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THE OPEC FUND
FOR INTERNATIONAL DEVELOPMENT

**OPEC STATES AND THIRD WORLD
SOLIDARITY**

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PUBLISHED DECEMBER 1980



This essay is the twelfth in a series published by the OPEC Fund for International Development for a better public understanding of the role of OPEC Member Countries in the establishment of the New International Economic Order. Views expressed in these essays are those of their writers and not necessarily the official views of the Fund Management.

OPEC STATES AND THIRD WORLD SOLIDARITY

Petroleum-exporting states have since the inception of the oil industry comprised a diverse group of developed and developing countries with a wide array of regimes and ideologies. Those which on September 9, 1960 founded the Organization of Petroleum Exporting Countries (OPEC) were five developing countries: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Since then, eight other developing countries have joined: Qatar, Libya, Indonesia, Algeria, Nigeria, the United Arab Emirates, Ecuador and Gabon. The creation of OPEC later proved to have presaged a quiet revolution in international relations. It led to the transfer of control of the strategic oil export industry from Western enterprises to a number of governments of developing countries.

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I. WHAT IS OPEC?

The establishment of the Organization of Petroleum Exporting Countries (OPEC) in September 1960 was in response to an outraged sense of justice. It came on the heels of cuts in oil export prices, effected unilaterally by the major concessionaire companies without prior consultation with their host governments.

These governments happened to be those of a few developing countries heavily dependent on oil for their income. The major concessionaires were seven transnational companies: five American (Exxon, Texaco, Standard of California, Mobil, Gulf) and two European (Royal Dutch/Shell, British Petroleum).

The founders of OPEC sought, via collective action, to achieve economic sovereignty over the pricing and development of their major (in a few cases, their sole) source of livelihood.

In the perception of OPEC's founders, and those who joined them later, the Organization was meant to serve as a collective defence mechanism against three situations:

- the high-handed foreign companies' pricing and production policies, which could adversely affect their budgetary receipts and consequently their socio-economic stability;
- dependence on their major trading partners, the Western industrial countries, whose economic policies could relegate oil-exporting countries to a relationship of underdevelopment as mere suppliers of a raw material;
- punitive measures similar to those of the 1951–53 and 1980 years, when Iran was faced with a collective boycott from transnational companies and industrial countries.

OPEC members have shared a similar set of conditions, attitudes and objectives, in particular:

- a relatively high dependence on the oil-export sector, whether measured in terms of foreign exchange earned or in terms of its contribution to the GNP or to the budget;

- an awareness of economic dependence vis-à-vis the industrial countries of the West – their major trading partners; and
- a perception of potential advantage by leveraging through collective deliberations or actions. Such advantages include larger oil revenues, mostly through higher prices; improved terms for converting a significant portion of their oil sales proceeds into productive assets (physical, human and financial) in accordance with their national developmental goals and priorities; and larger economic and non-economic gains in regional and international affairs within the perspective of “Third World” solidarity.

With the depletion of their natural resources, the developmental objective has assumed an important role in shaping the strategies of OPEC countries. Two issues have proved of primary concern: (a) the role of world financial markets in the preservation of their wealth (resulting from the monetization of their wasting natural resources) pending its use for domestic or regional development, and (b) the evolution in the price of exhaustible oil so that it reflects its true scarcity value, which is related to the long-run costs of alternative sources of energy.

Control of pricing has been viewed by OPEC countries as their principal effective means to determine their export proceeds, and to set the pace for the depletion of their oil reserves. Depletion rate policies are influenced by factors that vary significantly from one country to another. Among the more important are: the size of the country’s actual and potential commercial oil reserves, the competitive conditions in the energy market, the import “needs” for development and security purposes of the oil-exporting country, and the absorptive capacity of the economy.

It has been assumed – often uncritically – that OPEC countries have consistently espoused a “single” price policy. In fact, whatever “reference” price for oil exports were agreed upon in OPEC resolutions, it applied to one kind of crude among scores of other types. Quality and geographical differences, rebates to erstwhile concessionaires and government-to-government transactions were left to the decision of each member country. Price competition in these areas can be significant. The OPEC resolutions of June 1979 formalized these differences, accepting a price range of as much as 30.6% above the base export price of \$18 per barrel of reference crude.

Table I: Selected Information on OPEC Member Countries 1979

	Area (’000 sq.km.)	Population (a) (million) Mid-1979	Oil Production (million barrels) 1979	Life of reserves in years (Reserves/Production) 1979	GNP (per capita) (US\$) 1979
Algeria	2,382	19.1	8,440	20	1,260 (1978)
Ecuador	281	8.1	1,100	14	1,064
Gabon	268	0.5	500	7	3,580 (1978)
Indonesia	1,904	139.4	9,600	17	362
Iran	1,648	37.1	58,000	50	n. a.
Iraq	438	12.8	31,000	24	1,860 (1978)
Kuwait	18	1.3	68,530	75	7,910
Libya	1,760	2.9	23,500	31	6,910 (1978)
Nigeria	924	82.7	17,400	21	560 (1978)
Qatar	11	0.2	3,760	20	12,740 (1978)
Saudi Arabia	2,150	8.1	166,480	48	8,040 (1978)
U.A.E.	84	0.9	29,411	44	14,230 (1978)
Venezuela	916	14.2	17,870	21	2,978

Sources: OPEC Secretariat *Annual Report 1979*, Vienna, 1980.
OPEC Secretariat *OPEC Member Country Profiles*, Vienna, 1980

Owing to the wide diversity of conditions and interests within the OPEC organization it was not entrusted with supranational powers by its founders. Attempts at deciding pricing and production policies collectively, and at enforcing them, have not been easy to reach or implement. Member countries are sovereign states, and OPEC resolutions are more in the nature of recommendations than obligatory rules. Nevertheless, inelasticities of oil supply and demand in the 1970s favoured oil exporters that sought and obtained price increases.

To the question “what is the nature of the OPEC organization?”, there are various responses. The claim that OPEC is a “political block” does not hold. Nor can OPEC be described as a supranational organization. Indeed, practically no power exists at the “centre” independently of the consensus of the separate governments. Differences in regimes and ideologies, socio-cultural differences and other factors have militated against any drive for supra-nationality.

OPEC is furthermore not a cartel. A cartel requires agreement in basic economic areas (production and exports, prices, marketing); a mechanism to monitor and police the enforcement of collective decisions; and sanctions in the form of rewards and penalties. No such agreement, mechanism or sanctions exist.

Some have looked at OPEC as a trade union. One author supported this analogy thus: “The Group of 77 in this perspective resembles a General Workers’ Association. One group of workers, whose services are essential to the bourgeoisie, to the functioning of the bourgeois economy and even to the stability of the bourgeois institutions, is particularly well organized, namely the workers producing oil for the bourgeoisie (the International Energy Agency [IEA] states). In this perspective, OPEC is a trade union and OAPEC its ethnic sub-associate club. These workers have just made a successful strike, of a revolutionary character, not only achieving a substantial increase in wages, but even changing property relations, i.e., taking over their places of work.”¹

The trade union model implies that its members provide services and expect rewards commensurate with their efforts. Oil revenues are not, however, the result of human exertion, but represent the proceeds of a sale on instalment of a physical patrimony.

What then is OPEC? It can best be described as a “club” of “developing states” with significant oil exports. They have joined to protect their national oil interests; their organization represents a vehicle for reconciling different or divergent views in the oil sector. In economic terms, it is an oligopoly with tacit or overt agreements limited in scope and time. Indeed, if it were a cartel OPEC would have been behaving very strangely in 1979–1980 with its member countries adopting widely differing prices.

1 Oystein Noreng, “The Western World and the Oil Exporters: An Historical Analogy”, *OPEC Review*, Vienna, Autumn 1979, p. 47
OAPEC: the Organisation of Arab Petroleum Exporting Countries

II. NATIONAL DEVELOPMENT STRATEGIES OF OPEC MEMBER COUNTRIES

Development strategies of OPEC Member Countries generally aim at five main interrelated objectives: a satisfactory, self-sustained rate of growth; a diversified economic structure, including a new long-term energy base; judicious development of national resources (the human and the physical); financial stability; and survival as nation states. The latter is admittedly an economic as well as a political objective.

The prerequisites for achieving these objectives are many, including socio-political stability, sufficient financial resources, managerial/technological know-how and high motivation and dedication. The availability of financial resources has not been a constraint for a few OPEC members, especially after 1973. These include Saudi Arabia, Kuwait and the United Arab Emirates, which have accumulated substantial foreign financial assets. They have encountered, besides the challenges of national development, those of investing their accumulated financial resources.

Receipts from minerals, including petroleum, are similar to the proceeds from the sale on instalment of one's house, and should be looked upon as the monetization of a physical asset. Capital surpluses in the balance of payments exist largely because the economies concerned are unable to rapidly convert financial resources into domestic physical assets or know-how. If such conversion did not occur at all, a number of oil-exporting countries whose current prosperity depends almost totally on the oil industry could well end up with ghost towns reminiscent of those left in California after the 1894 "Gold Rush".

The levels and rates of depleting mineral reserves in the oil-producing countries and the sales revenues they yield are generally guided by a mix of principles which may vary from one country to another. Chief among these are:

- the national requirements for security and for development, including the opportunities for processing and marketing petroleum products;
- the technical constraints of producing oil fields;

- trade commitments to partners and the concern to avoid upheavals in international relations;
- perceived attractiveness of sales terms, inclusive of prices.²

Profitability of oil in the ground depends entirely on whether the rate of appreciation in real terms of oil in the ground is greater than its “social” discount rate. The latter represents the rate at which future values, determined with social goals in mind, are discounted to the present.

One should add that oil deposits – when compared with foreign exchange deposits – offer the advantages of greater safety and convenience. Safety relates to business stability of investments abroad, including absence of discriminatory governmental control, arbitrary freezing of assets or confiscatory takeovers in host countries, and to false appearances of new wealth (instead of a conversion of existing wealth) prompting claims (national or extra-national) on its redistribution. The convenience of oil in the ground already discovered and developed is exemplified by the fact that it does not require elaborate or sophisticated management. Changing the rate of oil production is not a complex operation, and is normally subject only to the will of the producing country concerned.

For developing countries, the key economic problem generally centres on instituting effective and efficient means to exploit domestic opportunities and to translate planned objectives into going concerns and successful programmes. One developmental strategy that has gained in popularity among resource-exporting countries is that of linking sales of raw materials to advanced technology goods and services. Thus, Saudi Arabia has granted oil companies access to additional crude oil supplies in return for their entering into joint ventures in petrochemicals.

2 See, for example, “Energy Minister Belkacem Nabi Outlines Algeria’s Oil Gas Policy”, Arab Oil & Gas, Paris, 16 April 1980, pp. 18–22; and “A Speech by the President of Venezuela Luis Herrera Campins” at OPEC Secretariat on 14 February 1980, in *OPEC Bulletin Supplement*, Vienna, 24–31 March 1980.

III. DEVELOPMENTAL CONSTRAINTS

Economic development is not an exclusively beneficial process, it carries with it social strains and stresses. Indeed, alongside the concept of economic absorptive capacity, we should consider the concept of social absorptive capacity. A country may find an investment programme productive in terms of the economic cost benefit analysis of its individual projects of programmes. S. J. Stevens has defined the aggregate ability to invest as “the optimum aggregate amount of private and public investment opportunities that – given a time span of three to five years – can be undertaken, successfully implemented and subsequently productively operated under the assumption that adequate domestic and foreign savings are forthcoming and that the most appropriate choice of technique is being used”.³

Investment programmes, if hastily implemented, could prove counterproductive at the social level. Among the social costs, one could mention those resulting from a rapid change in the national demographic composition: tension or friction between immigrant workers and the indigenous population; the disruption of traditional values and of the social order; a brewing resentment of “cultural invasion” felt by nations vis-à-vis what appears to them as the over-

Table 2: Size of Foreign Labour – 1980

(estimates)

Gulf Countries	Active Expatriates	% of Working Population
Saudi Arabia	1,300,000	56.5
Bahrein	30,000	50
U.A.E.	239,000	80
Kuwait	211,500	71
Qatar	54,000	81
Oman	70,000	20

Source: “Le ‘recyclage’ des excédents de l’OPEP”, *Conjoncture*, Bulletin Économique de la Banque de Paris et des Pays Bas, Paris, April 1980, p. 53.

³ See, S. J. Stevens, *Capital Absorptive Capacity in Developing Countries*, A. W. Sijthoff Leiden, 1971, pp. 51–52.

bearing or contemptuous behaviour of foreign managers or technicians. The presence of large expatriate populations in the Gulf area (see Table 2) has been a source of anxiety for local authorities. Not only does it call for providing adequate amenities for these populations; it also calls for insuring harmonious relations between natives and newcomers with different values and styles of living.

The ills of inflation are another social cost. Inflationary pressures in OPEC countries have gathered momentum in the 1970s under the influence of several forces. Notable among these are: the limited physical and human facilities available for the speedy realization of projects; imported inflation; structural immobility of productive factors; institutional bottlenecks; overcharging by foreign suppliers or contractors; inefficient completion of projects; and expansionary domestic monetary and fiscal policies.⁴

The first victims of such inflationary pressures are the low and middle income classes. By sapping these groups' earning power, and by deepening the wealth differentials within the population, the society becomes vulnerable to tensions and conflicts.

One need not emphasize the significance of social absorptive capacity and its disruptive potential. Physical absorptive capacity should only be determined in relation to "social" absorptive capacity, if social unrest is to be avoided.

One can well understand that oil-exporting countries wish to slow down their oil production and to bring their expenditures programmes in line with their long-term national needs. Their production levels (e.g. those of Saudi Arabia and the U.A.E.) have been influenced, at least in part, by pressures to overproduce to satisfy the major industrial powers. The U.A.E. Minister of Petroleum and Mineral Resources expressed the situation thus: "The United Arab Emirates, for example, produce 1.85 million barrels per day. We do not need this amount of oil if we have to consider our own requirements; we should produce something in the order of 500,000 barrels a day. But by producing at a level of 1.8 million we are exhausting our reserves, producing the wealth which should be kept for coming generations. Future generations will blame us for this and even the consumers' future generations ..."⁵

4 See, Hisham Nazer, Minister of Planning, Saudi Arabia, address at the *Arab-European Business Cooperation Symposium*, Montreux 1978, ed. Zuhayr Mikdashi, published by Kommentator-Kluwer, Frankfurt-am-Main, pp. 25-31.

5 Mana Saeed Al-Otaiba, at OPEC Seminar, "OPEC and Future Energy Markets", Vienna, October 1979, p. 3.

Oil-exporting countries are increasingly aware that the era of oil in the history of humanity is transient. OPEC nations in particular are concerned about the transience of their depletable natural resource – in some cases, their sole asset. They are accordingly most anxious to prepare for the post-oil era.

To sum up, in deciding on the level of production of oil there are trade-offs to be made between different factors: the current and expected price of oil; the requirements and capacity of the economy and society to absorb resources productively and harmoniously; the political benefits and advantages or costs of various levels of oil exports; and the size of domestic recoverable oil reserves. Over the years, OPEC has come to realize the importance of developing first and foremost their national human resources, as a prerequisite for any material progress.

It is pertinent to note that OPEC countries are increasingly spending important portions of their GNP on armaments due to mounting security problems caused by external forces. This is particularly the case of the Gulf countries in the Middle East.

IV. ENERGY-IMPORTING DEVELOPING COUNTRIES

Besides Mexico, few developing countries outside the OPEC Group are major oil exporters. Some fifteen other countries are self-sufficient or small net exporters.

Among the developing energy-importing countries, the bulk of oil imports (about 75%) go to ten semi-industrialized ones, notably Brazil, Korea, Taiwan. The remaining 30% is spread among the other less developed countries (see Table 3).

Several non-OPEC developing countries, it is generally recognized by various sources, hold potential for new hydrocarbon discoveries. Non-OPEC developing countries have so far received relatively limited resources to sustain their exploration efforts.

In the fast-changing, inflationary international environment, it is difficult to determine the exact comparative investment and production costs for petroleum. One can nevertheless posit orders of magnitude. There is widespread agreement among operators that a number of relatively "underexplored" developing oil-importing countries (notably India, Argentina, Turkey, the Philippines, Colombia, Peru, Pakistan and Vietnam) offer promising prospects for oil discoveries.⁶ Exploration costs in these developing countries would be, by implication, comparatively competitive. Attractive long-term prospects for world oil demand as well as stable contractual arrangements are additional inducements for the participation of foreign financing in the development of potential hydrocarbon resources in these countries.

There are three main advantages of foreign financing. It does not call on domestic savings, which are relatively limited in developing countries and much needed in other priority sectors. Foreign venture capital normally bears more easily total loss of unproductive exploratory efforts. Transnational companies in particular are in a position to spread the risks of unproductive investments. Loans, to the extent inflation exists, are repaid with a lower purchasing power than that obtaining at the initial time of the debt contract.

Who will invest depends on a number of factors. Countries with a market economy would allow foreign oil companies to bring in the venture

⁶ See, Raymond J. Goodman, "World Bank Program for Oil and Gas Development", Fourth International Colloquium in Petroleum Economics, Université Laval, Québec, October 1979, p. 3

Table 3: Net Oil Imports by Non-OPEC Developing Countries
(1978/1979)

Group	Number of Countries	Net Oil Imports as % of Total
Less than \$50 million	30	2.0
Between \$50 million and \$100 million	15	3.6
Between \$100 million and \$250 million	13	6.4
Between \$250 million and \$500 million	11	10.1
Between \$500 million and \$1 billion	2	3.5
Above \$1 billion	10	74.4
Total	81	100.0

Source: Based on data in "OPEC Review", Vol. III, No. 3 Autumn 1979, pp. 76 ff.

capital required to launch and sustain exploratory programmes. Attractive prospects would further encourage credit institutions to advance significant portions of the required financing, especially once exploratory efforts have shown promising results. The institutions from which financing could be acquired include commercial banks, as well as development finance sources: the World Bank, regional or national development banks and the various OPEC funds. The World Bank, it is important to note, does not normally finance oil exploration. Until very recently its financing was limited to the development phase of projects assured of sufficient return. Investment companies could, however, participate in exploratory efforts, risking their own capital.

The untapped potential resources in developing countries are often superior to those of developed countries. The petroleum drilling density, for example, in some 38 developing countries has been roughly estimated to be 1.7% of that in industrialized countries. For hydroelectric power, the percentage exploited is 2% in Africa, 6% in Latin America, and 12% in Asia.⁷

Current flows, distribution, and employment of key inputs worldwide are not always such as to lead to a maximization of world output. Indeed, a number of basic economic activities in various countries are encountering diminishing returns because of inefficient combination or use of resources.

⁷ Based on rough estimates by the World Bank staff.

For example, gas has been flared in the oil-exporting countries (such as in the Gulf) next to areas that are facing desperate shortages of food and fertilizer (e.g., the Indian subcontinent). This is an obvious waste and misallocation of world economic resources. Technical studies for economic cooperation between the two regions are warranted by the complementarity of their resources and the proximity of their markets. The direct and indirect impact of such cooperation would benefit the world economy as well as the regions directly concerned.

Indeed, a more economic distribution of fertilizer in the world would not only have the favourable impact of improving worldwide yields,⁸ it would also have the advantage of spreading the risk of crop failure. Hunger, it is important to note, is the most crucial problem for a large part of humanity. The channelling of resource-finance and especially know-how in the direction of needy countries should therefore prove, over the long term, to be a paying proposition.

⁸ The average yield of one pound of fertilizer in developed countries is five pounds of grain, versus 10 to 12 pounds in developing countries.

V. OPEC's AID EFFORTS

The OPEC Fund has been the choice instrument of group action for oil exporting countries. Its impact is not only due to the resources it has been able to commit to the developing countries (the total resources reached about \$4 billion in mid-1980). It is equally due to its innovative and dynamic role as a catalyst in establishing institutions and mechanisms of benefit to the developing countries. These include the International Fund for Agricultural Development, the Energy Fund sponsored by the United Nations Development Programme (UNDP) and the Common Fund. The latter is the main feature of the Integrated Programme for Commodities, sponsored by the United Nations Conference on Trade and Development.

With respect to solidarity in international forums, the OPEC Conference of 26 to 28 June 1979 restated “its categorical rejection of any dialogue (with technically advanced industrial countries) which does not look into the various problems faced by the world community and especially the developing countries, taking into account the problems of development, the acquisition of advanced technology, financial and monetary reforms, world trade and raw materials, along with the various aspects of the energy problem”.⁹

The above-mentioned policy position is prompted by two major considerations:

- OPEC countries are concerned that, in their relations with the industrial developed countries, they will continue to have the worst side of the bargain. Their fears are based on the grounds that their “power” is too narrowly based on a single and exhaustible commodity – namely natural crude – and that this power is not readily fungible into other forms of power. By comparison, the industrial countries have a “broader” and “deeper” power base, in so far as their relative economic superiority derives from diversified economies and control of several key commodities, their sophisticated manpower, their superior technical know-how in the military and civilian domains, including their capacity to develop alternative sources of energy.

The power relationship referred to above is perceived by the OPEC countries as skewed in favour of the industrial countries. This explains the

⁹ *OPEC Bulletin*, Vienna, 2 July 1979, p. 2.

sense of vulnerability felt by oil exporters. They have sought therefore, to include other commodities they need in exchange for their oil exports in any international agreement with the industrial developed countries.

- Increases in oil prices which have been a source of anxiety among several developing oil-importing countries have been ameliorated by generous OPEC aid and have aroused a spirit of Third World solidarity at the regional¹⁰ and interregional levels. This explains the policy of OPEC member countries of maintaining a “solidarity front” with the other developing countries. In so doing, they hope to obtain more favorable terms of trade and a stronger bargaining position for themselves as well as for the rest of the developing countries. This explains why OPEC’s level of aid has been significant, especially since 1973, surpassing that of industrial countries. Disbursements accounted in 1976 and 1977 for at least 2.5% of the GNP of OPEC donors.¹¹

The net official aid flows of the Arab Gulf countries alone, which “amounted to about \$1.3 billion in 1973, jumped to \$3.8 billion in the following year and grew steadily to an annual average of about \$6 billion. This is equivalent to 11% of the total official flows from all DAC countries, whose development assistance aid has been estimated at no more than 0.4% of their GNP. On a per capita basis, Arab development assistance amounted to more than \$800 (with more than \$1,600 for Kuwait), as against \$25 for the DAC countries – a ratio of 32 to 1. Apart from the fact already referred to that Arab aid is drawn from its stock of wealth¹², it is not tied to the purchase of Arab goods and contains a higher grant element.”

10 See, for example, the San Jose (Costa Rica) Declaration of the Organization Latinoamericana de Energia (OLADE) of 7 July 1979, reproduced in *OPEC Bulletin*, Vienna, 6 August 1979, pp. 7–11.

11 See Ibrahim Shihata, *The OPEC Special Fund and the North–South Dialogue*, The OPEC Fund for International Development, April 1979, p. 4. See also United Nations Conference on Trade and Development, *Financial Solidarity for Development Efforts and Institutions of the Members of OPEC: 1973–1976*, OPEC Review, Geneva, 22 March 1979 (TD/B/C.7/31).

12 Mohammed Imady, Director-General and Chairman of the Board of Directors-Arab Fund for Economic and Social Development, “The Prospects of Economic Growth in the 1980s: Energy as a Source of Wealth for the Middle East”, *OPEC Bulletin*, Kuwait Dec. 1979, p. 23.

DAC (Development Aid Committee) countries comprise Australia, Austria, Belgium, Canada, Denmark, Finland, France, W. Germany, Italy, Japan, The Netherlands, Norway, New Zealand, Sweden, Switzerland, United Kingdom and the United States.

Outside the OPEC Fund, most Arab aid has been oriented to neighbouring developing countries, and Venezuelan aid has given priority to neighbouring Central American and Caribbean nations. Venezuela allocated \$1.6 billion in aid for 1980–1984 to these regional oil clients, triple the amount it gave in the previous five-year period. The aid is in the form of deferred payments for oil imports. Venezuela's total aid programme in 1975–1979 was estimated at close to 2% of GNP.¹³ Effective August 1980, Mexico joined Venezuela in converting 30% of their export proceeds from nine Central American and Caribbean countries into term loans carrying below-market interest charges: five-year loans at 4%, with the possibility of having twenty-year loans at 2% if applied to the development of energy resources. The beneficiaries (Barbados, Costa Rica, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, and the Dominican Republic) were importing 130,000 barrels per day from Venezuela and 20,000 b/d from Mexico in mid-1980.¹⁴

By comparison, the United States, the world's largest and richest industrial power, has reduced its official development assistance from 2.7% of GNP in 1949 to 0.19% in 1979, notwithstanding that the average income of the American citizen, adjusted for inflation, has more than doubled. Viewed in the context of mutual interdependence, the U.S., like other industrial countries, has a direct interest in promoting a more prosperous developing world – to which U.S. exports in 1978 reached a level exceeding exports to Western Europe, Eastern Europe, China and the Soviet Union combined.¹⁵ Correspondingly, the European Community's exports to developing countries in 1978 amounted to 28% of their total exports, while exports to the United States reached only 13% and to Eastern Europe 8%.¹⁶

The above comparisons should be qualified in respect to two factors: source of wealth transferred and the use made of it. With reference to source of wealth, an oil exporting country does not provide its aid out of a renewable annual income as is the case with industrial countries. With reference to use

13 See "Venezuela to Raise Oil Client Aid", *Financial Times*, London 31 Jan., 1980.

14 *IMF Survey*, Washington, D.C., 18 August 1980, p. 262.

15 See Robert S. McNamara, *Development and the Arms Race*, address, University of Chicago, 22 May 1979, pp. 6–7.

16 See *Euroforum*, European Community, Brussels, 19 October 1979, p. 6.

of aid, oil exporting countries do not attempt to promote their exports, as is often the case with industrialized countries.

Aid cannot be solely assessed in quantitative terms. Thus it is conceivable that financial aid disbursed to national treasuries does not have the same “impact” on development as an equivalent amount directed towards national development projects, such as training, research and education, transfer and development of appropriate technology, investment in infrastructure and development of managerial know-how.

One should not forget that developing countries are not interested in “aid” bestowed as a “favour”. They would like to relinquish the status of the “assisted” or “dependent”. Accordingly, they are primarily concerned with better trade opportunities. More generally, they would like to share more effectively in the management of international transactions and the derived benefits.

VI. PROSPECTS FOR INCREASED INTERNATIONAL COOPERATION

The world of the 1980s will continue to face two principal challenges: peace and development. Though both are in many respects interrelated, our main concern in this paper is the latter. Development is a complex process in which local, national, regional and international factors play crucial roles, varying in significance from one country to the other.

Beyond the differences and antagonisms of nations and groups, a consensus seems to be emerging around the world with respect to the pressing need for innovative international relations. In this respect, three interrelated doctrines appear to command general agreement, admittedly with varying degrees of acceptability. These are:

- respect for national sovereignty
- global, balanced growth
- co-management of international economic organizations

Decision-makers are increasingly becoming aware that a “beggar-thy-neighbour” policy is self-defeating. Prosperity, if it is to be protected in the long term, has to be expanded globally. Otherwise, the many countries excluded from this process will not remain passive. Indeed, their continued exclusion could lead to distress and confrontation, which could spill over national boundaries. The latter bring, *inter alia*, dire chaos and disruptions in the flows of essential commodities, with consequent grave losses to formerly prosperous countries.

The energy crunch since 1973 has prompted protagonists to search for new forms of cooperation. Thus proposals for a “New International Economic Order” and a “North–South Dialogue” were initiated. These proposals ostensibly share the goals of global development and diminished inequality among nations. Progress in this direction has been slow, obviously because of the diversity and complexity of interests of numerous protagonists.

The Chairman of IEA, Niels Ersbøll, Denmark’s State-Secretary for Foreign Economic Affairs, called in October 1979 for dialogue between IEA and OPEC. Cooperation could cover areas of oil production and consumption, the

development of alternative energy sources, the requirements of developing countries and transfer of technology. He particularly stressed development:

“It would seem to me, therefore, that one of the highest priorities in the field of energy policy is to bring about a genuine and adequate cooperation between oil-producing and oil-consuming countries. It may well be that this is possible only in a wider context embracing a number of other high-priority issues, mainly those revolving around the question of development of the larger part of the world.”¹⁷

OPEC Countries’ Proposals

As has been reported some OPEC countries’ aid-giving institutions are faster than the World Bank in implementing their financial assistance. Appraisal and negotiation of loan agreements are not hampered by lengthy appraisal procedures and heavy bureaucracies.¹⁸

It is worth noting in this context that, in 1979, the OPEC member countries, on the initiative of Iraq, advanced the novel idea of setting up, with the industrialized countries, a joint “longer-term fund to compensate developing countries for imported inflation, on the one hand, and any increases in crude oil prices on the other”.¹⁹ Envisaged initially as lasting for a period of ten years, the idea is conceived as an additional device to supplement existing arrangements for aid to developing countries, such as the OPEC Fund for International Development. Agreement on technical aspects for the operation of such compensatory funds have to be worked out – especially with respect to the choice of the base year and the contribution of each individual industrial and OPEC country. But, most important, is the political will to see it through.²⁰

17 OPEC and LEA: Dialogue or Conflict, Statement at the Elsevier Symposium on Energy, Amsterdam, 22 October 1979, p. 2.

18 Jane Carroll, “KFAED Gives Carefully, but Generously”, *MEED*, London, February 1980, pp. 21–22.

19 *Ibid.*, p. 1.

20 See “Un fonds pour combattre l’inflation importée”, *Nouvelles d’Iraq*, Ambassade de la République d’Iraq, July–August 1979, pp. 6–8.

The Iraqi Minister of Oil indicated that his country has already taken steps on a unilateral basis to alleviate the burden on developing countries resulting from increases in the price of oil:

“It gives us pleasure that the Iraqi proposal was welcomed by the member countries of the non-aligned movement and by the OPEC countries. We are of the opinion that the time has come for the industrial countries to announce their support for this proposal and to stop shedding crocodile tears over the interests of developing countries. Iraq has actually compensated the poor developing countries which have direct oil contracts with it for any increase in the official prices of oil from June 1, 1979, to the end of this year (1980) by interest-free long-term loans to these countries equivalent to the amounts of increases in the prices.”²¹

Venezuela has more recently adopted a comprehensive scheme in association with Mexico, to provide certain countries in Central America and the Caribbean with soft credits equivalent to 30% of the cost of oil imported from them.

Until these proposals were made, “OPEC aid was never meant to compensate for higher oil prices, otherwise it would have mainly gone to the better off developing countries (the larger oil consumers), instead of the poorer countries which have actually been the beneficiaries”.²²

Two other OPEC countries’ proposals are worth noting. One, advanced by Algeria and Venezuela, concerns the conversion of the OPEC Fund into a development bank whose principal function would be to finance general economic development, with emphasis on projects that would foster trade among the developing countries and which would lessen their dependence on the industrialized countries. The bank would finance its activities through its own financial resources and through the issuing of financial instruments in the national and international financial markets. The initial authorized capital envisaged in the joint proposal is US\$20 billion.

21 Tayeh Abdul-Karim, “OPEC: Challenges of the Present and Strategy for the Future”, *OPEC Seminar on OPEC and Future Energy Markets*, Vienna, Oct. 79, p. 6.

22 Ibrahim F. I. Shihata, Director-General of the OPEC Fund for International Development, “OPEC’s Development Aid Superior to Other Donors”, *OPEC Bulletin*, Vienna, Aug. 80, p. 34 (reprinted from the *Financial Times* editorial “OPEC Dues to the Third World” of July 15, 1980.).

The Iranian proposal, on the other hand, is for the establishment of a special fund for the benefit of the oil importing developing countries. The resources of the fund would consist of the additional revenues resulting from the oil price increases, calculated on the basis of the OPEC oil exports to the developing countries. Supervision and management of the proposed fund would be performed by a committee jointly formed by OPEC and oil importing developing countries.

Aid and Financial Cooperation

Aid is defined here as net contributions by donors at terms below market conditions. Foreign aid should not be looked upon from the angle of condescending charity. It should be viewed from the angle of enlightened mutual interest. It is both an insurance premium against risks of conflicts and their aftermath, as well as an investment in future opportunities.

There is broad agreement about the main sources of aid: it should come from the richer countries. There is, however, disagreement on the size of the aid. Various United Nations circles have called on the richer countries to transfer official assistance in a minimal amount equal to 0.7% of their Gross National Product (GNP). Such an aid rate, in the judgement of this author, should be rendered more flexible to permit its realization – though, overall, the 0.7% target must be maintained.

More specifically, the aid rate should be made to vary in relation to a number of indices:

- the index of “non-civilian expenditures” calls for an increase in aid in relation to an increase in per capita armaments expenditures;
- the index of “capacity to donate” could be measured with reference to per capita consumer spending – an increase in the latter is an appropriate indicator of an increase of capacity to donate;
- the index of employment – a reduction in unemployment should permit an appropriate increase in aid.

One can simplify the computational exercise by assigning equal weights to the above mentioned indices, and by adopting a moving average base period, for example the last three years.

Aid payment at the minimal level of 0.7% of GNP should mostly be channelled (say 50%) through regional or international vehicles. In fact, aid disbursement through multilateral channels is less likely to be susceptible to political interference.

The nature and direction of aid should be guided mainly by two criteria:

- financing of structural adjustments which should permit recipient countries to dispense with the need for aid *per se* in the long term;
- underwriting the very basic needs (viz. food, health, shelter and education) of the poorest countries, the survival of whose populations are threatened.

Effective co-management and co-supervision of international aid institutions implies a widening of representation and greater decentralization of the decision-making process. Such restructuring should permit greater understanding, reader responsiveness to local needs and priorities, and more efficient supervision.

In this context one should understand the position of representatives of Third World countries who called at their meeting in July 1980 in Arusha, Tanzania for the replacement of the International Monetary Fund (IMF). They maintained that the IMF lacked scientific analysis, objective application of its own criteria, and political neutrality. They called for a new international monetary system based on the following characteristics: democratic management and control, universality, creation of a stable international monetary unit, and automatic transfers of resources to eligible countries.²³ The proposed reform was on the verge of being accepted at the Eleventh Extraordinary Session of the United Nations in New York in September 1980, were it not for the opposition of the United States, the United Kingdom and West Germany. These countries did not want to lose their dominant voting power in the IMF and the World Bank.²⁴

Commercial banks have increasingly been called upon since the early 1970s to supply balance-of-payments financing to a number of countries, notably developing countries. The ultimate repayment of this financing is

23 See "The Monetary System: The Initiative of Arusha", *Development Forum*, United Nations, Geneva, September 1980, pp. 1 and 12.

24 Ref. *Development Forum*, United Nations, Geneva, October 1980, p. 12.

often dependent on complex groups of factors, notable among which are: efficient domestic management of resources; free access to major export markets by debtor countries; renegotiation/arbitration arrangements and credit/investment insurance mechanisms.

While certain commendable efforts have been made in these areas, progress has been slow. Developing countries feel that the balance of international relations is skewed against them. In particular, they are concerned about being relegated to the lower end of the decision-making ladder in international economic organizations.

Should, however, effective co-management be instituted (e.g. based on a voting power similar to that of IFAD),²⁵ the response of developing countries would be quite positive. For a workable example of a multilateral regional investment guarantee scheme, albeit operating at a modest level, one could refer to the Inter-Arab Investment Guarantee Corporation, comprising both capital exporting and capital importing developing countries.

To further encourage the flow of financial resources and expertise to developing nations, institutional frameworks with comprehensive coverage are needed to resolve disputes and/or to insure against risks not normally covered by commercial underwriters. With respect to the latter, several developed countries have unilateral insurance arrangements against so-called "political risk" losses sustained by their nationals in their financial and trade relations with developing countries. Such losses may arise from currency inconvertibility, expropriation, or damages from war or insurrection.²⁶

The commitment to such transnational cooperation is a function of the perception of gains that would accrue from such cooperation or alternatively, the perception of losses that would result from its absence. Robert McNamara

25 The International Fund for Agricultural Development is considered to represent a real expression of the New International Economic Order because it allows developing countries, via their 2/3rds voting power, to play a leading role in drawing up organizational policies and priorities

26 One multilateral insurance arrangement sponsored by developing countries, the Inter-Arab Investment Guarantee Corporation (IAIG), grouping fifteen Arab governments, merits special attention. Headquartered in Kuwait, its main function is the insurance of both lenders and investors in Arab member countries against losses from non-commercial risks such as: expropriation, nationalization or confiscation of property; inability to transfer income or principal out of the host country as a result of unforeseen restrictions; and losses due to acts of war, military operations or civil disturbances. IAIGC started its activities in late 1974. See Shihata, "Arab Investment Guarantee Corporation", *Journal of World Trade Law*, Vol. 6, No. 2 (1972).

argued that one “could be a hard-headed investment manager, and at the same time sensitive to basic human welfare”.²⁷

Finance is one in a series of links, all essential to the process of peace and development. Besides the financial area, other areas are of key importance in achieving a more prosperous world. Notable among these are: transfer of know-how, opening-up of markets, population control and mobility of labour.

Even if we were to include the above goals under the term “economic”, to claim that these are sufficient guarantee for world prosperity is too simplistic. At the very basis of any joint endeavour among states and enterprises of various cultures and ideologies is the “will” to accept and work for such cooperation. This “will” is not primarily prompted by a spontaneous philosophy of tolerance and cooperation; rather, it stems from a desire to gain benefits and avoid losses. With a heightened and widely diffused awareness among protagonists of important net benefits to be gained from cooperation and important net losses to be spared, the prospects for change in line with the above mentioned objectives are all the more likely to be realized.

Notwithstanding the progress achieved in recent years, modern civilization will continue to suffer from the imperfections inherent in human nature. By helping cut down on risks of rupture, we are protecting survival on our increasingly intertwined and vulnerable planet Earth. In this endeavour, we need vision, pragmatism and dedication.

²⁷ “A Manager Who Also Dreams: Banking, McNamara Way, Means Profit Plus Welfare”, *I.H.T.*, Paris, 13 October 1980, p. 11.

CONCLUSION

The President of a founding member of OPEC, Venezuela, perceives OPEC as a source of power in international affairs. He expressed his views thus: "The past 20 years of experience have shown that OPEC is a powerful instrument of world influence which no one can ignore, set aside or be unaware of in this century. The Organization is unquestionably a force in power relations today."²⁸

Whether OPEC has been a positive factor in international relations is a question open to controversy. To some observers, OPEC has been a factor of confrontation exacerbating the already tense relations on the international scene.

To others, it has on balance proved to be a factor of moderation by comparison to what would have been the situation had oil-exporting states been left to their own individual demands. Indeed, national policies of selected oil-exporting countries have been tempered by group deliberations. According to Edith Penrose: "To attempt the destruction, or even weakening, of OPEC as an organization would be folly. If OPEC did not exist, it would be in the interest of the industrial world to promote its creation in some form".²⁹

The economic ills of the industrial countries have their origins closer to home. OPEC was conveniently and frequently used as a scapegoat. An official of a Western industrial power, British Secretary of State for Energy, David Howell called for an end to blaming OPEC for the problems faced by the world economy:

"The consumers need to stop blaming the OPEC cartel for things which in reality are determined as much by market forces as the decisions of Governments. The consumers will need to appreciate that it is not unreasonable of producers to develop depletion policies which pay regard to the needs of future generations and are designed to ease the process of adjustment by the producing country as oil becomes more scarce. Above all, the consumers need to show that they are not simply looking to OPEC to produce ever more oil on a short term basis with no regard to the long-term, in order to meet the growing energy needs of the industrialized economies and the rest of the world, but that

28 Speech of H. E. Luis Herrera Campins at OPEC Secretariat, in: *OPEC Bulletin Supplement*, Vienna, 21–31 March, 1980, p. ii.

29 Edith Penrose, "OPEC's Importance in the World Oil Industry", *International Affairs*, Royal Institute of International Affairs, London, January 1979, p. 18.

they are serious about tackling the demand side of the equation, by developing positive and effective policies for energy conservation and the promotion of alternatives to oil.”³⁰

An elaborate statistical investigation of six western economies (Italy, Japan, Switzerland, United Kingdom, United States and West Germany) assessed the impact of the OPEC countries’ price increases decided late in 1973. It said “the first and most central conclusion is that OPEC with its oil price rise in the Fall of 1973 did not cause the inflation of the 1970s”.³¹

GATT was unequivocal in its assessment of the impact of oil price increases. It said that “the evidence forecloses the dangerously wrong view that the petroleum price increase was a major causative factor behind the resurgence of inflation and the unexpected rise in unemployment”.³² Nevertheless, one should add that oil price increases have contributed to fan inflationary expectations.

The OPEC countries are reckoned to have behaved “responsibly” in October 1980 when they agreed to make up for the shortages of oil supplies owing to the paralysis of oil exports from warring Iraq and Iran. The supplies in question (about 3.8 million barrels per day) were largely replaced by Saudi Arabia, Kuwait and U.A.E. These countries (with some 7 million inhabitants compared with 50 million for Iraq and Iran), it is worth noting, have little need for additional oil revenues: they enjoy high per capita incomes and large balance of payments surpluses.

Assuming oil remains an important component of energy demand, the survival of OPEC will depend on several complex factors, including: the perception of acute vulnerability if members were to act individually outside the OPEC organization; the maintenance of its club-like solidarity with no supra-national centralized powers; the absence of virulent antagonism from a dominant block; and avoidance of confrontation policies.

The dangers facing humanity are so formidable and pressing that there is need for evolving a world code of international morality in which a number of basic principles are respected: the acceptance of the notion of common

30 David Howell, Secretary of State for Energy, United Kingdom, “Towards a New Interdependence” at OPEC Seminar on *OPEC and Future Energy Markets*, Vienna, October 1979, p. 3.

31 Michael Parkin, “Oil Push Inflation”, *Banca Nazionale del Lavoro Quarterly Review*, Rome, June 1980, p.184.

32 General Agreement on Tariffs and Trade, *International Trade 1978/79*, Geneva, September 1979, p. 10.

patrimony in certain areas (the high seas, space, technological know-how, etc.), the respect of cultural and social diversity, the protection of human rights, the security of flows of vital commodities. Whether or not this code merely becomes another source of rhetoric or gives rise to practical rules scrupulously observed cannot be predicted. Time alone will be the judge.



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