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TOWARD A NEW INTERNATIONAL ECONOMIC ORDER: Some Guideposts Along the Way

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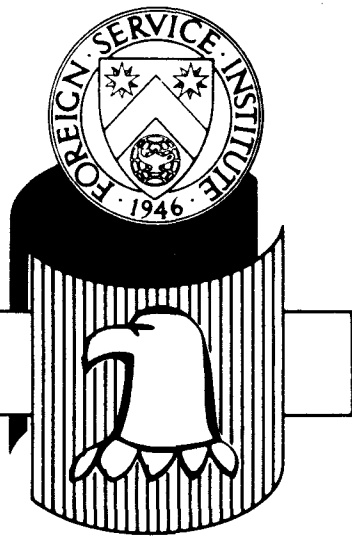
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NINETEENTH SESSION

SENIOR SEMINAR IN FOREIGN POLICY

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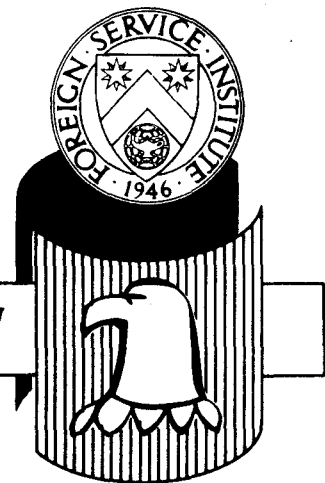
TOWARD A NEW INTERNATIONAL ECONOMIC ORDER: Some Guideposts Along the Way

Case Study by JAMES A. PLACKE

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TOWARD A NEW INTERNATIONAL ECONOMIC ORDER:
Some Guideposts Along The Way

BY

James A. Placke

SUMMARY

Impatient with a widening income gap, the developing countries are seeking a larger measure of control over the world economy. The success of OPEC in 1973 demonstrated the power of the relatively weak--if the circumstances are right and action is unified. Adoption of the objectives for a New International Economic Order by the developing country majority in the United Nations swiftly followed. A series of world conferences on aspects of development has fleshed out the developing country design, which aims at a massive redistribution of the world's income and wealth under rules favoring the developing countries and through institutions they increasingly control.

The developed countries have been faced simultaneously with a new militancy and with recognizing global interdependence. Nonetheless, debate over specific developing country resource demands has continued, while accommodation has often taken the form of formation of new institutional arrangements. Agreements on new institutions have been easier to reach than on substantive issues because of the greater symbolic value these have for developing, as compared with developed, countries. But institutional innovations must be purposeful and lead to substantive agreement or disillusionment and confrontation are likely to follow realization that the accommodation has been hollow.

Experience with new institutions has so far been disappointing but suggests that future arrangements should include these characteristics:

- an identifiable need and purpose which cannot otherwise be met;
- functional specificity combined with self-selected membership so that the interested and competent parties may form sub-groups to negotiate and operate new arrangements;
- linkage of a negotiating or operating sub-group to a universal body which can confer political legitimacy;
- recognizing the symmetry between developed country control over resource flows and developing country control over development policy but linking the two through reciprocal commitments aimed especially at alleviating the condition of the poorest.

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These changes have undercut the status quo and have led to opening negotiations about how to meet developing country needs. These are underway in both the old Britton Woods institutions and in some of the NIEO structures. But the process of negotiation encourages further institutional change as agreements are reached and means for implementation are needed. Moreover, the developing countries see altered institutions both as realizing their objective of greater control over international economic relationships and as a tactic to accelerate the pace of change still more.

Unquestionably, the quality of the substantive positions taken will determine the course of the North-South dialogue. But if reduced tension and improved cooperation for mutual benefit are among the objectives of both sides, examination of the experience gained in the past three years ought to identify the characteristics needed by either existing or new institutions to enable North-South bargains to be negotiated and executed.

Launching the NIEO

The NIEO was adopted by the General Assembly under a procedure not requiring a vote. It was clear from the tone and content of the UN debate that this initiative by the developing countries gained the full endorsement of few of the developed countries. In fact, the developed countries generally, including the Soviet Union and its allies, were dismayed at what they regarded as the radical nature and strident tone of the debate surrounding the Declaration.

Even more controversial from the standpoint of some developed countries, including the United States, was the Charter of Economic Rights and Duties of States (CERDS) whose adoption followed in December, 1974 at the twenty-ninth regular session of the UN General Assembly. By this time, however, the Soviet Union had recovered sufficiently to assert an ideological defense based on the theory that since the plight of the developing countries was the result of colonial exploitation--of which it and the other Socialist states were innocent--the obligations of the Charter fell on the industrial democracies. In fact through negotiation with the developing country majority, the Soviets were able to incorporate provisions which called upon developing countries to trade on terms equal to those worked out with the industrial democracies (in light of the preferential trade arrangements established between the European Common Market and selected developing countries) and which declared it the duty of all to facilitate trade and grant most-favored-nation treatment between states having different political and economic systems (in light of the stand of the U.S. Congress linking Russian emigration and increased US-Soviet economic exchange). 2/

2/ Articles 20 and 26 of the Charter of Economic Rights and Duties of States, UN General Assembly Resolution 3281 of December 12, 1974.

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While the United States could accept much of the Charter-- and said so at the time--it also felt itself the main target and objected to several of the Charter's principles as well as to some of its specific provisions. By calling for special advantages for developing countries in international trade, investment, credit and technological change, the Charter struck at the principles of reciprocal obligation and mutual benefit on which the post-war international economy had developed. The Charter also denied any recourse to international law and custom to foreign investment, making it entirely subject to changeable national law and policy in contrast to patient efforts to establish international standards for treatment of foreign investment. Specifically, the United States objected to the Charter's legitimation of the price fixing actions of OPEC and other potential producer cartels (Article 2) and to relating or "indexing" the prices of developing country exports to their imports (Article 28).

UN action in 1974 on the NIEO and CERDS represented an acceleration of activity and perhaps a tactical shift but not a change of strategy by the developing countries. The success of OPEC in quadrupling oil prices, beginning with the Arab oil embargo in October 1973, greatly increased developing country self-confidence and demonstrated the value of united action. Some observers trace the origins of NIEO to a gradual shift in the attention of the group of Non-Aligned Countries from political to economic matters during the 1960s. ^{3/} In any case the NIEO and CERDS, as statements of developing country unity and objectives, were already on the record when the Seventh Special Session of the UN General Assembly, called for by the Non-Aligned, met in September 1975 to discuss problems of development.

By the Seventh Special Session, the industrial democracies had considered the implications of continued confrontation of developing country demands and decided that the imperatives of global interdependence required accommodation. A shift by the United States to a more conciliatory posture set a new and positive atmosphere for a dialogue. In a speech to the Seventh Special Session from Secretary of State Kissinger, the U.S. offered an agenda for negotiation that both proposed means to achieve some developing country demands and suggested alternatives for others that remained unacceptable.

Content of the NIEO

The pattern for North-South relations established in 1974-75 has already gone through several iterations--on a global scale in relation to the Fourth UN Conference on Trade and Development and

^{3/} See Roger D. Hansen, "Major U.S. Options on North-South Relations: A Letter to President Carter" in The United States and World Development, Agenda 1977, Overseas Development Council, Praeger Publishers, New York, 1977 and Soedjatmoko "Reflections on Nonalignment in the 1970s", in Beyond Dependency, op. cit.

on a smaller scale in various specialized UN forums. The pattern is a simple and, from the developing country standpoint, a functional one and therefore is likely to persist. The developing countries produce and agree on propositions which are then presented and adopted in forums they dominate. These propositions are usually unacceptable to the developed countries who then offer modified or alternative approaches as a basis for negotiation. More specific discussions then follow.

The developing countries' need is not for ideas about what to demand but rather for supporting analysis. This is supplied by the international secretariats concerned with development, especially UNCTAD, or by intellectual leaders from the third world. 4/ The analysis is worked into a group position and unanimous support secured through conferences of the Non-Aligned Countries and meetings of the general developing country caucus -- the Group of 77 -- such as took place at Lima and Manila before UNCTAD-IV. The result in this case has been that, despite the misgivings and opposition of the United States and some other developed countries, a fairly broad range of commodity agreements and the principles for funding their buffer stocks are currently being discussed under UNCTAD auspices. This is not discussion of how to implement the Integrated Commodity Program and the Common Fund proposed by UNCTAD and supported by the G-77, but it is movement in a direction the United States at least was very reluctant to go.

Commodity arrangements, if the most topical, are only one element in the design for a new economic order. The demands made and ideas floated in the name of the NIEO are numerous and increasing and have various formulations, but they can generally be grouped under three headings along the following lines: 5/

Resource Transfers:

- increased development assistance amounting to at least 0.7 per cent of developed country GNP;
- a large or exclusive share for developing countries in income from the world's commons, e.g., minerals from the seabed;

4/ See, for example, UNCTAD Secretariat, Documents Prepared for the Eighth Session of the Committee on Commodities (December 1974-December 1975), especially "An Integrated Program for Commodities: Report by the Secretary General" (TD/B/C.1/166), and "A Common Fund for the Financing of Commodity Stocks" (TD/B/C.1/166/Supplement 2); also, Third World Forum Special Task Force, Proposals for a New International Economic Order, Mexico City, August 1975.

5/ There are a number of expositions of the content of a new economic order but it is well summarized by ul Haq, op. cit., and Jan Tinbergen, coordinator, Reshaping The International Order: A Report to the Club of Rome, E. P. Dutton, New York 1976.

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DEVELOPMENT

- commodity agreements designed to raise prices of raw materials from developing countries above the long-term market trend;
- debt relief through forgiveness or rescheduling of debt owed to governmental institutions, such as USAID;
- allocating an extra portion of future issues of IMF Special Drawing Rights to developing countries to finance development.

Preferential Treatment:

- special trade concessions for developing countries;
- easier and less expensive access to modern technology (also sometimes including demands for technology especially adapted to developing country circumstances);
- indexation of the price of exports from developing countries to the cost of their imports.

Institutional Change:

- a Common Fund to finance and oversee commodity agreements, as well as (perhaps) to finance development of raw material sources in developing countries;
- a World Development Authority to collect and disburse receipts from global taxes, such as on exports of developed countries or on minerals mined from the seabed;
- an International Trade Organization to combine UNCTAD and GATT into a comprehensive trade and investment regime under a governing body having universal membership and unweighted voting;
- national dominion over all property, including foreign owned;
- restructuring the IMF/IBRD to reduce the control now exercised by developed countries through weighted voting.

These proposals are usually justified by a three-part claim of equity: first, that the world's very poor need and should receive, as a basic human right, assistance in overcoming their poverty; second, that present international economic rules and structures, put in place by the rich, are inequitable toward the poor and need to be changed; third, to compensate for past inequities, including colonial exploitation, international rules need to favor the poor for some indefinite period. These claims for greater equity are often coupled with references to a growing capacity by the developing countries to harm the interests of the industrial democracies--for example, that the nuclear genie is permanently out of the bottle and is multiplying, or that other combinations of developing countries will soon be able to control the supply and price of other industrial raw materials as OPEC has done in oil. These viewpoints have articulate advocates not only in developing countries, but, now that the shock of possibly

drastic change has worn off, in the industrialized countries as well. There are also challengers to this thesis.

A recently published analysis of the equity argument leads to the conclusion that it is inconsistent, incomplete and depends upon uncertain assumptions. This analysis concludes that the equity argument rests either on the "natural rights" of individuals to the necessities of life or on the right of states to compensation for past injustice. Natural rights can be ascribed to individuals but cannot be an attribute of states or be asserted by a state, especially when a concurrent assertion of national sovereignty would preclude directing external grants to the poorest citizens, who presumably would have the highest claim. With regard to compensation, this analysis suggests that if all states were to press historical claims, these could include some substantial ones from developed countries as well as from former colonies. Moreover, in assessing the economic effects of colonialism, both positive and negative results would have to be taken into account, with the final balance uncertain.^{6/}

Global Interdependence and Accommodation

A more reliable basis for accommodation between richer and poorer countries, is self-interest born of the need for global cooperation and the prospect of mutual benefit. The agenda requiring collaboration among developed (including Socialist) and developing countries is a mixture of politics and economics. It includes meeting minimum human needs, protecting the environment, controlling population, terrorism, and nuclear proliferation, and encouraging the development and conservation of natural resources. The level of tension and confrontation between developed and developing countries from 1973 to 1975 should have demonstrated to all that progress on this agenda is possible only in a climate of cooperation. If the alternative is a return to confrontation, how each side would fare depends upon the assumptions made (about embargoes of oil and grain, closing of sea routes, etc.) and whether violence would be avoided. This is the now familiar argument that global interdependence constrains national action and requires some degree of accommodation.

There are also more particular reasons for accommodation. That group of third world countries known variously as "development graduates," "semi-industrial" or "middle class" is becoming increasingly important in the normal functioning of the world economy. This list usually includes: Brazil, Mexico, Venezuela, South Korea, Taiwan, Iran, and (because of its oil position) Saudi Arabia. This group of countries has outgrown concessional assistance, and its members are already important participants in the world financial system. (Saudi Arabia's financial reserves are larger than those of the United States and second only to West Germany; Mexico is the United States' largest borrower). These countries particularly, but developing countries in general, are also becoming increasingly important in international trade. In 1976, the developing world took about 35 per cent of US exports and supplied nearly 30 per cent of US

^{6/} Richard N. Cooper, "A New International Economic Order for Mutual Gain", Foreign Policy, No. 26, Spring 1977.

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non-petroleum imports. About half of this trade was with roughly the group of semi-industrial countries. The participation of these countries in the world economy is now important enough to affect its functioning. Their particular needs and interests therefore need to be taken into account.

While the semi-industrial countries' need for continued access to credit, improved access to markets, modern technology requirements, and a commensurate share in running the world economic system has to be accommodated, any expectation that they soon will split off from the developing country pressure group seems unwarranted. Their interests are obviously different from those of the very poor (for example, in a debt moratorium or in concessional assistance), but unified action by developing countries has been successful in attracting and focusing developed country attention--even on the special problems of the semi-industrial group. Consequently, a high value is placed on unity.

New Institutions as a Surrogate for Agreement

The current debate between developed and developing countries is no longer about the need for accommodation and change but instead about whether change will be in the direction of a more open, less interventionist system or toward more numerous and rigid controls. Since arguments are made on both sides (including in the United States), the course events will take is not likely to be apparent soon. Similarly, change is more likely to be incremental than radical and the results probably neither purely liberal nor interventionist. 7/

Unlike the period up to the UN General Assembly's Seventh Special Session, a good deal of work and thought is now devoted internationally to resolving substantive issues in the North-South dialogue. Because resolution of these issues seems to be some time away--indeed as Mr. ul Haq's statement at the beginning of this commentary suggests, the process will go on indefinitely--the most obvious area for immediate compromise and change is on "institutional" as distinct from "substantive" questions. In part this is true because the industrialized democracies differentiate between these types of issues more sharply than do the developing countries. Consequently, compromise on institutional questions is made easier because it represents more movement to the side making the claim than to the side making the accommodation.

This absent-minded approach to institution building can be hazardous, however, and can have unintended results, of which there are several current examples. Certainly UNCTAD has developed in a way that is not compatible with what the developed countries were willing to accept when it was created in 1964 (that it is not always very effective or efficient or fully satisfactory to the developing countries is beside the point). The Conference on International Economic Cooperation (CIEC), which has been discussing the full range of North-South issues for nearly two years, is very different

7/ For a current exposition of two points of view on resolving the substantive issues involved in the NIEO, see ibid., and Hansen, op. cit.

from the original concept, which broke down in May 1975, of a dialogue limited to energy supplies that would isolate the OPEC oil producers on one side from all of the consuming countries on the other. In the commodity field, discussions seem to be headed toward eventual establishment of an institution that UNCTAD and the developing countries can regard as the Common Fund they advocate, but with many ambiguities to be resolved and functions to be defined by commodity agreements to be negotiated in the future.

Other phases of the North-South dialogue also have yielded new institutions and more are likely to follow: UNCTAD-III led to the creation of the UN Industrial Development Organization (UNIDO) and the 1974 World Food Conference--the World Food Council. Habitat, the 1975 world conference on human shelter, temporarily failed to result in a new "functional organization" only because the African and Latin American participants could not agree on how to divide up the venue and governorship for a new institution--thus immobilizing the developing country majority. If this disagreement is resolved, there may still be a "world housing authority". The world conference on science and technology, scheduled for 1979, can reasonably be expected to leave behind another new institution because of developing country interest in expediting technology transfer and controlling trans-national enterprise.

The multiplication of international institutions is a product of the realization by developing countries that their strength is in their numbers and their unity. These new institutions are created by the will of the majority to rectify what developing countries regard as the imbalance in their economic relationships with the industrialized states, and they serve to reiterate developing country themes. The developing countries seek to use these institutions to ratchet the industrial states toward their redistribution and developmental objectives, but without a consensus real accomplishment is difficult to find. Even with a consensus, bloc-to-bloc dealing inhibits progress. Experience with the World Food Council serves as an example.

The 36-member World Food Council was recommended by the 1974 World Food Conference and established by the UN General Assembly to be a ministerial level review body for world food problems. Seats are allocated among developing countries, the industrial democracies, and the Socialist states according to an agreed formula. For two years the Council has pursued the main themes of the Conference: accelerated agricultural development, improved food aid arrangements, and enhanced world food security through creation of an international grain reserve system. The Council has been able to contribute little to progress in any of these areas for two main reasons:

- It lacks legitimacy as a negotiating forum because not all of the main parties to these issues are included, while some members may have a high level of interest but little capacity to affect the issues.
- It is not sufficiently functionally specific to be able to contribute as much as (or to compete effectively with) other more tightly focussed organizations already active in these fields.

DISCUSSION

The multilateral work on world food security illustrates the Council's difficulties. There is an international consensus that assurance of an adequate world food supply would be enhanced by an internationally coordinated system of grain stocks. The problems of ownership, distribution and finance are complex and difficult but ought to be solvable. Yet in the UN system this issue makes an unproductive annual round of polarized debate.

It begins in the World Food Security Committee of the Food and Agriculture Organization (which reports both to its parent FAO and to the World Food Council), is repeated in the annual meeting of the Food Council, which then reports to ECOSOC and the General Assembly for further less expert, but no less determined, debate. Meanwhile, what progress has been accomplished to date has taken place apart from these "policy" forums in the highly specific International Wheat Council and in informal small group discussions parallel to it. If an international agreement on grain reserves is achieved, it can be expected to result from commodity and trade discussions in the Wheat Council and the Tokyo Round of Multilateral Trade Negotiations, where the principal producers and consumers can negotiate their differences apart from an atmosphere of political polarization involving bloc attitudes rather than specific interests.

To date, the Council's main claim to accomplishment is that its President and Secretariat have played critical roles in launching the promising one billion dollar International Fund for Agricultural Development. This is a significant achievement, but it is one in which the Council itself played no important role. Moreover, the negotiations for the new Fund were independently conducted by the interested parties and its innovative structure seems better adopted to representing economic reality than the bloc groupings pioneered in UNCTAD. The new Fund recognizes three categories of interest: developing country borrowers, developed country capital donors, and the new (OPEC) class of developing country donors. Each has one-third of the votes. Looked at one way, the developing countries have a two-thirds majority; looked at another, the donors have two-thirds.

Self-selection and self-interest were fundamental to the Fund's creation. The donors all recognized an interest in a more dependable world food supply and in reduced pressure on present resources that would be served by accelerating agricultural progress in developing countries. Despite these common interests, progress toward unprecedented collaboration between the developed countries and OPEC was halting and uncertain. If it were not for the mediating role played by Kuwait -- not a member of the World Food Council, but an importer of food and an exporter of capital and oil -- the project might well have collapsed. Further, when a last minute obstacle to acceptance of the Fund's articles in June 1976 arose because of Arab efforts to isolate Israel in the Fund's operation, an acceptable solution was found in large part because of pressure on the Arab states (including OPEC members) within the developing country caucus from those most likely to benefit from the Fund.

The World Food Council can be considered a "middle tier" institution inserted between universal ones having very broad purposes, such as the UN General Assembly or UNCTAD, and functionally specific ones, such as the Britton Woods institutions and the several

DISCUSSION

commodity organizations. There are other examples of this type. CIEC is in this category as is the Development Committee of the International Monetary Fund and World Bank.

CIEC will soon (May 1977) convene at the ministerial level to review and agree on what it has accomplished thus far. Certainly, it has advanced the North-South dialogue by giving an opportunity for a detailed airing in relative privacy of the interests, proposals and viewpoints of both sides. However, CIEC has not proved to be a venue for the negotiations necessary to extend areas of agreement and to create arrangements putting these into effect. While developed country representation at CIEC is broader than the nineteen developing country members can provide for the more than one hundred members of their group, both are inadequate to undertake commitments. As a middle tier institution, CIEC lacks the advantages of functionally specific forums as well as the legitimacy of a universal body. It, therefore, seems to have done what it can by shaping the context for North-South negotiations. The actual bargaining will need to take place in existing or ad hoc forums where the principal parties can all take a direct part and which relate to more general institutions that can sanction their work.

To be fully effective, this next step should move the dialogue away from generalized forums and into specific ones, taking care to insure that results will be reviewed in the universal forums considered essential to their interests by developing countries. Such a step is possible, of course, only if there is a willingness to forgo rhetorical and ideological positions and to accept that any likely agreement will bring about and hasten change in existing economic relationships.

For the sake of completeness, it should be noted that the third middle tier institution so far established, the Development Committee, has had more tangible success in its role as a catalyst for North-South cooperation than the World Food Council or CIEC. It helps bridge the distance between the International Monetary Fund and the World Bank on development and has the legitimacy of these broad-based institutions behind it. While it has been most useful as a vehicle for advancing projects that were ripe for completion--as in the case of the World Bank's Third Window for semi-concessional financing and the IMF Trust Fund for development--it also continues to help focus the attention of finance ministers on development issues.

Some Characteristics for Effective North-South Institutions

The North-South dialogue about a new economic order able to address both the problems of prosperity and of development will generate and modify institutions as it progresses. There is, however, a danger that it may generate institutions as a substitute for substantive agreement and that subsequent disillusionment will make genuine agreement more difficult. Experience with North-South institutions thus far suggests that incorporating the following characteristics enhances the likelihood of success for bodies that are to negotiate agreements, provide financial resources or oversee specialized programs:

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- functional specificity,
- linkage to a universal body,

- self-selection of members, with special efforts as necessary to secure participation by major interested parties,
- an identifiable need which cannot be met through existing arrangements,
- support by a technically competent and impartial secretariat.

This list is not meant to reflect on action forcing or global consciousness raising events, such as special sessions of the General Assembly or world conferences on specific issues, but unless the institutions these events usually foster can meet these criteria, they have small chance of accomplishing their purposes.

There is one additional criterion that should be considered. Especially when new institutions aim at affecting resource flows, they should include a means to condition additional resource flows upon adoption of investment and distribution policies that support development and take into account the needs of the poorest members of the society. This of course touches the sensitive issue of national sovereignty of the, for the most part, recently independent developing countries. Recognition is growing that increased resource flows and even accelerated development do not automatically assure improvement in the living standards of the poorest in individual developing countries. Nor are insufficient external resources the only barrier to more rapid development. Especially in the effort to accelerate agricultural development, it has become apparent that internal policies must be development and equity oriented to maximize the value of external resources.

In this sensitive area, there is one promising experiment with techniques for effecting a policy-resource linkage. The Consultative Group on Food Production and Investment in Developing Countries (CGFPI), also established at the recommendation of the World Food Conference, seeks to be a means for surfacing the internal policy choices facing potential recipients and to give prospective donors the opportunity to help shape and then support objectives, priorities and resource levels in the context of voluntary consultation over national food production plans.

The CGFPI aims to provide an informal forum in which developing countries can present comprehensive agricultural development plans--with particular attention given to the implications of policy changes (such as price adjustments to encourage food output) for both development goals and external resource requirements. The result can be a multi-year undertaking between donors and the recipient country that links development policies and goals with the availability of external financing. In this framework, the policy proposals come from the developing country--not from an external source--and donors can engage in a non-committal evaluation of alternative proposals. The objective, of course, is to generate support for those development programs which promise to do the most

CGFPI

to alleviate food shortages and rural poverty.

The experience of the United States in development financing over the past twenty-five years strongly suggests that resources cannot be used to force internal change; it must be voluntary. If the efforts of the CGFPI using its informal consultative approach are successful in tying policies to resource commitments, it is an approach that might be built into other new procedures and institutions to produce a new international economic order truly aimed at overcoming not just aggregate but individual need.

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