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Remarks:

The attached package responds to the DCI's request for information and analysis on selected aspects of the North-South dialogue. It was sent to Peter Flanigan of the President's Economic Advisory Council.

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FROM: NAME, ADDRESS AND PHONE NO.	DATE
Maurice Ernst, D/OER, 4R71, [redacted]	STAT

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MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Director, National Foreign Assessment Center

FROM : Maurice C. Ernst
Director of Economic Research

SUBJECT : Peter Flanigan Request for
North-South Analysis

1. Action Requested: None; for your information only. (U)

2. Background: The attached papers were sent to Peter Flanigan of the President's Economic Advisory Council. He had asked for our analysis of selected aspects of the "North-South Dialogue" to prepare a position paper for President Reagan's participation in the 22-23 October Cancun Summit. (OUO)

STAT

MAURICE C. ERNST

Attachments:
As stated

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Some Aspects of the North-South Dialogue

This memorandum summarizes several aspects of the North-South dialogue. It includes an overall perspective and sections on past approaches to the dialogue, the role and effectiveness of private voluntary aid in fostering economic development, information on commodity agreements, and selected applications of aid to market economies.

Perspective

The industrialized states, with varying degrees of reluctance, have accommodated several of the South's demands made in the context of the North-South dialogue. The North has committed itself to increasing funds for development assistance and has agreed to a limited system of trade preferences for LDC products. The industrialized nations participate in several producer-consumer commodity organizations that attempt to insulate developing countries from sudden fluctuations in the production of or demand for specific LDC exports. Because of its greater economic power, however, the North retains the ability to control North-South discussions so long as the dialogue is restricted to the transfer of economic resources and takes place in limited forums. If the North-South dialogue were viewed solely in terms of economic objectives attainable in these forums, then economic development would continue to be contingent upon the generosity and healthy expansion of the economies of the industrialized states. In this case, confrontation between North and South ultimately would be counterproductive for the LDCs.

The North-South dialogue, however, involves more than the substantive issues of economic development; the South also has a political strategy designed to enhance its bargaining leverage in and influence over international negotiations. Because the industrialized states possess such overwhelming economic might, the South has concentrated its efforts on gaining control of the procedural aspects of the dialogue in order to influence the outcome of negotiations.

Past Approaches to the Dialogue

The Non-Aligned Movement

The first LDC effort to form a global negotiating bloc was the formal creation of the Nonaligned Movement (NAM) in 1961. The Movement is characterized only by a series of meetings and declarations, and has no internal mechanism to implement resolutions. Even though it has no real power, the NAM has, nonetheless, been able to influence the tone and priorities of the dialogue simply by constantly dunning world leaders with the positions of the LDCs. For example, the NAM originated the call for a New International Economic Order (NIEO) and was the driving force behind the creation of the UN Conference on Trade and Development (UNCTAD). Although the NAM includes most of the LDCs, it is not identical with the Group of 77, which evolved out of the first UNCTAD in 1964 and which continues to be the principal caucus of LDCs on economic issues. The NAM, however, offers a forum for the LDCs to comment on political and military affairs as well.

The role of the NAM is diluted by the fractious political, economic, and military differences among LDCs that have effectively prevented unified action in every large LDC coalition. Tensions over priorities, policy direction, and the very meaning of nonalignment are common. While eschewing client status, many members are openly tied to either the United States or the Soviet Union. Even though it frequently displays a leftward bias, at any given time the NAM has either favored or discouraged both pro-Western and pro-Soviet policies. The tensions generated by the clashes of NAM radicals and moderates test the Movement's unity. Even so, the members' shared sense of ill-treatment by the industrial and military powers encourage them to continue to try to restructure the international system.

UNCTAD

It is difficult to be optimistic about the prospects for substantial progress in North-South negotiations in the UNCTAD forum. UNCTAD suffers from the debilitating effects of large-scale multilateral diplomacy. With over 140 nations in attendance, with endless plenary speeches and rhetorical flourishes, and with all the associated publicity, the chances for serious negotiation are undermined by the session's very structure. UNCTAD also suffers from a history of confrontational politics. Of all the international institutions, it is the one most widely perceived by the developed countries — and some LDCs — as unsuited for serious negotiations on issues of major importance for trade and development. Whether valid or not, this perception is a serious stumbling block to mutual accommodation.

The unity of the South began to develop in 1964 at the first session of UNCTAD when the Group of 77 (G-77), which now numbers over 120 countries, was born. The first three UNCTAD conferences (1964, 1968, 1972) were characterized by confrontation, political rhetoric, and unrealistic economic demands for such measures as trade preferences, unilateral concessions, untied aid, and transfer of defense spending into economic development programs. The United States and most developed countries voted against or abstained on most of these issues because they were one-sided, ill-researched, and threatened existing institutional and structural arrangements that had been built up by the West after World War II. The only major accomplishment for the LDCs was progress on the Generalized System of Preferences (GSP). The idea of preferential tariffs by industrial countries for LDC exports was formally introduced in UNCTAD I, agreed in UNCTAD II, and implemented starting in 1971.

From the point of view of the LDCs, the first three UNCTAD meetings obviously failed to establish a new international order for the conduct of trade and other economic relations. In particular, they failed to attract any sympathy from the US, which for reasons of its historical economic evolution, postwar political relations, and basic principle of nondiscrimination in international trade, was unfairly cast as an arch-defender of a system believed biased strongly against the LDCs. Moreover, to a great extent the US served as a scapegoat for the other developed countries (especially those of the European Common Market) by carrying the burden of protecting the status quo while they could avoid any commitment through vote abstentions.

UNCTAD IV, in Nairobi in 1976, was a watershed in the North-South dialogue. It marked the first serious attempt to implement some of the goals of the previous meetings, and was characterized by unusual Southern unity and less confrontation on the part of the industrialized states. At UNCTAD IV, resolutions were adopted on a variety of issues that included the Integrated Program for Commodities, the Common Fund, technology transfer, and debt relief. But, while UNCTAD IV agreed on the issues, it left detailed negotiations on how to resolve them for other meetings and bodies. Following UNCTAD IV the LDCs and industrialized countries made little progress in reconciling the self-interests of both sides beyond framework agreements on the common fund and debt negotiation.

UNCTAD V (Manila, 1979) assessed the progress of the North-South dialogue and found it wanting. But it, too, merely put agenda items into the bowels of the UN for further study. It demonstrated both that LDC unity is difficult to achieve and that the industrialized states' positions become firmer as general debate moves to consideration of specific, concrete measures. For the first time, divisions between the interests of OPEC and non-OPEC members of the G-77 emerged. Because of their oil income, some of the most important OPEC nations have as much at stake in global economic stability as they do in a new international economic order. A number of advanced LDCs, such as Brazil, India, and Mexico, acting in their own self-interest, are taking positions more consistent with those of the developed countries on such issues as energy, trade, and technology. As these countries continue their economic development, they will find fewer reasons to support the radical demands of the G-77.

Still, UNCTAD remains the preferred forum of the majority of the G-77. Some outstanding issues at UNCTAD that threaten to become future flash points include:

- The future role of UNCTAD in international financial management and in debt rescheduling.

- The difficulty in establishing the site for UNCTAD VI.

- Possible future conflicts with GATT over trade preferences and structural adjustment issues.

All of these seem to indicate that UNCTAD is likely to become increasingly politicized and, for the US, bothersome.

The UN General Assembly

Stimulated by the success of the OPEC countries in pressuring the industrialized states in 1973-74, the G-77 stepped up the pace of its demands for international economic changes. In 1974 it pushed through over the objection of the industrialized states UN resolutions calling for a New International Economic Order and a Charter of Economic Rights and Duties of States. These resolutions brought together a set of proposals that had previously been put forward unsuccessfully at UNCTAD meetings. In essence, the proposals called for a redistribution of global financial and technical resources through:

- Economic decolonization by LDC industrialization and absorption of advanced technology.

- Indexation of primary commodity prices to those of developed country exports.

- Expanded Third World participation in the international monetary system.

- Compensation for previous "exploitation" of LDC resources during the colonial era.

- Cancellation of Third World debt due the industrialized countries.

At its second special session on international economic cooperation in September 1975, the General Assembly specified further measures related to diversifying LDC production and exports, development financing, technology transfer, and agricultural production. Unlike the previous year's debate, discussions at this meeting were cool-headed and program-oriented. In an effort to reduce polemics and begin a productive dialogue, the General Assembly endorsed in principle continuing the North-South dialogue in an ongoing, limited-participation conference outside of the formal UN framework.

While the North did not approve of the G-77 economic proposals, it nevertheless agreed to talk about them. An initial attempt to enter into a productive discussion with the South took place in December 1975 when the industrialized countries initiated the Conference on International Economic Cooperation (CIEC). This was the "mini" North-South dialogue in which participation was limited yet all sides were represented. Despite the initial high hopes for the success of this approach, the conference ended in 1977 with no real progress and was a disappointment to both sides. As a result of CIEC's failure, the General Assembly that year affirmed that all further discussions relating to the new order should take place within the UN system and called for a third special session.

This special session met in New York in August 1980. Having made no progress in implementing the G-77 programs, the General Assembly turned its attention to launching a sustained round of "global negotiations" with the active participation of all member states. The session ended, however, with no agreement on either the procedures or the agenda for the global round. Despite the stalemate, this session on economic cooperation helped to firmly establish the General Assembly as a key forum of the North-South dialogue, and a forum which can easily be manipulated by the G-77, which controls a majority of the votes.

The Brandt Commission Report

In September 1977, former West German Chancellor Willy Brandt announced that he was going to implement World Bank President MacNamara's idea for an "Independent Commission on International Development Issues." The Commission was to examine "the grave global issues arising from the economic and social disparities of the world community," and to suggest ways of promoting solutions to the problems involved in development and in attacking absolute poverty.

Three themes run through the Brandt Report. The first is that all countries have stronger mutual interests than they recognize. Second, that the IMF and World Bank are run by outdated arrangements that favor the North because they do not include most communist countries and were formed before most LDCs reached independence. The third theme is that poor countries have no automatic sources of development finance and must depend on unreliable and quixotic developed countries and capitalist bankers.

The Brandt Report recommends an emergency program and longer term reforms. The emergency program has four main features:

- A large transfer of financial resources to the LDCs through official aid, World Bank lending, and sale of IMF gold.
- An international energy strategy for production, price indexation, and conservation.
- A comprehensive global food program.
- Reform of the international monetary system.

The Commission made over 60 proposals for longer term reforms of the global economy. These can be roughly grouped into four categories:

- Measures to boost demand in LDCs.
- Changes in trading arrangements and adoption of commodity agreements.
- Institutional reform of the IMF, World Bank, and other specialized organizations.
- A World Development Fund for non-project lending.

The Brandt Report simply lends a prestigious name to old wine in new bottles. It adopts from the global reformist school the notion that most issues of international relations should be set in a North-South context, and that poverty and international disparities can be largely attributed to the unequal distribution of economic power.

The report is in many places inconsistent and contradictory. For example, it focuses attention on protectionism in the rich countries, but ignores its more severe, and more damaging, incidence in the South. Moreover, while acknowledging the potential gains from freer trade, the report announces paradoxically that "economic forces left entirely to themselves tend to produce growing inequality." The report shows an excessive faith in the ability of governments to foresee future trends and to manage economic processes by direct regulation.

To its credit, however, the Brandt Commission report recognized that global reform was impractical if the debate resided in such large, political forums as the UN. Thus, the final recommendation of the report was for a limited summit to provide a new focus on global problems and give a new impetus for future negotiations. A year later, with the UN Global Negotiations deadlocked over procedures and agenda, Austria and Mexico resurrected the recommendation in the form of the upcoming Cancun Summit.

The 1975 Kissinger Speech

Secretary of State Kissinger's September 1975 speech to the UN General Assembly marked the first US commitment to negotiate seriously for major changes in the world economic structure. This tactical change in position probably came about because of the perception at the time that OPEC was in harmonious unity with both itself and the other LDCs, and that together the threat of their strong, unified action would make it increasingly costly for the US to delay action on North-South issues. Kissinger addressed many of the LDC demands for new economic arrangements, but did not come close to meeting their radical conditions. Moreover, his intent was to offer a willingness to cooperate, but to avert any systemic changes, channel North-South rhetoric into specific issues rather than general themes, and restrict actual negotiations to forums in which the US still had a large measure of control. Thus, for instance, he

- Rejected the UNCTAD price stabilization schemes for primary exports in favor of an expansion of the IMF's compensatory financing facility to stabilize export earnings.
- Rejected indexing of prices of developed country exports but offered a program of trade reforms to be negotiated through GATT.

The Kissinger development strategy was a combination of what the North could do for the South and what the South could do for itself. What the North could do was outlined in five key areas:

- Try to protect the LDCs from economic shocks such as sharp declines in export earnings, natural disasters, and food shortages.
- Accelerate LDC growth through improved access to capital markets, adaptation of new technology, and foreign investment.
- Improve the world trading system so LDCs can make their way by trade, not aid.
- Improve production and trade of key commodities.
- Address the special needs of the world's poorest.

Kissinger noted, however, that the determination of the LDCs to mobilize their own efforts is indispensable. He stated that there is no substitute for LDC policies that call forth savings, institute land reform, apply aid and other external capital efficiently, allocate national resources wisely, and promote family planning. The essence was a cooperative approach to problem solving with a view that US proposals are not charity and should not be received as if due.

The point of the need for LDC cooperation among themselves has not been lost on the South. For example, at the instigation of the NAM the G-77 convened a meeting in May 81 on Economic Cooperation Among Developing Countries (ECDC). The ECDC recommended measures to enhance LDC development that included the need for coordinated energy relief measures, mutual trading preferences, LDC financial cooperation, and LDC programs for food security and storage. It remains to be seen whether the LDCs can make this realization a reality.

The Role of Private Voluntary Aid

US private aid is modest in the larger context of development aid. Grants from US private voluntary organizations (PVOs) totaled some $1 billion in 1979, a decline in real terms compared with the 1975 figure of $800 million. The US government itself provided an additional $600 million to PVOs in 1979 for support of their aid programs. The next largest developed country private donors were West Germany ($400 million) and Canada ($100 million). PVOs account for about 6 percent of total US foreign aid, the largest share among major OECD donors. Dollar terms understate the value of PVO aid by as much as one-half because of the large volunteer component of their administration. Private US aid has been distributed widely throughout the developing world in the past several years, with much of the aid centered on key countries such as India, Morocco, Chile, Peru, and Bangladesh. The major portion of this aid has been targeted for food and medical treatment.

Few private organizations have undertaken any evaluation of the efficiency and effectiveness of their aid programs. While the US Government certainly examines the PVOs it supports for malfeasance and waste, most PVOs guard their books closely and are not put under a highly critical lens. In general, private groups are usually, though not always, distinguished from their government analogs by their smaller size, greater flexibility, and lower operating costs. Their aid bucket is less leaky than the massive and bureaucratized channels of government.

On the other hand, it is not at all clear how much PVOs contribute to LDC economic development.

- Their unstable funding disrupts the continuity of even narrowly-focused programs.
- Those that start out as relief efforts can quickly become welfare programs that reduce the initiative for self-help.
- The PVOs' parochialism — arrogance in the extreme — leads them to overestimate the worth of their small programs and subject aid recipients to unique values that may be counter to national development goals and traditional cultures.
- Private organizations themselves become bogged down in bureaucratic procedure, are often primarily interested in justifying and extending their existence, clamoring for grants from any source, and perpetuating paternalism and dependency through emotional appeals.

In any event, the limited evidence does not permit much judgment about whether the PVOs could administer aid programs much larger than the current $1-2 billion without encountering substantial inefficiences.

Private aid may not be better received than official development assistance. Research suggests that aid recipients are very concerned about the intentions of the donors. Many PVOs are heavily supported by money from — and identified with the policies of — the United States Government. These agencies, such as CARE and Catholic Relief Services, must swing with the foreign policies of the US government, for better or worse. Non-government-funded programs present another set of problems. Their independence — such as that of the American Friends Service Committee — frequently puts them at odds with US Government policies even though the recipients of their aid may be no less needy.

Commodity Agreements

International agreements to raise and stabilize the prices of raw materials exported by the LDCs have been a prominent theme of the North-South dialogue, especially in UNCTAD. The resulting UNCTAD Integrated Program for Commodities (IPC) has not succeeded in significantly altering the terms of trade for commodity producers, and little prospect remains that it will succeed in doing so. Prior experience with the financing of buffer stocks — the heart of the Common Fund price stabilization scheme — also raises questions about the chances for success. Specifically, the IMF has had a Buffer Stock Financing Facility (BSF) available since 1969 but it has seen only limited use. There has been no sign that either side in the dialogue is considering expanding or liberalizing this facility, even though it appears to meet some of the needs of the G-77.

Raising commodity prices above market-clearing levels attracts added production, both from agreement members and from non-members. It also discourages consumption and encourages substitution. These powerful reactions all work toward creating surpluses of targeted commodities and explain why commodity agreements have been unable to sustain higher price levels. In fact, even price stabilization efforts at or near market levels can stimulate output if producers believe that their long term risk of lower prices has been decreased.

Recent commodity agreements have tried to deal with market competition problems by several means such as modest price goals, inclusion of all major producers, and agreements that importer nations not increase purchases from non-members. It has been a practical impossibility, however, to include all producers and potential producers of major commodities. It has also been difficult to get importers to agree with producers on appropriate stabilization mechanisms and price levels for the commodity arrangements. Competition from synthetics and substitutes has been an even more intractable problem.

UNCTAD's Integrated Program for Commodities includes five for which international stabilization agreements exist or are projected. These are coffee and sugar, rubber (in the process of ratification), cocoa (recently renegotiated but excludes the major producer and consumer) and tin (which was just renegotiated and is now in the ratification process). Discussions on other commodities are embryonic at best.

Coffee — The first coffee agreement dates from World War II, but it was not until 1964 that both producers and consumers were brought into a comprehensive agreement. It clearly favored the LDCs — the agreement transferred $600 million annually from consumers to producers in the late 1960s–early 1970s. It broke down when producers refused to use substantial stocks to moderate abnormally steep price rises beginning in 1972. The current agreement dates from 1976. It relies exclusively on export quotas to protect prices. Because the Brazilian frost of 1975 kept the price of coffee well above the stipulated range, quotas were never put into effect. Renegotiated provisions with higher prices became effective in October 1980; now, however, the agreement may not be able to defend the current $1.15 floor in the face of projected increases in coffee production in the 1980s.

When the International Coffee Organization hosts the annual meeting of producers and consumers in London this September, there will be tremendous pressure for higher quotas from some producing countries who feel they are suffering under the present quota arrangement. Many of the smaller nations facing high oil import bills and dependent on coffee for a large segment of export earnings simply cannot afford to rein in exports even at depressed prices.

Sugar — Sugar was one of the first commodities for which control via international agreement was tried as early as 1931. The current International Sugar Agreement (ISA) went into effect in 1978 and comprises 59 producing and consuming nations, including the US. Producer nations agree to apply export quotas when prices are low and release stocks when prices are high. Low stocks are now keeping sugar prices well above agreed levels. Price control has been difficult because:

- Production varies unpredictably with weather and crop diseases.
- Supply response is lagged because of the long lead times to get new crops underway.
- Demand for sugar is inelastic and only a small share of world production passes through international markets.

Despite broad producer and consumer membership, the ISA faces serious problems. Expanded production of high-fructose corn sweetener will displace a large part of the world market in years ahead. The EEC is likely to continue major exports of subsidized beet sugar in the world markets because it will be reluctant to join the ISA without a quota that recognizes those exports. In addition, the World Bank projects that sugar production will increase more rapidly than consumption in the LDCs over the next decade.

Rubber — This commodity has a long history of international control. A new International Rubber Agreement was negotiated in 1979 under UNCTAD's integrated program, but is not binding until ratified by enough countries to constitute 80 percent each of world imports and exports of rubber. Final ratification is likely because countries totaling well over 70 percent of imports and exports have either accepted the arrangement, as the United States, or agreed to apply it on a provisional basis. One reason for the successful negotiation of the rubber agreement is resurgent rubber demand. Increased prices for petroleum-based rubber synthetics have brought consuming countries into line on the need for more price stability for natural rubber.

Cocoa — This commodity has had one of the most volatile price patterns of any commodity. Production extremes have overwhelmed cocoa agreements since they were first negotiated in the early 1960s. The 1980 agreement is clouded by the abstention of the largest producer (Ivory Coast) and consumer (US). The trend is for rising production and soft demand to make it physically and financially difficult for buffer stocks to sustain prices at target levels.

Tin — The first International Tin Agreement (ITA), which included both producer and consumer nations, was ratified in 1956 and renewed at five year intervals. The present agreement was scheduled to expire in June 1981 but was extended through June 1982 to allow more negotiating time. The ITA uses both a buffer stock and export controls to try to stabilize prices between preset ceiling and floor levels. Although the ITA is frequently cited as the most successful example of a commodity agreement, its record is mixed. Because of the small size of the buffer stock relative to world tin consumption, the ITA has been considerably more successful in defending floor prices than ceiling prices.

After fifteen months of negotiating, Asian tin producers with the support of Japan and the EEC have recently concluded a Sixth International Tin Agreement. The new arrangement, which bears little resemblance to the package sought by the United States, provides for a normal buffer stock of 30,000 tons to be financed by contributions from both producers and consumers, an additional buffer stock of 20,000 tons to be financed by market borrowing, and the introduction of export controls. The export controls, which vary with the size of the buffer stocks on hand, will serve as the key instrument of price stabilization. Like that of rubber, the agreement will be fully in force when 80 percent each of imports and exports is covered.

Other Commodity Agreements — The difficulty of controlling production, financing stocks, and, in some cases, adjusting to demand changes in a depressed world economy, have prevented other commodity agreements from being designed or coming into force.

- Tea producers had a long-lived International Tea Agreement from 1933 to 1955. The tea market itself is historically relatively stable and the irrelevant agreement was allowed to expire in 1955 with virtually no impact.

- Jute marketing agreements have been discussed for years with no results. A recent World Bank study suggests that price stability may indeed be detrimental to the near-exclusive suppliers, India and Bangladesh, by encouraging production that would push down prices and stimulating demand for easily substitutable synthetics.

- Copper is frequently cited as a candidate for international price stabilization. Previous producer organizations have been unsuccessful because of their limited control over world supplies and members' dependence on copper export earnings, which precludes cutting back production for extended periods. The world market is so big that the cost of an effective buffer stock would be a prohibitive $2 billion.

- Wheat marketing is covered under an unconventional International Wheat Agreement (IWA) that serves only as a voluntary forum in which wheat exporters and importers can negotiate agreements when they see fit. The last attempt to negotiate a conventional agreement with automatic supply adjustment mechanisms to counter price fluctuations failed in 1979. Since then, importers and exporters have been considering a new, alternative approach that would mean a much more flexible agreement for wheat than what exists for other commodities. When world wheat prices fluctuate sharply, the IWA would have the power to authorize adjustments in the levels of buffer stocks in order to stabilize the market. Such adjustments, however, would not be automatic as happens in other commodity agreements that use buffer stocks as their price control mechanism. Instead, these would be determined through consultations with importing and exporting countries. The exact details of this mechanism still have to be worked out.

Other commodity agreements under consideration by UNCTAD are for bananas, meat, tropical hardwoods, and vegetable oils. Agreements are unlikely because of either perishability of the commodity (bananas), strong demand that rules out need for agreements (meat and hardwood), or strong substitutability (oils).

Where Aid Could Help Market Economies

Substantial opportunities exist for aid to contribute to the economic development of market economies. Identifying them, however, requires considerable flexibility in the definition of "market economy." Some, such as India and Pakistan, are largely free-market even though they have large and powerful state-controlled industries in one or more sectors. Some, such as Nicaragua, have essentially free markets in many respects, but are moving decidedly socialist. Others, such as Sri Lanka and Egypt, find it necessary to heavily subsidize consumer items such as food and fuel even though they espouse free market principles. Some, such as the Dominican Republic, Honduras, and Bolivia, maintain strong controls over foreign trade through tariffs and subsidies to protect infant industries or encourage exports. Some may have economies that are largely private, but have government structures that are unstable, undemocratic, unenlightened, or with any number of undesirable attributes.

In a large number of LDCs, economic development is hobbled by poorly developed or overburdened transportation, power, education, and health systems. As shown in the following tabulation severe transportation problems exist in several dozen small LDCs. Most have poor or non-existent road and rail service, few inland waterways, and undeveloped seaports or railheads connecting with other countries. While unsuitable geography often restricts the availability of efficient transportation services, most countries in this group simply lack the capital required to finance transportation on a large enough scale to stimulate development. Some countries such as Ghana, India, and Paraguay, have moderately successful systems, but which become quickly clogged by large shipments or unavoidable breakdowns.

Countries With Severe Transportation Problems

Bhutan	Honduras	Rwanda
Bolivia	India	Somalia
Botswana	Lesotho	Sudan
Burundi	Malawi	Swaziland
Cen. Afr. Rep.	Mali	Uganda
Chad	Nicaragua	Upper Volta
Congo, P.R.	Niger	Zaire
Ghana	Oman	Zambia
the smaller Caribbean Islands	Paraguay	Zimbabwe

Besides transportation problems, most of the poorer LDCs have crying needs for electricity and other power sources to fuel development. The difficulty here, however, is that in most cases neither the market nor the political environment is capable of encouraging much private sector participation in the production and distribution of electricity. Aid for these targets must instead be designed to spur growth through linkages with the rest of the economy.

Educational improvements are also ripe for aid financing. The following countries exhibit especially high needs for investment in their educational systems:

Bangladesh	Malawi	Senegal
Cen. Afr. Rep.	Maldives	Sierra Leone
Chad	Morocco	Somalia
Equitorial Guinea	Nepal	Sudan
Gambia	Niger	Uganda
Guinea-Bissau	Pakistan	Upper Volta
Haiti	SaoTome-Principe	Yemen, Arab

Besides financing national education, all of these countries would also benefit from sending students for training in US schools and from exposure to US institutions.

A number of smaller LDCs, especially, could use substantial aid programs focused on health care systems. The following countries have a high need for such aid:

Bangladesh	Niger	Yemen, Arab
Chad	Pakistan	Zaire
Nepal	Upper Volta	

The list of countries with large, effective agricultural development programs that focus on the private sector is short. Coordinated agricultural development programs that

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have the possibility for further success exist in Costa Rica, Guatemala, Trinidad/Tobago, and Zaire. Other countries with effective programs are Brazil, Mexico, Colombia, and Venezuela, but they are not in a "high aid need" category. On a smaller scale, programs to provide credit, training, machinery, and high-technology inputs can work to boost food output and farm incomes if countries are willing and able to pay the price in terms of cultural changes, shifts in political and economic power, and wealth distortions. More so than in any other sector, aid aimed at boosting private agricultural production and distribution runs headlong into questions of how to do it most efficiently, most fairly, and on a scale large enough to make a difference to the nation.

In most needy LDCs, the state virtually has to become involved in some aspect of agricultural production and distribution. Private markets are simply too small and too embryonic to handle the supply of credit, irrigation, and fertilizer. The very fact that an agricultural development program exists means the government is going to play a strong role. Moreover, just as in developed countries, LDC agriculture is subject to powerful political forces that drive governments to make policies that interfere with the free market. Finally, LDCs with financial problems frequently find it difficult to resist controlling the agricultural surplus that is the key to economic development under any political system. For instance, the Philippine government in the mid-1970s attempted to get in on the profits to be made from escalating world sugar prices by taking over the international marketing of sugar from old-line trading houses. The government attempted to hold back stocks to force prices even higher, then lost when prices fell as a result of increased marketing from other countries. In terms of economic efficiency, the private market may have been able to read the future better. In terms of wealth redistribution, the government gained at the expense of the private houses who had traditionally handled the trade. The owners of large sugar plantations probably received slightly less for their crops. In terms of economic development, the status of the typical Philippine sugar "farmer" changed little in an industry renowned for its exploitation of workers regardless of who owns the plantations and controls the marketing.

A more vivid example of the effect of government intrusion into the sugar industry in an essentially market economy is the Dominican Republic. There, government purchasing agents contracted with sugar growers at prices less than market value last year, with the predictable result that sugar production fell.

It is difficult to select countries that are both needy and appropriate potential recipients of aid targeted toward their longer-term credit institutions. In most cases, countries with the need for improved and expanded financial institutions are the very ones lacking the management expertise and sufficiently-developed monetized economies to make such systems work. Rather than funds that can be simply loaned out, these countries — which include nearly all of the smaller market economies in Asia, Africa, and Latin America — need carefully-constructed programs of technical training in accounting, project assessment, and other business procedures, and the physical plant and equipment that an efficient financial sector demands. A number of LDCs have already demonstrated sufficient management expertise to improve the success of such an aid program. These countries include:

Egypt	Ivory Coast	Costa Rica
Barbados	Panama	Philippines
Jamaica	Paraguay	Nigeria
Kenya	Peru	

The list contains a number of countries that are probably capable of financing their own financial sector development. (OFFICIAL USE ONLY)

POLICY IMPLICATIONS OF THE CANCUN SUMMIT

1. The Cancun summit is the latest episode in the long-standing and continuing North-South dialogue. While the interchange began in the 1960s, it reached its zenith in the mid-1970s when many LDC leaders thought they could emulate the clout enjoyed by OPEC and could depend on OPEC for financial and political support for their cause. OPEC, meanwhile, attempted to divert global attention away from dramatically rising energy prices by inducing a linkage between negotiations about energy and negotiations about a "New International Economic Order" (NIEO). The NIEO calls for a reordering of the international economic system in a way that would provide LDCs with a greater political voice in international councils as well as offering them vastly increased economic benefits.

2. Since the mid 1970s the North-South dialogue has settled back to a rather routine and less confrontational affair, as many LDCs found that they lacked both the economic clout and OPEC support that were necessary to acquire the political influence they desired. Furthermore, many of the original and more vociferous LDC leaders, such as Mexico's Echeverria and Algeria's Boumedienne, passed from the scene. The North-South contest would have become even less prominent had it not been for the persistence of leading members of the Socialist International, such as Willy Brandt, and their allies. The Cancun summit is largely the outcome of their endeavors.

3. To date, the North-South dialogue has (not surprisingly) borne little fruit. There has been a yawning gap between the rhetoric of discussants and pragmatic efforts to confront concrete problems. Both developed and less developed countries have indulged in the articulation of sweeping demands and responses, rarely getting down to brass tacks. There has also been an

emphasis on process rather than substance, with enormous expenditures of time and effort expended in debating how to debate issues and in discussing how best to organize and facilitate discussions of issues. There are several reasons why rhetoric and generalization have not given way to realism:

-- The most vociferous supporters of the NIEO, both in the Third World and the West, are captives of strong ideological predispositions which emphasize socialist utopias rather than incrementalism and flexibility.

-- There are profound economic and political differences among the countries of the Third World, differences which can be papered over only by resort to rhetoric and generalization.

-- Western beliefs in the free market, unfettered trade and investment, and private enterprise are incompatible with the socialist and collectivist beliefs of many Third World leaders.

-- There are significant differences in the perceptions and economic interests of the DCs themselves.

-- With a few exceptions, LDCs are neither politically nor economically critical to the West.

4. The LDCs are deeply divided among themselves. The most economically-dynamic (e.g.,South Korea, Taiwan, Singapore have little or no interest in North-South dialogue. Some, such as the Ivory Coast or Malaysia, are pro-Western with a free market orientation; others, such as Ethiopia or Angola, are pro-Soviet with a Marxist-Leninist orientation. Many Third World states perceive themselves as genuinely non-aligned and are governed by leaders who, educated in the West, are steeped in the utopian socialist tradition of the British Fabians. Such leaders -- Julius Nyerere is a leading example -- combine a naive faith in socialist-collectivist policies with a contempt for

Western democratic norms and a preference for authoritarian political institutions. Some Third World states, moreover, are potentially major regional powers and so have significant aspiratons toward regional political leadership -- Nigeria, India, Brazil -- , and their political outlook is quite different than that of the majority of LDCs.

5. In economic terms, the LDCs range from wealthy oil-producing states (e.g., Saudi Arabia, Libya, and Kuwait) through highly efficient industrializing states (e.g., Singapore, South Korea, Taiwan, Hong Kong) to the extremely poor, agrarian and overpopulated states (e.g., Bangladesh and Egypt). Consequently, the interests and positions of the LDCs diverge markedly on individual issues, particularly if explicit and concrete proposals are offered. Thus, LDCs that are major producers of agricultural commodities are most interested in boosting and stabilizing prices for their exports; the rapidly industrializing states are seeking preferred access to Western markets and want low raw materiel prices; and the very poorest of the LDCs are preoccupied with ensuring subsistence and achieving domestic political stability.

6. The LDCs, therefore, have an interest in keeping the dialogue at a general level in order to maintain their unity. They see several interests in maintaining pressure upon the DCs, particularly at glittering international gatherings:

- -- These provide them with important domestic political benefits, particularly when they are seen to be critical of the West, notably the United States.
- -- The dialogue provides certain Third World leaders with an opportunity to compete with each other for leadership of the nonaligned movement and to promote the prestige of their countries.

-- Such pressure upon the DCs results in some concrete economic benefits, at least for some LDCs.

-- If such pressure results in the elaboration of international organizations, these provide additional forums to reap political benefits as well as providing international civil service positions that may be staffed by their countrymen or friends.

7. European socialists and their allies sympathize with the plight of the LDCs which they perceive to be the international equivalent of the "underclass" within their own societies. Thus, they seek to harmonize their international attitudes with their domestic policies of economic and social reform. Additionally, some of the European leaders who wish to anchor and perpetuate detente with the USSR seek to uncouple North-South from East-West issues. And in other cases, notably the French and the Germans, European leaders strongly believe that economic frustrations in the Third World provide major opportunities for the Soviets who can and will manipulate and take advantage of these frustrations to increase their own influence and damage the West by stigmatizing it with the label of "neo-colonialism."

8. Despite these oft stated beliefs, the countries of Western Europe and Japan have relatively little to offer the LDCs at this time beyond existing commitments. In varying degrees, all of them have acute budgetary and other economic problems at home that preclude bold new initiatives in the North-South arena. Then, too, they are constrained by an array of domestic interests that would resist such initiatives. For example, even though Japan, Canada and most countries of Western Europe have supported a reduction in trade barriers against LDC manufacturers, their markets have remained relatively more closed to such LDC goods than the United States. Indeed, the

EC has recently called for a further tightening of textile imports from LDCs in order to protect domestic industries.

9. In essence, despite their rhetoric the western countries have followed a practical course of damage limitation. They have bent only when necessary and have provided concessions that have been more often procedural rather than substantive. Within the framework of the North-South dialogue, resources transfers have been modest. Most of the substantially larger funds flowing to the LDCs since 1973 have been the result of bilateral arrangements and a major expansion of lending by the traditional multinational financial institutions such as the World Bank and the IMF.

10. Soviet refusal to attend the Cancun summit offers a considerable opportunity for the United States to point out and emphasize the very meager Soviet record in the area of developmental assistance to the Third World. Soviet interest in the Third World has been almost entirely limited to those countries where political influence was accessible to them or where potential "positions of strength" were apparent. The Soviet contribution to the North-South dialogue has been almost entirely restricted to criticism of the United States and its allies without any corresponding commitment to provide the wherewithal for economic development.

11. Notwithstanding its negligible contribution to Third World economic development, the USSR has made considerable inroads in recent years in Africa and the Middle East. In highly opportunistic fashion, Moscow plays upon local suspicions -- real and imagined -- of the highly visible public and private Western presence in a number of Third World countries. It takes advantage of local political quarrels, racial and tribal conflicts, dissatisfaction with specific American policies, and local memories of Western colonialism.

12. A number of general approaches to the North-South question are available to the United States for the Cancun summit.

-- The United States can continue to limit damage by expressing general sympathy for the concerns of the Third World, agreeing to continue the dialogue in a global forum, but avoiding precise commitments. The advantage of this approach is that it will satisfy those Western and Third World leaders who are largely interested in promoting a "positive" atmosphere without triggering the divisions which inevitably would arise if concrete proposals were discussed. The disadvantage of the approach is that it would neither halt Soviet propaganda nor deter further Soviet hostile activities. It also would assure a continuation of Third World pressure to squeéze incremental and piecemeal concessions from the West. The cumulation of these concessions could produce damaging distortions for the international economic system.

-- The United States can seek to bring an end to the multilateral dialogue by insisting on dealing with countries of the Third World on a bilateral basis. The advantage of this approach is that is would bring to an end the illusions of the Third World that Washington can be pressured ad infinitum or can be manipulated by Third World threats of tilting to the USSR. The disadvantage of this approach is that it would provide the USSR with additional propaganda opportunities, alienate even some of the moderate leaders of the Third World, and provoke tensions among the DCs. The United States would be seen as reactionary, recalcitrant, and disinterested in the Third World, and moderate leaders of the Third World would find themselves under increasing pressure at home to assume yet more radical positions.

-- A third approach would be a gradual disengagement from the North-South dialogue combined with a forceful assumption of the initiative in a number of substantive areas largely on a bilateral basis. This might involve lowering US emphasis on and visibility at future North-South conclaves. At the same time, the United States could take the lead in promoting a policy of opening up developed country markets for LDC manufactures. Such an effort could be beneficial for the United States, since our allies would be taking a large share of LDC exports. The United States could also propose that each ally undetake bilateral assistance for which it is best suited. The United States, for example, could concentrate on bilateral assistance for programs to develop the private agricultural sector and/or the provision of an enlarged educational exchange program for administrative and technological training of Third World nationals. These efforts would have the important advantage of developing an important presence coupled with low visibility. The twin approach nevertheless would surely not eliminate the calls for massive new efforts to achieve greater political and economic gains for the Third World, nor would it stop the Soviets from attempting to take advantage of unstable situations. But no approach could fully deter these undesirable activities. (No choice amongst stinking fish).