

**OFID** ARCHIVE

# **OPEC AID AND THE CHALLENGE OF DEVELOPMENT**

By

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The OPEC countries have been a significant source of aid for the developing countries since 1973. They have set up a large number of development aid institutions. One of the most prominent of these, the OPEC Fund for International Development, marked its tenth anniversary last year. This book examines not only how the original vision of the OPEC Fund's founders has been translated into practice, but also looks at the whole spectrum of aid from OPEC countries. It shows how OPEC aid is a unique phenomenon in the history of development cooperation. It discusses the effects of the development aid distributed by the collective agencies and by autonomous member states. It also describes how OPEC countries apart from providing development assistance have aimed at adopting a wide and innovative approach to the problems of developing countries. The book addresses a range of seminal issues of development – the scope for South-South Cooperation, the problems of North-South Dialogue and the implications of Third World debt.

Edited by Abdelkader Benamara and Sam Ifeagwu,  
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## FOREWORD

The sovereigns and heads of state of OPEC member countries, meeting in Algiers in March 1975, reaffirmed 'the natural solidarity which unites their countries with the other developing countries in their struggle to overcome under-development' and called for measures to strengthen co-operation with those countries. The appeal led directly to discussion of a temporary aid facility. As a result, agreement establishing the *OPEC Special Fund* was reached in early 1976 and operations began in August of the same year in Vienna. On 27 May 1980, the Fund's status was changed to that of a permanent international agency with its own legal personality and it was renamed the *OPEC Fund for International Development*.

Although the Algiers declaration crystallised the intentions and the collective strategy that OPEC countries would pursue in fostering the solidarity and interests of the developing world, aid from OPEC countries dates back at least to the 1950s. The first OPEC country to decide on its own aid institution was Kuwait, which set up the Kuwait Fund for Arab Economic Development in 1961. By the end of this year eleven other development aid institutions financed wholly or largely by OPEC countries will have joined the OPEC Fund and the Kuwait Fund in passing the 10-year mark. These institutions are only the tip of the iceberg; most aid from OPEC countries is channelled directly by governments.

The OPEC Fund is by no means the oldest source of aid from OPEC countries, but it is the only aid organisation owned by all the 13 member countries of OPEC. It thus holds a unique central position in the realm of OPEC aid, and its 10th anniversary was seen as an appropriate point in its history for taking stock. The Governing Board therefore decided to hold a seminar that would examine not only how the original vision of the Fund's founders had been translated into practice, but would also look at the whole spectrum of aid from OPEC countries and development issues that continue to confront the developing nations. While the occasion inevitably drew attention to the successes of OPEC aid, it was not regarded as just an opportunity for self-congratulation. Its main purpose was conceived, in the words of the seminar chairman HE Dr Hector Hurtado, as 'another modest contribution to continuing the dialogue in search of solutions'.

The proceedings were confined to a single day in order to attract as distinguished an assembly of participants as possible. This hope was amply fulfilled. The Fund's special thanks are due to the Federal President of Austria HE Dr Rudolf Kirchschlaeger, Austria's Minister of Finance, HE Dkfm. Ferdinand Lacina and HE Dr Bruno Kreisky, the former Federal Chancellor, who represented the host country. Particular gratitude must equally be conveyed to the finance ministers from OPEC member countries who not only found the time to be present throughout the duration of the discussions, but also offered the benefit of their views through keynote papers. The seminar was further enhanced by the presence of many other distinguished guests, including ambassadors and leading representatives of international institutions, many of whom also made valuable contributions. The Fund is deeply indebted to the Austrian Government for generously placing at its disposal the magnificent facilities of the Redoutensaele in the Hofburg as the venue for the seminar.

The five chosen topics were linked by a thread, starting with financial co-operation between OPEC countries and other developing countries and leading to the wider sphere of South-South co-operation. The special importance of Arab-African co-operation followed, before discussion turned to the wider realm of the North-South dialogue and ways in which it is linked with South-South relations. The final topic examined the problem of Third World debt and its implications for all countries.

At a time of diminishing official development assistance and deteriorating economic conditions for the developing countries in particular, the issues discussed have never been more pertinent. By publishing this complete record of the seminar's proceedings, it is hoped that the intense discussions that unfolded over many hours will give a wider international audience, including the caring public at large, cause to re-examine their thinking and add some momentum to the search for new solutions to some of the world's most urgent and intractable problems.

Y. Seyyid Abdulai

## PART ONE

### **OPENING STATEMENTS**

**DR Y. SEYYID ABDULAI**

**Director-General of the OPEC Fund**

My duty this morning is a pleasant one: I have the honour of introducing the Chairman of today's occasion; the Chairman of the Ministerial Council of the OPEC Fund, Minister of State of Venezuela and President of the Venezuelan Investment Fund. One approaches a happy but important task such as this with a measure of trepidation, particularly when the honourable subject is a man of great achievement. Your Excellencies belong with the highly respected group of statesmen who are the pillars of the international system of today. Among us today are outstanding men, whose names are intimately linked to the evolution and growth of development theory and practice, global co-operation and modern diplomatic practice. There are those whose names go forth in the world and are often, to all intents and purposes, synonymous with the very names of their countries or of the organisations and institutions they represent. Our Chairman belongs to this illustrious, dignified group of statesmen.

The Sovereigns and Heads of State of OPEC member countries met in Algiers in March 1975, and called for measures to strengthen co-operation and solidarity between their countries and other countries of the developing world with a view to helping 'overcome underdevelopment'. Our leaders established a collective aid facility, a development assistance agency, which they called the *OPEC Special Fund*. They subsequently handed the important task of working out the agreements and finer details to a steering committee of finance ministers, technocrats and other experts who then brought the new organisation to life a year later. Our Chairman was a prominent member of this committee; he was one of these founding fathers and he was then the Minister of Finance of his country. Indeed, he was from January 1976 till August 1976 the Chairman of the OPEC Ministerial Council on financial and monetary matters.

But that was by no means the principal activity which brought him to the attention of the international community. Long before 1976 and the formal establishment of the OPEC Fund, our Chairman was Director of the influential Central Office for Co-ordination and Planning of the Presidency of the Republic of Venezuela and Director of the Central Bank. He was a Member of Parliament and an Alternate Judge of the Venezuelan Supreme

Court of Justice. In his 45 years of service to his country, our Chairman has been Director of the Venezuelan Petrochemical Institute, Director of the State Planning Ministry, Director of the Venezuelan Aluminium Company, and Minister of Development from 1984 to 1985. He is an economist and a legal authority.

Our Chairman represented his country on innumerable state occasions: he was Alternate Governor of the Inter-American Development Bank; Head of the Venezuelan Delegation to the Economic Commission for Latin America, and Member of the Inter-American Committee for the Alliance for Progress. He also represented his Head of State at the Mixed Committee for the Declaration of Bogota.

It is my pleasure to introduce our chairman, HE Dr Hector Hurtado.

**HE DR HECTOR HURTADO**

Chairman of the Seminar,  
Chairman of the OPEC Fund Ministerial Council,  
Minister of State of Venezuela,  
President of the Venezuelan Investment Fund

It is with pride and pleasure that I welcome you this morning to this august gathering. We are particularly honoured to count among our distinguished guests, Your Excellency, President Rudolf Kirchsclaeger; Your Excellency, Dkfm. Ferdinand Lacina and Your Excellency, Dr Bruno Kreisky. It is not always that a young organisation such as the OPEC Fund for International Development is paid such compliment as derives from your very presence. My greetings also go to you, honourable ministers and fellow members of the Ministerial Council of the Fund, the Governing Board, distinguished ambassadors, heads of international organisations and eminent ladies and gentlemen, many of whom have travelled over much distance to be with us today. We deeply appreciate the gesture and look on your presence as an expression of solidarity, goodwill and support.

Your Excellency, Mr President, this is the second time you are honouring the OPEC Fund with your presence. The previous occasion, if I may recall, was three years ago when you graciously attended the dedication of our headquarters building on Parkring. But your interest in the Fund predates 1983. Long before then – indeed, as far back as 1974 – your interest in OPEC as an organisation was already evident. You were, at the time, your country's foreign minister. We remember your role in helping improve the OPEC Secretariat headquarters agreement with Austria which, I must mention, was carried out under the administration of, and signed by His Excellency, Dr Bruno Kreisky, whose continued dedication to international development and the upliftment of mankind is common knowledge. But, Your Excellency, this is neither the place nor the time to pay adequate tribute to your contributions to international understanding or to the role of Dr Kreisky. Still, I would mention that the past ten years of the OPEC Fund, along with the earlier years of the OPEC Secretariat, have underscored the vision and wisdom of the founders of both organisations in choosing as home this beautiful city of Vienna, a city of culture and a most friendly people.

The vision and wisdom of the founders of our Organisation are largely what we uphold today. OPEC, as an institution, came into being in September 1960, determined to make a contribution to a much desired restructuring of the existing global political, social and economic order. Many of our nations had attained statehood to join, as it were, a long-established system of global production, a division of labour and a model of income distribution which we found rather lopsided, rather unjust. We owed it to our own selves, our children, posterity, indeed humanity, to join the fray, already in progress, in search of a more equitable system. Along the way, we pleased many but offended some; we made an impact – solid and sustained – to the applause of some and to the chagrin of others who saw in OPEC a monstrous challenge. But we came on board, Your Excellencies, Distinguished Ladies and Gentlemen, not to duel, not to destroy, but to help design a new arrangement which will serve rather than polarise mankind. Thank goodness we found much understanding and genuine support in much of the world.

With the global oil market troubled as it is today and some of our member countries suffering disequilibrium in trade and payments, we feel slightly hindered in this struggle for justice. But we also strongly believe that these difficulties will pass, as events have already begun to indicate. As we at once look back at the past and look forward to the future, we must re-dedicate ourselves to the ideals of our Organisation – the vision of our founding fathers and the tested, unflinching commitment of our 13 member states to the betterment not just of the developing world, but indeed of all mankind.

We are gathered here today to discuss aspects of international cooperation. The programme you have lists OPEC Aid; South-South Co-operation; Arab-African Co-operation; North-South Dialogue and the Debt Problem as the topics tabled for examination. In the course of the deliberations, ideas will be presented, positions taken and defended, and probable solutions advanced.

You will recall that the OPEC Fund for International Development began operations in 1976 with a mandate to reinforce financial co-operation between its member states and other developing countries, and provide financial support to assist the latter in their economic and social development. The Fund was conceived as a collective financial facility to consolidate the assistance extended by its member states to the rest of the developing world. Its resources, which were modest in its year of foundation, have grown markedly

and have been additional to other OPEC states' assistance channelled through bilateral and other multilateral arrangements. As is well known, the Fund's beneficiaries have been governments of non-OPEC developing countries and international institutions, the activities of which promote the advancement of the developing world. It is also worth reiterating that aid emanating from OPEC member states represents financial aid flows from one group of developing countries to another.

The Fund has sought to strengthen financial co-operation between developing countries through various initiatives: it has backed efforts at creating a new, more equitable, international economic order; it has worked to promote change in favour of the South in various international fora; it has lent concrete support to South-South solidarity through its backing of regional co-operation plans and projects; and it has, on occasion, played the role of mediator in instances of disagreements between North and South. These are the ways in which the Fund, with its modest resources, is contributing to the promotion of South-South co-operation, Arab-African co-operation, the North-South dialogue and the easing of the debt problem. However, these efforts notwithstanding, many of these problems remain with us today. It is hoped that the present seminar will be yet another modest contribution to continuing the dialogue in search of solutions.

These are difficult times for the economies of our various countries and other developing states: falling earnings from our major resource; fluctuating interest rates; escalating costs of foreign imports and continuing decline in commodity prices. While we battle to keep our economies going and shield our populations from the adverse effects of an increasingly unfavourable global economic climate, we also are acutely aware that our assistance and that of the developed industrial economies have never been more needed than today. It is against this background that one is heartened by the stated resolve of Fund member states, in spite of current hardships, to continue their assistance to their less-endowed brethren.

**HE Dr RUDOLF KIRCHSCHLAEGER**

Federal President, Austria

When I was asked to participate in the opening ceremony of the seminar on 'OPEC aid and development-related issues', organised on the occasion of the 10th anniversary of the creation of the OPEC Fund for International Development, I accepted with great pleasure in spite of the fact that my term of presidency is coming to an end. I felt that this invitation was a special gesture towards Austria's efforts to be a good host.

I recall the time a decade ago when Austria witnessed with great interest the establishment of the OPEC Fund for International Development. We are very happy that the Fund made Vienna its permanent headquarters. With admiration, we learned that during the course of the first ten years of its operation the Fund endeavoured successfully to promote the economic development and solidarity of the Third World. The main objective of the Fund was to help developing countries which were most affected and to ensure as far as possible that aid flows were channelled towards the poorest strata of society in developing countries – a policy which is also inscribed in the Austrian Programme for Development Co-operation. During the first ten years of its existence, the Fund committed US\$3.0 billion in various forms of aid to 83 developing countries in Africa, Asia, Latin America and the Caribbean, as well as to international institutions that benefit developing countries such as the International Fund for Agricultural Development or the International Monetary Fund's Trust Fund. In some cases the Fund also co-operated with the Austrian Aid Administration. Judged, therefore, by its record of achievement, the Fund has proved to be an important instrument in assisting the economic development of the Third World.

The decline in oil prices and world demand for oil from OPEC countries in recent years (and thus a large drop in their income) have affected OPEC members and their capacity to provide assistance to developing countries. It has to be recognised, however, that their contribution in relation to their gross national product is still well above the average of the Organisation for Economic Co-operation and Development member countries. We are aware of OPEC being a focal point for the Third World's hopes for a just distribution of wealth in this world. In accepting this role, OPEC has taken up

a great challenge and is striving for a goal which is hard to achieve, especially in times of difficulties as they beset us now.

Austria is conscious of the needs and wishes of the developing countries and has pledged its support to alleviate their poverty and to help raise the quality of life of their people. In this respect, we share the perceptions of OPEC and the OPEC Fund that this aim can only be reached by a joint effort. The fact that these two organisations were established in Vienna is also proof of the common understanding and of the excellent relations which exist between Austria and the member countries of OPEC and the OPEC Fund.

I should like to conclude by saying that Austria highly appreciates the role the OPEC Fund has played in the first ten years of its existence. For this reason, Austria has made, and will make, every effort to create the best working environment for this organisation. May the Fund's second decade be as successful as its first.

PART TWO

**OPEC AID:  
A QUESTION OF SOLIDARITY**

**HE SHEIKH MOHAMMED AB-ALKHAIL**

Minister of Finance and National Economy,  
Kingdom of Saudi Arabia

*For the first time, a group of developing countries, sharing all the development problems of developing countries, and even before satisfying their own needs, decided to provide assistance to other developing countries.*

*HE Sheikh Mohammed Ab-Alkhail*

It is indeed a great honour and privilege for me to address you today on the subject of OPEC assistance and its role in promoting economic co-operation and solidarity among developing countries. In view of the many subjects which we plan to discuss today, I intend to confine my address to highlighting the major features of this role.

**The Development of OPEC Aid**

The provision of economic assistance had generally been regarded, prior to the seventies, as an activity for the rich industrialised countries. The rich countries provided aid to other developed countries facing temporary financial difficulties, or to developing countries with which they had special relations. The entry of OPEC countries into the arena of development aid was thus a unique phenomenon in the history of development co-operation. For the first time, a group of developing countries, sharing all the development problems of developing countries, and even before satisfying their own needs, decided to provide assistance to other developing countries.

It was clear to all that OPEC countries were not catering to former colonies, they had no desire to protect strategic locations, and they did not use their aid to maintain markets for their industrial products. Rather, recipients of OPEC aid were entirely free to obtain needed goods and services from any source, and to select the technology, capital equipment and expertise they considered most appropriate to their needs. Even those who had hitherto interpreted OPEC's development aid as a compensation for the adjusted price of petroleum have come to realise from the record of OPEC aid that this aid is provided to the most needy developing countries and these are countries with

low oil import bills. Indeed, the history of OPEC aid can be traced back to at least 20 years before the 1973 oil price adjustment. In the mid-fifties, both Kuwait and the Kingdom of Saudi Arabia already had aid programmes in place. Therefore, the observed rapid increase in OPEC aid after 1973 was merely proof of the fact that OPEC countries were now in a position to do more of what they were already doing.

The reason for OPEC aid can be more properly attributed to our cultural and religious background, which attaches special importance to the principle of sharing and co-operation. This is one of the major principles upon which our societies are built. We believe international co-operation should be guided by the same principles. In the early 1970s, when the OPEC countries found themselves financially in a better position to aid their fellow developing countries, they did not hesitate or wait until their own development requirements were fully satisfied. Instead, they acted immediately to expand their existing aid programmes and subsequently established some new aid agencies. A number of institutions were also founded in collaboration with other developing countries.

### **The Impact of OPEC Aid**

The strong belief of the OPEC countries in the need for co-operation and solidarity among developing countries was shown in the creation of the OPEC Fund in 1976. The move represented the common interest and concerns shared by these countries. The Fund now has an existing capital base of about US\$3.5 billion. Additionally, in the early 1970s, six OPEC countries decided to establish their own national aid institutions – among them, the Kuwait Fund, which in fact came into existence in 1961, the Saudi Fund, the Venezuelan Investment Fund, etc., with a combined capital of US\$20 billion. Some OPEC countries, such as Algeria, Nigeria and Venezuela, chose to finance trust funds in some existing institutions. Furthermore, several OPEC countries played major roles in establishing six regional development institutions such as the Islamic Development Bank, the Arab Bank for Economic Development in Africa, the Arab Fund, etc., with total capital resources of about US\$6.5 billion.

The further impact of OPEC aid can also be seen clearly by comparing the direction and volume of aid flows by the World Bank Group and the

International Monetary Fund prior to 1973 and the decade immediately after. While total World Bank annual lending did not exceed, on the average, US\$1.5 billion during the sixties, this lending increased to an average of almost US\$9 billion per annum for the period 1973 to 1983. Also during this period, OPEC aid agencies co-financed 275 projects with the World Bank, with a total contribution of about US\$4 billion. This, of course, was in addition to the OPEC countries' regular contributions to the capital of the World Bank Group. Moreover, three OPEC countries have contributed over US\$2 billion to the IDA's fifth, sixth and seventh replenishments.

A similar trend is reflected in the vast support given by some OPEC countries to the various IMF facilities, thereby strengthening the IMF's role as an effective agent for adjustment, particularly for the developing countries. As the IMF managing director indicated in his speech to the 1983 annual meetings, the Enlarged Access Policy (EAP) has equipped the IMF to respond to members' problems in a meaningful way. The EAP has also enhanced the IMF's standing and credibility in the international financial community and has enabled it to take a vital leadership role in putting together rescue packages for the major debtors. For example, over 55 countries, including 48 developing countries, have drawn an amount exceeding SDR 13 billion from the IMF's Special Oil and Supplementary Financing Facilities. Similarly, the IMF's enlarged access facilities have benefited 41 developing countries by providing over SDR 4 billion as of the end of 1984.

These facts demonstrate that the initiative taken by the OPEC countries has given a new meaning and added momentum to the concept of development assistance and has created more favourable understanding within the international donor community. This enthusiastic approach by OPEC countries has made the industrialised countries more aware of the need to address the problems facing the developing countries. The initiative has also greatly encouraged development banking institutions to expand their existing lending programmes and to create new channels to facilitate the distribution of resources to developing countries in a more effective manner.

### **A Wider OPEC Programme for Development**

As is well known, financial assistance to other developing countries was only one aspect of the OPEC group's wider objective of improving the position of developing countries in the world economy. The Solemn Declaration of the OPEC Summit in Algiers in 1975 set forth the strategy OPEC member countries were to follow in promoting the solidarity and interests of the Third World. These included:

- (1) Measures to stabilise prices of raw materials and other commodities of developing countries;
- (2) The formulation and implementation of effective assistance to agriculture;
- (3) The transfer of technology from developed to developing countries;
- (4) The opening of markets of developed countries to exports of developing countries; and
- (5) The reform of the international monetary system to provide an effective voice for the developing countries.

The provision of development assistance was therefore a part of a wider programme adopted and promoted by OPEC countries in an attempt to change the difficult conditions faced by developing countries as a whole. Acting on the decisions of the Algiers summit, the OPEC countries exerted all effort to ensure the establishment of the International Fund for Agricultural Development in order to promote the development of agriculture in the developing countries. Similarly, in order to ensure that developing countries received suitable prices for their primary exports, OPEC members worked for the creation of the Common Fund for Commodities, establishment of which is still pending. The OPEC Fund was mandated to pay the subscription of the 35 least-developed countries and to make a direct contribution to the second account.

### **Characteristics of Opec Aid**

OPEC development institutions have always endeavoured to promote innovation in development assistance with a view to enhancing the flexibility of

procedures and providing coverage to areas of activities not encouraged by other institutions. Another important feature of OPEC aid often commonly overlooked is its link to oil sales. Our so-called income is therefore not income as conventionally defined, but represents the liquidation of our capital, the drawing down of a finite stock of a depletable resource. An important feature of OPEC aid could be seen in the clear emphasis given to the financing of energy projects in developing countries despite the fact that the development of such alternative resources would adversely affect the consumption of oil.

Another important characteristic of OPEC aid is that it is generally highly concessional with a large percentage accounted for by grants. Over the years 1973-83, grants accounted for nearly 60 per cent of total OPEC official development assistance commitments and the grant element stood at over 75 per cent. During the same period, 23 per cent of total ODA flows to developing countries was provided by OPEC countries. During 1975-80, OPEC member countries accounted for roughly 30 per cent of global concessional assistance. The total amount they devoted to such assistance over the 1973-83 period was more than US\$69 billion, with annual net disbursements growing from US\$2 billion in 1973 to a peak of about US\$10 billion in 1980.

These aggregate figures do not properly reveal the full picture for this period. They do not show, for example, that over the years 1973-76 and in 1978, OPEC ODA exceeded two per cent of OPEC GNP, and that in 1975, OPEC's ODA to GNP ratio reached a peak of almost three per cent. The overall average during 1973-83 was about two per cent, which is about three times the target set for the UN Second Development Decade. It should be noted here that OPEC countries, being developing countries, were not bound by the UN target. The combined figures also conceal the special effort made by several OPEC countries. In 1973, for example, Qatar, Saudi Arabia, the United Arab Emirates and Kuwait had ODA to GNP ratios of 15.5 per cent, 14.6 per cent, 12.5 per cent and 8.1 per cent, respectively. In 1981, Saudi Arabia provided about 16 per cent of total ODA, the same level as provided by the United States.

Another instructive measure of OPEC countries' aid performance is the relationship between these countries' identified investible surplus and the level of their aid. This is interesting because these, remember, are themselves developing countries that need considerable investments in their economies in order

to reach levels normally required of a developed economy. According to estimates of the United Nations Conference on Trade and Development, an average of 22 per cent of OPEC member countries' identified investible surplus was earmarked for concessional assistance over the years 1974-83. This level remained at 22 per cent in 1983, even though the incomes of the OPEC countries had been declining for more than two years. It would have been of considerable value if I were able to go behind these percentages and present a detailed account of what each country has done to bring about these aggregate results. Unfortunately, this is not practical. I will therefore use the example of my country to give you a glimpse of the type of co-operation we in OPEC have tried to forge with our brothers in the Third World.

### **Saudi Arabia's Aid Contribution**

The rationale behind the Kingdom of Saudi Arabia's co-operation with the developing countries is similar to that of other OPEC member countries – namely, to share what we have even before our internal domestic development needs were satisfied, and to contribute to the solidarity of the Third World to which we belong. The major portion of the Kingdom's official assistance has been provided on a bilateral basis and is primarily directed at the least-developed and most seriously-affected countries. Such aid accounts for over 89 per cent of total disbursements made during the 1977-83 period and is characterised by its highly concessional and untied nature. It is worth noting that grants comprise some 40 per cent of these disbursements. Also, the grant element of ODA commitments averaged about 69 per cent. In all, there are 70 recipient countries of Saudi Arabian assistance, of which 38 are in Africa, 25 in Asia and seven in the other parts of the world.

The Kingdom's total ODA disbursements for the period 1970-85 amounted to over US\$49 billion. Saudi Arabia is therefore second only to the United States in terms of absolute volume of assistance provided. A recent UNCTAD estimate put Saudi Arabia's official development assistance at an average of 5.6 per cent of its GNP during the 1977-83 period.

In our aid programme, we have given particular attention to where we see the need to be greatest. Thus, sub-Saharan Africa has received considerable attention in recent years. The Kingdom of Saudi Arabia was one of the first

countries to respond to the drought problem in Africa. Since 1981, the Kingdom has provided a total of US\$430 million in emergency relief to help combat drought and increase the supply of food and water in the affected areas and also to contribute to the solution of the refugee problem. Saudi Arabia has also committed a sum of US\$100 million towards the World Bank's External Assistance Co-ordination Programme for the sub-Saharan African countries.

Saudi Arabia is a prominent supporter of major Arab-OPEC institutions, providing on the average more than 20 per cent of their capital. Furthermore, the Kingdom has provided substantial resources to both the World Bank Group and the International Monetary Fund. In addition to its normal subscriptions, Saudi Arabia has extended loans of over US\$5 billion to the World Bank. Similarly, loans amounting to about SDR 14 billion (US\$16 billion) have been made to the IMF to provide the resources for several new facilities such as the Special Oil and Supplementary Financing Facilities, the EAP and the General Arrangements to Borrow.

OPEC aid effort has generally been evaluated along the traditional lines applied to aid from industrialised countries. The volume of OPEC aid has been expressed as a percentage of GNP and conclusions drawn as to how the OPEC countries have performed and how their efforts compare to those of the industrialised countries. In the recent past, it appeared as though these evaluations were carried out to demonstrate how OPEC aid had been declining. We believe this approach to be inappropriate. It misses the point of OPEC aid.

The question has been repeatedly raised as to whether OPEC aid is likely to continue in the future, and at what levels, in the face of declining oil incomes. The answer is simple: I believe that OPEC countries will continue to aid developing countries in the same spirit that has guided their assistance in the past. They will do so according to their means.

## **Conclusions**

In conclusion, I must say a few words about the OPEC Fund for International Development, the tenth anniversary of which we celebrate this month. When we established the Fund ten years ago, it was our aim to have a common institution that will symbolise our ties and solidarity with the Third World; an institution that will respond flexibly to the needs of the developing

countries, thereby demonstrating our understanding of the problems these countries face; and an institution that will speak on our behalf in some matters that relate to economic development. It is my assessment that the OPEC Fund has succeeded admirably in fulfilling its mandate.

In its direct operations, the OPEC Fund has demonstrated considerable flexibility in responding to the needs of the beneficiary countries. In the earlier years, the Fund gave much attention to the provision of balance-of-payments supports and assistance in the development of energy resources. While these areas still receive attention, there has been a shift in emphasis to activities designed to benefit directly the poorer segments of the population of developing countries. Thus the Fund has correctly identified the role that a healthy and properly trained people can play in the development process of their country. The Fund should pursue this policy and continue to provide assistance for the development of human resources.

It is evident that primary education and technical training for middle-level occupations are badly needed in developing countries as the shortage of such trained people constitutes a major bottleneck in the development of their countries. Hence, the Fund should, in the future, direct its efforts at aiding the establishment of vocational and technical training centres. In this respect, I would like to propose that the Fund explore the possibility of collaboration with our host country in order to determine the best ways and means of joining our efforts in this area for the benefit of developing countries. I also wish to commend the emphasis which is now placed on helping both the small farmers and the urban poor. The assistance being thus provided is a proper response to the need to tap the potential contribution which these millions of people could make to the output of their nations.

The OPEC Fund is a small development finance institution, and because it is owned by only 13 developing countries, it is likely to remain a small institution when compared to other world development finance institutions. In spite of this, we have made our mark in our ten years of operation. Our operations have touched 83 developing countries in Africa, Asia, Latin America and the Caribbean. This is a much wider coverage than most large institutions boast. As of 31 December 1985, the OPEC Fund has made commitments of US\$3.1 billion and has disbursed US\$2.4 billion. This rate of transfer of resources to the beneficiary countries is higher than that of any other international

development finance institution. The terms of OPEC Fund assistance are among the softest available anywhere, and the beneficiaries are free to purchase their goods from the sources most suitable to their needs.

I congratulate our Heads of State for their foresight, and I congratulate the member countries for the sacrifice they have made and continue to make in order to ensure that the OPEC Fund is able to render the assistance that the developing countries have come to expect from it. I also wish to congratulate the Governing Board, the management and staff of the OPEC Fund for their dedicated service during the past decade.

I should also not fail to take this opportunity to convey our warm feelings and deep appreciation to the people and government of Austria for the cordial hospitality shown in playing host to the Fund. The sincere co-operation shown by all officials and the facilities extended to the Fund over these years have, no doubt, greatly enhanced the Fund's ability to fulfil its role.

The OPEC Fund record is one we should be proud of. I wish the Fund continued success and look forward to another ten years when we would be gathered once again to celebrate another decade of the OPEC Fund's achievements.

## **RESPONSES**

### **HE Dr BRUNO KREISKY**

**Former Federal Chancellor, Austria**

In the 1970s, OPEC countries and the OPEC Fund stepped in to help upgrade development assistance – the so-called development assistance – hitherto extended to the developing countries by the developed, industrialised nations only. If the OPEC countries and the OPEC Fund had not made the serious contributions so eloquently described by HE Sheikh Mohammed Ab-Alkhail, I am personally convinced that the developing countries would have found themselves in a catastrophic situation.

The catastrophe loomed because of a worldwide crisis, the activities of some European institutions, and global political developments over the last decades which had not been favourable to the principle of solidarity and cooperation with the Third World. Thanks to the activity and efficiency of the OPEC Fund, of other OPEC institutions and their initiatives, the industrialised countries were forced to participate and continue their aid efforts. There were, of course, differences here and there. I learned of several new activities because of my personal collaboration with the International Fund for Agricultural Development, which has been established thanks to the initiative of OPEC countries – a most unbureaucratic institution I am pleased to associate with and assist from time to time.

I was originally one of the designated co-chairmen of the Cancun conference, but could not attend that important gathering because of a temporary illness. I have, however, followed developments in the world since Cancun. Much earlier, more than three decades ago, while working with American friends on the Marshall Plan for Austria, I made the suggestion that European countries which benefited from this largesse of the Americans should, in time, return or re-channel the assistance they received from the United States to the developing countries. I proposed this because I was convinced of the likely impact of the Marshall Plan on European economies; I was convinced that the Marshall Aid Programme would be the most important initiative to build up the European economy. There definitely is no doubt that the Marshall Plan was instrumental, indeed decisive, in Europe's struggle to rebuild its economy

after the war and achieve the significant development and growth that marked the first three post-war decades.

I am on record as having advocated – for several decades now – a Marshall Plan for the Third World. I have done this, fully aware that there would be no duplication of what happened in Europe; the conditions are different, the structures are different and development has been different. Still, I meant, and still maintain, that we should have a concept. The concept is very simple to explain. But first, we should learn from our own development that for the development of a country (a Third World country) research is necessary; it is *sine qua non* to the building-up of adequate infrastructure.

Let us take the concrete example of transportation infrastructure: in Africa today, a rudimentary railway system exists, but not really a railway system as it should be. Why is this? Why isn't the African railway system enjoying the renaissance that the system in Europe is enjoying? Well, it happens that the big international institutions have refused to contribute to its development because they came to the astonishing conclusion that railway systems are not profit-generating. But then, they are not making profits in this country either, or in Switzerland, or in any other European continental country, for that matter. But we have continued to build and modernise our railways despite their lack of profitability. Why? Because we in Europe understand that without this railway system, we would face economic disaster. Thirty years ago, people believed we could replace our railway system with roads. Today, we realise that that would have been a disaster. We need, therefore, to watch what advice we give to the developing world. If we are not prepared to provide infrastructural assistance now or in the future, we shall face the same failures of the past and this whole co-operation business will remain limited in scope.

Even in the realm of political relations, we also failed in the past. I had the opportunity to work in a committee which, under the chairmanship of Willy Brandt, was charged with designing a programme for peace in Europe after World War II. The programme was entitled 'After peace'; what should happen in Europe and the rest of the world when and if we finally got peace? The Committee worked from 1943 through 1945. One of the pillars of this very ambitious programme was co-operation – economic co-operation between Europe and what, at the time, were still colonies. Colonialism was current then, but we dreamed that it would end someday following the war. I must

comment that this has been an example of dreams turning into reality. Sadly, however, we still have a situation today that is most precarious and crisis-prone; we have not succeeded in forging close economic co-operation with the developing countries.

But we did not quite fail everywhere. I personally believe that as far as European co-operation or European integration is concerned, we have been quite successful. Austria does not belong to the European Economic Community because of its permanent neutrality, but we are very closely associated with the member countries. One reads of occasional crises within the EEC but these crises have been all but destructive. I believe that the close co-operation between the Community countries had a positive influence here. The recent crisis we just overcame was not as dangerous as what we faced in the thirties: the political consequences were also milder because of our closer economic relations.

I have the habit of saying that the history of European integration is the history of its crises. We manage to overcome most of these but some sour feelings sometimes linger. We are facing severe criticism today over a policy which many believe is of major consequence to our relations with the Third World: two-thirds of the Community's budget goes into agriculture, in spite of the fact that only seven per cent of the citizens of the community live off agriculture. The consequence is – and this seems very very dangerous to me and should be criticised much more than it has been in the European Parliament – that Europe is today the leading producer of sugar, for example. This is terrible competition for some countries of the Third World, whose very existence and livelihood depend on sugar exports. Europe also is the second largest producer of meat, which is equally dangerous competition to a lot of developing countries that are major producers of this product. It therefore appears that, on the one hand, the European industrialised countries are willing to participate in worldwide co-operation while, on the other hand, they are doing much harm to some of the most important countries in the Third World.

Contrary to the position taken by many of my former colleagues, I never complained about the founding of OPEC, as they did on many occasions. From the very beginning, I understood that oil-producing countries had to organise themselves. They had to, because it was at a time when all the commodities they had to purchase had increased in price; it was a period of high

inflation, and the price of their own product was kept artificially low. I remember my last years as Foreign Minister. I had invited OPEC to settle in Vienna, because the organisation had some difficulty with other countries. I will put it more cautiously: Austria was more open-minded to the organisation, because we understood from the very beginning that it must be good for our country. We were pleased to develop such a close relationship with the organisation which produced the bulk of the energy needed in Europe.

I would like to conclude my remarks again with some warnings: there is a strong political tendency in Europe which should not be overlooked or underestimated. Europeans feel very strongly about the environment and environmental problems. And therein lies a real danger, I believe, the Third World should guard against. The huge multinationals could also play a decisive role in this context. (The multinationals, by the way, are but the consequence of the normal development process – Karl Marx said this more than 100 years ago when he expounded on what he called the concentration of capital. I wonder if Karl Marx ever dreamed of the huge concentrations of capital in our time. Today we have not only multinationals, but multimultinationals associated with other multinationals.) Now, back to the danger: these large companies have political troubles in Europe and in the United States, where, to them, it has become an uphill battle keeping their factories open and operating. What does all this mean? Demands are rife in Europe and the United States that many of these factories should shut down to safeguard the environment. In this lies a real danger – discernible if you follow the trend in the news – that productions which are deemed too dangerous for the European environment will be exported to areas where people are not so aware of the definitive problems – the problems of ecological damage. Look at the forests of Europe: they are faced with incipient extinction. As far as I know, the developing countries too are confronted with this same problem – as a matter of fact, in a much more serious form.

I therefore suggest that the European experience should be studied. I believe it would be a good idea if the OPEC countries or the OPEC Fund created a joint committee of outstanding specialists and politicians to deal with these problems. We need co-operation, not just on the financial side, but also in the political realm.

One final remark: the speaker before me mentioned something which was of great interest to me. He said OPEC countries, active in development

aid, were sharing their wealth, and not their income. They shared wealth rather than income because their dominant export product is finite, limited. This is a striking argument. Many years ago, when we began discussions on the political aspects of co-operation between the industrialised countries and the Third World, I had the honour and privilege to have as my teacher the great Jawaharlal Pandit Nehru, with whom I had a long friendship. Even at that time, we were fully aware in Europe that aid from the industrialised countries to the developing countries should be an act of international solidarity and not charity. Nehru and I were in agreement on this point. Charity, of course, is a necessity in certain areas, but in the long run it should have a realistic economic base – call it exchange and co-operation – otherwise the taxpayers in our countries would not agree to any ‘big sacrifices’. I have, for more than 13 years, headed commissions of labour representatives – much like Olof Palme and Willy Brandt – which looked into unemployment problems. It is very difficult to convince the unemployed that they should be contributing to charity when they themselves are in serious need.

The problem of unemployment in Europe remains; it certainly was not liquidated by the ‘new prosperity’. If anything, unemployment is still growing, and not just in Europe. We have new jobs, but we have no jobs for the people who were previously employed and are now unemployed. And I am of the view that a substantial reduction in unemployment in Europe will be of positive consequence to the Third World. In this regard co-operation with the Third World is of necessity; otherwise it would not be possible to re-integrate at least segments of our permanent unemployed in the labour force.

In concluding, I would like to thank you, ladies and gentlemen, for giving me this opportunity to address this seminar. I also would like to congratulate the OPEC Fund for the work it has done over the past ten years. At the same time, I express my thanks to the OPEC countries who have made it possible for the Fund to do so much, to do so many good things.

**HE Mr ABDLATIF YOUSEF AL-HAMAD**  
**Chairman of the Board of Directors and Director-General,**  
**Arab Fund for Economic and Social Development**

In the name of Allah, the Compassionate, the Merciful.

His Excellency Sheikh Mohammed Ab-Alkhail was so thorough and comprehensive in his discourse of OPEC aid that one can do no better than recall some of the many important points he raised. Do join me, therefore, as I go over some of these with a view to underlining the most salient.

In the first example he raised, the example of co-operation between developing countries, we find the OPEC Fund among organisations showing the way: membership of the Fund is made up of developing countries which aim at assisting fellow developing countries of the Third World. We find that the assistance rendered by the Fund is among the most fairly governed, considering that recipients have the freedom to buy and select from sources of their own choice. OPEC aid is clearly not made for commercial or political gain. The aid is free from all possible constraints; it is direct assistance in the service of the recipient countries.

The second point I wish to highlight relates to the fact that OPEC aid is directed at the least-developed countries, the most needy countries. This reaffirms the fact that the assistance is not merely a reaction to allegations that it is made to compensate for the price of oil. It is, instead, directed at countries which are poor and which really hardly import oil.

The lecturer also mentioned that OPEC aid began at the end of the fifties and the beginning of the sixties. This was a period which preceded the serious changes in the price of oil in the early seventies. We find that the Kingdom of Saudi Arabia and Kuwait had voluntary programmes by which they rendered assistance, at the time, to other developing countries of their own region. Then came the development institutions which were established in the early sixties, one of which I have the privilege of being related to – the Kuwait Fund for Arab Economic Development, established in 1961. This was yet another indication that aid sprang from deep Islamic traditions, traditions which support increasing and intensifying co-operation with the countries of the Third World.

There is another important phenomenon: the fact that OPEC countries' assistance did not fluctuate with the fluctuation of oil prices; rather, they continued systematically with the OPEC donor countries maintaining the same gross national product percentage even after the recent drastic decline in oil prices. As an illustration, we find that OPEC assistance in the period from 1973 to 1983 was approximately 23 per cent of total official development assistance, comprising 30 per cent of concessional assistance on the international scale. Grants, in this assistance, represented approximately 75 per cent of the total. The distinguished lecturer mentioned that OPEC assistance in the last 15 years was US\$69 billion. Very swiftly, he dealt with the role of the Kingdom of Saudi Arabia in such aid. I would like to expand further on this singular role of Saudi Arabia: the Kingdom of Saudi Arabia provided during that period US\$49 billion, and is, therefore, the second largest donor country in the world. It is the second country in donation size after the United States. If we compare the GNP of the OPEC countries as a whole – not just Saudi Arabia – with other donor countries, we find it does not even meet, or equal, one industrialised country's GNP. And this indeed emphasises the importance and the conviction of the OPEC member countries in intensifying their co-operation with the countries of the Third World.

If we wish to glance at the special features of the OPEC Fund, which is a unique organisation, we find that it is marked by the following characteristics: one, it is a symbol of the desire of the developing countries to co-operate with other developing countries by giving them a share in their financial resources; secondly, some member countries of the OPEC Fund are in a development stage which indeed compares with that in many beneficiary countries. Sometimes, they are even less developed and even more needy.

Another important characteristic of this institution is that the Fund embraces countries of three different continents, which vary from population size to development stage. They may not share the same positions, but they are indeed united on the importance of financial co-operation through the Fund, because they are convinced that this represents part of their responsibility to consolidate economic cooperation between developing countries among whose ranks they count. Another main principle of the Fund is the principle of self-reliance. OPEC Fund members believe that South-South co-operation is the main target. The Fund, therefore, seeks to be a symbol of fruitful con-

structive co-operation between developing countries. And a source of optimism is that member countries continue to endeavour to consolidate this important institution, even in the difficult times.

Finally, Mr Chairman, I wish to refer to an observation by Dr Kreisky which I believe is important and should be considered by the governing body of the Fund, because the Fund is the only institution in the world which can implement the point – that is, the Fund should have a role in studying the impact of development on the social and natural environment. This is a basic phenomenon for developing countries, because what happens in the industrialised world has a direct impact on the future of development in the Third World – hence I believe the OPEC Fund has a unique role to play, and this could take place in the forthcoming decade.

## **DISCUSSION**

**HE Mr Mohammad Javad Iravani**  
**Minister of Finance, Islamic Republic of Iran**

In the name of Allah, The Compassionate, The Merciful.

I would like to thank my brother, HE Sheikh Ab-Alkhail, for his profound presentation. It is within the context of his statement that I would like to raise the following points regarding OPEC aid and the assistance the OPEC Fund provides.

Regarding the desirability of an increase in OPEC assistance and channelling this to developing countries, there is a fact which should not be overlooked: the decrease of hard currency earnings in our countries is a major problem. It is very important for OPEC member countries to earn hard currency to be able to achieve their aim of increasing their assistance to others. When we consider the fact that: (1) there are great fluctuations in the price of oil; (2) that these fluctuations have a destabilising impact on producer countries, and (3) that these prices are imposed by the consumers on the producers, we can see the tremendous problems which arise, most of them created by those who control the oil market. The rates of exchange are also defined by the oil consumer. Because they now have large reserves of petroleum, they are trying to control the flow of hard currency to the producer countries, and to manipulate prices at will. We must combat this situation. We must try to control the fluctuations in the price of oil, and we need to stabilise the income of the oil producers. We can see that this is a necessity, and for this reason we propose the following to assure some price stability: the members of the OPEC Fund could work within the framework of the Fund and set up a special fund which would allow them to provide short-term loans to protect our own countries against fluctuations in oil prices. Greater protection from the repercussions of fluctuations in oil prices should help avoid decreasing the price of oil.

Alternatively, we could set up a bank jointly owned by all OPEC members to try to pool some of the hard currency reserves of our countries. The bank could then become an agent acting in the name of the OPEC countries and providing short-term loans to member countries. A third possibility would be for the OPEC Fund to continue with its activities as it has up to now, but

widen them and change its present constitution to set up special procedures, such as those which I have mentioned. This would allow the Fund to implement these measures better to achieve the goals which the countries have set themselves.

The bank I mentioned, or the special fund, could be funded by means of a special levy on each barrel of oil sold. This would allow OPEC countries to have a higher aid capacity; it would allow them to accomplish the goals which they have set for themselves in regard to developing countries.

**Dr Ali Ahmed Attiga**

**Secretary-General, Organisation of Arab Petroleum Exporting Countries**

Mr Chairman, I wish to take advantage of the presence of HE Dr Bruno Kreisky with us, and put forward an idea. I listened with great interest to Dr Kreisky; he gave us not only the background to international co-operation, but his own role, a very vital role, which he has been playing. I know a crusade of co-operation and understanding when I chance to meet one.

Dr Kreisky mentioned that he had suggested to the Americans in the early fifties that part or all of the aid transferred to Europe under the Marshall Plan be returned or re-channelled to the developing countries. I was pleased to hear that. Indeed, that was the first time I heard it, but it is now too late to be given the consideration it richly deserves, let alone implemented. If it had been done, it certainly would have been a very important cornerstone of post-war international development.

But I would like to take this opportunity to put another idea to Dr Kreisky. Perhaps he could pursue it. Now that the price of oil has come down from over US\$30 to US\$10 and even below, the amount of financial resource transfers in favour of the OECD countries are in the order of US\$80 billion a year, this year alone at least. Could we not, sir, perhaps try again to re-transfer some of these funds to developing countries to promote development? These funds are a net gain from the poor to the rich, and it is a very serious loss on the part of developing countries because it is unlike the transfer that took place in 1973-74, when there was so much talk and so much protest and anger over developing countries receiving more cash for their depletable

natural resource. The 1973-74 transfer was clearly not serious, because for the world, that transfer was automatically recycled back into the world trade and financial system, mostly through the purchase of goods and services which OPEC countries bought in great quantities – sometimes even more than they should have – whether in civilian or in military hardware, and what was not spent was automatically placed in the banks and money markets of the industrial countries.

So the 1970s transfer of resources to OPEC countries in particular was really a book entry. In terms of liquidity, these funds were never taken out of the international system. Now we have a transfer in reverse, which is very dangerous – dangerous, because there is no guarantee that this US\$80 billion would eventually return into the international system of payments and trade. Some of it may be used to reduce the financial domestic deficits of the countries concerned; some of it may be channelled to social services and unemployment; some may even go to armaments. Therefore it would perhaps be worthwhile to reiterate that this US\$80 billion – in fact maybe US\$100 billion if you take the depreciation of the dollar into account – is but resources that have gone from OPEC countries to the industrial countries. Now should we not lay claim on some of these resources for the benefit of the developing world, including some of the OPEC countries themselves? – after all, when the transfer went the other way (to our countries), massive aid flowed from our countries to other developing countries. Why should we not expect the same from today's net beneficiaries of resource flow, particularly with the dangerous consequences mentioned of having these funds sucked out of the international monetary and trade system.

**HE Mr Isidore Nyaboya**

**Minister of Public Works, Energy and Mines, Burundi**

Mr Chairman, I also would like to join those who spoke before me to thank HE Sheikh Mohammed Ab-Alkhail for his clear, informative and convincing speech on the spirit and philosophy of the OPEC Fund. One is moved by such expressions of solidarity, the concretisation of which is the Fund itself.

Coming from a country which is least developed and which has benefited from this solidarity, I was touched by his remark on future assistance from the Fund – whether it would continue in the face of declining OPEC revenues. The answer he gave is certainly a good one, but it is one which entails neither optimism nor pessimism. He said the continuation of OPEC assistance will depend to a certain extent on the availability of means. My question now is, what are the prospects for those means? His Excellency might be kind enough to try and give an idea of what we could expect in the future. Could he make a commitment to the effect that, although we are in a changing environment and in a situation of rickety oil prices, there is still hope that the type of sacrifices made in the past by the OPEC countries would continue or even increase? Could the honourable minister assure us that more assistance might be forthcoming if the prospects take a turn for the better and the earning position of OPEC countries improve? These are questions to which I would be glad to receive answers.

**HE Mr Ali Majedi**

**Senior Vice Minister, Ministry of Economic Affairs and Finance,  
Islamic Republic of Iran**

In the name of Allah, The Compassionate, The Merciful.

Mr Chairman, I am from the Ministry of Finance of the Islamic Republic of Iran, and I am a member of the Board of Governors of the OPEC Fund. I would like to thank you and all those who are participating in this seminar. I wish to reply to certain points raised about the OPEC Fund.

When we compare the aid of the OPEC Fund with that provided by industrialised and advanced countries, we see that developing countries could rely on the oil exporting countries for greater benefit. Does this not mean that if the oil exporting countries are able to continue to earn the same revenue that they earned in the past, they will be better able to assist fellow developing countries? And that they will do this better and to a greater extent than the advanced, industrialised countries?

If we want to continue with assistance as we did in the past and with greater force, then we will have to try to maintain our income at the level we

had in the last ten years. Relations between North and South and South have shown that countries with greater resources and dependable income do more and are taken more seriously. Therefore I would like to reiterate the proposal made by the Honourable Minister of the Islamic Republic of Iran and ask you once again to heed his suggestion to set up a mechanism which would keep oil prices at an acceptable level. This will need to be done so that in the future, the OPEC Fund will be able to continue providing aid as it has in the past.

**Mr Tsuneo Oyake**  
**Special Counsellor,**  
**Organisation for Economic Co-operation and Development**

Mr Chairman, it is a great honour and pleasure for me, the representative of the Organisation for Economic Co-operation and Development, grouping 24 developed countries of Asia, North America, the Pacific and Western Europe, to be here on the occasion of the 10th anniversary of the OPEC Fund, and to convey to you the congratulations and best wishes of the Secretary-General of the OECD, Mr Jean-Claude Paye, who is unable to attend personally.

The establishment of the OPEC Fund ten years ago was an important event in the history of development assistance. This was the first time, as has been said by previous distinguished speakers, that a group of developing countries set up a development aid institution at the multilateral level. We at the OECD have followed the aid efforts of the OPEC Fund and have noted with interest the way in which OPEC countries have used a very appreciable part of their own earnings for development assistance. As you know, the OPEC and Arab aid funds have met regularly on an informal basis with members of the OECD Development Assistance Committee to discuss the scope for the expansion of co-financing and other matters of common interest, with the objective of making our aid efforts more effective and contributing to economic development. The OPEC Fund has always been an active participant in these joint meetings.

The world today is confronted with the problem of assuring adequate levels of financial resource transfers to developing countries. Interdependence is a reality. OECD member countries are conscious of the need to

make quantitatively and qualitatively adequate concessional and non-concessional financial flows available to support developing countries' growth and adjustment programmes. Multilateral donors, including the OPEC Fund, have a key role to play in this respect. There is a continuing need for an increase in development assistance. The emphasis placed by OPEC on assistance to the least-developed countries is most desirable in my view and should be sustained. In conclusion, Mr Chairman, we wish the Fund, its Director-General and its staff every success for the next ten years, and look forward to continuing co-operation with the Fund for the benefit of the developing countries.

**HE Mr Jassim Mohammed Al-Kharafi**  
**Minister of Finance and Economy, Kuwait**

It was not my intention to participate in this discussion, but following the excellent presentation made by Sheikh Mohammed Ab-Alkhail, I felt I should take the floor. I should also like to commend Dr Bruno Kreisky on his excellent presentation and discussion. We do observe that the bulk of development assistance is misused, because of the lack of stability and because of the insecurity that exists in most of the developing countries. Frequently, these countries use most of their budgets for weapons and for various activities related to national security. In examining this whole question of co-operation, I would like us to work together in the search for ways and means of achieving stability for consolidating peace, so as to make it possible for the developing countries to make better use of the resources made available to them.

**HE Sheikh Mohammed Ab-Alkhail**

I have a number of brief points. First, I should like to express my thanks to all of those who have commented on my presentation, particularly Dr Bruno Kreisky. I would like to say, sir, that your comments were very relevant and useful and I should like to thank you personally for them.

The second observation also has to do with Dr Kreisky and his comment on co-operation between our countries – European countries on the one hand

and OPEC countries on the other. I believe that the idea he put forward is a very interesting one. We must encourage our countries, through the OPEC Fund, to examine ways and means of enhancing co-operation with European countries during the coming decade – the decade which opens today for our Fund. The Fund's major activities in the years ahead should relate to developing cooperation in all areas, whether trade co-operation among the developing countries or co-operation in other economic realms. The Fund could examine the modalities for co-operating with the developed countries for future efforts.

Another comment I should like to make in connection with the question which was raised by my colleague, the minister from Burundi, relates to the future of the Fund. I have already said that it is our intention to continue co-operation with the developing countries. Here, Mr Chairman, I should like to say that OPEC member states have already established a number of development aid institutions to which sufficient financial resources have been devoted to enable them to continue their activities. This means that the resources which these aid institutions now possess will continue to be utilised for assistance to developing countries.

In relation to this point, I should like to confirm what was stated by HE Mr Al-Kharafi of Kuwait when he referred to our intention to strive to develop available resources to continue our contribution to the development of these developing countries. The resources of these aid institutions could be boosted in the future. It is quite normal for our countries to continue these co-operative efforts in the future, when they once again will be in a position to do so. Now, as far as the general orientation of co-operation is concerned – that is, the direction that our organisation has taken for co-operating with the developing countries – this of course is based on our faith in the very concept of co-operation. This is why the pursuit of such co-operation is something that we can reconfirm here without any reservation or hesitation.

## PART THREE

# **SOUTH-SOUTH CO-OPERATION**

**HE Mr Jassim Mohammed Al-Kharafi**  
Minister of Finance and Economy, Kuwait

*Developing countries should be more cognizant of their collective strength and existing potential, which constitute an enormous source of power for pursuing their legitimate economic interests.*

*HE Mr Jassim Mohammed Al-Kharafi*

It is a great pleasure for me to participate in this seminar, and at the same time take this opportunity to extend my congratulations to all member states of the OPEC Fund for their goodwill, determination and close co-operation, which made it possible to establish the Fund and promote its operations and activities for the benefit of other developing countries. Likewise, the persistent efforts made by the management and staff of the Fund have been no less important in advancing its record of achievements over the last decade. To all those who have contributed to the success of this joint endeavour, I wish to express our thankfulness and appreciation.

I will now turn to the substance of my paper, which deals with South-South co-operation. In this context, I will start by highlighting the OPEC countries' efforts.

**OPEC Countries and South-South Co-Operation**

The establishment of OPEC in 1960 was an example of how a group of developing countries could, through their collective efforts, collaborate to protect their interests against unfair and unjustifiable practices in world trade. By the early 1970s, OPEC countries had managed to exert control over their most important and vital resource.

This was a significant initiative; it marked a turning point and was hailed as a new development in the history of relations between developing and developed nations.

As we look back over the last decade following the oil price revolution of 1973, we see that the newly-acquired strength of OPEC brought with it new hope for Third World countries which hitherto had been subjected to

inequitable and unbalanced North-South relations. In 1975, the International Conference for Economic Co-operation, the first of its kind in world economic history, was held in Paris. The North initially wanted the conference to concentrate on the energy issue, which had become important to them. Due to the OPEC countries' efforts, the agenda of the conference was broadened to include other issues of interest to the developing countries, such as raw materials, development and finance. Although the conference did not achieve much in terms of results, it demonstrated that the solidarity of the developing world was essential if the North was to be persuaded to agree to discuss issues of importance to developing countries in accordance with a mutually negotiated and agreed agenda.

The solidarity of OPEC member states with the rest of the Third World does not arise from short-term economic and political motives; it emanates, more importantly, from centuries of historical and cultural ties. Additionally, while all developing countries hold similar aspirations towards achieving social and economic development, their aims are continuously hampered by a world economic structure characterised by the dominance of the North. This aspect of imbalance in international relations has been a stumbling block, the removal of which would, no doubt, pave the way for more equitable and balanced co-operation between the developed and the developing nations. In their pursuit of economic progress and development, the developing countries had consistently felt the pressure and experienced the injustice of control by the North. Under these circumstances, the South has to exploit its existing potentials and capabilities to strengthen its bargaining power *vis-à-vis* the North, with the aim of establishing balanced international economic interdependence.

Realising the shortcomings of the Economic System which was created at Bretton Woods in the aftermath of World War II, the OPEC countries have thrown their new strength behind larger and more encompassing groupings of the Third World, particularly the Group of 77, and the Non-aligned Movement. By getting the UN General Assembly to approve the resolutions on the establishment of a New International Economic Order, the developing countries (LDCs) have demonstrated that their collective and concerted efforts are fundamental elements in the pursuit of their common aspirations, interests and objectives. The Solemn Declaration of the Sovereigns and Heads of State of OPEC issued in Algiers in 1975 declared the common position of all OPEC

member states on a number of international economic issues of great significance. It also stressed the need for close cooperation between OPEC states and other developing nations. The outcome of this important declaration has been increased co-operation between OPEC nations and other Third World countries through bilateral, multilateral, regional and international channels. The OPEC Fund is only one of the ideas envisaged in that declaration which has become a reality.

Remarkable efforts have been made by OPEC countries to establish and strengthen ties among LDCs with the aim of expanding cooperation and raising it to higher levels, not only in the field of development but in other areas as well. And in their co-operation with other developing countries, OPEC states enjoy a unique characteristic: they neither seek to gain political influence nor look for economic exploitation. The reason is simple and understandable. They themselves are developing countries and have long suffered from foreign exploitation. Furthermore, they recognise that interdependence, whether between the developing countries themselves or between the North and the South, should not be a gateway leading to dependence and dominance. In a largely interdependent world economic structure, the South must look for all alternatives and possibilities to increase, promote and strengthen co-operation among its member states on grounds of mutual respect and confidence, justice, sustainable relations, and collective and concerted efforts.

### **Inadequacies of the North-South Dialogue**

The economies of the developing countries have been severely hit by the deep and prolonged recession of the 1980s. The present turmoil in the world economy puts a disproportionately severe burden on the developing countries to adjust to a changing economic environment. Although the surge in world inflation has recently been brought under control and high interest rates have been pushed down to a certain extent, the consequences of debt, the sharp decline in the prices of commodities exported by LDCs, protectionist measures adopted in the developed countries, and unstable exchange rates of the reserve currencies have put heavy pressure on developing countries around the globe. Their development efforts have largely been hindered exogenous economic shocks beyond their control.

It is clear that the resolution of the major problems of the world economy requires North-South co-operation through dialogue and negotiation. More than two decades have elapsed since developing countries obtained agreement on formal discussions of international development issues on a North-South basis. Despite the efforts made by the South during the last decade to sustain and intensify the discussions and make them more meaningful and productive, the chances for a new and serious North-South dialogue today seem discouraging. Interest in the establishment of a New International Economic Order as well as in the reform of the international monetary system and in other important related issues also seems to have faded away. Instead of pursuing these issues in open dialogue with the South, the North is putting much emphasis on, and diverting attention to, failures of domestic economic policies and management in the South. Of course, the rectification of certain development failures remains the responsibility of the developing countries which must make the necessary adjustments. But bringing order to the world economy requires the industrial countries' firm commitment to proceed to the negotiating table with goodwill and a sense of responsibility for promoting the welfare of the global community in an environment where equity and justice prevail.

It is now evident that past efforts by the developing countries at a comprehensive approach to the resolution of important international economic issues have been largely in vain. However, the developing countries' disappointment and frustration should not cripple their power or shatter their faith in their own capabilities. Instead, they should be more cognizant of their collective strength and existing potential which constitute an enormous source of power for pursuing their legitimate economic interests. Mindful of the position of the North, the developing countries should re-affirm their solidarity and co-ordinate their position regarding the establishment of a New International Economic Order. While it is regrettable that the global round of North-South negotiations is in a dormant state, or even seems to have passed into oblivion, the South should maintain pervasive follow-up to revive the legitimacy of the key issues and accord them high priority in the context of international economic relations and co-operation. In the meantime, the developing countries should enhance their co-operative efforts to take advantage of their considerable potential which carries vast economic opportunities for the growth and development of the South.

### **Trade And South-South Co-Operation**

Now, let us examine some main areas of economic co-operation in the South, beginning with trade. Traditionally, the industrialised countries have been the major trading partners of LDCs, and the present system of world trade has been promoted by the trade, monetary and financial institutions of post World War II. A significant part of trade in the South continues to take place through intermediaries in the industrialised countries which have been the major beneficiaries of the tremendous increase in world trade over the last two decades. This is not to suggest that no efforts were made within the South to change the prevailing pattern of trade. Indeed, the OPEC countries as a group made considerable efforts to change the old trade pattern, and other Southern countries, working through some regional institutions, have succeeded, to varying degrees, in promoting intra-regional trade. There are indications that, for the period 1973-83, OPEC trade with other developing countries grew at a relatively faster rate than their trade with the rest of the world. OPEC countries' imports from LDCs went up and their exports to other developing countries ceased to be limited to petroleum only. Reduced oil revenues and the debt service difficulties of some OPEC member states have led since 1983 to a reduction in the group's import bill. Regardless of such temporary changes, however, which we hope will not last for long, the OPEC countries will continue to be an important market for the exports of other LDCs.

In the context of trade within the South, services deserve special mention. During the 1970s, almost all OPEC countries absorbed a large number of expatriate and migrant labour whose remittances became an important item in the balance of payments of many labour-exporting countries. For certain countries like the Arab Republic of Yemen and the People's Democratic Republic of Yemen, these remittances were not only the major source of foreign exchange earnings, but have also exceeded the value of their merchandise exports. Other countries like Egypt and Pakistan also received remittances which constituted a major share of their foreign exchange earnings. These earnings have partly helped to remove the foreign currency constraint on some of the recipients and have therefore positively contributed to their development efforts.

The existing potential for trade co-operation among developing countries embodies opportunities which can take the South a long way towards its devel-

opment objectives. Effective exploitation of these opportunities depends on a number of requirements which are deemed necessary for trade promotion and expansion in the South. First and foremost, regional economic co-operation needs to be founded on principles of mutual confidence, fairness and justice to ensure its continuity and permanence. Second, various regional trade organisations should seek to establish links between themselves with a view to exchanging trade information and studying possibilities for increasing and strengthening co-operation. They also should explore ways and means of implementing joint economic initiatives, and determine the facilities required for their support and promotion. Well established regional co-operation may be viewed as a gateway to wider cooperation encompassing all developing countries. Such co-operation should be built on a modern trade information system and other essential facilities for the benefit of all of them.

Several factors in the South can be enumerated as conducive to its development. A large population, a wide range of natural resources and a huge market constitute the main source of strength for the South. While almost all developing countries are poor in income terms, they are diverse in economic and social conditions as well as in political structures. Economic diversity itself can be an important factor in a development process based on co-operation and collective effort. It provides elements of complementarity for the promotion and enlargement of the scope of beneficial co-operation.

Within the South, there are countries which have acquired relatively advanced skills, specialities, technical capabilities and technologies that are not to be found in other less-advanced Southern countries. Up till now, we have witnessed, more often than not, that development in the South has been heavily dependent on the expertise and technology of the North. We believe that serious efforts should be made to reverse this situation by encouraging consultants, contractors, and suppliers from the South to play a more active role in development operations. This venue of co-operation not only provides opportunities for employment, but also increases the prospects for promoting trade in goods and services. At times, it opens the way for the use of simpler and more suitable technologies developed in some LDCs.

### **Financial and Investment Co-Operation**

Since OPEC aid has already been dealt with by my distinguished brother HE Sheikh Ab-Alkhail, it is sufficient to reiterate in this regard that the OPEC Fund's diverse development activities and operations in more than 80 developing countries over the last decade were a manifestation of OPEC countries' keen interest and deep desire to solidify and strengthen co-operation with other Third World nations.

Apart from aid, other forms of financial co-operation between OPEC countries and other developing countries grew rapidly in the 1970s. In the majority of OPEC countries, there have been no restrictions on capital transfer, and this encouraged the growth of investments covering the production of various goods in the mining sector, manufacturing and services. Also, numerous joint banks were established in Latin America, Africa, the Middle East and the Far East. Joint venture banks and Arab banks in the Middle East were instrumental in transferring resources from OPEC states to the European money and capital markets from where part of the funds were channelled to other developing countries.

Furthermore, the opening up of capital markets by some OPEC members such as my own country, Kuwait, and the establishment of a number of investment companies and banks in the OPEC countries in the 1970s, provided access to borrowing by governments of developing countries as well as international development institutions such as the World Bank. Because of the recent decline in oil revenues and the emergence of balance of payments difficulties and debt servicing problems in some OPEC member countries, the activities of the private capital markets which declined in the last three years may continue to shrink. Still, the nature of the relations between commercial financial institutions in OPEC states and other parties in the South has not changed. Indeed, the commercial financial institutions are expected to continue to play an active role as economic conditions improve. Direct investments and joint ventures in various economic fields hold large prospects for closer South-South cooperation. However, to encourage and promote such activities, the developing countries bear the responsibility for the improvement of the investment climate, not only by enacting laws and issuing rules and regulations, but also by establishing investors' confidence in them through their practical application and enforcement on the basis of fair treatment.

### **Co-Operation in Research and Technology**

Besides prospects for co-operation in trade, services and investments, the developing nations should give utmost attention to the questions of research and technology whose significance for development hardly needs to be underscored. In this regard, it seems to me that what the developing countries need most is a collective effort to devise regional and/or multilateral research programmes aimed at dealing with specific problems and issues relevant to the development of the South. One such important issue is that of developing technologies appropriate to the socio-economic circumstances and ecological attributes of developing nations. The development of such technologies requires a determination of appropriate technical, organisational and financial structures.

### **Conclusions**

The success of co-operation in all the areas mentioned depends on a recognition of the shortcomings which still exist in South-South relations. We sometimes witness a lack of seriousness in translating cooperation agreements into realities. I also find it important to note that OPEC countries are at present undergoing economic changes which may not permit them to provide development assistance on the same level as they did in the last decade. This in itself should not deter us from seeking other avenues of economic co-operation with Southern countries, based on the identification of mutual interests. Such economic co-operation may actually lead to furthering South-South co-operation in other cultural and political areas.

It is very important that we candidly recognise that the current state of affairs will not change overnight. The developing countries, as we all know, face an enormous challenge in their pursuit of progress and development, but at the same time they have opportunities which extend beyond those which have already been identified and utilised. Collective efforts and closer co-operation are instrumental means for bringing the developing countries closer to the achievement of their common interests and development objectives.

## **RESPONSES**

**Dr Ali Ahmed Attiga**

**Secretary-General, Organisation of Arab Petroleum Exporting Countries**

It is fitting and proper that the main speaker on co-operation between the developing countries should be the representative of Kuwait, since Kuwait has played a pioneering and far-sighted role in promoting this co-operation. The future of North-South co-operation undoubtedly depends on the success of co-operation between the developing countries themselves, and their co-operation, in turn, depends on the effort and resources invested in the planning and implementation of schemes to promote regional and international interdependence between the developing countries.

His Excellency Mr Jassim Mohammed Al-Kharafi indicated that the 1970s witnessed encouraging moves towards co-operation between developing countries, despite the political disputes and general tension which prevailed in most regions of the Third World. In contrast, the 1950s and 1960s were years of political solidarity, pursued through the Non-aligned Movement, the Group of 77 and other international fora, against imperialism and its legacy. In these years economic cooperation based on mutual desire and interest between the developing countries and their economic and financial institutions was extremely weak. The Kuwait Fund for Arab Economic Development was the first national financial institution set up to provide aid and promote co-operation. Because of this achievement, Kuwait deserves to be called the pioneer in development and co-operation between the developing countries.

A positive aspect of HE Mr Al-Kharafi's statement is that it not only reviewed and analysed the position and problems of co-operation between the developing countries, it also examined specific areas where both South-South and North-South co-operation and interdependence can be enhanced. I find myself in full agreement with HE Mr Al-Kharafi on the validity of the four areas he highlighted – trade, financial co-operation, services and technology. However, it should be pointed out that these and other areas constitute an integrated unit. It is difficult to achieve success in one area in isolation from the others because they all complement one another and must be addressed as a whole.

The statement also acknowledged that the efforts exerted to enhance co-operation and interdependence are still minimal compared with the potential available. Although this situation demonstrates the failure of the developing countries to match their words with deeds, it also comprises an element of hope, because considerable potential for promoting long-term co-operation between the developing countries remains unexploited. The large population, the wide diversity of natural resources, and the extensive untapped market in the developing countries, to which the lecturer referred, constitute a sound base for building and enhancing South-South co-operation and interdependence. But in order to achieve, maintain and enhance this goal, the developing countries must form homogeneous economic groups based on mutual trust and justice.

In addition to the four areas identified for promoting co-operation between the developing countries, there is another important area that deserves urgent attention, namely the sphere of energy and the oil industry. The developing countries have the largest energy resources in the world, but their energy consumption is considerably lower than that of the industrial countries. This contradiction clearly demonstrates the extent of the backwardness that is impeding the progress of the developing countries and reinforcing their dependence on others. Fortunately, the three continents to which the developing countries belong contain diverse sources of conventional energy, topped by oil and gas. These countries will need to channel all their energy resources into developing their economies for a long time to come. Only then will they acquire the scientific capability to exploit new energy sources and types such as solar energy.

Undoubtedly, the developing countries have the ability to set up joint ventures and common markets, related to energy and the oil industry, through regional groupings in Africa, Asia and Latin America. In this context, the importance of the Arab world emerges, because it currently holds the biggest reserves of energy and will continue to do so in the foreseeable future. The success of joint action in the area of energy, as in any other area, necessitates reliance on public and private joint institutions. This brings us to the sad plight of joint institutions in the developing countries. The countries set up these institutions to serve mutual interests and to unify their stands, but they subsequently ignored them and reneged on their commitment to the institutions' noble goals. The irony is that just as they face critical circumstances,

the developing countries turn away from regional joint institutions to national and international institutions to solve the problems which they often share with other developing countries. These problems can only be solved if the developing countries apply themselves seriously to working through their joint institutions.

I should like to pause here to comment on the OPEC Fund itself and its management. The role played by the Fund is an example of successful co-operation between developing countries. It should be maintained, supported, and enhanced. I should like to suggest that the Fund is enabled to expand gradually its role in promoting co-operation in the sphere of energy, which can provide a broad basis for interdependence between various groups of developing countries. In pursuit of this aim, the OPEC Fund could co-operate with specialised regional institutions already established between developing countries, such as the Association of South East Asian Nations, the Latin American Energy Organisation, and the Organisation of Arab Petroleum Exporting Countries.

In conclusion, I should like to emphasise once again the need for the developing countries to commit themselves to regional co-operation if they are to play any significant role in the twenty-first century. The world of today, and even more so of tomorrow, only respects strong political and economic blocs such as those currently represented by the industrial countries – the United States, Western Europe, the Soviet Union, and Japan. Among the developing countries, prominent examples are China, India, and to a lesser extent, Brazil. The rest of the developing countries need to form groups based on fruitful co-operation so that in the coming century, they do not become even more like dependencies of the powerful blocs than they are at present. We sincerely hope that this will not be the fate of the developing countries, particularly since they have the ability to prevent it from happening.

I wish the seminar every success and the OPEC Fund continued progress in the coming ten years along the road of co-operation between developing countries, which represents the only means of escape from the appalling poverty and ignorance prevailing in most developing countries today.

**Dr Faik Ali Abdul-Rasool**

**President, Iraqi Fund for External Development**

Following HE Mr Jassim Mohammed Al-Kharafi's comprehensive and exhaustive exposé on the course of relations between the countries of the South, I would like to add that these relations should be considered against the background of the present world situation.

The world is divided into two major groups – namely, the rich industrial countries of the North with a population not exceeding 30 per cent of the world's population and a consumption absorbing 89 per cent of the world's production; and poor developing countries, the majority of which are located in the South; they are inhabited by 70 per cent of the world's population and their consumption is limited to less than 10 per cent of world production. This gap is still growing so wide that it seems as if we are living in two different yet interdependent worlds. Dialogue with the North, from such a weak position, proves to be obsolete if we take into consideration the time and efforts the South has invested in it during the past decades.

The unity of countries in the South does not depend on poverty measured in terms of average annual per capita income or even on aspects of such poverty, but there exist basic features which bind these countries historically and create common interests that demand solidarity today and in the future. Among these features are the military occupation and political control to which most of the Southern countries were subjected at one time or another. The second feature is that they all were, and still are, the victims of direct economic exploitation, which lasted through colonialism and continued even after they had gained political independence. The third feature is that they were all the object of a 'civilisational oppression' from which they are still suffering.

In contrast, the countries of the North possessing all the military requirements and elements of economic force, such as industry, technology, finance, communications and control over the media, have established a firm network of economic, commercial, financial, monetary, educational and social ties, as well as transport routes and communications, which have helped maintain various links between the South and the North, with all the implications of such unjust and unequal links – i.e. dependence and exploitation.

The beginning of disengagement and liberation from dependence and economic exploitation would be when the developing countries take the path of self-reliance in production, consumption and civilisation, which could be achieved via optimal utilisation of available economic resources. This is not a call for isolation or for the achievement of self-sufficiency, but it is a call on the countries of the South to step up their development efforts, to expand and strengthen their economic, trade and financial relations with one another. The process of self-reliance should be accompanied by a gradual disconnection from the present economic order towards the formation of a coherent economic bloc united in interests and international positions and capable of actively influencing relations between the North and the South, with a view to ultimately bringing these relations into line with the objectives of the New International Economic Order. The call for collective self-reliance does not abrogate the current role of some of the Southern countries which take the path of regional integration, as has been the case among Arab, Latin American or African countries, since this type of grouping represents, in our opinion, the primary and necessary stage for collective self-reliance at the level of all the countries of the South.

OPEC countries, particularly those with balance-of-payments surpluses, have played a significant role in encouraging co-operation among the countries of the South. They have done so on the individual level through the establishment by each of them of a special fund to provide financial assistance to developing countries, or, at the regional level, through the establishment of such institutions as the Arab Monetary Fund and the Arab Fund for Economic and Social Development. At the international level, they have helped found the OPEC Fund and the Arab Bank for Economic Development in Africa. They have also financed special facilities established by the International Monetary Fund or the World Bank, designed to assist developing countries. Moreover, these countries created a series of international banks to help finance developing countries' trade and balance of payment deficits.

This role played by the OPEC countries in the international financial market had a clear impact on the course of co-operation between Southern countries and helped towards the following:

- (1) Increasing the direct financial flows from OPEC countries to other developing countries on concessional easy terms, whose value exceeded US\$75 billion in 1973-84, in addition to other direct and indirect financial flows from OPEC countries to other developing countries on commercial terms.
- (2) Increasing the volume of trade among developing countries, the value of which totalled US\$321 billion or the equivalent of 30.6 per cent of developing countries' aggregate trade with the rest of the world in 1984, compared with 24.6 per cent in 1978. This clearly shows that trade between developing countries has risen at higher rates than trade with the rest of the world.
- (3) Transfer of manpower and expertise from countries with large populations to those OPEC countries lacking in human resources associated with reverse transfer of capital from OPEC countries to other developing countries, plus social, educational and cultural exchange between developing countries.
- (4) Encouraging implementation of development projects by developing countries' companies instead of industrial countries' companies, and granting them special treatment in the interest of co-operation and solidarity.

May I finally suggest that economic co-operation between developing countries has reached a relatively high level, though still very much below the level of our desires. To expand such co-operation further requires special attention that can only be provided by establishing a Southern organisation much like the Organisation for Economic Co-operation and Development of the North. The South should consider such measures instead of leaving their co-operation to the vagaries of market conditions and global economic fluctuations that may affect such co-operation negatively.

**Dr Ibrahim F.I. Shihata**

**Vice-President and General Counsel, The World Bank**

I would like to offer five thoughts on this subject of South-South co-operation.

First, the international movement of capital between North and South is today witnessing a net transfer of funds from South to North on a record scale. The South finds itself receiving lower prices for its primary commodities, and transferring more funds to the North (in loan servicing and capital flight) than it ever did before.

Second, the South seems to be losing over time its comparative advantage in the world economy; that is, the advantage of abundant raw material and cheaper labour. With advances in the technological revolution of the North, both raw materials and labour account to date for lesser shares in the production cost than they used to. In many industries, the cost of knowledge and technology is becoming the main element. Thus, the relative importance of raw materials and labour costs is declining and, as a result, the prices of primary commodities and the attraction of cheap labour to foreign investors will continue to decline.

Third, with oil now cheaper in terms of the purchasing power of the US dollar than it was even in the 1930s, and with net transfers from South to North exceeding US\$20 billion annually in recent years, the need for South-South and North-South co-operation is greater than ever before. The time has come to move from rhetoric and slogans to finding practical solutions to arrest the present untenable direction of financial flows (from poor to rich countries) and help the South maintain its development. The development of the South, after all, is in the final analysis also in the best interest of the more advanced North, where continued prosperity depends on the expansion of international trade and investment.

Fourth, advancement in science and technology will be badly needed to improve the position of the South in the world economy, particularly because reliance on advanced technology is increasing rapidly in both industry and agriculture. It is hoped that the governments of the South, their planning ministries and their development assistance institutions fully realise the importance of this factor.

Finally, South-South investment co-operation must expand. Aid efforts among developing countries, which mainly take the form of one-sided assistance from OPEC countries, should be accompanied by direct investment which benefits both the home countries and the host countries. The establishment of the Multilateral Investment Guarantee Agency (MIGA), which I have enthusiastically pursued at the World Bank and which is about to become a reality, is meant to improve the investment climate in developing countries and to encourage, in particular, investments among developing countries. It is hoped that this new instrument would enable capital-exporting developing countries to invest in other developing nations, thus expanding a more balanced form of co-operation for the benefit of the South as a whole. The OPEC Fund may find it useful to consider extending assistance to the poorest countries to meet their cash subscriptions to MIGA, which is typically in the range of US\$50,000 to US\$60,000 per country.

## **DISCUSSION**

### **HE Mr Isidore Nyaboya**

His Excellency Mr Al-Kharafi raises the point that because of historical ties of colonialism and because of the vested interests of certain countries, certain individuals and certain institutions, it has become very difficult to attain the objective we all would like to get – better South-South co-operation. I recall a seminar once organised by the United Nations, and an intervention made by a senior official of that Organisation who happened to come from a developed country. When the question of the New International Economic Order was being discussed, he said, and I quote: ‘If we gave political independence to these countries so easily, we should not be expected to give them economic independence that easily.’ Well, what he said, even if inappropriate in a UN forum, was the truth of the matter.

South-South co-operation, clearly, is a necessity if we are to achieve economic independence. The ideas, therefore, which were expressed by the distinguished Minister and those who spoke right after him – that the only solution to our difficulties must be more economic co-operation between the countries of the South – are certainly true and valid. They are ideas we must pursue. Let us take the example of trade: sometimes we notice that some goods which are produced by developing countries must go through the mills of a multinational concern and, without any transformation whatsoever, are to be sold at exorbitant prices to other developing countries. This is one area where rather inexplicable and unreasonable things are happening.

This, of course, could be avoided if we had some mechanism whereby we identified the possibilities of co-operation without the services or non-services of the middlemen that are the multinationals. These and similar organisations actually hamper co-operation between the countries of the South. Avoiding these organisations would help improve the existing potential and the capabilities of our countries and strengthen our bargaining power.

Mr Chairman, I believe that the idea which was expressed by Dr Faik Abdul-Rasool, President of the Iraqi Fund for External Development, that we should try to establish an international organisation of the South which would look at these potentials and then try to realise them is a very good one.

The problems are there; we are aware of them. But it is not the aim of this seminar to find solutions; the solutions will take time and must be studied very carefully. I think the objective we must try to aim at is to establish certain mechanisms which would help us break these chains of unnecessary dependence.

**HE Mr Jassim Mohammed Al-Kharafi**

A small remark concerning the proposal about establishing an organisation to take up this matter. Mr Chairman, we will find ourselves contemplating an organisation which runs our organisations. The problem is not a lack or shortage of organisations or bodies to deal with relations between developing countries; the main prerequisite is goodwill. Once the goodwill is there, once there is a determination to develop such relations between developing countries, we would find, I believe, that we would have realised most of our objectives, and we will have taken the right path toward the desired goals.

PART FOUR

**ARAB-AFRICAN CO-OPERATION**

**HE Mr Abdelaziz Khellef\***

Minister of Finance, Algeria

*Arab-African history is a shared history of struggle against colonialism, economic and social under-development, exploitation and dependence. We have a common destiny which is shaped by geography and history. Two-thirds of the Arab population is African and three-quarters of Arab land is located in Africa, covering more than one-third of the continent.*

*HE Mr Abdelaziz Khellef*

**Introduction**

The tenth anniversary of the OPEC Fund presents us with an opportunity to review the experience of a decade of international cooperation enriched by the advent of OPEC and the innovative ideas of the organisation toward the establishment of a New International Economic Order. The many aspects of cooperation between OPEC countries and the rest of the international community have been, or will be, discussed during the course of the day. I will focus on Arab-African co-operation *per se*, to comply with the wishes of the organisers of the seminar:

First of all, it is a pleasure for me – for more than one reason – to introduce the subject which, in my view, is a most eloquent expression of solidarity toward part of the international community and a model worthy of emulation. I say this fully aware of the fact that the subject has been discussed on many occasions and in various fora. I am also aware of the vast criticism levelled at this type of cooperation, criticism which has even succeeded in creating distrust and often discrediting the objectives pursued by the partners in the endeavour. The onslaught notwithstanding, Arab-African co-operation has forged ahead, demolishing stereotype ideas and upsetting interests. Ours has been a community of history and of destiny, a community of complementarity and interdependence. It is from this truth that Arab-African co-operation has emerged.

\* Read on his behalf by HE Mr Mohamed Terbeche, Secretary-General of the Ministry of Finance and member of the OPEC Fund Governing Board.

### **Recent History of Arab-African Co-Operation**

Let me begin with history. Arab-African history is a shared history of struggle against colonialism, economic and social underdevelopment, exploitation and dependence. We have a common destiny which is shaped by geography and history. Two-thirds of the Arab population is African, and three-quarters of Arab land is located in Africa, covering more than one-third of the continent. Furthermore, about one-half of the non-Arab African population subscribes to the Moslem faith.

The complementarity and interdependence of Arab and African economies have their genesis in early history. It was a time when trade flourished. Products such as gold, timber, textiles, spices and salt were freely exchanged through caravan routes and by merchant fleets. The merchants opened the first shipping routes. History shows that it was the success in economic co-operation between Arabs and Africans that showed the way to Europe and sparked colonial interest in Africa.

Mr Chairman, these reminders are important, because they help highlight the originality of Arab-African co-operation and underline the profound awareness of both parties of the solid basis that underpin it. Historically, Arab-African co-operation, as is the case with all other complex relations amongst nations, has not been defined in all its aspects at one single point in time and at a single place. Nonetheless, a number of historical stages of decisive importance can be quoted. Among the most important are the Arab summit in Algiers in 1973 and the Conference of the Heads of Arab and African States, which was held in Cairo in 1977. Although it dates back earlier, Arab-African co-operation was undoubtedly given decisive impetus following the October 1973 war, when all of the African countries demonstrated their solidarity with the Arab countries. The Algiers Summit, which imposed a total oil embargo on South Africa, Rhodesia and Portugal, also set up three complementary aid organisations for Africa: the Arab Bank for Economic Development in Africa for economic co-operation; the Special Arab Aid Fund for Africa (BADEA) for financial co-operation, and the Arab Fund for Technical Assistance to African countries and Arab countries, for technical co-operation.

Since then, not a single initiative has been taken by the international community on behalf of Africa without the Arab partner playing a predomi-

nant role – above and beyond the direct efforts of institutions such as the OPEC Fund or national Arab institutions. The statutes and areas of activity of these institutions were broadened to provide more effective co-operation.

The true dimension of this co-operation was decided upon at the first summit conference of Arab and African heads of state, held in Cairo in March 1977. The conference adopted certain fundamental texts for Arab-African co-operation which were scripted on the basis of extensive experience garnered over years of effort in the field of co-operation. The summit, at the same time, marked a new starting point for what we believed would be a lengthy process. The declarations adopted at the conference comprise the 'Cairo Charter' and set forth the principles and organised structures which, we reasoned, should allow for effective development of political, economic, and financial ties, embracing education, science and culture. Unlike other platforms of this type, the Cairo Charter goes beyond the mere declaration of principles and the simple expression of political will. It has a programme of action and it set up bodies and procedures which are called upon to transform principles and political will into concrete realities. Thus, in addition to the joint summit conference held every three years and the joint ministerial conference of foreign affairs held every 18 months, a standing commission of twelve African countries and twelve Arab countries has been established. It meets twice yearly. The Commission's working agenda is prepared by a committee of co-ordination comprising the chairmen of the two committees of twelve, and the two Secretaries-General of the Arab League and the Organisation of African Unity. Specialised working groups and an *ad hoc* conciliation/arbitration court were also planned.

The nature of the present seminar, Mr Chairman, does not make it possible for me to provide details with respect to the political, social and cultural achievements made within the framework of Arab-African co-operation. I shall endeavour mainly to highlight the economic aspects of this co-operation, and briefly describe its three components; namely trade, investment, and economic assistance, three areas which have given rise to many hopes and where concrete achievements have been made.

### **Trade Co-Operation**

While Arab-African trade has not reached its potential volume current results are far from negligible. The task, in any case, has never been an easy one. For decades, indeed centuries, the trade structures of the Arab and African worlds have been oriented toward the colonial nations. Even the infrastructures which were to promote trade with foreign countries were designed in such a way as to promote the movement of products from the South to the North. As for the type of products, the systems of Arab and African production were conceived as appendices which were to be complementary to, and rarely in competition with, the economies of the colonial powers. Economic development in the 1970s should have involved the promotion of Arab-African co-operation to a substantial degree, given the fact that the Arab markets, reinvigorated by the economic boom of those years, had opened new opportunities to African products. Unfortunately, however, the African economies were not, for many reasons, able, by and large, to derive full advantage from these opportunities. Unlike Asian economies, the African economies were not able to adapt to the changes that took place in the world economy. This lack of flexibility and their dependence on the economies of the North were a serious impediment to commercial exchange between Africa and the Arab world.

Developments within the Arab community, which were not in the best interests of African nations, constituted an additional complication which cannot be ignored. The complementarity of the two groups of nations was limited, their economies being dependent on trade of primary products and raw materials. The agricultural sector and the mining sector could have provided possibilities for trade between the two groups, but African agriculture was not in a position to produce exportable surplus, and the concentration of Arab industry on oil derivatives could not, in and of itself, contribute to stimulating trade in African mineral products. Still, despite these negative trends, trade between Arab and African countries has nonetheless developed considerably. A large part of the trade has, of course, been related to oil, but other products have been traded: timber, textiles, leather, livestock, meat, agricultural products, raw materials and semi-finished products, as published statistics show. In addition to these flows are other products transited through other economies which do not appear in official Arab-African trade statistics. We can add that,

by and large, the results are certainly encouraging, despite the statistical shortcomings. It can certainly be said that all opportunities have not been examined and that the flow of exchange should have been greater. There has since been political impetus, but the period of time is too short to make any significant analysis.

In order to develop, Arab-African trade has to overcome a number of obstacles, one of which is competition with the industrial economies, which are better equipped and more advanced technologically. We also need to set up institutions to provide financing, insurance and credit.

### **Investment Co-Operation**

In the area of investment, the development of Arab-African co-operation has been limited because we operate within the Western financial system with Western institutions as intermediaries. African institutions which could accept these funds and local enterprises which could receive Arab investments directly, have also been lacking. Indeed, except for a few financial markets, which are still at an early stage of development, Africa generally lacks the mechanisms and institutions. What has been done is credited to Arab financial institutions which, when they have met the necessary conditions, have provided counterpart institutions and governments of other developing countries with Arab funds. On this count, Asia and Latin America have gained greater advantage than Africa. Much of Arab efforts in Africa is channelled through international organisations such as the African Development Bank, the World Bank, the IMF, the Islamic Development Bank, and the International Fund for Agricultural Development, and this is because we do not have specific bilateral institutions for support. Despite all of these limitations, a large number of Arab investments have been made in Africa through joint ventures and in various fields, such as industry, agriculture, trade and even tourism.

### **Arab Economic Assistance**

If the results of Arab-African trade and investment have not kept pace with the will of the two partners, Arab economic aid is a crowning glory of Arab-African co-operation and has received the greatest attention and publicity.

While I would also like to point out that neither the Arabs nor the Africans have a complete idea of the total volume of this aid, there are statistics of reference, albeit incomplete, carried by OECD publications. By simply referring to the statistics on aid provided by my own country, I am sometimes tempted to conclude that this is an inaccurate source of information which is based on doubtful concepts. If this were applicable to other Arab countries, then these statistics would not reflect the true dimension of Arab aid to Africa. In fact, this perhaps is so, because of our own lack of information, which has to be overcome. We must recognise that our principles of confidentiality and solidarity and our moral values are contrary to publicity. We would like to indicate that the Arab Bank for the Economic Development in Africa was established for the sole purpose of channelling part of Arab financial aid to African countries; and in its reports it has indicated that in the last decade the average of this flow was US\$900 million per year. The great amount of literature on Arab-African co-operation is very eloquent in this regard. The absolute figures are even more significant when compared with the real potential of the Arab economies. Furthermore, if we were to compare this flow with that of the OECD countries to Africa, we could even more easily conclude that Arab aid to African economies is even more significant. In addition to its volume, Arab aid is valued for its quality and altruism. This is altruistic aid, which is characterised by a lack of self-interest; and yet certain circles have concluded that Arab aid was moved by unconfessed motives, believing that the Arab world was doing it only for political sympathies. An analysis of Arab aid to the African continent has indicated that it has supported the choices made by the very governments that were being assisted, and it is untied, for the purchase of given services and goods, and this makes it exemplary.

### **Current Significance and Future Prospects**

I would now like to make a personal statement, following my presentation. I would like to say that in regard to the amount, the nature and the distribution, the very fact that this co-operation exists is a success in and of itself. But it is a challenge to the present economic order, to the trade interests and to the financial monopolies. If, at the beginning, a study of the differences between Arab and African economies had been carried out, perhaps we would have

concluded that it would be impossible to meet this challenge because of multiple resistance. We have seen all the offers of mediation, such as the three-way discussion, the recycling of petro-dollars, and other approaches which were devised for the North-South dialogue. The very fact that Arabs and Africans were able to do without intermediaries, believed by some to be inevitable, could be instructive in the campaign for a new order of international relations. Having initiated this new type of relations, we are conscious of the necessity, as far as we are concerned, of pursuing it and sharpening it to fit the larger perspective of South-South co-operation.

With regard to the future of Arab-African co-operation, it is clear that on-going assessment must be pursued and recent economic developments taken into account. It is also obvious that certain weaknesses of Arab-African co-operation must be corrected; and here, an approach encompassing all aspects of co-operation should be adopted. The unilateral character of this co-operation is one of the major weaknesses to be noticed. In the long-run, Arab-African cooperation should be based on a balance of interests if we are to guarantee its perennality.

The fact that no institution has been established to promote Arab-African trade has led to a freeze in Arab-African trade flows in traditional settings and circuits. My own experience of Arab-African trade leads me to say that bilateral mechanisms, such as international fairs, bilateral discussions within the framework of joint commissions or even the resolutions of international conferences, are no longer sufficient. I believe that we need to have a framework agreement which will contain all the basic principles and we should also establish global mechanisms which will go beyond bilateral agreements and links. A number of obstacles – both physical and institutional – have appeared insurmountable because of the absence of global agreements and action on the part of the specialised institutions. The traditional problem of barriers of finance for trade and transport have not favoured the development of Arab-African trade. Even elementary requirements, such as the dissemination of information with respect to the existing possibilities for trade, deserve a more effective approach. The trade approaches of yesteryear have reached their limits, and should be replaced by a more dynamic approach which will reflect a more structured attitude. I would like to take note of the numerous suggestions made by Arab and African agencies on this subject. These could all be integrated into a global

approach, in order to devise the right framework which will bring action in all sectors of Arab-African co-operation.

As regards joint and other types of investment, important efforts are yet to be made. One priority task would be to try to draw up a balance sheet of our experience in this area. We are convinced that this field of co-operation has not received the same attention as aid, for example. It has been left to the initiative of private investors. This is appropriate, in our view, but it is not sufficient in and of itself. The means available to private Arab and African investors are sufficient and the conditions of encouraging productive investments should be studied. Africa must compete with more advanced continents in this field, just as Asia and Latin America do. To this end, studying the operation of the mechanisms established on other continents could help us establish appropriate mechanisms for Africa.

With regard to the assistance provided by the governments and institutions of Arab countries to African countries, no one would doubt today that economic aid has been a true success in Arab-African co-operation. On this score, we are pleased to also acknowledge the financial aid provided by the OPEC Fund, the Arab Bank for Economic Development in Africa, and the national funds of Arab states which have been tested and found appropriate. We hope, nevertheless, that we can make a few suggestions because we are convinced that they will be favourably received by the institutions concerned. We have three areas for co-operation in the light of recent developments: the building of infrastructure, technical assistance and other banking activities. In these areas, substantial experience has been acquired. Arab and Africans have also increased their human potential. They have today a core of very experienced experts in the problems of development. The Arab banking system has grown steadily and can only reinforce Arab know-how in this area. If we mobilised all this potential, we could provide new impetus to co-operation between Arabs and Africans.

## **Conclusions**

In conclusion, the perennial nature of Arab-African co-operation depends, in the medium- and long-term, on the balance of mutual interests, and an integrated approach which would include the promotion of trade, the establishment

of durable investments, to develop the economies of the beneficiary countries, and the mobilisation of Arab and African expertise. We are deeply convinced that it is through complementarity and correlation of these goals that we will find the solution to the future. Finally, we cannot conclude without referring once again to the human aspect of Arab-African co-operation. The originality of this co-operation is that it is drawn from a common history and a common set of values. It is this history and its values which are the permanent basis for our co-operation. Economic considerations of modern societies cannot be separated from a framework of values which has stood the test of time.

## RESPONSES

### **Mr Babacar N'diaye**

**President, African Development Bank**

In the name of God, the Merciful, the Compassionate.

Mr Chairman, I should first like to congratulate and thank Mr Terbeche for his brilliant presentation. As I see it, he has covered all of the points on which Arab-African co-operation depends. He has done this in the most relevant and persuasive way. So, what can I now add, except to express my full agreement with all he said and perhaps develop a few of the points he made during the course of his presentation.

I would like to give three main headings that I shall deal with: the roots of Arab-African co-operation, the reasons for such co-operation, and the forms of co-operation. Perhaps, toward the end I could share with you some thoughts and try to draw some conclusions.

The origin of co-operation between Africa and the Arab world dates back centuries, if not to the beginning of time. Reference was made to the caravans, the merchant fleets from the Arab peninsula. I would like to mention the universities, the Moslem universities in Timbuktu, which strengthened the links between our two peoples. Reference was not made to assistance at that point in time. There was exchange amongst people, there was trade between peoples and nations. This means that the co-operation that we are now trying to update dates back to the beginning of history.

Our speaker also made reference to geo-politics. Africa is a continent which has 70 per cent of the Arab population. Africa is a continent where one-third of the population is Arabic. We could even go further than this – south of the Sahara, in the non-Arab countries, we have approximately 250 million inhabitants who are Moslem, and this means that this figure in and of itself accounts for somewhat more than one half of the African population. Now, if we view the cultural links and the economic ties, we can deduce that this is something that goes far beyond the framework of economy or providing food when drought has struck the continent; there are things which are much more profound than this. I would like to add that the reasons underpinning our co-operation are based first of all on these roots, which stem from our Moslem

education, because this is a question of solidarity between brothers of the same religion. This is a question of solidarity toward the poor, or people who have been impoverished by the force of events, and this is the fundamental basis, if you will, which goes beyond any political approach.

With regard to economic problems, it is our hope that much of our co-operation should be in the economic field. As Mr Terbeche said, it is necessary for us to see to it that we go beyond the unilateral, one-way nature of this co-operation; we have to convert this into a two-way traffic. I will come back to this a little later. Our speaker referred to various forms of co-operation – trade, investment and assistance. I should like to start with assistance.

As I see it, it is the definition of assistance which has somewhat distorted our co-operation. It is very important for Africa and the Third World countries as a whole to benefit from concessional aid. It is very important for these countries to benefit from the relief provided by those who have somewhat more to give at a given point in time, and we in Africa know fully well that it is a very heavy sacrifice for all countries, all the Arab countries, the OPEC countries, to channel even part of their resources to others. The honourable minister from Saudi Arabia told us today that it was not their income, but rather their assets, their wealth, that they are sharing.

This assistance must be seen as a sacrifice; we must recognise the generosity behind these efforts. However, when everything focuses on assistance or when we only pay attention to the assistance aspect, we distort the picture, because there is much more than this; there has to be much more. This, Mr Chairman, is why we in Africa would like to aim at the promotion of investment and trade. When investments are well thought out and well assessed, they can be of value to both sides. We would like to call on investors of the Arab world to look for investment opportunities that now exist in the African continent – excellent investment opportunities in co-operation, perhaps, with the African Development Bank, BADEA, and other institutions. All of the Arab funds today can assist in identifying these investment opportunities, and I believe that this will strengthen co-operation between institutions; it will enable us to produce projects which would require funding from Arab countries as well as management by some of these institutions.

Now, trade: I personally have always felt that trade is the key to development. It is trade that will enable everyone to find his immediate interest, both

the buyer and the seller. Mr Terbeche told us that we lacked the appropriate machinery to stimulate such trade. Why not use the word 're-stimulate'? Well, we heard in the past that you could only re-stimulate something which already exists. In the past, there was trade between the Arab and African parts of the world, and now we have to bring this back into being. And we in the African Development Bank are giving thought to a project, a sort of trading house for import/export banks, where we would have Arab institutions as foundation partners to help see how we could set up these financing facilities which would then provide the necessary dimensions to Arab-African co-operation.

Mr Chairman, since I am speaking on behalf of the African Development Bank, I would like to say here that we are very grateful for all of the warm feelings and sympathy that Arab funding institutions have extended to us, particularly, since I became President. In response to this continuous generosity, we as a financial institution would like to find new ways for stimulating Arab-African cooperation. This, perhaps, could be done by organising a meeting in which we could establish some sort of a co-ordinating programme for this assistance. I dream of the day that Dr Ayari and Dr Al-Hamad and our brother Dr Abdulai would take a project – say in the Sudan, or Tunisia or in Senegal, and finance it jointly. I dream of a day the three would identify a project and say, 'this project is worth so many million dollars, we will assume responsibility for it and we would finance it'. If they agree on an evaluation procedure and a *modus operandi*, the project will be financed very quickly. This is what I should like to call for to strengthen Arab-African co-operation. The honourable minister of Kuwait also made the point this morning, that co-operation between us is highly specific – that is, Arab-African co-operation is underpinned by so many different networks that have already been described. Let us not, however, overlook the fact that in order to have the necessary size and impact, it must come within the framework of South-South co-operation.

**HE Dr Chedli Ayari**

**Chairman of the Board of Directors and President,  
Arab Bank for Economic Development in Africa**

I should like to express my agreement with the presentation of HE Mr Terbeche and point out that he highlighted the global nature of Arab-African co-operation, referring to its political, historical, religious and other basis. This co-operation is not one between a wealthy Arab North and a poor African South; it is, rather, as stated earlier by His Excellency the Kuwaiti Minister of Finance, cooperation between two Southern sub-regions and is, therefore, something of outstanding importance, even more important than cooperation between North and South.

Mr Babacar N'diaye, who is a friend of mine, has already made a number of proposals which are quite acceptable proposals. We are, of course, at the service of Arab-African co-operation; I know that it has been his wish, since he became President of the African Development Bank, to give fresh impetus to Arab-African co-operation, to enable it to move forward very quickly. During the 1970s, we had to build bridges, highways, etc., we developed infrastructure, and never did regret these activities. Although some people criticised us for having adopted this approach, we never had any doubts that one needed to begin with infrastructural projects – roads, dams, bridges, etc. However, it has now become necessary for us to change direction. We have to move on to a second phase which is a normal course of development. This second phase was mentioned by Mr Terbeche, it was a principal point that was made during the morning session. There will be no co-operation in the future unless a balance is struck between the African and Arab partners. Our African brothers are fully aware of this and they are fully prepared to shoulder their responsibilities.

This morning three main avenues of co-operation were described. The first concerned joint investment projects, and Mr N'diaye spoke about their importance. Arab funds could be used here; the Chambers of Commerce and the private sector as well could step in, with ourselves providing whatever assistance we could. In this connection, I would like to state that considerable steps forward have already been taken to realise projects of this – nature.

The second avenue relates to the mobilisation of all possible human resources, all of the expertise that exists in the Arab and African worlds to further

co-operation. All of the projects we have in the Islamic Bank and the African Development Bank as well as in our own institution require services and goods, some of which could be obtained in the Arab world. It is necessary for us to see what the existing capabilities are in the Arab world in order to move on with the implementation of these projects. It is entirely feasible to execute these projects using input imported from much of the Arab world and, indeed, from some African countries as well. Contacts have already been established with Arab and African companies to ensure their more active involvement in co-operative efforts between African and Arab nations. This is fully accepted by both parties.

The third avenue of action focuses on assistance. Our African brothers remember that while the financial resources existed, Arab generosity was demonstrated continuously. Arab assistance was of great importance; the Arab countries were some of the most important sources of assistance from one group of southern countries to another. There are a number of poor African countries which are in great need. We shall devote the bulk of our assistance to these impoverished countries, but it would not be possible, in the future, for us to provide the amount of aid actually required by these countries. It would be necessary for us to make choices. Still, the poor countries, I must repeat, should be given priority consideration. The other African countries must accept a different approach to aid – that is, they must accept aid from private and other sectors. There likely would be no infrastructural assistance as was the case in the past.

Mr Chairman, in addition to the appeal of Mr N'diaye, I would also like to turn to the members of the co-ordinating committee and members of the Arab Fund, and request that we establish co-operation between the African Development Bank, BADEA and the Arab Fund for Economic and Social Development. There must be an improvement over the past. The resources of the African Development Bank are great; we hope they will grow in the future. Let us finance Arab-African projects with funds and implementation skills, available in both African and Arab countries. We can use the expertise and technology of Arab countries in Africa, in Asia and in Latin America, and Arab-African co-operation would then be the first stage, of a process which, in its second stage, would use additional facilities existing in other developing areas of the world.

## **DISCUSSION**

### **HE Mr Abdlatif Yousef Al-Hamad**

To follow up on the last point made by Dr Ayari on greater interaction with the African Development Bank and with African development problems, it may be of interest to this gathering to know that in the co-ordination effort between Arab donors and the Development Assistance Committee donors, there is an annual meeting which is traditionally held to discuss joint issues and joint problems. The next meeting, for 1987, will be held, hopefully – subject to the agreement of the Senegalese government –, in Dakar, to focus on better co-ordination and greater co-operation between OPEC donors, Arab donors and the international donor community.

The African Development Bank would be a prominent participant at this meeting. There, we, as a group, whether as Arab institutional donors or as the OPEC Fund or OPEC donors, view ourselves not only as a source of finance, but as the link, the bridge, between the needs of developing countries and the sources of finance in the industrial countries. This is a role which we take very seriously. It is in this context and spirit that this meeting will be held. And we would welcome greater interaction, not only exclusively between us and the African institutions, but also through us, as developing countries institutions, with other donors, in order to better use the resources that are becoming scarcer, for the development of the least-developed countries, be they in Africa or elsewhere.

### **Dr Ali Ahmed Attiga**

Mr Chairman, I would like to reiterate the need in Africa for a regional programme on energy. Energy, I am afraid, was looked upon as an orphan while it was cheap and the international oil companies had control of it in Africa. When the prices of oil shot up, one of the benefits was that the African countries became aware that energy was strategic. In fact, without it you cannot develop anything; neither agriculture nor any of your resources could be developed

without a secure and flexible form of energy. The African countries became aware and created some national companies that started prospecting for their own indigenous energy resources.

There is now a real danger that, with the new trend in the price of oil, they could relax and again believe that energy is no longer a problem. Then the international multinational oil companies which Dr Kreisky discussed this morning, could return with even more severe terms than they had in the 1950s and the 1940s. I can see that trend coming. So when I look at Africa, I see many organisations but I do not see them, any of them, taking energy as a priority. At OAPEC, we have been considering this question and how it could be ameliorated. The African Development Bank may be the best institution to lead thinking on that, because we need within Africa a regional approach to energy. Energy requires a regional approach. It cannot be solved on a national basis, because the sources are diverse; they are not located in the same areas and in every country, but Africa is a net energy exporter and a very large one at that. If Africa develops, it will need more and more of its own energy within its own borders. So technical assistance, financial assistance, within the field of energy is vital.

The African Development Bank should create an energy department and start working on the future of Africa in terms of energy resources and trade. I stress the African Development Bank, because I do not see the Organisation of African Unity as taking a lead here; I do not see the more sub-regional groups of West Africa taking a lead. At the moment the market for energy in Africa is fragmented, and some of it is tied to the oil companies of the North, some of it maybe with the USSR and not enough contacts between the African countries in the field of energy as far as domestic needs are concerned. I know that within OPEC we have Gabon, Algeria, Libya and Nigeria, but their production is mainly export-oriented.

What we need to develop energy in Africa is not so much money – the money will come. Financial resources are really not the most vital thing in development. More important is the ability to plan, to evaluate, to invest, to supervise, to produce. To this purpose, I think we need the help of both institutions, the African Development Bank and BADEA and all those who can help, to form a regional policy for energy in Africa.

PART FIVE

**ENHANCED INTERNATIONAL  
CO-OPERATION: A NECESSITY,  
NOT AN OPTION**

**HE Drs Radius Prawiro**  
Minister of Finance, Indonesia

*The traditional “vested interests” separating North from South have proved to be durable and resilient barriers keeping the two sides firmly apart on almost all issues of any substance.*

*HE Drs Radius Prawiro*

**The Importance of International Co-Operation**

I feel a particular sense of pride in the attainment of our tenth year – a milestone in the history of the OPEC Fund for International Development. I can think of no more auspicious way to mark this significant event than through the convening of today’s symposium.

By dedicating this day exclusively to a review of ‘OPEC aid and development-related issues’, we can take pride in the knowledge that we are making a contribution towards a greater understanding of the contemporary challenges of world development. Through exploring the current views and issues lying at the heart of our own organisation, and through bringing together such a distinguished gathering of men and women, this day will enable us to make a substantive contribution to a world dialogue, in a manner that is thoughtful, timely and, most important, of direct relevance to all peoples and all nations. As all of you know, in my capacity as the representative of the Republic of Indonesia in the OPEC Fund Ministerial Council, I enjoy the distinction of being the sole OPEC representative from South-East Asia. Perhaps because of the unique geographical – and historical – relationship between the nations of Asia and other parts of the world, many Asians today place special emphasis on the important role of international co-operation in the furthering of world development and economic progress.

I am myself strongly of this view – that the key to world development lies in increased global co-operation. For me, this conviction has its roots in two sources. First, it forms part of my own personal philosophy and ethical beliefs; and second, it represents a pragmatic approach towards problem-solving which I have found to be effective in my work within the political and economic affairs of my own country, particularly in relations throughout the

worldwide community. For this reason, the theme I wish to stress in my remarks today is the need for increased worldwide co-operation as the only viable means of achieving long-term, equitable, worldwide development. Whether in bilateral or in multilateral discussions, whether in projects funded through commercial loans or through direct aid, whether in public- or in private-sector projects, or in relations from North to South or from South to North, it is my belief that in all international linkages, greater co-operation and understanding are needed today than ever before if we are to survive the challenges facing us between now and the end of the century.

I have entitled my remarks: 'Enhanced International Co-operation: A Necessity, Not an Option'. What I intend to share with you today are my impressions on the desirability, the advantages – and, indeed the need – for greater co-operation and linkages amongst all nations – whether 'South to South', 'North to South', or 'North to North'. Let me hasten to point out that I am well aware that this is a topic about which much has already been said. Indeed, it would be fair to say that during the past four decades, it has been a subject about which the world's most eminent economists and influential statesmen have almost all had a few comments to make. In fact, it is a topic so vigorously debated that it is almost astonishing that so little tangible progress has been made. What it brings to mind is an analogy which a mathematician of my acquaintance used to demonstrate the operation of random behaviour, combined with the laws of probability. A roomful of monkeys, he said, each placed randomly in front of a typewriter, given enough time, would eventually produce the complete works of Goethe, or Shakespeare for that matter. I cannot help observing that a similar rate of progress appears to be guiding mankind's discussions so far on the subject of worldwide co-operation!

Just in case you may be wondering about my knowledge of Shakespeare, let me begin by citing for you some clear words of advice from *Hamlet* – advice which all nations seeking solutions would do well to heed, and I quote: 'There are more things in heaven and earth than are dreamed of in your philosophy.' The key to this issue, I believe, is to keep our minds open, for this is what leads to bold solutions.

In this spirit, I would like to focus on three broad themes as they impact upon international co-operation in the complicated world economic environment during the mid-1980s.

- (1) I wish to stress the need for increased co-operation and interdependence among developing and less-developed countries themselves. This is sometimes referred to as 'South-South' co-operation. I believe effective inter-regional, or inter-peer group co-operation is necessary as a prelude, and a foundation, to further co-operation on a broader basis.
- (2) I wish to emphasise the important role of bilateral trade and commercial relations as vital components supplementing the role of aid programmes, and important engines in stimulating equitable patterns of development.
- (3) I wish to remind the world's industrialised nations that it is actually in their own best interest to increase their level of co-operation with the developing and less-developed world. In short, I wish to stress the need for greater 'North-South' co-operation – among all parties concerned.

### **Economic Problems of OPEC Countries**

To begin with, no group of nations has been more adversely affected by prevailing economic conditions than the countries represented here in this room. Among the four major groups of nations – industrialised countries, the developing fuel-exporters, the developing non-fuel exporters and the centrally-planned economies – we, the energy-exporting developing countries, are the ones suffering from a shrinkage of economic growth. According to the most recent estimates of the International Monetary Fund, our aggregate output registered a decline of almost one per cent during 1985, and is expected to do the same during the current year and into 1987 as well. Within the developing world overall, this compares with actual economic growth of nearly five per cent among the non-fuel exporting countries over the same three-year period.

The issue of the current world fuel pricing regime – which is of course responsible for the present economic hardship within our OPEC confederation – is a matter of grave economic concern to all world economic planners at the present time. I do not wish to discuss this issue *per se* at this meeting, as it is not our proper mandate to review. Today's energy structure, however, must be cited as a key factor contributing to the current overall world economic

climate of volatility, instability and continued disequilibrium in the distribution of wealth, capital and growth. Clearly, we as OPEC nations believe it is in the best interests of all nations – and not merely in our own self-interest – to see an end to the current harmful fluctuations in energy prices.

For the purposes of this discussion, however, I do not wish to cite the experience of the OPEC countries as an example of hardship. On the contrary, what is far more important is to stress the important role OPEC has played for nearly two decades as a catalyst towards positive growth within the developing world through its emphasis on intra-regional co-operation and mutual self-help.

### **South-South Co-Operation and Relations of Trade and Commerce**

The work of OPEC – and specifically, the outstanding work of the OPEC Fund during its ten years of operation – are examples of precisely the forms of South-South co-operation which must be stressed in our evaluation of key development issues for the future. The role played by OPEC is of course now widely recognised as a key factor in changing the overall dynamics of Third World development – a role which the Independent Commission on International Development Issues (the Brandt Commission) described in 1980 as ‘triangulation’.

Though this report has already been relegated more to the status of a historical document than as a living blueprint for action, I support and endorse the views expressed in the Brandt Commission report regarding the importance of inter-South co-operation. Whether at the regional or sub-regional level, I believe South-South economic co-operation in all forms – in trade, in technology-sharing projects, or small-scale business joint-ventures – represents a viable means of promoting and encouraging greater economic growth and development throughout the developing world. It may seem like the old adage of pulling yourself up by the bootstraps – but it’s true. As the Brandt Commission points out, and I quote: ‘this thrust does not imply that the South wants to disassociate, or “delink” itself from the North; on the contrary, it has coincided with a marked shift towards export orientation and with expanding trade with the North. The developing countries are seeking to exploit the growing and as yet unrealized mutuality of interest among themselves, and to secure a better share in global economic management.’

Let me just say from the experience of Indonesia that my own country attaches particular significance to co-operative economic ventures involving other developing countries. Further, we attribute no small measure of our own economic progress during the past decade to the co-operation we enjoy with our neighbouring countries within the Association of South-East Asian Nations. I would like to add that most of this co-operation takes the form of direct trade and bilateral commerce among ourselves – and that this, not aid, is a major force in our respective levels of national growth.

I believe it is also important – and instructive – for developing nations to learn from one another's example. Clearly, some nations have been more successful than others in advancing the fundamental social and economic needs of their people. In the case of the world's 36 least-developed nations, to which the OPEC Fund has directed large amounts of aid, progress is still all-too-often gauged in measurements as poignant as literacy and starvation levels. For many other developing nations, fortunately, the criteria now have more to do with the measurements indicative of societies in which the basic human needs have been met.

The point I wish to make is that the nations of the developing world can learn from one another's experience – both in economic management and public policy. Whatever success is achieved in increasing agricultural output, in enlarging employment, in attracting greater foreign investment, in improving infrastructural development, these can serve as role-models for others. That, combined with the inestimable benefits gained from direct trade and economic cooperation whenever possible, makes Third World interdependence and co-operation a potent force in world development.

There is no doubt that sweeping reforms are clearly necessary in many developing countries, if any significant economic progress is to take place. Even the Brandt Commission makes this clear. Still at issue, however, is the role of individual developing nations in determining their own priorities in the critical areas of structural reform. In my view, there has been an excessive tendency on the part of the world's leading international lending institutions, and many donors from the world's industrialised nations, to intervene directly in the priorities of developing countries. For this reason, I disagree with the view expressed recently by Gunnar Myrdal in the World Bank publication *Pioneers in Development*, in which the Nobel Prize-winning economist advances the

view that aid-granting developed countries should 'demand more control over how the aid is used and where the money is going'.

The use of aid-funding as a means of enforcing so-called 'policy dialogue' is, in my view, inappropriate on the part of the world's leading donor institutions and nations. I went on record as expressing this view at the recent annual meeting of the Asian Development Bank – an institution, I should add, that in all other respects has been of significant benefit to the recipient nations of the Pacific Rim area which it is intended to serve. I believe that with greater co-operation and inter-dependence among the nations of the developing world, and with greater bilateral, commercial co-operation, this extreme form of policy domination should no longer be necessary.

I have tried to emphasise the tremendous opportunities that exist for intra-regional, or 'South-South', economic co-operation, both in government-to-government relations and through increased links in trade, commerce and other business enterprises. I strongly believe in the important role this co-operation can play in enhancing economic growth throughout the developing world. I have also tried to indicate that wherever possible, linkages which emphasise bilateral commercial relations between nations should be created. Trade and commerce represent the true arbiters of progress and growth, and the fundamental sources of sovereignty and self-determination within nations. Of little consequence is the mechanism by which the means of production are owned or controlled – whether as state enterprises or as private holdings. More important is a nation's ability to generate wealth and to supply the needs of its citizens through the production of goods and services with a competitive value within the market place, whether regional or worldwide.

Having made these points, I would now like to examine the current state of dialogue and co-operation between North and South, as this remains an area in which tremendous gains still need to be made if significant progress is to be achieved.

### **The Disappointing Record of North-South Co-Operation**

As I indicated, we, OPEC countries, have come to assume a key role as economic leaders within the 'South', by providing a counter-balance against the power of the industrialised 'North'. Over the course of the past two decades,

the issues raised by the North-South dialogue have been discussed in three types of fora:

- (1) Gatherings attended only by representatives of developing countries, such as the Non-aligned Movement, the Group of 77, the OAU, OPEC, and so on;
- (2) Summit meetings among the developed nations; and
- (3) International meetings bringing together both developed and developing nations – such as the conference on international economic co-operation, the Cancun summit, the United Nations Conference on Trade and Development and the United Nations General Assembly.

Unfortunately, progress has been painfully slow. After dozens of meetings – marked by literally thousands of hours of high level discussion – it has to be acknowledged that the traditional ‘vested interests’ separating North from South have proved to be durable and resilient barriers keeping the two sides firmly apart on almost all issues of any substance. The pattern is strikingly similar from one meeting to the next: much is said about the need for greater economic co-operation, communiqués are dispatched, and then nothing happens. I do not wish to adopt a negative posture, but it must be said that, by and large, the issues on the North-South agenda today remain just as crucial, yet just as unsolved, as they were a decade ago.

Let us look at one prime example: among the proposals in North-South discussions with clear potential to make a significant contribution to the economic well-being of the South is the concept known as the Common Fund for Commodities, initiated at the UNCTAD meeting of 1976. In 1980, after four years of negotiations, an agreement in principle to set up such a fund was actually reached. The aim of the fund is essentially to stabilise prices and markets for specified primary commodities, on which so many developing countries, including mine, I might add, depend for foreign exchange and national wealth. The need for such a fund has certainly been highlighted by the widespread collapse in world commodity prices during the past 18 months.

The OPEC Fund, in fact, has been a strong supporter of this common fund from the very beginning – through our agreement both to pay, as grants,

the subscriptions of 35 low-income countries, and to contribute substantially to the Common Fund's second account. Yet today, ten years after the concept was first mooted, there still exists no common fund for commodities, and there is little likelihood that it will ever come into being. The political infighting has simply been too great, along with the vested interests of certain key buyers.

Having cited the failure in the case of the Common Fund for Commodities, I would be remiss if I did not balance the account by citing the success that has been achieved in the case of the International Fund for Agricultural Development (IFAD). With a membership of 139 nations, IFAD is perhaps the one ringing success of true North-South cooperation – not least because of the significant support it has received from the OPEC Fund since its founding. Indeed, IFAD today is frequently cited as one of the most effective of multilateral aid agencies, particularly in terms of the benefits extended at the grass-roots level.

I think it is of importance to point out that the OPEC countries have made a supreme effort to support this organisation to the fullest – in spite of the dramatic decline in OPEC incomes – based on the firm belief that IFAD has a vital role to play in Third World development. For example, Kuwait's most recent subscription to IFAD is twice that of Great Britain, and Saudi Arabia's is three times that of Japan. In fact, as probably everybody here is aware, the overall record of assistance from the industrialised nations to the developing world represents a dismal performance – perhaps the single greatest disappointment in the entire realm of international co-operation between North and South. Many Southern observers believe the North simply has not made a sufficient effort to 'pay its way' with a fair share of world aid funding. Indeed, it is a widely publicised fact that aid contributions from the industrialised nations have consistently failed to meet even their own targeted levels of 0.7 per cent of gross national product – in fact, in many cases, OECD aid levels are less than one-half that amount. By contrast, the level of OPEC aid to the developing world has consistently exceeded two per cent of our aggregate GNP levels.

As we look at the record of dialogue – and the results – between North and South, we cannot help but feel a sense of disappointment. I call to mind the old adage which I learned as a schoolboy, which was supposed to apply to situations of this kind, touching upon the concepts of honour and duty. 'From

those to whom much is given, much is also expected' was the expression. It doesn't seem to apply in this case.

Having said all that, however, I did not come here today to excoriate the North for a list of imagined failures or broken promises. Of course, the North has its shortcomings, but so does the South. It would be unfair and one-sided not to acknowledge an equal list of complaints voiced by Northern critics concerning attitudes and shortcomings on the part of the developing world as well. Surely the time has come for complaints and recriminations from both sides to end. Clearly, what is more important at this juncture in the dialogue is to search for points of compromise – for avenues of agreement and bridges towards mutual understanding.

If I have one message for the North at this time, it is this: look around you; look at the tremendous opportunities for all to benefit – North and South alike – and see if trade, capital flows and economic co-operation are increased rather than diminished. The key point we should all bear in mind is the potential for tremendous mutual gain that could flow from an increased inter-relationship, and interdependence, between the North and the South. This is not dewy-eyed altruism speaking; this is hard, common sense. Today, with the end of the twentieth century advancing quickly on the world's horizon, it is natural and appropriate that we should feel an extra sense of urgency in our desire to advance the well-being of mankind in all nations – if not to achieve complete equity in the distribution and sharing of the world's wealth, then at least to alleviate the worst examples of imbalance and deprivation.

I have tried to outline three basic strategies important for enhancing total economic interdependence. These points, once again, are: the need for greater mutual co-operation and sharing within the developing world itself; a greater emphasis on commercial links as a means of supplementing aid programmes; and a renewed commitment from the North to fully share in the responsibilities of worldwide economic co-operation. The final issue, of course, lies in finding the most effective – and appropriate – role for us to play, as OPEC nations, in helping to bring about continuing, positive, worldwide economic development.

### **OPEC Role in Economic Development**

Today, both as a group of nations, and as a force for aiding growth in the developing world, we are under greater strain than we have ever known in our history as an organisation. Never before have we had a greater reason – and need – to draw together for mutual help and support in the face of economic adversity. I believe we can do it. Indeed, I believe that we are equipped to deal with the current economic situation and its effects upon us better than any other group of nations.

As OPEC nations, we have not always known times of plenty. But our experience is not restricted, as many developing nations have been, to poverty and human suffering either. I believe our simpler heritage has given us an enduring sense of resourcefulness, combined with a strong appreciation of generosity. Similarly, from our more recent times of plenty, we have learned many of the secrets of economic efficiency and effectiveness and we have learned the value of economic self-respect. Through this, we have been able to break out of the stultifying treadmill of poverty and illiteracy that binds so many nations in a grip of iron. No matter what difficult economic times may lie ahead, we will never return to a state of ignorance. Our role is to continue to do what we have been doing for our own people, for our neighbours and for all we can reach with the resources we have.

## RESPONSES

**HE Dkfm. Ferdinand Lacina**  
Minister of Finance, Austria

The development process is a phenomenon of our time, the urgency and magnitude of which remain unquestionable. I was fully confronted and occupied with this in my former capacity as Secretary of State in the Federal Chancellery.

The present subject has been brilliantly introduced by His Excellency, Drs Prawiro, and there is little I would like to add in substance. I think one cannot but agree with the central message of the address – namely, that the key to both world development and a more equitable distribution of its benefits lies in increased worldwide co-operation and understanding. On the whole, Drs Prawiro's analysis of international co-operation and development performance over the past decade comes down on the critical side, and, I think, rightfully so. In a longer-term perspective, one cannot but find the results disappointing. As a matter of fact, important targets seemed closer a decade ago than they do today.

It is true that much of the shortfall is related to the fact that the world economy as a whole has developed more sluggishly than previously anticipated – a fact which has also harmed the spirit of international co-operation. However, we must not overlook the fact that it has also worked the other way round: many of the problems we face today have been caused or at least aggravated by a lack of this spirit. The tendency towards narrowly defined national self-interest in times of difficulty has created a vicious circle of recession and unemployment in industrial countries, and of poverty and rising indebtedness in large areas of the developing world.

The past few years brought modest worldwide recovery, but much of it rested on special factors rather than on internationally co-ordinated policies. Today's relatively satisfactory state of the world economy could be largely attributed to the fact that the prices of commodities, especially oil, are depressed. This, in turn, has produced the adverse consequences, for the oil-exporting countries, referred to by the Honourable Minister. Yet indications are that the lessons of the past are slowly being learned by both the industrialised and the developing countries.

Let me briefly comment on the three aspects of development policies raised by Drs Prawiro – namely, the scope of international relations, ‘South-South’ co-operation and the ‘North-South’ dialogue.

Regarding the scope of co-operation, I fully subscribe to Drs Prawiro’s view that aid is important, but that it needs to be complemented by other forms of international co-operation. I would even go a step further and declare that, on the global level, aid is not the most important single instrument. This is not to play down the fact that aid by industrial countries, including mine, has fallen considerably short of the envisaged levels. I also do not overlook the fact that relatively small amounts of aid have sometimes meant unilaterally changing a country’s development priorities.

But it is also a question of global magnitudes: in 1985, official development assistance by countries of the OECD-Development Assistance Committee will have amounted to about US\$30 billion. In the same year, developing countries’ exports stood at US\$494 billion while the capital-importing countries among them paid US\$72 billion in interest. Their total foreign debt reached about US\$890 billion at the end of the year. The immediate impact of a one percentage point change of export prices on export earnings is about US\$5 billion, while a reduction of interest rates by a percentage point will reduce debt servicing costs by nearly US\$9 billion. This simple calculation illustrates the importance of co-ordination of global economic management, i.e. fiscal and monetary policies, among the major countries. Such co-ordination is essential to secure appropriate levels of growth, interest and exchange rates. It also illustrates the importance of fighting protectionism to secure open markets for developing countries, and underlines the importance of commercial links.

As in other key areas of co-operation, there is still a large field to explore in South-South co-operation. In the area of aid, means are by definition scarce, and the impressive example of the OPEC Fund will not be easily copied.

While the North-South dialogue has not kept the initial promise of a new beginning, recent efforts at curbing protectionism are encouraging, and strategies by multilateral organisations seem more inclined to take country-specific needs into account. Small countries like Austria must necessarily limit bilateral co-operation to a small group of partner countries. It is therefore valuable to complement bilateral aid by participating in multilateral development

institutions. My country takes pride in actively participating in many of them. Let me take the example of the International Fund for Agricultural Development. IFAD is not among the largest institutions. But with its focus on improving the agricultural situation of small-holders and the landless rural population, its objectives are noble. IFAD has proven that it can deal effectively with agricultural development policies and is well recognised for that. It is therefore discomfoting to see its efforts constrained by financial difficulties. To express its disappointment with the outcome of the second replenishment, Austria has about doubled its share in IFAD.

Besides participating in the funding of multilateral development institutions, Austria also takes an interest in co-financing projects prepared by development finance institutions. In this context, Austria would certainly welcome a broadening of co-operation with the OPEC Fund.

**HE Mr Idriss Jazairy**

**President, International Fund for Agricultural Development**

I have six remarks on the statement made by HE Drs Radius Prawiro. First, on the theme of his statement on international co-operation as a necessity and not an option: I think this needs to be stressed and re-stressed, particularly at a time such as this, a time when co-operation between partners tends to be looked upon as an option, often downgraded and weighed against other options, such as unilateralism, or even conflict, or the use of force to further national interest.

My second remark concerns the speaker himself and his country, Indonesia, in relation to the theme. HE Drs Prawiro has been associated for 20 years with international economic and financial co-operation, and his statement therefore is most authoritative, coming from a person who has broad experience. Indonesia as a country is also well qualified to express its views on international co-operation. We must not forget that it is the birthplace of Afro-Asian solidarity. Indonesia has also been the promoter of the success story which is called the Association of South-East Asian Nations. In the field of economic co-operation among developing countries (ECDC), it has been an active participant, as it has been in OPEC itself.

My third remark is on the track record of OPEC in international co-operation. As far as South-South relations are concerned, OPEC has helped cement the unity of the developing countries beyond the interests of its own peoples. The OPEC summit of Algiers in 1975 provided a global strategy for the developing countries, uniting the efforts of OPEC countries and those of other developing countries. The OPEC Fund, the tenth anniversary of which we celebrate today, is another brilliant example of the commitment of OPEC countries to Third World solidarity.

Also, in the field of North-South relations, the track record of OPEC countries has been admirable. After all, OPEC was the architect of change in the seventies, an architect of the restructuring of international economic relations which it did by using its newly acquired leverage. The special sessions of the United Nations General Assembly bear witness to the series of initiatives taken by this group of countries. As pointed out by HE Mr Al-Kharafi, it was also the OPEC countries which broadened the mandate of the Paris conference

on North-South co-operation to include, beyond the issue of energy, all other aspects of international economic relations which were of interest to the developing countries as a whole.

My fourth remark concerns the extent to which we have achieved these objectives and how far our ambitions have been reached. In such a short time, it is perhaps not possible to achieve the dual objectives we had ascribed to ourselves in the field of South-South co-operation and North-South relations. For in the meantime, the capacity of OPEC countries to continue to play the pioneering role they played in the last decade has been affected by a series of adverse trends. On the issue of South-South co-operation, apart from the OPEC initiatives, we have to be frank with ourselves and recognise that ECDC rhetorics at the world level have been well ahead of its accomplishments. These accomplishments have perhaps been more palpable at the regional level and at the sub-regional level, sometimes at the inter-regional level, rather than at the global level.

We have other good examples of successes: Islamic co-operation; Afro-Arab co-operation, which was referred to this afternoon; continental schemes at the level of Latin America, or at the level of some regions of the Caribbean – the scheme set up by Venezuela and Mexico in favour of the small Central American countries, the San Jose agreement and ASEAN. These are some success stories, I think. Even at the global level, let us not be too pessimistic. There have been some positive achievements. A few examples: today, more than 20 per cent of manufactured products exported by developing countries are being imported by other developing countries; a new feature has come up in the field of international food aid co-operation; countries like Indonesia and India, which yesterday were food-deficit countries, not only reached self-sufficiency, but actually have become able to contribute to solving the food problems of others in Africa.

In the field of North-South relations, we must recognise, as HE Mr Prawiro said, that the restructuring of international economic and financial relations has become bogged-down in procedures, and there has been, in some countries, a move away from multilateralism, which is erroneously viewed as opposed to bilateral co-operation. Both in fact are complementary. In the face of the obstruction which blocked global strategies of the seventies, we now seem to have fallen back on some sort of sector-specific approaches in the

course of this decade of the eighties. We talk about the food crisis in Africa; we hold a special session of the UN General Assembly on this subject; we talk about curbing protectionism; we talk about the debt crisis in isolation, not relating it to the problem of trade and to the fact that a third of the exports of the developing countries is encountering barriers, and that the industrialised countries are not taking into account the fact that the prices of the primary exports of the developing countries, whether it be oil or other primary commodities, are dropping as a result of international manipulations. Is this a change of vision? I don't think so. It seems to be just the result of a shift in the balance of power which is now taking place, and which distracts us from these global strategies and leads us to focus on some individual issues, as if these individual issues were disconnected when in fact they are related. They are systematically related and mutually reinforcing. It would be dangerous if we saw the sector-specific approach as substitute for global strategies, or should such geographically specific programmes be accepted by the developing world if this were to lead to a balkanisation, or bilateralisation of international multilateral relations. This would clearly run against the interest of the developing world.

My fifth comment is on the issue of policy dialogue. This is an issue which deals, to a large extent, with international financial institutions. In the context of international financial institutions, if policy dialogue has to do with the endeavour to ensure the optimal utilisation of resources provided by donors to beneficiaries, it is illogical to oppose such dialogue. The chances are that this would lead to a drying up of the resources which otherwise could be mobilised for development aid. But development aid is not the whole story: several speakers underlined this today. Aid is only part of the story. Still, one cannot stress enough that aid flows cannot be expected to run uninterrupted if there is not a certain amount of agreed rules between donors and beneficiaries. The problems arise not out of the very idea of 'conditionality' (let us call the thing by its name, even though policy dialogue sounds a bit nicer). The problem is not conditionality as such; I think, the problem arises where the beneficiaries do not actually participate effectively in the definitions of what the contents of this conditionality should be and when there is no mutuality of conditionality accepted by the co-partners.

Conditionality is all right if one practises what one preaches: Dr Kreisky was talking this morning about subsidies to railways in industrialised countries.

If we tell the developing countries that they must not subsidise their agriculture, then we must not subsidise our transport and other services. If we do this ourselves, then there obviously will be a credibility gap. The problem arises when conditionality is not consistent with basic aims which any civilised society strives at, like meeting the basic needs of the population. Conditionality is not acceptable (or it raises problems) if there is a lack of adaptability to the concept. Positive interest rates imposed on selected lending could be appropriate, but when imposed on IFAD sub-lending, for instance, or OPEC Fund sub-lending, it may lead in some cases to a situation of increasing rates of default from the beneficiaries, and that is not good management.

My sixth comment focuses on the road ahead of us. I think the first issue which preoccupies all of us today is how OPEC could regain control over the price of its main export, petroleum. But this is not a challenge for OPEC itself only; rather, it is a challenge to the international community as a whole, because only this would provide the kind of stability which is necessary for world economic activity. So, we look forward not just to the next meeting of OPEC oil ministers, but also to other (non-OPEC) oil exporters, and perhaps to oil importers as well.

Another point on South-South co-operation: OPEC countries have shown the way in South-South co-operation; now other developing countries must make additional efforts to help shoulder this responsibility. They must participate more in funding economic co-operation between developing countries, or otherwise contributing to mutual assistance and solidarity. Whatever we can expect from the Northern contributions in institutions, such as the one I represent, there is a part which is incumbent on the South. That part is not incumbent on any particular group within the South, like the OPEC countries, but on the whole group because the whole group benefits from it. Let us not forget that in an institution like IFAD, for every US\$2 the developing countries put into IFAD, they get US\$3 from the industrialised countries. This is a positive sum game for all the developing countries; and all the members of the Non-aligned Movement and of the developing community should feel equally concerned and committed about the future funding of the institution. It is not just a problem for the OPEC countries alone.

If I may dwell a few more minutes on IFAD, I would like to reemphasise what HE Drs Prawiro has said about the importance of the contribution

of OPEC countries *vis-à-vis* that of the OECD countries in IFAD's Second Replenishment. It was a wonderful show of solidarity from the OPEC countries, at a time when the prices of oil had been plummeting. In January 1986, they accepted to make an additional extraordinary effort to produce US\$184 million out of their life-blood, to contribute to the reinforcement of South-South solidarity. We must not forget that the developing countries in IFAD have the majority. It is the only international financial institution in the world today and at the global level in which the developing countries have a majority vote; they have two-thirds of the vote and about 40 per cent of the funding. My friend Ibrahim Shihata was saying earlier that the developing countries also had 40 per cent of the funding of the World Bank, but there, they do not have two-thirds of the vote. IFAD, therefore, is really a unique expression of the achievements that have been made, thanks to the OPEC countries, in restructuring international economic relations. It is something that should be kept, preserved and nurtured.

There is no suitable and lasting recovery of the North without the South. In spite of the drop in the price of oil, the economic recovery of the North has not followed as expected, while world economic problems in the 1970s had been ascribed to the oil price increase.

Will lessons be learnt from the past and concerted solutions be found, or do we have to wait for a possible future explosion in oil prices to sit again around the negotiating table?

**HE Mr Mehdi Navab**

**Vice-Minister for Investment and Foreign Assistance,  
Ministry of Economic Affairs and Finance;  
President, the Organisation for Investment,  
Economic and Technical Assistance of Iran,  
Islamic Republic of Iran**

In the name of God, the Merciful, the Compassionate.

HE Drs Prawiro strongly recommends increasing international cooperation, which he says is the only instrument for attaining just and stable development in the world. He expresses concern that problems regarding North-South relations have remained unsolved – much as they were back in the 1970s. I support the views of Drs Prawiro on the necessity of international cooperation. I would, however, like to draw attention to the dangers of using the term international cooperation rather freely. I believe there is a need to avoid generalities. Generalities will lead us nowhere, given the magnitude of the problems facing the international community and the pressing need to seek lasting solutions. We therefore need to approach the issues more realistically, so we can find out why North-South co-operation is not making any headway.

When we talk about the need to increase and make progress in international co-operation, we must first clarify the characteristics and peculiarities of each of the parties to this co-operation and indicate whether any co-operation is at all possible while these parties retain their peculiarities and characteristics. Secondly, we need to evaluate how the projects and the proposals made in various international fora are received by the masses of our people. It is, after all, only via the mobilisation of the people that any proposal can be made a reality.

In view of the little time I have, I would like to focus on the North-South dialogue and the Brandt Commission. I would like to submit, Mr Chairman, that my views unfortunately do not coincide with those of HE Drs Prawiro. As a citizen of the South, I personally have no faith, no hope whatsoever, with regard to the North. As we are all aware, the mandate of the North-South dialogue and the Willy Brandt Commission was the review of the problems and bottlenecks in the way of economic and social progress of the least-developed countries and the non-industrialised countries, as well as in relations between

North and South. The North-South dialogue and the Brandt Commission sought to find solutions to these problems: They were also to find mechanisms by which the gap between the rich and the poor (i.e. between the developing countries and the industrialised world) could be narrowed or eliminated.

According to Willy Brandt, the North-South dialogue has been an attempt to set up a new world order. It has been an attempt to free humanity from dependence, oppression, hunger and poverty, and to create possibilities for all human beings to enjoy liberty, justice and solidarity. Those who have studied the reports of the Brandt Commission have observed that in the view of the Commission, the enlightenment of the public is of great value. The Commission, in the introduction to its report of 1980, expresses the hope that in addition to the governments and international organisations which officially received the reports through the Secretary-General of the United Nations, the reports can reach the hands of all free thinking women and men in the world. The reports state that they are not addressing only the governments and experts, but also request the young, the intellectual men and women, as well as the common man, to have an active approach towards the report. It would be quite appropriate if some of these intellectuals, writers, and social critics were present at this seminar and could contribute to the richness of our discussion. I would therefore prefer to explain my views here as a citizen of the South.

It is a fact that it was the North that initiated the North-South dialogue; it is also a reality that until the last ten years, many of the Southern countries were under Northern colonisation. If today the North is rich and has achieved advances in industrial progress, these are the fruits of direct, indirect, open or covert colonialism, and the exploitation of Southern countries. Thus, when Southern people take up the reports of the Brandt Commission, it is natural for them to question Northern sincerity – the sincerity of the colonialists of yesterday and the dominant powers of today – in suddenly changing their nature and making the right noises about wishing to set up a new world order, or speaking about the unity of the peoples of the world. One doubts the sincerity in Northern calls to the South to avoid short-sightedness, dispute or war, and to opt for salvation, understanding and co-operation to attain mutual profits and resolve common problems.

It is natural that the Southerners are concerned and worried. They might ask themselves 'what if this is a new plot in the air, following the end of the

old colonialism and the disclosure of neo-colonialism?' If we believe in the principle that no social and economic development would be possible unless they were based on the mobilisation of the masses, then we would see that all the guidance and effort developed through the North-South dialogue would not materialise, given the suspicions of the Southern people. The doubt becomes even stronger among our people as we go through the contents of the reports of the Brandt Commission. In a nutshell, the reports remind the Southerners that they are a people under oppression. The reports urge that the attainment of rights is a right to which all, including the South, are entitled. Southerners still should, in their campaign for equality and justice, recognise certain boundaries and limits and not start a revolution. A revolution will disrupt commercial dealings, the investment and profits of the multinational companies and indeed, the entire economic arrangement which protects the industrialised communities from stagnation, decline, and the disaster which is going to strike them. It is crystal clear from the reports, that the North professes an intention to co-operate with the South not out of sympathy, but, precisely, because of worries that without co-operation, Northern industries would suffer.

One would like to ask if the freedom-loving men and women of the South whom the Commission addresses do not remember the bitter experiences of the colonial period, if they listened to these instructions and guidances, especially if we bear in mind that the beginning of the work of the Commission and the presentation of the reports coincided with a new wave of movements for freedom and the victory of ideological revolutions.

The people of the South have found no new message in these reports. The words and the message are the same as those of the colonial period, the only difference being one of presentation. It is all mere window dressing. They are trying to poison public opinion in order to divert the freedom movements of the world. The citizens of the South see no ground for just and fair co-operation with the North unless and until they can have their affairs in their own hands and enjoy freedom and independence through the elimination of the dominance of the North. The request of the South to the North is: set the South free from your interference so that Southern people take their destiny into their own hands. The South enjoins the North, the speculating, profit-seeking North, not to use its tricks to destroy liberation movements of freedom-seeking nations, not to impose economic sanctions or blockades on them,

not to plot new destabilisation or *coups d'état* through its espionage agencies, not to involve itself in terroristic activities to kill those who are active in revolutions, and not to create ominous and exhausting wars.

History is replete with acts of bad faith on the part of the North. Until such a time as a change in the nature and the culture of the North is in evidence, there would be little possibility of just co-operation between us. In my country, there is a saying which goes: 'I have no hope in your goodness, do not cause me evil.' Thus, the South is of the impression that it can place no hope on the North. The South will be just happy not to receive any harm. However, the Southerners have unfortunately come to the conclusion that we should give up the North and develop South-South co-operation instead.

**PART SIX**

**THE WORLD DEPT**

**HE Dr Chu S.P. Okongwu\***

Minister of Finance, Nigeria

*A more correct and realistic approach to solving the debt problem must start from the position that the problem is as much that of developed countries as it is of developing countries.*

*HE Dr Chu S.P. Okongwu*

**Development of the Debt Problem**

The popular African aphorism that 'there is nothing new under the sun' holds good in respect of external debt accumulation by countries striving to develop their economies on an accelerated basis by resorting to net international borrowing to raise their rates of investment and economic growth. The debt problem of developing countries is therefore not a novel phenomenon. Historically, it is known, for instance, that in the nineteenth century, the United States of America encountered serious external debt crises.<sup>1</sup> However, in current parlance, Third World debt problems assumed crisis proportions by 1982, when the accumulation of external debt service obligations became overwhelming in the most unfavourable external economic environment. What is the genesis of this problem? How did it impact on the developing debtor countries and the developed creditor countries respectively? How has the crisis been managed so far? How should it be confronted to effect a solution?

In 1974, the aggregate debt disbursed and outstanding in respect of all developing countries amounted to US\$135.4 billion. By 1982, it had quadrupled to US\$525.6 billion, and was estimated at US\$655 billion in 1984.<sup>2</sup> The build-up of debt to such a staggering amount started in the 1960s and greatly accelerated in the 1970s, when commercial banks with ample deposits endeavoured to deploy them profitably by lending to developing countries

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\* Read on his behalf by HE Alhaji U.K. Bello. Permanent Secretary, Federal Ministry of Finance, Nigeria.

1 See, for instance, Raymond F. Mikesell, 'The Capacity to Service Foreign Investment' in *US private and government investments abroad* (University of Oregon, 1962).

2 World Bank, *Coping with external debt in the 1980s* (an abridged version of 1984-5 World Bank debt tables, Washington, D.C., March 1985, Table 1, page xl).

which had external account deficits. These countries had a preference for commercial bank loans, because they were quick to arrange and did not entail International Monetary Fund conditionalities.

Meanwhile, the economies of the industrialised countries were in the throes of stagflation, which was characterised by protracted recession, chronic unemployment, high real interest rates and protectionist trade regimes. The developed countries, through their dominance of international trade and finance, exported the adverse effects of stagflation to developing countries. Economic recession in the industrial countries resulted in a decline in demand for the basic commodities exported by developing countries. This caused a sharp drop in the prices of those commodities, estimated at about 26 per cent in real dollar terms between 1980 and 1985. Export earnings, badly needed to finance the import of goods and services, necessary for economic growth and development, and for servicing external debt obligations, took a tumble. On the other hand, the sharp increase in the prices of imports of developing countries, including capital goods and industrial raw materials, etc., led to a severe deterioration in their terms of trade. The World Bank has, for instance, estimated that the terms of trade for IDA-eligible countries in sub-Saharan Africa declined by 12.1 per cent in 1981 alone.<sup>3</sup> To compound the issue, there was a massive capital flight from developing countries generally, while official development assistance from developed countries to low-income developing countries stagnated in nominal terms and declined in real terms.

### **Current Dimensions of the Debt Problem**

By the beginning of the 1980s, the eagerness of commercial banks to extend credit to developing countries which had characterised the previous decade, had all but evaporated. Between 1980 and 1984, lending to Latin America and Africa fell by 87 and 90 per cent respectively. In the first quarter of 1985, commercial bank lending turned negative. This was in part due to the extreme caution being exercised by banks in analysing risk, and their adoption of more stringent standards of creditworthiness in a bid to limit their exposure in devel-

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3 World Bank, *Financing adjustment with growth in sub-Saharan Africa, 1986-90* (Washington, D.C., 1986), p. 49.

oping countries. Some countries succeeded in adjusting their domestic policies to cushion the adverse effects of the constricted flow of bank credit. Several, however, could not adjust adequately to prevent the emergence of debt servicing problems. Moreover, the structure and terms of debts were often out of joint with the emerging economic realities in many debtor countries. For some oil exporting countries, for instance, when the oil market started to soften by 1982, there was heavy overcommitment to debt-servicing payments, which had assumed continued high oil prices. Finally, the appreciation of the US dollar between 1981 and 1984 accentuated the debt problem by reducing the US dollar prices of internationally traded goods, while leaving intact the dollar magnitude of external debt denominated in US dollars. It has been estimated that for developing countries as a whole, about 40 per cent of the rise in debt ratios between 1979 and 1983 is attributable to the real appreciation of the US dollar.

The combination of these and other factors resulted in negative net transfers from developing countries as a whole, and Latin America in particular. It has been estimated that negative net transfers amounted to US\$7 billion for developing countries as a whole in 1984. For Latin America, such transfers amounted to US\$30 billion and US\$27 billion in 1983 and 1984 respectively. Between 1974 and 1983, total debt disbursed and outstanding for Latin America and the Caribbean increased from US\$37 billion to US\$217 billion. For Africa south of the Sahara, the increase was from US\$11 billion to US\$55 billion.

The magnitude of the present debt crisis is reflected in the persistent decline in the ratios of several key debt indicators used to measure the creditworthiness of borrowers. Indicators such as the ratio of debt service payments to exports of goods and services deteriorated, as did the ratio of external debt to GNP. In fact, the debt service ratio jumped from 15.5 per cent in 1978 to 35.7 per cent in 1984 for Latin America, while interest payments quadrupled and outstanding debt doubled during the same period. Export earnings in the region, after some fluctuation, declined by 13.5 per cent between 1982 and 1985. In sub-Saharan Africa, debt service payments rose from 10 per cent of exports in 1978 to 24.5 per cent in 1984. Export earnings, on the other hand, fell by about 25 per cent between 1983 and 1985. It is also noteworthy that the ratio of interest payments to exports more than quadrupled in low-income

Africa between 1975 and 1985. Moreover, as the debt and debt service ratios increased substantially, the large volume of short-term trade debt in many developing countries resulted in increased liquidity problems, as creditors became reluctant to roll over their short-term commitments to those countries.

With the debt crisis fully blown in 1982, the tendency was for Latin America to receive most of the attention because of the sheer magnitude of its outstanding debt and its potential to disrupt the international financial system if its debt became unmanageable. But, other regions such as Africa laboured under more severe strains as a result of the debt burden. In low-income Africa, for instance, total external debt disbursed and outstanding in 1983 represented 37 per cent of GNP and 598 per cent of exports of goods and services compared with 35 per cent and 201 per cent respectively for Latin America and the Caribbean countries.

### **Deflationary Consequences of Third World Debt**

The major impact of the debt crisis on debtors has been the need to finance net capital outflows by means of contraction of imports. The import contraction is in turn achieved mainly through severe deflationary measures which adversely affect not only personal consumption but also investment, with serious implications for subsequent growth and standard of living. A Commonwealth group of experts has estimated that for Latin America as a whole to generate one dollar of foreign exchange, it is necessary for it to reduce GDP by eight dollars; for Asia and Africa, the reductions are respectively five to six and six to seven dollars.<sup>4</sup> Using the same model, it has estimated that:

if growth rates are held back by the need to achieve trade balance (on a small positive resources transfer), then even if growth in industrial countries averages 3 per cent (which was the average for the period 1970-81), growth in Latin America will only average 1.4 per cent, in Africa 2.1 per cent and in Asia, 3.2 per cent. Except in Asia, per capita incomes will continuously fall.

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<sup>4</sup> *The debt crisis and the world economy* (Commonwealth Secretariat, London, 1984), p. 24.

The magnitude of the deflationary measures taken becomes apparent when it is realised that between 1982 and 1984 alone, the current account deficit of capital-importing developing countries declined from US\$104 billion to just US\$38 billion. The reductions in investments in developing countries is not attributable exclusively to the austerity measures taken by the authorities. Often, an added relevant factor is the diversion of domestic savings to debt service payments.

In sub-Saharan Africa, the consequences are even more serious because, as eloquently argued by Sidney Dell:

The pre-empting of foreign exchange resources by debt service, as well as by imports of food in the African countries, had a devastating effect on imports of investment goods and hence upon the investment required for strengthening the export and import substitution sectors, which in the case of Africa include the replacement of imported food supplies by domestic output.<sup>5</sup>

Another vital consideration is the implications for domestic political and social stability of massive doses of deflationary policies with their effect on employment and living standards. With all the goodwill in the world, there is a limit to how much hardship a people can bear over a given time-frame. Sooner or later, there comes a time when they can take no more, and would be bound to react. And without relative political and social stability, economic development cannot proceed meaningfully.

The basic interdependence of international economies is borne out by the linkages between the contraction of incomes in developing countries, as a result of the debt problem, and growth in industrial countries. The reduced capacity of developing countries to import inevitably translates into reduced imports from industrial countries. It has been estimated that the fall in OECD exports to developing countries resulted in a loss of about seven million man-years of employment in Western Europe, and one million in the United States and Canada in 1982-84. It has further been estimated that in 1983, the developed economies lost 0.7 per cent in growth due to the inability of developing

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<sup>5</sup> Sidney Dell, *The world debt problem: a diagnosis* (Report to the Group of Twenty-Four, January 1986), p. 33.

countries to maintain their imports at the 1982 level. This linkage effect is stronger, the more dependent an industrial country is on exporting to developing countries.

### **A Strategy to Tackle the Debt Problem?**

In view of the payments difficulties which attained crisis proportions in 1982, there was an urgent need to evolve a strategy which would avoid a collapse of the international trade and payments mechanism. The strategy consisted basically of the re-scheduling of amortisation payments and other short-term relief measures which could tide over the debtor countries until their creditworthiness was restored through the introduction of severe austerity programmes. The strategy was predicated upon the implied assumptions that the growth rate in the industrial countries would be high enough to ensure that the demand for exports from developing countries would be at favourable levels, that commodity markets would revive, that commercial banks would increase their lending to developing countries, and that interest rates would fall. It also assumed that debtor countries would continue to shoulder the burdens of adjustment single-handedly, through draconian austerity measures to curb consumption and cut imports, as well as by undermining living standards.

In retrospect, these assumptions do not appear to have been in full accord with economic realities. Consequently, the strategy has not proved to be fully successful.

First, the achieved growth rate in the industrialised countries was much less than expected. Average growth rate in OECD countries, which was 3.7 per cent in 1967-76, ranged between a low of -0.2 per cent in 1982 and a high of 2.8 per cent in 1985. The only exception was 1984, when it rose temporarily to 4.9 per cent. The expected impetus to demand for developing countries' exports was therefore not realised. This was compounded by the growing incidence of protectionism, which rendered it difficult for developing countries to maintain access to markets in developed countries and to achieve significant increases in the volume of their exports.

Second, commodity prices generally fell during the period. These price developments limited the export gains of countries which depended mainly on the export of primary products. It has been estimated, for instance, that the

value of exports from sub-Saharan Africa fell from US\$24 billion in 1980 to US\$21 billion in 1981 and remained around US\$20 billion from 1982 to 1985.

Third, the expected increase in commercial bank lending was not forthcoming. In fact, lending to developing countries declined from US\$39.9 billion in 1980 to US\$3.6 billion in 1985.

Fourth, the burden of adjustment is becoming overwhelming and unbearable to debtor countries. This situation is compounded by the apparent attitude which is prevalent in several developed countries, that the debt problem is a problem of the debtor developing countries, and that the sacrifice or adjustment needed to resolve it should be the sole concern of the developing countries. Behind this attitude is the apparent reasoning that the problem emanated from the mismanagement of their economies.

While it cannot be gainsaid that there have been cases of mismanagement, sometimes gross mismanagement, it is beyond dispute that exogenous factors such as declining terms of trade, high interest rates, etc., over which the debtor countries have no control, have often been responsible for debt problems in many debtor countries. Even the IMF conceded this point in its *Annual Report 1983*, when it explained that with regard to the sharp setback in the current account balance of non-oil developing countries from 1978 to 1981, 'the key consideration here is the generally unfavourable nature of the external economic and financial environment faced by these countries in recent years and the importance of certain major adverse influences almost wholly beyond their own control.'<sup>6</sup>

Almost all debtor developing countries have had to accept stringent adjustment and austerity measures which are inherent in IMF conditionalities. They have discovered that these measures have resulted in increased unemployment, reduced national income, lowered standards of living, but only modest, if any, improvement in their debt-servicing capacities. They have, therefore, become less willing to postpone the recovery in their living standards.

Fifth, interest rates did not decline in real terms to the extent necessary to make an appreciable impact on the debt problem.

It is true that the strategy achieved some measure of success: for instance, the trade deficit of the indebted countries which amounted to US\$50 billion

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6 IMF, *Annual Report 1983*, p. 34.

in 1982, was transformed into a surplus of US\$7 billion in 1985. About US\$28 billion has been lent as new money by commercial banks to debtor countries between 1983 and 1986, and re-scheduling of medium- and long-term bank debt exceeded US\$140 billion over the same period. However, in spite of these achievements, the debt problem remains essentially unresolved. Debt re-scheduling, for instance, is a mere palliative, not a curative.

### **Alternative Approaches to the Debt Problem**

I submit that a more correct and realistic approach to solve the debt problem must start from the position that the problem is as much that of developed countries as it is of developing countries. There must be equitable burden-sharing in meeting the cost of devised solutions. In other words, essential co-responsibility of debtors and creditors and the symmetry of adjustment must be accepted. The developed countries cannot grow and combat inflation at the expense of the developing countries, and expect no repercussions in world economic performance. As the developing countries stagnate or experience a continuous decline in their growth rates, the industrial countries are paying a price in reduced exports, higher rates of unemployment and a decrease in debt service payments. Needless to say, the developing countries are paying an even higher price in reduced growth and increased suffering of their people.

The international community must recognise that the debt problem is not simply a financial problem; it is fundamentally a development problem. So the developed countries and their financial institutions should take a longer-term view of the debt problem, and link it to solutions that would make it possible for developing countries to service their debt from their income. In short, adjustment must be 'positive' – that is, growth-oriented. In this regard, the three 'basic realities' of the debt situation which were identified by Mr J. de Larosiere, managing director of the IMF, are particularly pertinent:

One is that improved growth performance in debtor countries is essential for a successful resolution of the problem. The second is that such improved growth requires the implementation of sound policies in debtor countries themselves – (the third is that) financing provides the means to sustain these policy efforts.<sup>7</sup>

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7 Remarks by Jacques de Larosiere, before the Bankers' Association for Foreign Trade, Phoenix, Arizona, 16 May 1986.

The first 'basic reality' is linked firmly with my concept of positive adjustment. The situation in sub-Saharan Africa illustrates the point beyond dispute. According to a World Bank report, the decline in Africa's per capita income during the 1980s, together with the decline in the 1970s, will wipe out all its rise in per capita output since 1960. As a result, low-income Africa is poorer today than it was in 1960. For the first time since World War II, a whole region has suffered retrogression over a generation.<sup>8</sup> Unless the decline can be arrested and converted into growth, the debt problem of this region can hardly be solved. The second basic reality has received wide recognition among debtor countries: even Mr de Larosiere conceded in his remarks that debtor countries have taken some firm adjustment measures to turn around their external accounts.

With regard to the third basic reality, the Baker Plan, which would mobilise about US\$30 billion over the next three years, should be seen as a welcome step forward by the major developed creditor countries, as it has introduced new elements of flexibility and emphasis on growth. However, in my view, this initiative will not mobilise sufficient external finance to allow debtor developing countries to restore growth and service their debts regularly. It has been estimated that if the Baker Plan is fully implemented, it would provide new lending equivalent to less than one-quarter of the aggregate interest cost of the 15 prospective borrowers.

The World Bank's Special Facility for sub-Saharan Africa, launched in July 1985, and the new IMF Structural Adjustment Facility of SDR 2.7 billion established in March 1986 to support growth-oriented economic programmes in deeply depressed countries largely in sub-Saharan Africa, are further recognition that economic growth in debtor developing countries is essential to enable them to service their debts. While these measures are too small in magnitude, they are nevertheless welcome indications that the industrialised countries are acknowledging that the debt difficulties of African countries should receive special attention reserved in the past only for the major debtors in Latin America.

The hope now is that governments of both developing and developed countries will co-operate and come up with the necessary modifications and

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<sup>8</sup> World Bank, *Financing adjustments*, p. 7.

expand these measures. It should be emphasised that the goal of US\$12 billion set for the IDA-VIII programme will be grossly inadequate under the present circumstances, particularly in view of the fact that IDA-VI, (1981-83) was of exactly the same magnitude. In addition, it is obvious that governments of developed countries can take action on their own which would include domestic economic policies that are not in conflict with revitalising the world economy, and that other international institutions such as UNCTAD and the General Agreement on Tariffs and Trade, which are dealing with resource transfers and international trade, must be brought more effectively into the process. The contribution that increased trade will have to make to economic growth of debtor countries and their ability to service their debts cannot be overemphasised.

The time appears ripe for some major innovations in the way the debt problem is being handled. The debt management strategy which has been in force since 1982 appears increasingly ineffective, particularly in view of the poor results of commodity prices in 1985, low commercial bank lending and the general slowdown in worldwide economic recovery. Significantly, governments of debtor developing countries are under increasing pressure at home to take measures to induce the international financial system to adjust to their development needs by modifying the terms imposed by inadequate capital transfers. Such modifications should be made consistent with acceptable minimum levels of growth for the debtors in terms of income, employment and standards of living. Some debtor countries are already being forced by circumstances beyond their control to limit unilaterally their debt servicing to a certain proportion of their export earnings, while committing themselves to servicing their debt in the long run. It would be unfortunate in the extreme if they were forced to resort to even harsher measures.

### **Key Elements of a New Strategy**

A new management strategy designed to overcome the debt problem while fostering economic growth should, therefore, have the following elements:

- (1) Debtor countries should not limit bargaining to multi-year rescheduling and the reduction of fees and spreads, because such changes only have a marginal effect on the problem at hand. Rather, the

debtor countries should, in addition, strive to reduce significantly interest rates and generate new lending to sustain a viable net transfer of resources to the debtor countries. In this connection, there should be an increase in the flow of concessional resources, particularly to the poorest countries, to meet their resource requirements.

- (2) It is vital that the resources generated by this new strategy are utilised effectively to reactivate the various economic sectors of debtor countries, to engineer and sustain growth and increase the welfare of the people. The resources should thus finance sound structural policies.
- (3) The new strategy should address the difficulties of all debtors, large and small. The debt difficulties of low-income African countries should receive special attention, because these difficulties have damaged their economies and caused great human suffering.
- (4) The developed countries must achieve and maintain an adequate rate of growth of their economies, and dismantle protectionist measures, to enable the developing countries to achieve a sustained recovery in the volume and prices of commodity exports.
- (5) The developed country governments should grant debt and interest relief to their debtors. Moreover, for the low-income developing countries, it will be necessary to convert at least part of their debt into long-term concessional loans or into grants.
- (6) The multilateral institutions such as the World Bank and the IMF should play more dynamic roles as providers of resources and as financial catalysts. They should be well endowed with adequate capital for these roles. Besides, the IMF should tone down its conditionalities and tailor them to meet the different economic circumstances of respective debtor developing countries. It should also be able to carry out effective surveillance of policies of both developed and developing countries, to ensure they are compatible with the requirements of a growth-oriented world economy.
- (7) No debt strategy can succeed without the active involvement of commercial banks. The banks should, therefore, play an active role by providing new money to debtors, while endeavouring to ease the

route to growth and the restoration of creditworthiness by adopting innovative mechanisms such as the conversion of some existing bank debts into equity for the middle-income debtors, or into grants for the low-income debtors.

- (8) The major actors – the debtor developing countries, the creditor developed countries, the multilateral institutions and the commercial banks – will have to co-operate fully and co-ordinate their efforts to ensure the success of the new debt management strategy. Governments of the industrial countries would also have to expand their guarantees, insurance, and lender-of-last-resort facilities.

Measures of the kind outlined above would contribute towards solving the debt crisis and simultaneously stimulate economic growth in developing as well as developed economies.

### **Conclusion**

In conclusion, it is my view that solutions to the debt crisis and world economic growth are mutually reinforcing. On the one hand, a satisfactory solution to the debt crisis would certainly enhance world economic growth. On the other hand, a solution to the debt crisis is more likely if the world economy recovers. Action is needed on both fronts. The name of the game is effective international co-operation. The successes of Live Aid and Sports Aid have fired the imagination and demonstrated what can be achieved through international co-operation on personal levels. Let the spirit of the tremendous creativity and selflessness inherent in these highly commendable actions engender a new resolve on the part of governments of the world to solve the debt problem and embrace economic growth.

## **RESPONSE**

**Dr Mahsoun B. Jalal**

**Chairman, National Industrialisation Company, Saudi Arabia**

Third World debt is a subject that, I am sure, will invite many comments and discussions from the participants in this seminar. This is why I shall be brief and leave the floor to the number of experienced and learned people here who would provide meaningful contributions to the discussion.

When one talks about Third World debt, one should distinguish between various types of debt: debt to finance trade, debt to finance projects, debt from international institutions, debt from commercial banks, debt from government to government. Actually, we have more classes of debt if one goes deeper in the diagnosis. Indeed, each class is different as far as the pressure it exerts on the borrower is concerned.

Having been involved some time ago in government-to-government lending, I came to realise that one of the reasons behind the magnification of Third World debt is that most, if not all, official development assistance was directed toward infrastructural development financing and very little was directed toward financing production-oriented projects. The result of this orientation is that after more than 20 years of development aid – and all sorts of projects financed by ODA – many developing countries are worse off. This means that developing countries did not increase their production, i.e. national income and export. Most developing countries remained net importers. For many years that passed and more years to come, most developing countries imported and will continue to import more than they exported, or will export. They therefore had and have to borrow to finance their deficit.

As such, part of the solution to the Third World debt problem should be to export more than they import: obvious solution, but hard to realise. We then come to the heart of the matter: firstly, international trade to encourage and increase the export of developing countries, and secondly, re-orientation of ODA towards the production sectors. I am not going to elaborate on these points; maybe some of the distinguished guests would care to do so.

On the other hand, commercial bank debts are usually of short-term nature and mostly to finance trade. Commercial banks are profit maximisers.

Also, we need the commercial bank as an institution – for trade, for economic development, and for monetary dealing in general. But we should not expect these banks to ‘give away’ anything. This is against their objective, profit maximisation. These banks might co-operate for longer-term strategy considerations but they will not agree to be burdened with substantial losses. They are not aid-giving organisations, yet they might be ready to bargain in order to save most rather than losing all. But one should be realistic about this. Why should a commercial bank agree to reduce its assets and/or its income from its loan portfolio? Some time ago, a new official of a country declared ‘they should go to hell’. It did not take him long to realise that a country cannot afford the enmity of the commercial banks.

## **DISCUSSION**

### **HE Sheikh Mohammed Ab-Alkhail**

Mr Chairman, I would like to thank my colleague from Nigeria for an excellent presentation. I also would like to pay tribute to Dr Mahsoun Jalal for his most pertinent comments which appear to have anticipated something I had in mind myself.

I refer to the point that commercial banks most probably will not continue in their efforts to re-schedule and, at the same time, extend new loans. If we have been following the activities and comments of these banks, we would see this quite clearly. It is evident that commercial banks will not be able to continue these re-scheduling operations indefinitely. On the contrary, the enthusiasm of the banks and that of the committees set up to study re-scheduling have waned. I do not believe it is useful or realistic to expect the banks to make additional efforts in that direction. We cannot expect interminable concessions and grace periods from a commercial body which uses commercial criteria.

Dr Mahsoun Jalal, in his own discourse, referred to trade, bringing up an important matter – the matter of loans which ought to be directed at our commercial and trade projects to lead to an increase in production. Here, we should highlight the fact that we need to make an effort to solve the problem by encouraging and stimulating trade among developing countries, and with industrialised countries as well. We must not confine ourselves to the South-South dimension. There will, of course, be no miracle solutions to the problem of debt, but I think that is the only path: the more emphasis we place on increasing the means of production of the developing countries and on improving the terms of trade among the various countries, the more progress we would be making. We need to find the most appropriate framework for studying all of the problems regarding debt, trade and development in general. We must seek solutions by placing the problem of debt in its true setting.

Of course, I should hasten to add that, when I talk about a solution, I do not really mean to say 'solution'; I am talking instead about finding the correct path to working on the problem, because there is no miracle solution as such.

Another point regarding trade (and this also affects debt): when we talk about debtor countries, we need to place the concept in a broader framework. We need to increase the capacity of the developing countries to reach capital markets. It is reaching this important market that is the real problem of debtor countries.

At present, the acute nature of the problem of debt is felt. But we must remember that there are major and minor debtors. There are countries with less onerous debt, but they are in no better position either. They are not accepted by the banks or in the financial markets, they do not receive the necessary loans either. We have only to read what has been written on this subject to know that the commercial banks are granting fewer loans to the developing countries, especially those which are deemed poorest.

**Dr Ibrahim F.I. Shihata**

Mr Chairman, I have listened very carefully to the eight-point solution proposed by Mr U.K. Bello in the concluding segment of his statement, and I feel that it would be extremely difficult to see these solutions adopted simultaneously, because there seems to be some internal inconsistency among them from a very practical point of view.

There is no disagreement that the debt burden is huge. It is estimated to exceed US\$1 trillion this year, going by World Bank estimates. There is no disagreement that this is a provisional sum expected to hold true at least until the end of the century, even with all the corrective measures that are being considered at present. But no one – at least not in the international financial community – sees a way out without the adoption of serious adjustment measures on the part of developing countries, accompanied by debt relief measures.

Without these, there is no way the creditors, especially the commercial creditors, will increase their lending. Commercial banks today do not lend new money to the heavily indebted countries. The only loans they make are involuntary lending – just to re-finance existing loans to enable the countries to continue servicing their debt. And in addition, there is no access to the market because there is no creditworthiness on the part of the borrowers. Therefore simply asking the creditors to increase their exposure to what, in their view, are non-creditworthy borrowers, does not seem to be realistic at all.

Much larger lending institutions, however, may be expected to increase – and along with them the commercial banks they support – only if major policy changes are introduced in the borrowing countries. But most borrowing countries argue that this is an unacceptable ‘conditionality’ or ‘intervention’ in their internal affairs. It is really this which seems to be the stumbling block, because without this conditionality, without the changes in policies, the multilateral institutions are not likely to play the expanded role we expect of them; and without their role, commercial lenders will not change their attitude as to the creditworthiness of the borrowers.

Measures like debt cancellation, lending without conditionalities or lending to non-creditworthy countries or increased concessional flows to other low-income countries, may be asked for, but they do not seem, under the present circumstances, to be realistic options, at least as far as the financial community is concerned. In other words, they may require political action beyond the reach of the financial institutions – indeed, political action that might not be on the cards in the world of today.

### **HE Mr Jassim Mohammed Al-Kharafi**

Mr Chairman, speaking about the debt problem reminds me of the old conundrum about who or what came first, the chicken or the egg. The question which must be posed is, where did all this money go, and how was it used? The statement of His Excellency, the Nigerian Minister, mentioned that there had been cases of mismanagement of such funds. Now, if the situation is such, then there is an impossibility of finding a radical solution. This problem is linked to growth, and if these amounts were not directed at policies to create growth, then there will certainly be no revenue.

Furthermore, the statement of His Excellency the Nigerian Minister dealt with the various criteria usually set forth by the International Monetary Fund. These conditionalities are indeed stringent and they often cause difficulties, some of which are political and lead to political instability or to the exacerbation of a crisis. This is a matter which needs to be considered.

We also have to divide debts into two categories. One, as Dr Jalal stated, is confined to international organisations and institutions, and the other to

commercial banks. With regard to the situation of commercial banks, and according to information available to me concerning their methods of lending, these banks are usually very prudent, applying purely commercial standards. Now, if the situation has been as such, and if this lending did take place, what has happened to those institutions which received these funds? Did the purposes for which the lending was made – project financing, development planning – change?

I believe, Mr Chairman, that if we wish to provide a lasting solution to this problem, we should not stop with mere calls for debt relief; we should examine the basic problem facing the developing countries. I apologise for raising this point, but the purpose of this remark is not to repeat the arguments put forward by the debtor countries, who say it is the fault of the creditor countries who, in turn, say it is the fault of the debtor countries. For our part, if we seek a genuine solution, the solution must originate from our own countries and through co-ordination among ourselves; we must close ranks, we must unify our positions, and we must follow up with the various specialised institutions.

On this score, Mr Chairman, I wish to state that developing countries must indeed give due care and attention to international financing funds. These funds were set up to service the cause of development. If these institutions are neglected, it would be tantamount to killing the goose that lays the golden egg.

### **HE Idriss Jazairy**

Circumstances in the eighties have radically changed the economic fields of developing countries from what they were previously. And this has impacted adversely on a new and large group of developing countries. Countervailing power of the developing countries has also weakened recently. Traditional 'economic co-operation among developing countries' approaches, including the programme of action of Caracas, have been overtaken by events. It is necessary therefore to have an objective re-evaluation of the situation, and to define appropriate strategies by developing countries and for developing countries.

Accordingly, I propose the creation of an independent commission of eminent statesmen from developing countries, with the following mandate:

to adjust South-South co-operation to prevailing international economic and financial conditions; and

to reinforce the unity and “countervailing power” of developing countries in international negotiations.

**Mr Ghassem Salehkhoul**

**Executive Director, International Monetary Fund**

The origin and probable solutions to the debt problem were comprehensively covered by previous speakers, and I am very much grateful to them for their lucid presentations.

Only one question comes to mind: the emphasis was placed on international trade and growth for developing countries to cope with the debt problem. Now, given the declining trend of commodity prices, as far as the developing countries’ exports are concerned, and the still-to-date historically high interest rates prevailing in the market, I wonder how we could check increasing delays between the payments of interest? The principal, as we all know, has already been paid many times over, but with this dilemma of ever-increasing interest payments and the decline in prices of developing countries’ exports, I wonder if growth, in the sense that we have been discussing, would be a solution. It seems to me it would, instead, increase the supply of commodities for which there are already low prices; and the additional supply would even drive the prices lower. This is a puzzle. It is difficult to approach a solution by way of improving trade conditions, except a separate solution is perhaps found for the debt problem.

### **Mr Tsuneo Oyake**

Although this is a seminar marking the OPEC Fund's tenth anniversary, I wish to take the floor to state a non-OPEC view of the problem of debt. I also missed a chance to intervene while we discussed the North-South dialogue, I will try to be brief.

As regards the debt issue, I think that we have basically three equations before us. First, there is a need for growth-oriented policies for debtor countries. I would not elaborate on this, in view of our time constraint. But this is very important – a strong commitment by the debtor countries themselves to growth-oriented policies is fundamental to the solution of the debt problem, which also implies that the preferred approach should be on a country-by-country basis and diversified. No single approach will serve all countries and all regions.

A second element we have in mind at the OECD is improving the quality and quantity of financial flows. Official development assistance from OECD countries is being more or less maintained at a pace of slow growth annually, but export credit and private investment flows have gone down drastically. That is the background of our debt issue and we shall have to address this problem before confronting the larger problem of debt itself and the various initiatives to help.

Third, I believe the most important area for co-operation is trade. In Geneva, preparation is now in the last stage for the launching of international commodity negotiations under the auspices of the General Agreement on Tariffs and Trade. Trade embodies tremendous opportunities for developing countries. It is also important to stem the tide of the new wave of protectionism. The on-going process of negotiations is therefore very important, politically and otherwise. So, I wish very much that as many countries as possible (i.e. developing countries) join us in these negotiations, so that we could have a comprehensive agreement in two or three years from now. The effect would be an expansion of an open and free trading system.

Having said all this, I now turn to North-South co-operation. When we talk of this we should be conscious of the changes that have occurred since the 1960s and 1970s. We are no longer able to talk in the same terms as we did in earlier years. But I can safely say that among OECD members – Japan, the

United States, the European Community, etc. – there is unanimity in recognising that we live in an interdependent world; without prospects for the South there are no prospects for the North. So there is, I think, some central goodwill on the part of OECD members to further enhance international co-operation. In that regard, it is very important to share, or at least have a shared perception of how we operate our economies, where the problems are, and how to cope with them.

Among OECD members, we have discussed at length and have now reached a stage where we have a substantial degree of policy compatibility among members on macroeconomic policy, on the question of unemployment, and on ways and means of solving the problems of international and national imbalances. I think such policy compatibility and policy convergence should also exist between industrialised countries and the developing countries, so that valuable dialogue can take place. I do believe that no North-South dialogue is viable, or on equal footing, without some degree of common perception on the present state of the world economy.

### **Mr Babacar N'diaye**

I would like to take off from where Alhaji U.K. Bello left. He made an important point when he said that the debt problem was a problem of development. It is clear that the debt problem would not have grown to the point it has reached today if we had had development going properly in our countries. It is not a coincidence that two speakers, in responding to Mr Bello, cited trade and interdependence.

Let us suppose that there were enough infrastructure and contractual entrepreneurship in our countries to really use the funds that have been borrowed from outside, the impact of that would have been to create more wealth, to increase gross national product. But what has happened, generally? When we borrowed – and I am not analysing here the causes of debt mismanagement or anything like that, I am going a step further – when a developing country borrows, even from OPEC member countries which have given free and very liberal conditions, the money is first used by developed countries, and the net beneficiaries of our debts are developed countries. If it had been possible for

our contractors to use those funds in their own countries, even for building white elephants, the benefit will have remained in their countries because of the distribution of income to labourers, to workers, and so forth. So the problem, as Mr Bello said, is really that of development.

I would like to take another point: trade. If trade were properly developed, if we had intra-African trade, and well developed South-South trade, we would have gone a long way toward reducing the debt burden and promoting growth. The key concept thus becomes growth-oriented financing and policies. There has been mismanagement, a misuse of our resources. What we need to do today is to put new funds to productive investment, which will generate growth. Growth will then help to promote trade, and through trade we will have foreign exchange, and be able to service our loans.

Without holding forth for my friend Mr Bello, on the question of commercial banks, I think it will be difficult, even unthinkable, that they would reduce interest rates to a level developing countries could applaud. But one wonders how it is that they (the banks) re-schedule and increase spread – the already exorbitant spread on the original debt – and create additional costs for borrowing countries. I think that was the essence of Mr Bello's intervention. It is important that if genuine assistance is to be given to our member countries to help them service debts, such assistance should not necessarily involve the spread of the original debt, because that comes as an additional burden to the borrowing countries.

It is true that we need to create the right atmosphere to enable commercial banks to come and finance or resume their activities in developing countries. But, there is a need to make a clear distinction between developing countries. Newly industrialising countries are developing countries. Latin American countries are developing countries. Asia, and so forth, Africa also. I would like to submit that a resumption of commercial bank lending should be greater in the first group of countries. In Africa, we would rather look for other sources of funding.

**HE Mr Hisham Hassan Tawfik**  
**Minister of Finance, Iraq**

Mr Chairman, I apologise for taking the floor at such a late hour, but to those who are interested in the future of the international economy, the problem of debt brings to mind a great number of ideas.

There could be reason for pessimism in the future, as Dr Mahsoun Jalal pointed out, with regard to the servicing of debt in the years ahead. The mind boggles at the billions that would have to be paid every year to service debts. Well, this is actually what is happening at present, because debt has reached more than US\$1 trillion, and the interest on debt amounts to more than US\$52 billion per year. Therefore, the time required to service these debts would be extremely lengthy and the debt will continue to mount.

The solutions proposed in the various international fora, Mr Chairman, could be radical solutions, if you will, but, in actual fact, they are mere stop-gap measures *vis-à-vis* the magnitude of the problem that we have to cope with. After all, these proposed solutions do not take into account the true requirements of the developing countries and their development needs. This is why we think it is necessary for us to look at the future of the world economy in light of the present situation. In the future, the economy would be even worse off. Therefore, all forecasts regarding developed and developing countries are rather inclined to pessimism. Solutions proposed should take into account the interest of both sides.

The proposals of the Minister from Nigeria are valid, but, if I may repeat, it is necessary to take into account the contradictory interests of the two groups of countries involved. The international institutions as well should not ignore existing realities. The proposals that have been made are nevertheless valid, but we could add two additional suggestions. It is necessary that we examine the possibility of creating a new international, multinational institution, much in the vein of the Paris Club and the Club of Rome, to control and administer debt servicing. The new institution will take into account the interests of the creditors and those of the debtors; it would examine all requests for debt re-scheduling and do this in accordance with the objectives and policies of international development strategy. We cannot force impossible terms on developing countries, terms which would do nothing but broaden the gap separating

the developed from the developing nations. The IMF could also set part of the goal of this new institution and help take necessary measures to reduce the interest that the developing countries have to pay on the loans they have contracted.

**HE Mr Mohamed Terbeche**

**Secretary-General, Ministry of Finance, Algeria**

Mr Chairman, the matter under discussion has moved me to take the floor. I repeat: the problem of debt is very important. We have already discussed in the course of today the interdependence which exists in the global economy. It is an interdependence of all factors of the global economy. We also considered that the problem of debt is but a result of the operation of the international system. Our brothers Bello and Jalal both discussed the issue exhaustively, as did a number of speakers who have suggested possible solutions and analysed the causes of the problem.

There is no doubt that the debt problem is a structural one. In the past, we tried to consider solutions separately – a solution for each sector, independent of the other. But what has been the result? In Nairobi in 1973, we tried to solve the problem of commodities and their price fluctuations. In Jamaica, we tried to discuss the international financial system, and today, we are trying to solve the problem of foreign debt without considering the economic factors which are the basis for it. There always is a missing link when we, the developing countries, discuss these problems. And this link, in fact, is to be found in the international monetary system, where we have no voice. Fluctuations in rates of interest represent 40 per cent of the foreign debt of developing countries and we have no responsibility over this.

Efforts should be made by our countries in this direction and the funds which we borrow should be re-invested in the means of production. But as long as we have no control over the vagaries of the international monetary system, all our actions will be in vain. The developed countries themselves cannot on their own and alone reform the monetary system unless they agree to a general framework of trade and other matters, and only then will they be able to find a solution to the problem of interest rates and exchange rates between

the various currencies. I wanted to make this contribution to our discussion of this very important problem, a problem which urgently needs to be solved. However, the need for a solution requires study of a large number of factors. We should not focus on results as such; we should analyse the factors which led to the situation.

**HE Mr Ali Majedi**

In the name of God, the Merciful, the Compassionate.

A great deal has been said in regard to the difficulties associated with debt and possible solutions offered. Certain references have also been made to the question of exports and the effect of growth. Commercial exchanges by way of imports and exports do contribute, along with economic growth, to the expansion of these debts. So too does the rate of interest as was discussed a while ago.

Although we must accept that all these elements have played some role or other in the increase of debt, one element, one factor appears to have been forgotten: our total lack of influence on the global economic decision-making mechanism. As HE Mr Terbeche pointed out, as long as Third World countries are related to, and dependent on, the important monetary system of the world – and they need these monies to attain growth – the present situation with regard to debt will continue. The Third World needs to take this into consideration, and deal with the matter at various levels, including seminars such as this. We must not expect the International Monetary Fund, which supports the dominant currencies and economies, to come to our assistance.

## **CLOSING ADDRESS**

**HE Dr Hector Hurtado**  
Chairman of the Seminar

During this day, which has been a rather long working day, we have reviewed the various subjects which were included on the agenda of this seminar. The nature of these subjects and the high quality of the speakers and those who commented, have been a source of great satisfaction. I would like to congratulate the organisers and the OPEC Fund for the results which they have achieved.

We have dealt with the major topics, but there are other topics which are closely interrelated as well. There is, for instance, a causal relation between the problem of aid and development. There is a link because, to a large degree, debt is due to the distortions we have in international relations. As several speakers have pointed out, not only is this reflected in the financial system which is imposed on us, it is also evident in our trade relations. In the case of international co-operation, all participants agreed that in recent years, there has been a decrease in interest in this co-operation on the part of the industrialised countries.

It has become commonplace in recent years to hear people express discouragement with financiers, and administrators of multilateral financial institutions which were intended to help developing countries battle the difficulties they face in replenishing resources at levels appropriate to the needs of the recipient countries. Both the World Bank and the Inter-American Development Bank as well as other regional banks complain of diminishing support from the industrialised countries. Indeed, even when they do provide support, it is subject to conditions which practically neutralise their efforts. These conditions, or conditionalities as they are called, also nullify the possible benefits of the loans extended by these international institutions to the developing countries.

We have also heard how trade policy conspires against international financial co-operation, be it through protectionism in the industrialised countries or through the selling of subsidised products as was pointed out by Dr Kreisky. This, of course, affects the placement of Third World products in the

market. I think the analogy drawn by the Minister of Finance of Indonesia was very much to the point when he recalled the story of the monkey. He said progress in international financial co-operation was taking mankind as much time as it would a pack of monkeys expected to reproduce the works of Goethe or Shakespeare. The degree to which we delay timely and appropriate decisions on the needs of the Third World is alarming. This delay brings to mind a thinly-veiled warning which we, in Venezuela, express through a proverb: 'If we wait for the grass to grow, the horse will die.'

I do not want to draw on all of the topics, because I believe that all of the speakers who took the floor before me did justice to their various topics in the most appropriate fashion. But I must point out that despite the lack of time, and moved by our will to try to outline solutions, we have in this seminar made proposals and carried out analyses which I think should be reflected in a publication on the proceedings of the seminar. We should keep the book on our desks as something to remember this very pleasant and warm encounter. It will help us remember this rather outstanding day, and will bear witness to our common concerns in our countries.

Thank you all for your co-operation and for making my job as chairman easier. You have all been very disciplined, and I would like that reflected in the records. Furthermore, I would like to thank the management and staff of the OPEC Fund for their support. I should like to thank the Director-General, Dr Y. Seyyid Abdulai, and the Chairman of the Governing Board, HE Mr Osama Faquih, as well as the interpreters who have had to endure this long meeting and made it possible for us to overcome the language barrier to reach understanding in our search for a common goal, the goal of maintaining OPEC co-operation as an example to all of what co-operation should be within the world community.

When we established the OPEC Fund ten years ago, it was our aim to have a common institution that will symbolise our ties and solidarity with the Third World; an institution that will respond flexibly to the needs of the developing countries, thereby demonstrating our understanding of the problems these countries face, and an institution that will speak on our behalf in some matters that relate to economic development. It is my assessment that the OPEC Fund has succeeded admirably in fulfilling this mandate.

*HE Sheikh Mohammed Ab-Alkhail  
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