built into the ideal model of such relationships geared towards eventually strictly commercial relationships. It is generally assumed that the advanced developing countries can carry a proportionately larger responsibility and financial burden themselves than the poorer countries. Cooperation with non-government organizations is envisaged in dealing with problems in neglected social sectors where bilateral public aid efforts are believed to be less effective. There also appears to be an intention of using more program loans on the basis of evaluated sectoral and regional plans. Another interesting feature of the strategy is the intended support for "re-integration" of professionals and other employees trained in Germany into

the home country. This is no doubt aimed at countries like Yugoslavia and Turkey.

The overall magnitude of this effort is indicated by the recent announcement that 20% of German capital aid and 15% of technical aid budgeted for 1979 will be allocated to a provisional list of 30 "take off" countries. ^{1/}

Although considerable effort has apparently been made to conceptualize Germany's aid posture and to improve its administrative capacity to deal more professionally with aid instruments, no answer has yet emerged to the most pressing question - how and when will the Federal Republic of Germany reach the 0.7 percent of GNP ODA target? It is expected that the German aid budget will increase by 50% from 1978 to 1982, while the general budget would only increase by 25%; this would bring ODA to probably 0.35 percent of GNP in 1982. ?

Germany's Aid Record

A general overview of the German aid program reveals the following.

Volume. German ODA disbursements have, in percentage of GNP, fluctuated over the past years between 0.27 and 0.45 percent.

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
\$ million	237	456	599	1,689	1,384	1,386
% of GNP	0.33	0.40	0.32	0.40	0.31	0.27
- DAC Average	0.51	0.44	0.34	0.35	0.33	0.31

Terms and Conditions. Germany has been in compliance with the DAC Terms Recommendation. It reported for 1977 a grant element of total ODA commitments of 86 percent, and of ODA to the least developed countries of 94 percent (excluding debt-reorganization).

Composition of the Aid Programme. Germany's ODA consisted in 1977 of the following main categories:

1. Bilateral contributions	75 percent of total net disbursements
of which:	
- loans	32 percent
- technical assistance	38 percent
- other grants	5 percent
2. Multilateral contributions	25 percent

^{1/} The unofficial list includes: Algeria, Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Greece, Israel, Jamaica, Yugoslavia, Korea, Lebanon, Malaysia, Malta, Mexico, Nicaragua, Panama, Portugal, Singapore, Spain, Syria, Taiwan, Trinidad, Turkey, Tunisia, Uruguay, Venezuela and Cyprus.

Geographic Distribution. The geographic distribution of bilateral ODA is, in principle, worldwide and there were about 120 recipients of ODA disbursements in 1977. The seven most important recipients of 1977 gross bilateral ODA disbursements were India, Pakistan, Egypt, Tunisia, Bangladesh, Turkey and Israel. Together they accounted for about 35 percent of the total; 46 percent of bilateral ODA disbursements were extended to low-income countries with a per capita income of up to \$400, including 22 percent to least developed countries. The African continent is now the main recipient of German bilateral ODA (42 percent in 1977).

Sector Distribution. German bilateral ODA disbursements are traditionally concentrated on the promotion of public utilities and industry in developing countries. These two sectors accounted for 53 percent of project aid commitments in 1977. However, measures to promote agriculture and rural development have increased in importance and, in 1977, the proportion provided for these purposes rose to 17 percent, reflecting in particular a fourfold increase in capital aid. In 1977, the distribution of bilateral ODA among major sectors was the following.

Public Utilities	35 percent of project commitments
Industry	18 percent of project commitments
Education	19 percent of project commitments
(of which cultural assistance)	(8) percent of project commitments
Agriculture	17 percent of project commitments

In 1977, a total of 5133 German projects were either in preparation or execution. Of these, 4395 related to technical assistance, including projects implemented by private voluntary bodies and subsidized by the official sector, and 737 to capital assistance.

Administration of the Aid Programme. The German aid administration is characterized by a separation between policy decisions, which are the responsibility of the Federal Ministry of Economic Cooperation (BMZ) and the implementation of the aid programme which is shared by a number of specialized institutions. The two most important implementing agencies are the Kreditanstalt für Wiederaufbau (KfW) for capital assistance and the German Agency for Technical Cooperation (GTZ), both in Frankfurt.

Other Resource Transfers. Non-ODA flows amounted to \$4,368 million in 1977 corresponding to 0.85 percent of GNP. They consisted of:

- credits from private banks: \$1,574 million;
- multilateral portfolio investment: \$901 million;
- direct investment: \$846 million;
- bilateral portfolio investment: \$531 million;
- private grants: \$225 million;
- private export credits: \$173 million; and
- other: \$108 million.

Trade. Germany had in 1977, for the first time, a deficit in its trade balance with non-OPEC developing countries outside Europe of DM 2.7 billion.

The regional breakdown of Germany's trade balance in 1976 and 1977 was as follows (in billion DM):

<u>Developing Countries Excluding OPEC</u>								<u>OPEC</u>	
<u>Europe</u>		<u>Africa</u>		<u>Asia and Oceania</u>		<u>America</u>			
<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>
+7.2	+7.4	+2.2	+1.3	-0.8	-1.6	+0.3	-2.4	-2.0	+2.9

GERMANY'S ATTITUDE TOWARDS INTERNATIONAL TRADEConceptual and Domestic Political Background

As one of the largest trading nations, Germany is clearly interested in an open world trading system without protectionism. The concept of a free market economy firmly established at home extends to the international scene in the form of an often stated preference for a market oriented system of international division of labor according to the principle of comparative advantage. The export led growth strategy of the last twenty years has increased the German economy's dependence on foreign demand to a large degree; in 1960 exports represented 20% of GNP, in 1977 this figure was 27.4%. Since mid-1977 export demand has essentially decreased, although recently signs of a slight upturn are reappearing. In many industrialized sectors, employment is highly export dependent. In general orders of magnitude, the number of jobs dependent on exports are greatest in the following industries: automobile, machinery, electronic equipment, chemicals, wholesaling, agriculture, iron and steel, textiles, non-ferrous metals and coal mining (in that order). The percentage of export related jobs in these industries together is estimated to be close to 20%.

The attitude of the German trade unions, which play a critical role in the policy formation of the major coalition party, is clearly determined by a job oriented policy concept. At critical points their choices have been made, even against strong opposition from the base, in a responsible growth oriented fashion. This became clear again recently in the support for further nuclear development to which strong public sentiment continues to be opposed. Growth has thus been given higher priority than environmental protection. The other critical issue from an employment point of view is foreign industrial investment. There is a tendency within the trade unions to regard these as exports of jobs. Import related reactions, on the other hand, are more sector specific. Structural changes in the competitive position of the steel, shipbuilding and textile industry have given rise to protectionist tendencies in these sectors.

Germany and the EEC

Despite Germany's clearly export oriented and thus liberal attitude towards international trade, its policy actions are not solely determined by these domestic circumstances but tied to the common trade policy within the context of the European Economic Community. Within this framework, Germany has definitely taken a leadership role in the fight against protectionism. Nevertheless, the actions taken by the EEC during the period 1971-77 clearly indicate an increasing trend towards restrictive trade actions and a concentration of measures in particular sectors as the table on the following page shows.

EEC: Actions to Restrict Imports Under Safeguard,
Surveillance, and Antidumping Provisions, 1971-77 1/

	1971	1972	1973	1974	1975	1976	1977	Total
2/								
Textiles and clothing	-	1	3	2	17	5	22	50
Chemicals and fertilisers	5	3	-	-	2	2	4	16
Steel and other metals	-	3	-	-	-	1	6	10
Machinery and appliances	-	-	-	-	-	4	2	6
Food	-	-	-	2	2	-	2	6
Electronics	-	1	2	-	-	-	1	4
Footwear	-	1	-	-	1	-	-	2
Rubber products, including tires	-	-	-	-	-	-	2	2
Wood	-	-	1	-	-	1	-	2
Other	-	-	-	-	1	-	2	3
Total	5	9	6	4	23	13	41	101

1/ Most actions were taken under safeguard provisions and include the actions affecting textiles and steel discussed in the subsection, "Trade Actions in Selected Sectors," pp. 10-25 above. The table lists actions initiated during 1971-77 without taking into account their duration or dates of termination. Many of the actions listed do not apply to all member countries of the EEC or to all exporting countries.

2/ Bilateral agreements under the Long-Term Arrangement and the Multifiber Arrangement are not covered here.

Sources: Official Journal of the European Communities, various issues, and data provided by the GATT secretariat. As included in IMF Pamphlet No. 24, 1978, page 31.

In addition to the sectors shown, a number of restrictive measures were taken in the meat sector. Under the safeguard provisions of the GATT, the EEC temporarily discontinued the issuance of licences for import of meat and live cattle, and the EEC market eventually became virtually closed to some exporting countries. By April, 1977, these safeguard actions were terminated.

The German position with respect to the restrictive measures has been selective. For steel they have accepted EEC controls, but the EEC proposal for a surveillance scheme for shoe imports was strongly resisted as a possible further strengthening of the protectionist trend. Most other community members see controls in steel, textiles and shipbuilding as inevitable tools of curbing price cutting, dumping and ever increasing state subsidies. The German shipbuilding industry has experienced a dramatic decline in new orders during the most recent twelve month period when its order shrank by 68% against a world-wide reduction in the sector of 33%. Increased state subsidies (from 12.5% to 17.5% of order value) have not been sufficient to prevent this development. Unused capacity has increased to more than 50% of total shipbuilding capacity and created a crisis atmosphere in the coastal areas of Germany, where about

10,000 jobs are threatened. New massive state subsidies have therefore recently been decided upon within the framework of the EEC regulations.

On a broader front, the German government, particularly the German Minister for Economics, Count Otto von Lambsdorff, has strongly voiced its opposition within the EEC to protectionist measures. These efforts are specifically directed at the attempts of Viscount Davignon, the EEC Commissioner for Industry, to use cartelization measures for specific "crisis industries" to circumvent the existing anti-cartel legislation within the EEC. The policy formation process within the EEC in this respect is highly politicized and personalized. The Commissioners for industry (Davignon/Belgium), competition/anti-trust (Vouel/Luxembourg), foreign economic relations (Haferkamp/Germany), development policy (Cheysson/France) and budget/finance (Tugendhat/U.K.) represent different concepts and use different, highly personalized negotiating tactics to pursue their respective policy stance.

The cartel proposals of Viscount Davignon were strongly attacked by the German Minister for Economics and opposed by Commissioners Tugendhat, Vouel and Haferkamp As in similar confrontations within the Commission (such as on shoe import controls) national sentiment entered into the policy debate. Particularly the British foreign minister was reported as having felt that protectionism should not be regarded in isolation from other economic issues. Germany's policy stance was therefore considered "unappreciative" of the other countries' anxieties about unemployment. Within the Commission itself, the positions of Commissioner Haferkamp and that of Commissioner Cheysson differ fundamentally. The latter reportedly considers the era of global free trade as an anachronism, while his German colleague is a staunch supporter of the principle of free trade.

The German position on the EEC's agricultural policy, which is considered the most protectionist element of the EEC policy package, typifies the dilemma between principle and practical political interest. The German Chancellor is clearly interested in a reduction of the growing cost of the EEC farm policy. He proposed, in May 1978, a cut in the promised EEC aid for Mediterranean farmers. France and Italy, on the other hand, insisted that such aid compensate for the built-in bias to Northern farmers and to prepare for the competition from Spain, Greece and Portugal when these countries join the EEC. More recently, conceptual differences of opinion between France and Germany about agricultural policies have delayed the start of operations of the new European Monetary System. Essentially the French are trying to persuade the Germans to promise that the gap in farm prices (now 20%) between the two countries will not widen in future. The Germans are reportedly reluctant to commit themselves to anything which could lead to a cut in German farm income if the German currency is revalued.

Imports and Employment

Unprecedented unemployment after a long period of full employment and rapid economic growth has created a totally new atmosphere in economic and political life in Germany during the last four years. This phenomenon is increasingly recognized as consisting of various types of unemployment, viz. cyclical, structural and frictional, as well as "affluence related." While there are already new bottlenecks in parts of the labor sector, there is still

an unprecedented number of total unemployed. There is considerable disagreement about what caused this situation and what can be done about it. Regional, sectoral and age-structure related factors add to the complex situation. Some experts believe that the severity of structural problems is overrated. They seem to feel that the mechanisms for adjustment are constrained which would otherwise help in overcoming such problems, and that all of this is related to the impact of past wage and welfare policies. Disproportionate labor costs, leading to a propensity of enterprises to invest in rationalization rather than expansion, legal limitations of lay-offs and reductions in the labor force, and unemployment benefits creating disincentives to work, are blamed for some of the malaise. Naturally, trade unions have strongly opposed such a diagnosis.

Under these circumstances, the impact of substantially increased imports of manufactured goods has been looked at from two perspectives, viz. the domestic price level and the impact on jobs. While it is clear that imports have substantially contributed to the relative price stability during the last few years, the employment effect has often been wrongly perceived in affected industries. The German Institute for Economic Research (DIW) did, however, in a detailed study published in January 1978, come to the conclusion that the negative employment impact of imports from developing countries should not be dramatized. The Institute stated that in 1976 the volume of imports of manufactured goods from non-European developing countries was 50% higher than 1972 when the preference system of the EEC came into effect. A comparative analysis of the employment effect, taking into account increased exports in the respective sectors trading with the developing countries, led the Institute to the conclusion that as long as imports and exports held the balance with developing countries, the employment effect was almost zero. The calculations showed for an incremental DM 1 billion in imports a negative employment effect of 23,000 jobs as against a positive employment effect of 22,400 jobs through an equal amount of incremental exports.

The shifts in production and employment caused a vocational restructuring in different trades and professions. The overall as opposed to the sectoral restructuring was, however, considered to be minimal. The problems nevertheless inherent in the process are essentially problems of education and training. While 44% of the "released" workers in import affected industries had no vocational training, only 36% of the work force required for export industries could be employed without such training. This requires, in 70% of the cases, training on the job and in 30% formal schooling including, to a considerable extent, academic studies. The Institute came to the conclusion that the free trade stance of the German government need not be inhibited by considerations of employment aspects. It was further noted that protectionist tendencies in Germany were largely restricted to a few particularly vulnerable sectors and regions.

Foreign Investment and Employment

Germany's industry has made substantial direct foreign investments in recent years. Between 1971 and 1976, the total amount of such foreign investments had increased from DM 23.8 billion to DM 47.0 billion. The share of developing countries was DM 6.7 billion (1971) and DM 14.2 billion (1976) respectively. These investments have raised the issue of "export of jobs",

specifically within the trade unions. Since direct foreign investments in Germany have diminished and are now lower than those in the opposite direction, the apprehension about possible loss of jobs has heightened. Research into the motivation underlying German foreign investments has, however, revealed that in the majority of cases, these investments have been export-market oriented and have been used to overcome trade barriers rather than to take advantage of low cost labor. It was specifically proven that firms with a high component of foreign production also had the greatest export performance. The study conducted by the Hamburg Institute for World Trade (HWWA) came to the conclusion that production in foreign countries by and large did not constitute a threat to German employment in the affected industries. Similar conclusions were apparently reached in studies which included research with respect to small and medium sized companies with direct foreign investments.