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THE UNITED STATES RESPONSE TO THE NEW INTERNATIONAL ECONOMIC ORDER: THE ECONOMIC IMPLICATIONS FOR LATIN AMERICA AND THE UNITED STATES

A STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

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LETTERS OF TRANSMITTAL

FEBRUARY 18, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith is a study entitled "The United States Response to the New International Economic Order: The Economic Implications for Latin America and the United States." This study was prepared for the use of the Inter-American Economic Relationships Subcommittee in its consideration of U.S. policies toward Latin America.

This study reviews the key economic issues between the United States and Latin America. It analyzes the potential costs to the United States, and the potential benefits to key Latin American economies of any concessions on these issues by the United States. While this study focuses on Latin American demands, it provides a useful primer of the basic issues in the broader North-South dialogue. I believe Members of the Joint Economic Committee and other Members of Congress will find this study useful and informative.

The views expressed in this study are those of the author and do not necessarily represent the views of the committee Members or the committee staff.

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

FEBRUARY 16, 1977.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "The United States Response to the New International Economic Order: The Economic Implications for Latin America and the United States" by Kent H. Hughes. This study was prepared for the use of the Subcommittee on Inter-American Economic Relationships as part of its review of U.S. policy towards Latin America.

This study reviews the key demands of Latin American countries seeking a new international economic order. It attempts to assess the potential costs to the United States, and the potential benefits for key Latin American economies of any concessions to these demands. It also explains the evolution of the demands by the developing countries posed in the New International Economic Order.

This study provides a useful primer of basic issues currently being discussed in the North-South dialogue and I think it will prove extremely useful in reassessing our position toward the Third World.

The views expressed in this study are those of the author and do not necessarily represent the views of the Members of the subcommittee or the committee staff.

Sincerely,

GILLIS W. LONG,
Chairman,
Inter-American Economic Relationships Subcommittee.

FEBRUARY 14, 1977.

Hon. GILLIS W. LONG,
Chairman, Subcommittee on Inter-American Economic Relationships, U.S. Congress, Wahington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "The United States Response to the New International Economic Order: The Economic Implications for Latin America and the United States" by Kent H. Hughes. This study was prepared for the use of the Subcommittee on Inter-American Economic Relationships as part of its review of U.S. economic policies toward Latin America.

This study reviews the demands of the developing countries for a new international economic order. It summarizes positions taken by the United States on these issues as of the end of 1976. The study attempts to assess the costs to the United States, and the benefits to Latin American economies, of potential concessions to developing country demands by the United States. It also presents the evolution of the demands of the developing countries for a new international economic order. While this study is focused primarily on the concerns and benefits of Latin American economies, it provides a useful primer to the issues currently being discussed in the broader North-South dialogue. As a summary the U.S. position at the end of 1976, it will provide useful background for assessment of these issues by the new Administration.

The subcommittee is deeply grateful to the author for his insightful paper. Dr. Hughes was with the Congressional Research Service when this paper was prepared; he has now joined the staff of the Joint Economic Committee. Ms. Jackson of the committee staff was responsible for the planning and execution of this study.

The views expressed in this study are those of the author and do not necessarily represent the views of the Members of the subcommittee or the committee staff.

Sincerely,

JOHN R. STARK,
Executive Director,
Joint Economic Committee.

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THE UNITED STATES RESPONSE TO THE NEW INTERNATIONAL ECONOMIC ORDER: THE ECONOMIC IMPLICATIONS FOR LATIN AMERICA AND THE UNITED STATES

By Kent H. Hughes

SUMMARY AND CONCLUSIONS

In 1974, the developing countries called for the establishment of a New International Economic Order (NIEO). They sought to increase the flow of resources from the developed to the developing countries and to gain a greater say in international organizations. The proposed NIEO is really an amalgam of a wide variety of proposals that touch on almost all aspects of the international economy. Within that broad ambit, Latin America would be particularly affected by the proposals on trade, finance, technology transfer, direct foreign investment and foreign assistance. This study examines the United States response to those aspects of the proposed NIEO and the implications of that response for both Latin America and the United States.

The United States was initially hostile to the NIEO proposals. At the VIIth Special Session of the U.N. General Assembly, however, the United States made a series of counterproposals to the NIEO. The U.S. response touched on all the areas of special concern to Latin America.

A. TRADE IN MANUFACTURES

A number of Latin American countries have relatively large industrial sectors. These countries have been active in seeking greater access for their manufactured goods to the immense American market. Within the framework of the proposed NIEO, the entire developing world has sought not only to eliminate barriers to their exports (such as textile quotas), but also to secure preferential treatment for their exports (such as zero duties) and obtain exemptions from current international trade agreements (such as the ban on the use of export subsidies).

Rather than offer a series of unilateral concessions on manufacturing exports from developing countries, the United States has emphasized the benefits that will flow to the developing world from the current round of multilateral trade negotiations. The Trade Act of 1974 did create a generalized system of preferences (GSP) which applied zero duties to a wide range of products from most developing countries. In return for trade concessions by developing countries, the United States has offered to allow the duty free entry of certain tropical products. The United States has also indicated a willingness to consider a limited exemption for developing countries from the general ban on export subsidies.

B. TRADE IN COMMODITIES

Although Latin America is a relatively industrialized area in the developing world, a number of Latin American nations depend on the export of primary products. Venezuela and Ecuador are members of OPEC and have a major stake in keeping petroleum prices high. Chile and Peru (along with Zambia and Zaire) account for the bulk of world copper exports. Bolivia has long been dependent on tin as a source of foreign exchange. Brazil and Venezuela are both important exporters of iron ore with the prospect of considerable expansion in the future. Coffee, bananas, wheat and beef play an important role in the economies of several Latin American Countries.

Latin America and other parts of the developing world want to stabilize and increase their earnings from the export of primary products. The specific proposals of the developing countries include individual commodity agreements, cartels and a form of indexing (tying the price of their commodity exports to the cost of their industrial imports from the developed world).

In response to the recent demands of the developing world, the United States has continued to stress the importance of free international commodity markets to assure efficient resource allocation. The United States has opposed any move toward overall price stabilization, commodity cartels, or other restrictions on the operations of international markets. Instead, the United States has sought to help stabilize the earnings of the developing world and has indicated that it would approach individual commodity agreements on a case by case basis.

C. THE TRANSFER OF CAPITAL AND TECHNOLOGY

The multinational corporation has been an important source of investment capital and industrial technology for the developing world. Despite their past contributions to growth, the multinationals are frequently accused of political meddling, draining developing countries' foreign exchange reserves, and importing inappropriate technology. In part, the NIEO was designed to decrease the developing world's dependence on foreign technology and to increase their control over the direct foreign investments of the multinationals.

As the home country for the majority of the world's multinational companies, the United States has been concerned about such matters as expropriation and restrictions on foreign direct investment. In general terms, the United States has continued to stress the benefits to the developing world of foreign capital.

The U.S. response to the NIEO proposals on technology transfer has been mixed. On the one hand, the United States continues to look to the multinationals as a major source of industrial technology for the developing world. On the other hand, the United States has attempted to assure developing countries ready access to much of the technology generated by the developed world. With regard to Latin America, the United States has made a number of proposals including the establishment of a regional technology center.

D. DEBT RELIEF

Because of high oil and food prices and a widespread recession in the developed countries, the non-oil producing developing countries have incurred sharp increase in their level of debt. Between 1973 and 1974, the debt of 86 developing countries had increased $30 billion to reach a total of $151 billion. By 1976, the total debt outstanding was probably greater than $200 billion. Part of the call for NIEO was based on the need to do something—including the possibility of a debt moratorium—about the precipitous rise in developing country debt.

In the U.S. view, a moratorium would be a particularly arbitrary means of increasing development assistance and will make it more difficult for the defaulting countries to obtain additional private or public funds in the future.

The United States has tended to reject those aspects of the NIEO that were either economically questionable or inimical to America's economic interests. The series of U.S. counterproposals to the NIEO has been built around areas where a common interest promised benefits to both the United States and the developing world.

What does the U.S. response to the proposed NIEO mean for the U.S. economy? The circumspect nature of the U.S. response suggests it will have a limited economic impact. The existence of flexible exchange rates and developing country demand for U.S. products makes it unlikely that the current GSP program or other unilateral trade concessions to the developing world would have a major macroeconomic impact on the U.S. economy. Individual industries, however, might suffer from increased import competition. More stable export earnings for developing countries should increase their rate of growth and their demand for U.S. exports.

Basically, the United States will continue to rely on the multinationals as a major source of industrial capital and technology for the developing world. However, the United States has accepted a somewhat diminished role for the multinationals in the exploitation of natural resources. Identifying the principal American interest with a secure, reasonably priced supply of raw materials, the United States has sought alternative means of channeling private funds into raw material development in the developing world.

As a relatively industrialized area that is also rich in raw materials, Latin America will benefit from any trade concessions and more stable raw material earnings. The continued U.S. support for the multinationals does not hold out any major change for Latin American economies.

The U.S. position on the NIEO may well undergo changes in the coming four years. Altered circumstances and a new Administration in Washington could result in a very different U.S. posture toward the developing world. But as it stands now, the U.S. response to the NIEO will not have a major impact on the operation of either the U.S. or Latin American economies.

INTRODUCTION

For some time, the developing countries have argued that the international economy operates in a manner that frustrates rather than assists their aspirations for economic growth. Over the years, a variety of specific proposals have been developed in the separate areas of trade, finance, technology, investment, and direct assistance. Spurred by the sudden success of the Organization of Petroleum Exporting Countries (OPEC) cartel and squeezed by sharply higher prices for energy and agricultural imports, the developing countries have sought to renew their demands for a more equitable division of world income.

A summation of the developing world's demands was contained in the Declaration and Program of Action on the Establishment of a New Economic Order[1] that was passed at the close of the Sixth Special Session of the General Assembly of the United Nations. Discussion of the New Economic Order—or, more commonly, the New International Economic Order (NIEO)—has come to occupy the agendas at a wide variety of international conferences.

The NIEO covers a broad range of policies. The countries of the developing world want changes in the international rules for trade and finance. They seek greater control over the multinational corporations, debt relief, a new basis for the transfer of technology, and greater emphasis on agricultural development.

Although the title NIEO is new, most of the ideas put forward by the developing world go back a decade and more. Throughout this entire process, the Latin American countries have exercised some political and a great deal of intellectual influence. Particularly on the trade side, the NIEO position dates back to the early work of Raul Prebisch,[2] an Argentine economist and international civil servant. Prebisch argues that the worldwide demand for raw materials would not increase greatly either as a result of lowered prices or growing world income. In the Prebisch view, a country depending principally on raw material exports could not expect to prosper economically. In addition, Prebisch contends that raw materials were produced in basically competitive markets while manufactured items were generally supplied by obligopolistic industries where a few large firms had some control over both price and supply. Technical progress has also tended to favor the industrial world. Organized workers in developed countries have been able to appropriate some of the productivity gain in terms of higher wages. In competitive, raw material producing markets, the gains from innovation would be passed on to the consumer—in this case, the industrialized raw—material—using, already developed world.

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[1] Resolution 3201 and 3202, VIth Special Session of the General Assembly of the United Nations, May 1, 1974.

[2] For a recent summary of Prebisch's economic thinking see Luis Eugenio Di Marco "The Evolution of Prebisch's Economic Thought." in Luis Eugenio Di Marco, ed. International Economics and Development: Essays in Honor of Raul Prebisch, Academic Press, New York, 1972, pp. 3 to 13.

The differences in market structure combined with a slow growth in overall demand will tend to turn the terms of trade against the raw material producer. In other words, every year more and more tin, or copper, or coffee would have to be exported to buy the same automobile or machine tool.

Prebisch's ideas have occasioned two very different lines of attack on the economic problems of developing countries. On the one hand, the Prebisch approach suggested that the developing countries should emphasize industrialization rather than concentrating on growth through raw material exports. Faced with limited internal markets and unrealized economies of scale, countries now emphasize exports of industrial goods to developed countries as well as their production for the domestic market.

The second strand of the Prebisch-like thinking has focused on improving the returns from the export of raw materials. Cartels were one alternative. A form of indexation (tying the price of certain raw materials to the export price of specific industrial export goods) was another. In all of this, Latin American countries played an important role.

At the end of the Second World War, the United States and the major industrial powers were instrumental in re-establishing world economic order. In the field of trade, the General Agreement on Tariffs and Trade (GATT) emerged in 1947, as the dominant plan of action.[3] For a variety of reasons, the developing world felt that the GATT was unresponsive to their needs. After considerable pressure, the United Nations acted to establish a new body to focus on trade and development issues—the United Nations Conference on Trade and Development (UNCTAD).

A number of Latin American nations were active in pushing for the first UNCTAD meeting in 1964 [4] and influential in determining its content.[5] UNCTAD has become one of the major forums for the discussion of developing country problems.

In many ways, UNCTAD signaled a new assertiveness on the part of Latin America in international economic affairs. In anticipation of the first UNCTAD, at the 1963 meeting of the Inter-American Economic and Social Council, the Latin American countries decided to form a Special Commission for Latin American Coordination (Commission Especial para Coordinacion Latino-Americana or CE CLA). The Commission specifically excluded the United States and was designated to "* * * coordinate policies and arrive at a common, hemispheric position for the Latin American countries." [6]

[3] At the close of World War II, the Allied Powers originally contemplated founding three separate international agencies: The International Monetary Fund, the International Bank for Reconstruction and Development, and the International Trade Organization. The proposed ITO proved to be unacceptable to the United States and a number of other governments. The GATT essentially reflects the section of the proposed ITO charter that dealt with commercial matters.

[4] For a brief summary of Latin America's and particularly Brazil's role in creating UNCTAD see Keith Larry Storrs. "Brazil's Independent Foreign Policy, 1961 to 1966: Background, Tenets, Linkage to Domestic Politics and Aftermath," Latin American Studies Program Dissertation Series, Cornell University, No. 44. January 1973, pp. 349 to 359.

[5] Raul Prebisch was selected as UNCTAD's first executive secretary.

[6] Storrs, op. cit., p. 355.

The independent posture of the Latin American countries has continued to develop. At a meeting of CECLA in 1969, the Latin American states issued a document known as the Consensus of Vina del Mar.[7] The text of the Consensus reads like an early day NIEO program.

[7] The English language version of the Consensus of Vina del Mar can be found in House Committee on Foreign Affairs, "Inter-American Relations: A Collection of Documents, Legislation Descriptions of Inter-American Organizations and Other Material Pertaining to Inter-American Affairs," U.S. Govt. Printing Office, Washington, D.C., pp. 262 to 272.

LATIN AMERICA: PRIORITIES WITHIN THE NIEO FRAMEWORK

Although Latin America supports the full range of NIEO policies, the interests of the region lend special emphasis to particular elements of the NIEO program. Relative to much of the developing world, Latin America is heavily industrialized. A number of Latin American nations are also vitally interested in the export of raw materials—copper in Chile and Peru, tin in Bolivia, oil in Venezuela and Ecuador, wheat in Argentina. The combination of industrialization and dependence on the earnings from raw material exports has made trade reform a priority for most of Latin America.

Industrial Products

In terms of industrial products, the Latin American interest has focused on several specific issues: (1) a generalized system of preferences (GSP), (2) tariff escalation, (3) export subsidies, (4) tropical products, and (5) special treatment at the multilateral trade negotiations (MTN) currently underway in Geneva.

Generalized System of Preferences

For a variety of reasons, the cost of industrial products in many developing countries tended to be high. This was particularly true in Latin America which protected domestic producers by high external tariffs. Frequently, the attempt to attract foreign direct investment led to the creation of an excessive number of firms. Rather than allowing competition to drive firms out and costs down, many governments chose to protect the existing market structure through subsidies and higher tariffs. As Latin American governments turned more toward export markets, they were handicapped by both high internal costs and the tariffs of the major industrial countries.

To deal with high costs and foreign tariffs, developing countries proposed that their products be allowed to enter the markets of developed countries either free of duty or at very low preferential rates. They argued that very low preferential rates or such tariff preferences, as they came to be called, would encourage the development of "infant" export industries, ease the balance of payments restraint on growth, attract foreign direct investment for export-oriented industries and in general further the process of industrialization in the developing countries.

Like much of the NIEO, the proposal for a generalized (open to all developing countries) system of (tariff) preferences is not new. It dates at least as far back as the first UNCTAD conference in 1964. And the idea has met with general acceptance on the part of the developed world. Japan, Australia, and the EEC all have tariff preference schemes that apply to the exports of developing countries.

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THE U.S. POSITION ON GSP

At first, the United States was strongly opposed to any GSP system. During the later years of the Johnson administration, however, the United States indicated a willingness to study GSP.[1] In 1969, President Nixon finally pledged that the United States would implement a system of generalized preferences.[2] Despite the Nixon pledge, the United States did not institute a GSP program until after passage of the Trade Act of 1974.[3]

Under the U.S. GSP plan, eligible articles from designated countries are permitted duty free access to the U.S. market. There are, however, several limitations. If any one country supplies more than a specific dollar amount ($25 million in 1975) or more than 50 percent in quantity of the U.S. imports of a particular item, preferential treatment for that item will be withdrawn from that country.[4] In addition, the President may not extend GSP treatment to a number of goods including shoes,[5] textiles covered by various agreements,[6] watches,[7] import sensitive electronic goods, steel and glass products and any other item which the President ". . . determines to be import sensitive . . .".[8]

The Congress has also excluded certain categories of developing countries from qualifying for GSP treatment. Specifically excluded are communist bloc countries, members of OPEC and countries that join any similar cartel that acts to either ". . . withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level."[9] GSP is further denied to those countries that nationalize the foreign property of U.S. citizens without making prompt and reasonable compensation.[10]

Both the commodity cartel and the nationalization provisions have raised hackles throughout Latin America. Because of their membership in OPEC, both Ecuador and Venezuela were excluded from GSP treatment. And the general language in the law suggested that participation in any other commodity cartel that succeeded in raising the world price of a particular raw material would bring the risk of losing GSP treatment.

For some time the Ford administration has indicated its intention to seek repeal of the portion of the trade law that excludes Ecuador and Venezuela from participation in the GSP.[11] Secretary Kissinger

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[1] President Johnson first suggested consideration of a GSP program at an April 13, 1967 meeting with American chiefs of state at Punta del Este, Uruguay.

[2] President Nixon made the U.S. pledge in an October 31, 1969 speech before the Inter-American Press Association. For a brief summary of the initial U.S. proposal on GSP see James R. Matz, "Generalized Tariff Preferences for Developing Countries," Journal of Maritime Law and Commerce, Vol. 2, April 1971, pp. 645 to 659. See especially pp. 648 to 652.

[3] The U.S. GSP program is contained in Title V of the Trade Act of 1974 (P.L. 93-618).

[4] The $25 million figure is adjusted upward in concert with overall GNP growth. The specific formula would be:

$$\frac{X}{25 \text{ million}} = \frac{\text{GNP current year—1}}{\text{GNP 1974}}$$

See Public Law 93-618, sec. 504(c)(1)(A).

[5] Public Law 93-618, sec.503(c)(1)(E).

[6] Public Law 93-618, sec. 503(c)(1)(A).

[7] Public Law 93-618, sec. 503(c)(1)(B).

[8] Public Law 93-618, sec. 503(c)(1)(B).

[9] Public Law 93-618, sec. 502(b)(2).

[10] Public Law 93-618, sec. 502(b)(4).

[11] Several bills were introduced in the 94th Congress that would have had the effect of granting GSP treatment to Ecuador and Venezuela.

renewed that pledge in a June 1976 address to the General Assembly of the Organization of American States.[12]

The congressionally imposed condition on nationalization is familiar enough. Similar language and penalties appear in the Hickenlooper and Gonzalez amendments to foreign assistance legislation.[13] The language included in the GSP provisions of the Trade Act of 1974 simply extends the ongoing battle between Latin America and the United States over the control of the Latin American operations of U.S.-based multinational firms. There is little likelihood of change in this particular provision.

THE IMPACT OF GSP ON LATIN AMERICAN ECONOMIES

A tariff creates a gap between an export price and the price actually charged in the importing country's domestic market with the difference going to the importing country's treasury. As importing countries reduce or eliminate tariffs on a broad array of goods, the exporting country can increase its foreign exchange earnings in either of two ways. Export prices can be raised by the full amount of the foregone tariff which would leave unchanged the domestic price in the importing country. In effect, the revenues from the tariff would be transferred from the importer's treasury to that of the exporter. All or part of the tariff reduction could also be reflected in lower prices for the importer's domestic market. Presumably the lower prices would increase the level of exports. With export prices unchanged and a higher volume of exports, the developing country would stimulate industrial activity and improve its foreign exchange holdings.

There is no question but what a substantial amount of exports from the United States is covered by the GSP scheme. Applying the outlines of the U.S. GSP system as proposed to UNCTAD to 1971 import data, the Organization of American States (OAS) estimated that ". . . 731 million or 21.8 percent of total dutiable U.S. imports from Latin America . . ." would be covered by GSP.[14] A recent speech by Secretary of State Kissinger suggests that some $1 billion of U.S. imports from Latin America qualify for GSP treatment.[15]

The elimination of tariffs can have a variety of effects. It is even possible that in the very short run, existing importers would attempt to appropriate the now eliminated duty for themselves. Absent a powerful and persistent monopolist (technically a monopsonist), the importers could be expected to bid against one another for now more profitable exports from Latin America. The result would be greater earnings for individual firms exporting from Latin America and a larger amount of foreign exchange (in this case dollars) for the various national economies.

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[12] Henry Kissinger, "Statement by Secretary Kissinger, June 9, On Cooperation for Development" The General Assembly of the Organization of American States, The Department of State Bulletin, Vol. LXXV, No. 1932, July 5, 1976, U.S. Govt. Printing Office, Washington, D.C., 1976, pp. 5 to 12 at p. 8.

[13] The Hickenlooper amendment to the Foreign Assistance Act of 1961 can be found at 22 U.S.C. 2370(e). The Gonzalez amendment to the Inter-American Development Bank Act can be found at 22 U.S.C. 283r.

[14] Organization of American States, "U.S. Scheme of Preferences and Imports from Latin America," OEA/SER. H/XIII, CIES/CECONCOMERCIO/67, General Secretariat of the Organization of American States, Washington, D.C., January 24, 1974.

[15] Kissinger, "Cooperation for Development . . .", op. cit. at p. 7.

To the extent that the introduction of a preferential duty results in lower prices for importing consumers, Latin American countries can expect to expand further their exports, profits, and foreign exchange earnings. Developed country markets are definitely responsive to the relative prices charged in various supplying markets. For instance, there is already some evidence that the realignment of world exchange rates that started in August 1971, has shifted the source of some U.S. imports from the developed to the developing world.[16]

The current U.S. GSP program is set to expire in 10 years. Within that limit, Latin American countries should be able to attract new foreign direct investment geared to export. The combination of GSP and new export—oriented industries may also encourage multinational corporations already established in a developing country to increase their exports. In some cases, the multinational firm may have resisted exporting so as not to undercut the value of facilities owned by the firm in the home country or to preserve an export market currently supplied by a subsidiary in a developed country. It is possible, that advantages offered by GSP and the pressure of new competitors will tip the balance toward greater exports.

But GSP cannot be expected to engender a veritable export boom on the part of Latin American or other developing countries. If, in fact, Latin America's comparative advantage lies in labor intensive goods, the GSP exclusion of textiles, shoes, and other import sensitive items will have a definite limiting effect. The widespread use of various nontariff barriers will further restrict the usefulness of GSP.

THE IMPACT OF GSP ON THE U.S. ECONOMY

The overall, macroeconomic effects of GSP are not completely clear. On the one hand, the level of U.S. imports should increase somewhat acting as a drain on aggregate demand (for domestic products) that will either tend to reduce employment or require the Government to provide a compensating increase in demand through the broadly used tools of fiscal and monetary policy. On the other hand, the increase in both the incomes and foreign exchange holdings of developing countries will increase their demand for U.S. exports- mitigating whatever negative, fiscal impact the imports may have had. To the extent that GSP spurs further developing country growth, the net result could even be an increase in the bilateral trade surplus that the United States has with the nonoil producing developing world.[17]

There are a number of other factors that will further limit the aggregate impact of GSP on the U.S. economy. First, a number of import sensitive items are specifically excluded from the GSP list. In addition, the President has been given broad discretion to eliminate other import sensitive items from the GSP scheme. Second, the presence of flexible exchange rates may act to limit the effectiveness of

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[16] U.S. Development Coordination Committee, "Development Issues: U.S. Actions Affecting the Development of Low-Income Countries." The Second Annual Report, Development Coordination Committee, Washington, D.C. 1976, p. 109. According to the Development Coordination Committee, "The developing countries share of U.S. imports of manufactures moved from a fairly stable 12–13 percent prior to 1972 to over 19 percent in 1974, growing twice as fast as developed countries exports of manufactured goods to the U.S." Ibid., p. 109.

[17] Ibid., p. 108.

GSP. As Americans spend more dollars to acquire GSP items, the value of the dollar in international markets will tend to drift downward relative to other currencies. As the value of the dollar falls, there will be some reduction in attractiveness of GSP items. A depreciated dollar will also tend to reduce other imports and increase exports, further limiting any macro effects of GSP. Third, the widespread use of nontariff barriers suggests that the developed countries would respond to any major disruption of their markets through the GSP system with some type of quota or voluntary quota arrangement.

The American labor movement has become increasingly sensitive to the disruptive possibilities of imports. The laundry list of items specifically excluded from GSP treatment coincides with the immediate concern of the major labor supporters of the proposed Foreign Trade and Investment Act of 1972. Better known as the Burke-Hartke bill, the Foreign Trade and Investment Act represented a sharp break on the part of labor with past foreign trade policies. Although largely unsuccessful in translating its views into law, labor has continued to be hostile toward current trade policies. In some sense, too sudden a success for GSP could lead to renewed legislative initiatives on the part of labor to further restrict the scope of GSP.

Tariff Escalation

There is considerable evidence that the existing tariff structure of the industrial countries including that of the United States tends to weigh most heavily on industrial rather than raw material imports. The tariffs applied to industrial imports also tend to be higher on products from developing countries than they are on industrial goods that pass from one industrialized country to another. Both factors act to discourage industrial exports from the developing countries. Understandably, the developing countries want to eliminate the tariff differential wherever possible.

For a wide array of products, the effective protection of a particular tariff can be considerably greater than the nominal tariff actually levied on a product. The divergence between nominal and effective rates of protection comes about because higher tariff rates may be applied to finished goods than to the raw materials and intermediate products incorporated in them.[18] For instance, if leather constitutes 50 percent of the value of a shoe and is not subject to any duty while an imported shoe is dutiable at a nominal rate of 20 percent then the effective rate of protection for shoes is actually 40 percent. In the shoe case, the tariff is designed to protect the 50 percent portion of value added in the importing country and not the portion of cost accounted for by imported leather. The tariff of 20 percent, however, is applied to the full value of the leather shoe—to the normally duty free leather and to the value added in foreign manufacture. Thus the rate of effective protection for domestic shoe manufacturers far exceeds the level of duty applied to imported shoes.

The overall differential between nominal and effective rates for manufactured items is quite large. A decade ago (1964) overall U.S.

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[18] For a brief discussion of the issue see Salvatore Schiavo-Campo and Hans W. Singer, "Perspectives of Economic Development," Houghton Mifflin Company, Boston, 1970, pp. 147–149.

imports of manufactures were subject to nominal tariffs of 11.6 percent and effective rates of 20 percent. For manufactured imports from developing countries the nominal rate (17.9 percent), the effective rate (35.4 percent) and the absolute spread between the two was higher.[19]

The specific structure of the duties on manufactured imports from developing countries may have undergone considerable changes since 1964. Final agreements for the Kennedy Round of Tariff Negotiations were not reached until 1967 and the agreement did not become fully effective until January 1, 1972. The advent of GSP may also have reduced tariff escalation by eliminating many tariffs altogether. But the problem remains.

In seeking elimination of tariff escalation the developing countries are not contemplating an increase in raw material duties to bring nominal and effective rates to the same level. The aim is to secure lower tariffs and the elimination of any extra burden on manufactured imports at the same time.

THE U.S. RESPONSE TO TARIFF ESCALATION

The current U.S. proposal at the MTN in Geneva for an across-the-board percentage cut in industrial tariffs would have the effect of reducing tariff escalation. As suggested above, the U.S. scheme for a system of preferences, contained in the Trade Act of 1974, also acts to encourage industrial exports from developing countries.

To facilitate further cooperation, the United States has proposed a cross notification system by which developing countries can identify tariff items of particular interest and the United States can specify areas where concessions by the developing countries would be particularly welcome. The United States has already indicated a willingness to use any tariff cutting authority contained in the Trade Act of 1974 that is not exhausted by the final formula accepted at the MTN to aid the developing countries.

THE IMPACT OF TARIFF ESCALATION ON LATIN AMERICA

The elimination or reduction of tariff escalation would tend to favor industrial exports from Latin America. The economic effects would be roughly similar to those brought about by GSP.

THE IMPACT OF REDUCED TARIFF ESCALATION ON THE U.S. ECONOMY

Assuming that the prevalence of tariff escalation is decreased through a reduction of industrial tariffs, the effect on the U.S. economy would be similar to the implementation of the GSP program.

Export Subsidies

As the Latin American experience with import substituting industrialization (ISI) progressed, the need to increase industrial exports became more and more important. To focus the interest of domestic

[19] Bela Belassa, "Tariff Protection in Industrial Countries: An Evaluation," Journal of Political Economy, December 1965 as cited in Ibid. p. 149. Belassa used 1964 data.

industries on the export market, a number of Latin American countries adopted various tax incentives and other subsidies to exports.

Under a system of fixed exchange rates, a GSP in operation in the developed countries, and the reduction of tariff escalation, the use of export subsidies would have a substantial impact on the level of industrial exports.

In seeking to use export subsidies, however, the developing countries have encountered a number of difficulties. Under the GATT [20] importing countries may impose an additional (or countervailing) duty on an item if the item benefits from an export subsidy and causes injury to industry in the importing country. The United States is even more restrictive because U.S. law does not require an injury test.[21] Although applying different standards to subsidized imports, the United States is not in violation of the GATT. The U.S. law preceded the GATT and it was allowed to continue under a grandfather clause.

The advent of flexible exchange rates have also caused some difficulties for the export subsidy strategy. Although export subsidies can still increase the level of exports within a system of flexible exchange rates, the subsidy induced increase in the demand for the exporter's currency tends to mitigate the effectiveness of any export subsidy and also to encourage imports.[22] Developing countries in general have attempted to control imports by continuing to use tariffs, quotas, and other import restricting policies and by tying the value of their currency to that of their major trading partner. Within a world system of flexible exchange rates, a number of Latin American countries have sought to recreate some of the conditions of the Bretton-Woods world by tying their currencies to the dollar. In such cases subsidies might still push up the value of the peso or curzeiro with regard to EEC trade, without reducing exports to the United States.

The prospect of further tariff reductions among the developed countries will lessen the importance of trade preferences for the developing countries. As an alternative to preferences, the developing countries can be expected to turn to various types of export promotion including subsidies.

EXPORT SUBSIDIES: THE U.S. POSITION

At the MTN in Geneva, the United States has indicated that it proposes special treatment for developing countries with regard to export subsidies. Secretary Kissinger, speaking before the General Assembly of the Organization of American States (OAS) in June 1976, reaffirmed the U.S. interest in seeking some accommodation for developing countries in the export subsidy area. According to Kissinger, the United States currently favors "* * * special rules * * *" so that developing countries can use export subsidies to "* * * assist

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[20] General Agreements on Tariffs and Trade, "Basic Instruments and Selected Documents," vol. IV, GATT, Geneva, March 1969, art. VI. Paragraph 6 of the article imposes the injury test.

[21] The current U.S. countervailing duty law can be found in section 303 of the Tariff Act of 1930 (19 U.S.C. sec. 1303) as amended. U.S. law has recently been changed to require injury where a duty-free import is involved and the "* * * determination of injury is required by the international obligations of the United States." See Trade Act of 1974 (Public Law 93–618, sec. 331(a)(2)).

[22] See for instance, Kent Hughes Export Subsidies and Floating Exchange Rates: A Brief Discussion, Congressional Research Service, Washington, D.C., July 1976.

their exports under agreed criteria for an appropriate time linked to specific development objectives." [23]

Until negotiations on the export subsidy provision are concluded, it is impossible to say exactly what the U.S. position will mean in practice. But it is clear that the United States only favors exceptions for developing countries for certain products, in specific circumstances, and for a limited period of time. Depending on how those parameters are drawn, the impact on industrial exports from the developing world could be anything from large to negligible.

Tropical Products

Special treatment for tropical products within the GATT framework dates at least as far back as the Kennedy round (concluded in 1967). At that time, GATT's Special Group on Trade in Tropical Products was transformed into a negotiating body and given a mandate to explore further the question of trade in tropical products.

At the current Tokyo round in Geneva, the special group on trade in tropical products has been charged with considering a number of changes proposed by the developing countries—ranging from the problem of tariff escalation to the question of price stability for raw materials.

The original mission of the group was focused on securing duty-free entry of tropical products to the developed countries. At the end of the Kennedy round, a list of possible tropical items was proposed. For the most part the list consisted of raw materials or partially processed raw materials that are produced exclusively or predominately in tropical, developing countries. The list has since been expanded in response to the proposals of various countries.[24]

Duty-free entry of tropical products raises a number of possible problems for the developed countries. First, tropical products compete with many developed country raw materials. Palm and soybean oils are two ready examples. Second, the definition of tropical products has not yet been set. It is possible that the emphasis may shift from items principally produced in tropical countries to items simply produced in tropical countries. The latter interpretation suggests that manufactured items—as long as they are produced in a tropical country—as well as raw materials would be eligible for special treatment. If manufactured items are included, special treatment accorded tropical products could become an important supplement in the movement toward generalized systems of preferences.

The elimination of duties on tropical products could also act to increase the degree of tariff escalation. The result could be greater pressure on the industrial countries to bring other raw material and industrial tariffs to the same low level.

THE U.S. POSITION ON TROPICAL PRODUCTS

The United States along with most other developed nations presented its initial offer lists in March 1976.[25] In April, the United States

[23] Kissinger, Cooperation for development * * *, op. cit., p. 8.
[24] General Agreement on Tariffs and Trade, SGTP/26, Sept. 28, 1972, Annex 1.
[25] U.S. Development Coordination Committee, op. cit., p. 64.

distributed a global offer covering some 147 individual products which accounted for almost $1 billion of U.S. imports in 1974.

Most of the developed world has indicated a willingness to grant duty-free entry for tropical products on a purely concessional basis. The United States, however, has sought to apply the general principle of reciprocity in the tropical products area. Requests for reciprocal concessions have already been made in bilateral discussions with 10 developing countries.

IMPACT ON LATIN AMERICA OF TROPICAL PRODUCTS

Latin America's focus has been more on industrial trade concessions or the export of various minerals than on tropical products per se. But a number of Latin American exports fall within the category of tropical products and one should expect that any additional exports will have favorable impact on foreign exchange reserves, economic growth and national income.

IMPACT ON THE U.S. ECONOMY OF TROPICAL PRODUCTS

For the most part, tropical products already enter the United States at low levels of duty or duty-free under GSP. So, although the United States is a major importer of tropical products, the movement to duty-free entry for tropical products is not likely to have a major impact on the U.S. economy either in terms of tariff revenues lost, domestic employment, or exports—through lower raw material prices. It is possible, however, that individual industries may be seriously affected. The previously mentioned competition between domestic soybean oils and imported palm oils is a case in point.

TRADE IN COMMODITIES

The NIEO is not solely or even principally concerned with the export of industrial products from the developing world. For many Asian, African, and Latin American nations industrialization is still a relatively remote goal. Small domestic markets, inadequate infrastructure and limited supplies of skilled labor combine to make for relatively high costs of production. The volume and quality standards demanded by the developed country markets create a further barrier to would-be exports.

Just as important in the NIEO scheme of reforms are changes in current trading practices for commodities and raw materials. Many countries are dependent on the export of one or two crops or specific raw materials for the bulk of their foreign exchange earnings.

The developing countries are concerned with both fluctuations in their export earnings from, and the long-term trend in the terms of trade for, their commodity exports. Natural disasters, the entry of new suppliers, and the business cycles of the developed nations can all have a devastating effect on export earnings. Fluctuations in export earnings cause short-run economic and political instability and can seriously disrupt long-run economic plans.

Part of the early Prebisch thinking was that the terms of trade were gradually turning against commodity exporters and in favor of industrial goods exporters. Reflecting this thinking, the NIEO pro-

grams include a number of features designed actually to turn the terms of trade in favor of raw materials.

Although Latin America is a relatively industrialized area in the developing world, a number of Latin American nations are particularly concerned with raw materials exports. Venezuela and Ecuador are members of OPEC and have a major stake in continued high petroleum prices. Peru and Mexico may also become oil exporters and can be expected to follow OPEC pricing policies whether or not they actually become formal members.

Chile and Peru (along with Zambia and Zaire) account for the bulk of world copper exports. Bolivia has long been dependent on tin as a source of foreign exchange. Brazil and Venezuela are both important exporters of iron ore with the prospect for considerable expansion in the future.

Argentina is one of the world's leading exporters of grains and beef. Brazil, with the world's fifth largest cattle herd, has also been interested in beef exports. Coffee plays an importont role in the economies of Brazil, Columbia, and Central America; as the world's seventh largest exporter of coffee Mexico is also concerned with coffee prices. Banana exports are important to several Central American countries.

Stabilizing Earnings

Three different types of policies have been used to stabilize earnings from the export of commodities: (a) Compensatory financing, (b) buffer stocks, and (c) export quotas.

(a) Compensatory financing schemes act to even out the cycles in commodity earnings. Developing countries can acquire loans when commodity prices drop and then repay the loans as commodity prices start to rise. From the lender's point of view, the problem is in distinguishing between a temporary fall in prices below some equilibrium level and a decrease in prices that actually represents a long term downward trend.

The International Monetary Fund (IMF) operates a number of special financing facilities including one that is specifically designed to deal with cyclical fluctuations in the prices of raw materials. African, Caribbean, and Pacific nations that have established a special relationship (defined by the Lome agreement) with the European Economic Community also have access to an ECC commodity stabilization fund.

(b) Buffer stocks are a second method of stabilizing raw material prices. As under some previous U.S. agricultural programs, a central facility purchases buffer stocks in times of depressed periods and sells the stocks as prices start to rise. Although buffer stocks could be used in a wide variety of schemes, the proposals generally envision a base price—below which stocks are acquired—and a ceiling price—above which stocks are sold. In practice, the buffer stock approach raises a number of problems. Financing must be made available to acquire and hold stocks. As with compensatory financing facilities, the concept of a buffer stock may founder where there is a persistent downward trend in the price of a particular commodity. Similarly, a period of increasing prices may force a continual readjustment of the ceiling

price. The support of base and ceiling prices involves a fairly serious asymmetry. As prices fall, only the amount of financing determines the ability of a buffer stock to preserve a prearranged base. On the other hand, after stocks are actually depleted, there is no way a buffer stock arrangement can effectively defend a particular ceiling price. The presence of this asymmetry could make consuming nations somewhat wary of the buffer stock approach.

Despite the apparent difficulties with buffer stocks, they have already been used to stabilize commodity prices. For instance, the International Tin Agreement utilizes a buffer stock mechanism. Advocates of the NIEO approach have placed considerable emphasis on buffer stocks to restore stability to prices of internationally traded raw materials. The Secretariat of UNCTAD has proposed that a common financing facility be established to purchase buffer stocks for several core commodities.[26] The proposal has received the support of most developing countries and was prominently discussed at the fourth session of UNCTAD in May of 1976. As a stabilization proposal, the UNCTAD approach has a certain appeal. By pooling the financing of many different commodities the overall costs of financing could be reduced.[27]

The developing world has placed particular emphasis on establishing the common financing fund first rather than waiting for individual commodity agreements to be made. Prior establishment of a common fund would provide some impetus to the general idea of stabilizing export income from primary products. No doubt the prior commitment of funds would also give the developing countries some added leverage in reaching individual commodity agreements.

(b) Export quotas can also be used to control the supply of a commodity and thus act to limit price instability. Quotas, however, involve a number of difficulties. A limited total amount of production must be apportioned between a number of existing suppliers. Agreement on an acceptable formula can be extremely difficult. In addition, some accommodation must be reached with new suppliers who are not members of the existing quota arrangement. In effect, one may need all the apparatus of an OPEC for the more limited goal of stabilizing rather than actually raising prices.

Quota agreements have been used in past international agreements (coffee) and can also play a part in buffer stock schemes (tin). Because quota agreements require such an elaborate structure of negotiation and administration, developed countries may see them as a possible prelude to an OPEC type organization. Although buffer stocks and compensatory financing play a more central role in NIEO thinking than strict production quotas, it is likely that quota provisions will emerge either as part of a buffer stock plan or as a means to limit the need for compensatory financing.

The recent boom-bust cycle in world commodity prices has focused attention on the impact of the business cycle in developed countries can have on the economic fortunes of the developing world. The coincidence of the business cycle in the United States, Western Europe

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[26] The commodities included are coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibres, copper and tin.

[27] For a sympathetic treatment of the UNCTAD proposal see Isaiah Frank, "Toward a New Framework for International Commodity Policy," Finance and Development, Volume 13, No. 2, June 1976, pp. 17 to 20.

and Japan sharpened the impact of both inflation and recession in the developed economies. A series of international economic summits has sought to achieve some international coordination of fiscal and monetary policies so as to limit future swings in the international economy. An evening out of the developed countries business cycle could yield considerable dividends for the developing world.

Improving Long-Term Prices

Stabilization of prices and earnings is a matter of considerable interest to the developing world. But their concern with commodities does not stop there. Inspired by the startling success of the OPEC cartel, the developing countries see the NIEO as a way of securing stable and just prices. In present circumstances, just can be read as meaning higher.

Much of the concern with commodity prices dates to the early work of Raul Prebisch, covered in some detail in early sections of this paper. Prebisch argued that low price and income elasticities for raw materials would severely limit income growth for countries dependent on their export. Following a line of reasoning that could also be used to justify much of American farm policy, Prebisch argued that the production of raw materials in developing countries was characterized by relatively competitive markets while the production of industrial goods was concentrated in a number of large oligopolies. The differences in market structure would tend to bias the gains from trade in the direction of the developed countries. Prebisch also felt that highly organized labor in the industrial countries kept at least part of any productivity increases in terms of higher wages. With competitive markets and weak unions, productivity increases in developing countries were more often reflected in lower prices than in higher wages. The combined result was slow growth in the developing world with the gains from trade going almost entirely to the already well off, developed countries.

To improve the prices of raw material exports, the developing countries have proposed a number of different methods. With OPEC very much on the scene, cartels have become an obvious and appealing answer. A numer of commodity producer organizations now exist—in coffee, tin, copper, and bauxite to name a few—and others may emerge in the near future. None, however, appears to have the short-term potential of OPEC. Particularly from the viewpoint of direct impact on the American economy, no commodity seems to have the importance of oil. In other words, for most raw materials there is an adequate natural or synthetic replacement available without resort to an OPEC-size increase in price. Although a wide variety of nations belong to OPEC, including Venezuela, Indonesia, and Nigeria, in terms of production, OPEC has a core of Middle Eastern, Muslim, Arabic-speaking countries. There are no existing or prospective cartels that can benefit from the same linguistic, religious, and geographic unity.

Indexation in the form of tying of raw material prices to the prices of industrial goods has been pushed by the developing countries as a major alternative to OPEC-style cartels. In practice, it is hard to see how indexation would not imply almost as much organization and administration as seemingly simpler cartel arrangements. If indexation

allows commodity prices to exceed the price indicated by supply and demand, one could expect surpluses, perhaps substantial surpluses in the production of various commodities. This raises the problem of some sort of support payment, storage, or production quotas. The higher prices for the raw materials of developing countries could also lead to an increased reliance on developed country sources of supply, a move to domestically available alternative raw materials or a switch to some type of synthetic product. The result could be stable and higher prices with progressively lower earnings.

As with most indexation schemes, there is a danger that indexation will exacerbate the process of inflation by passing on price increases in an automatic, or at least more rapid manner. To the extent that a partial indexation scheme—partial in the sense that only raw material prices automatically increase—may contribute to a recession in the industrial countries, the scheme could lead to lower overall earnings for developing countries.

Commodity agreements are a third possibility. The UNCTAD proposal for stable and just prices focused on 10 core commodities for which individual agreements would have to be worked out. For some commodities, notably tin and coffee, international agreements already exist. Although stabilization agreements have some appeal to the developing countries, there is no indication of their willingness to enter into agreements to actually raise the long-term trend of raw material prices.

From the standpoint of developing countries, expanding the number of individual commodity agreements may help improve their bargaining position with regard to an individual commodity. In simple terms, coffee is a relatively good substitute for tea—but what takes the place of them both? To the extent that no adequate short term substitutes can be found for individual commodities the spread of commodity agreements may strengthen the bargaining position of the developing world.

The concept of commodity agreements or cartels as the new answer to the economic problems of the developing countries, seems to rest on two unstated assumptions. The first suggests that raw materials are exclusively or principally exported by developing countries. The second implies that the production and export of raw materials are at least roughly distributed in the developing world according to the need for further economic assistance. Neither assumption appears to be true. At the present juncture, slightly more than half the world's raw materials are actually exported by industrial rather than developing countries. Even the 10 core commodities selected by UNCTAD are not exclusively produced in the developing world. Moreover, the distribution of natural resources is remarkably uneven. The Asian subcontinent with a substantial percentage of the world's poorest people is an important exporter of only a very few raw materials. The relatively advanced Latin American countries, however, export a large and growing variety of commodities.

THE U.S. POSITION ON TRADE IN RAW MATERIALS

The United States has opposed any move toward the establishment of commodity cartels or other restrictive devices. The U.S. position puts continued emphasis on the need for the market to determine the

quantity and price of raw materials and the direction of direct foreign investment. Within that general posture, the United States has been willing to move on the question of stabilization and investment in raw materials production.

The U.S. position, however, stresses stability in export earnings [28] rather than prices. Along this line, Secretary Kissinger, speaking at the seventh special session of the U.N. General Assembly, urged a substantial increase in the amount and the availability of compensatory financing funds in the IMF. At least partially in response to the U.S. initiative, the IMF has recently eased access to both its compensatory fund and other credit facilities.

The United States and other developed countries have also been concerned about the future availability of raw materials from the developing world. Higher oil prices and the economic slowdown in the developed world have seriously disrupted the economies of many developing countries and markedly increased the level of their international borrowing. In the face of severe economic difficulties, a number of countries have suggested imposing tighter controls over the development and export of their raw materials. The result has been a virtual drying up of new, developed world investments in Third World raw material production.

The basic problem is one of finding an institutional mechanism that assures investors and satisfies the host country. In this regard, the United States has proposed a major increase in the funding of the International Finance Corporation, the World Bank affiliate that focuses on private sector investments. At the fourth UNCTAD meeting (May 1976) the United States proposed the establishment of an International Resources Bank (IRB) to channel funds into the development of raw materials in the developing countries. The proposal was narrowly defeated with a substantial number of developing countries either absent or abstaining.

In many ways, the focus on increased production of developing countries' raw materials was the centerpiece of the U.S. response to the raw material proposals contained in the NIEO. And increased production could be of benefit to developed and developing countries alike. Although further development of existing raw materials might limit future price increases, price stability would slow the search for various synthetic substitutes—a matter of considerable concern to developing countries. The end result could be price stability for raw material exports and increased foreign exchange earnings for the developing world. The United States has indicated that it will continue to focus on increased production rather than broad gage commodity agreements.

Although generally hostile to commodity agreements or overall buffer stock arrangements, the United States has expressed a willingness to consider commodity agreements on a case-by-case basis. The United States has explained its position by stressing the need for relative prices to guide resource allocation and a reluctance to foster any further government regulation of the international economy.

With regard to Latin America, the United States has made a number of specific proposals. In his June 1976 statement before the General Assembly of the OAS, Secretary Kissinger suggested the formation

[28] U.S. Development Coordinating Committee, op. cit., p. 65.

of a regional consultative body on commodities produced within the hemisphere. Secretary Kissinger saw the group as providing an "early warning" system for hemispheric commodity problems and as an aid in directing the timing and location of investment funds.[29]

Within the general U.S. posture on considering commodities on an individual basis, Secretary Kissinger noted that the United States had already signed international agreements on coffee and tin and was willing to consider agreements for bauxite, iron ore and copper—all of which are of particular interest to the hemisphere.[30]

THE IMPACT OF STABILIZATION AND COMMODITY AGREEMENTS ON LATIN AMERICA

Despite a relatively advanced stage of industrialization, Latin America is heavily dependent on the export of raw materials. In some cases, particularly Bolivia, Chile, and Venezuela, a single raw material can completely dominate the balance of payments. In others, a number of exports, including manufactures, play a significant role. But the overall importance of raw materials is virtually universal.

The existing commodity agreements have brought some measure of stability to raw material earnings. With the exception of oil, commodity agreements have not been able to completely shield an economy dependent on raw material exports from the vicissitudes of international commerce. For instance, the high prices for tin experienced in the 1973 to 1974 period dropped sharply in 1975. As a result, the International Tin Council (governing body of the International Tin Agreement) ordered an 18-percent reduction in Bolivian tin exports. Although the agreement has been beneficial to Bolivia, the combined drop in price and exports has helped create a $50-million deficit in the Bolivian balance of payments.[31]

The U.S. decision to join the International Tin and Coffee Agreement should add a further measure of stability to export earnings. Eased access to IMF credits should also help to reduce pressures on the balance of payments and avoid disruption of long-range development plans.

Beyond coffee and tin, the U.S. position is something of a "supply and demand are what really count but we will talk to you anyway" sort of attitude. Behind the general commitment to reliance on free markets there also lies the awareness that the production of many raw materials in developing countries involves U.S. capital and companies. Given a general U.S. reluctance to establish further commodity agreements and the uncertainty of their appropriateness, it is hard to say what their future impact will be on other hemisphere economies.

Certainly the interest is there. Jamaica has become a leader in the International Bauixte Association and unilaterally moved to raise prices.[32] Venezuela and Brazil are major exporters of iron ore. While Brazilian production involves U.S. steel companies, Venezuela has

[29] Kissinger, "Cooperation for development * * * op. cit., p. 7.
[30] Ibid., p. 7.
[31] See Inter-American Development Bank, "Economic and Social Progress in Latin America," Annual Report, 1975, Inter-American Development Bank, Washington, 1976, pp. 159 to 166.
[32] For a brief treatment of the possibility of the formation of a bauxite cartel see Kent Hughes, "Collusion in the Carribean—The International Bauxite Association and the Prospect for More OPEC's," Congressional Research Service, July 1974.

recently moved to nationalize her iron ore facilities. The interest in a copper cartel is present—particularly in Chile and Peru—but the prospects of its success vis-a-vis the United States are bleak.[33] Virtually self-sufficient in copper, the United States should be able to weather even a strictly enforced embargo.

The U.S. position of favoring stabilization and the development of new sources of supply could be of substantial assistance in increasing the level and decreasing the fluctuations of raw material earnings. Both should have a favorable impact on the rate of economic growth in Latin America.

THE IMPACT OF STABILIZATION AND COMMODITY AGREEMENTS ON THE U.S. ECONOMY

The costs of the various stabilization schemes should be relatively small. In practice, stable prices could promise gains for both exporters and consumers. If stability of export earnings leads to more reliable sources of supply, the long-term gains to the United States could be substantial.

As noted above, the developing countries are interested in increasing as well as stabilizing the prices charged for various raw materials. As a major exporter as well as importer of raw materials, the United States might well gain from any across-the-board increase in the price of raw materials. Assuming the price increases were limited to the 10 core commodities of the UNCTAD proposal or a similar list, the United States would experience some pressure on the domestic price level, possibly some short-term loss of income and employment, and additional pressure on either the balance of payments or the value of the dollar. But the higher prices would encourage the substitution of other commodities, the development of domestic sources of supply, conservation, and additional recycling. Depending on the product and the rapidity of any long-term price increases, the overall impact could be slight.

The prospect of cartels is a somewhat more troublesome matter. Much of the focus on cartels has been concentrated on their strategic or political implications. As in the case of oil, there is considerable apprehension that new cartels will not only raise the price of a particular commodity but also make the United States more subject to the foreign policy of a supplying power.

But the short-run economic effects of a cartel can also be devastating. Again, the effect of OPEC's quadrupling of prices is a case in point. The question then is: How likely is the United States to be faced by another OPEC and are there other commodities quite as difficult to replace as oil. With one or two reservations, the answer appears to be no.[34] In one raw material—chrome—where economic circumstances (critical item, heavy dependence on imports, and a limited number of suppliers) most favor the formation of a cartel, political tensions among the dominant producers (the Soviet Union on the one hand and South Africa and Rhodesia on the other) have been an ef-

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[33] For a terse discussion of Chile's dependence on copper exports for foreign exchange earnings see Inter-American Development Bank, op. cit., pp. 181 to 189.

[34] For a summary treatment of U.S. dependence on raw materials see Council on International Economic Policy, "Special Report: Critical Imported Materials," U.S. Government Printing Office, Washington, D.C., 1974.

fective obstacle to any such move. In other cases, notably platinum, palladium, and other platinum group metals it appears that the existing suppliers are already limiting production so as to maximize long-term profits. There is evidence that platinum producers have maintained stable producers prices, kept the cost of platinum well above the marginal costs of additional production and yet sought a final price low enough to discourage the search for alternatives to platinum.[35]

Iron ore represents a possible trouble spot, not so much because of any threat that a cartel might be formed but because of a series of incidents that could cause a serious disruption in supply. Current U.S. production of iron ore is under considerable environmentalist pressure. Formerly secure foreign supplies in Venezuela have recently been nationalized and might be subjected to some type of export controls. In a 1974 study, the Council on International Economic Policy painted a "worse case" scenario that included the—

> * * * simultaneous closing down of the Great Lakes iron ore facility, a limiting of Venezuelan exports, and a prolonged labor strike in Canada, a series of events which would affect 33 percent of U.S. iron ore consumption.[36]

The impact on steel production could be expected to ripple through the transportation equipment, consumer durable and construction industries.

So many of the raw materials exported by Latin American countries are substitutes for each other—copper for aluminum (bauxite), aluminum for steel (iron ore), and steel for tin—that effective action would involve transcommodity cooperation. Interestingly, the developing countries in the Western Hemisphere could provide considerable leadership within that particular group of metals. The hemisphere contains major exporters of copper (Chile and Peru), tin (Bolivia), iron ore (Venezuela and Brazil) and bauxite (Jamaica, Guyana, Surinam and the Dominican Republic). Except for bauxite. the group is characterized by common geography, religion, and at least closely related languages. As yet, however, there has not even been any speculation about a specific, transcommodity cartel.

In sum, the United States does not appear particularly vulnerable to additional commodity cartels formed by developing nations. It should, however, be able to reap some economic and political gains from cooperation in stabilizing the export earnings of developing countries.

Technology Transfer

Technology has become the magic wand for economic growth. Dating from the work of Solow (1956)[37] and Dennison (1962),[38] economists have placed particular emphasis on the central role of technology. In drawing up the NIEO, the developing countries have included a number of specific items on technology transfer. The items reflect the developing world's concern about the availability, appropriateness, and the cost of existing technology.

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[35] Ibid., p. A-15.
[36] Ibid., p. A-20.
[37] R. M. Solow, "A Contribution to the Theory of Economic Growth," Quarterly Journal of Economics, February 1956.
[38] Edward F. Denison, "The Sources of Economic Growth in the United States and the Alternatives Before Us," Supplementary Paper 13 (Committee for Economic Development, 1962). Also "Why Growth Rates Differ: Postwar Experience in Nine Western Countries," Brookings Institution, Washington, D.C., 1967.

The countries that have focused on an export oriented approach to development are anxious to acquire the very latest technology to preserve their ability to compete in world markets. Its acquisition, however, may involve the problems of direct investment by large multinational firms and a growing dependence on developed country markets.

There is also a considerable body of thought that suggests that the wrong type of technology has been transferred to developing countries—wrong both in the sense of what products are actually manufactured and in the techniques used in production. Television sets, sophisticated consumer durables, and a wide range of luxury items are generally thought to be unresponsive to the development needs of most developing countries. However, the existing income for industrialized goods often dictates just such a pattern of development. The present product lines of the large multinational firms and the consumer demand of those with money in a developing country thus often coincide.

A number of students of the development process have suggested that developing countries have used capital intensive methods of production that are more appropriate to industrial countries where capital is relatively cheap. Part of the problem may lie in the fact that many developing countries actually subsidize capital investment while adopting fairly advanced social welfare legislation. With the cost of capital lowered through subsidies and the cost of labor increased through the use of minimum wage laws and legally mandated fringe benefits, the choice of technique is biased toward a capital-intensive method. In other words, the prices faced by an industrial firm in the developing country favor the purchase of expensive, more complicated machines requiring fewer workers. Although relative prices are relevant, it seems that other factors are at least as important.[39] The World Bank has apparently encountered similar difficulties in encouraging the use of labor-intensive techniques in bank financed projects. In many cases, even assuming that workers were paid no wage at all, the capital-intensive approach proved to be more economical.

Perhaps more important is the fact that most technology—whether in the form of new products or new production methods—is developed in the industrial world. In an attempt to provide a realistic alternative, E. F. Shumacher of the Institute of Intermediate Technology [40] first advocated the purchase of used and thus both cheaper and simpler equipment. Subsequently, he worked on developing techniques that were specifically adapted to the needs (and relative factor prices) of developing countries. Along a similar line, the NIEO contains proposals for increasing autonomy in the development of technology.

The direct, financial cost of existing technology has also been of growing concern to developing countries. Prices for new technology often reflect the relative bargaining power of governments or individual companies. Not surprisingly, small firms and weak developing country governments have not fared particularly well in striking bargains with the large, multinational firms. The high costs can show up

[39] See Kent Hughes, "Factor Prices, Capital Intensity and Technological Adaptation in Brazil," in "Contemporary Brazil: Issues in Economic and Political Development," ed. by H. Jon Rosenbaum and William Tyler. Praeger Publishers, New York. 1972.

[40] E. F. Schumacher is the author of "Small is Beautiful; Economics as if People Mattered," Harper & Row Publishers, Inc., New York, 1973.

directly in licensing fees, royalty charges, and repatriated profits or indirectly in terms of restrictive conditions. A weak bargaining position can also lead to the acquisition of dated technology, older machines, or products that are no longer demanded in the industrial world. As a number of countries have moved toward industrialization and become more sophisticated in negotiating with multinational companies, they have been able to strike much better bargains. For those countries just beginning the industrialization process, however, the cost and availability of technology remain real problems.

The NIEO program suggested a number of ways that technology could more effectively and equitably be made available to the developing countries. The proposals range from a change in the world patent system to policies designed to reduce the brain drain.[41] Parts of the NIEO approach demanded action by the governments of developed countries while others stressed the need for changes in the practices of multinational firms.

The recently concluded UNCTAD IV meeting in Nairobi, May 1976 also passed resolutions dealing with the technological capacity of developing countries, the rules for the use and regulation of industrial property and an international code of conduct on the transfer of technology.[42] Technology is and will remain an area of both conflict and cooperation between the industrialized and the developing worlds.

The U.S. Position on Technology Transfer

The U.S. response to the NIEO proposals on technology transfer has been mixed. On the one hand, the United States has extensive investments in developing countries ($34.9 billion) a substantial portion of which are in manufacturing ($10.4 billion). The financial flows from royalties and licensing agreements are a positive element in the U.S. balance of payments and do contribute to a higher domestic GNP. In 1975, the total flows of fees and royalties from developing countries was $630 million, almost half of which came from Latin America.[43] Free access by the developing countries to current U.S. technology would reduce the value of these investments, limit future earnings from the foreign sale of technology, and eliminate any economic controls over the diffusion of U.S. technology.[44]

On the other hand, the United States has encouraged access to much of the technology currently possessed by the industrial world. With regard to Latin America, the United States has made several specific suggestions to "* * * increase public and private contacts, development, and the application of technology." [45] In a recent (July

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[41] For a short list based on resolutions passed at the VIIth Special Session of the General Assembly of the United Nations see Development Coordination Committee, op. cit., pp. 68 to 69.

[42] Resolutions 87 (IV), 88 (IV), and 89 (IV), Fourth Session of UNCTAD, Nairobi, Kenya, 1976.

[43] Figures are end-of-the-year book value for 1975 from Survey of Current Business, September 1976, p. 49.

[44] There is growing concern in the United States about the economic impact of the rapid diffusion of U.S. technology to other parts of the world. For a recent case by case study of the diffusion question see Jack Baranson, "International Transfers of Industrial Technology by U.S. Firms and Their Implication for the U.S. Economy" Developing World Industry and Technology, Washington, D.C., 1976. The report was prepared for the Office of Foreign Economic Research, International Labor Affairs Bureau, U.S. Department of Labor.

[45] Kissinger, "Cooperation for Development * * *," op. cit., at p. 9.

1976) speech before the General Assembly of the OAS, Secretary Kissinger indicated that the United States will:

Open a technology exchange service for Latin America to provide information on U.S. laws and regulations relating to technology flows and to sources of public and private technology;

Explore cooperative ventures in which small and medium-sized U.S. firms would provide practical technologies to individual Latin American firms, along with the management expertise needed to select, adapt, and exploit those technologies; and

Expand and strengthen Latin America's access to the National Technical Information Service and other facilities of the technology information network of the U.S. Government, which covers 90 percent of the technical information that flows from the 20 billion dollars worth of research that the U.S. Government sponsors annually.[46]

In the same speech, Secretary Kissinger proposed the OAS establish a hemispherewide consultative body on access to technology as well as a regional technology center.[47]

The Impact of Technology on Latin American Economies

A number of Latin American countries are among the most industrialized within the Third World. With relatively developed economies, Latin America would be particularly suited to take advantage of any increased flows of technology. Many Latin American countries already contain advanced research institutes and most have highly developed patent systems.

The region would also gain considerably from any reduction in royalties and licensing fees. Although the industrial strength of the region has already improved its bargaining power vis-a-vis the multinational corporations, the region still generally favors additional leverage through some internationally sanctioned code of conduct.

Economic studies of Latin America [48] suggest that increased technology flows would have a positive and sizable effect on economic growth. Specific estimates of the impact of the U.S. position on technology flows depend crucially on what type and how much technology is transferred and applied. Suffice it to say that the U.S. position does offer real benefits to most Latin American economies.

The Impact of the U.S. Proposals on Technology Transfer on the U.S. Economy

The overall impact of the U.S. proposals on technology transfer on the U.S. economy are difficult to estimate. Growth in either GNP or export earnings by the developing countries almost always means increased purchases of American goods. Increased contacts between Latin American and medium-sized U.S. firms may provide Latin America with more appropriate technology and the United States with greater royalty earnings. The result could be faster growth both at home and abroad and the more rapid development and diffusion of technology.

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[46] Ibid., p. 9.
[47] Ibid., p. 9.
[48] For instance, see H. J. Bruton, "Productivity Growth in Latin America," The American Economic Review, Vol. LVII, No. 5, December 1967, pp. 1099 to 1116.

But the overall impact of technology transfer on the home (in this case the United States) economy is not well known. Technologically sophisticated industries in several countries have succeeded in capturing significant shares of the U.S. market. The rapid growth of imports has put pressure on workers and firms in a number of industries and also displaced U.S. exports. Whether the U.S. proposals would seriously accelerate this process and what an increase in technology transfer means for the U.S. economy are still unsettled questions.

Foreign Direct Investment and the NIEO

The increase in foreign direct investment throughout the developing world has brought both benefits and problems to most developing countries. Although the majority of developing countries is still anxious to receive foreign direct investment, they have also begun to impose a series of restrictions on foreign investments. The NIEO would carry that process one step further.

Foreign direct investment is attractive to a developing economy because it can provide additional foreign exchange, new technology and managerial skills and a strong impetus to economic growth. But it is feared for almost as many reasons. An initial investment may well mean millions of additional dollars or deutsch marks for the host (place of the investment) country treasury, but repatriated profits and royalty fees represent a constant drain on hard currency reserves. An increase in imported inputs that often follows a direct foreign investment can put additional strain on the balance of payments. Foreign investment may incorporate inappropriate or dated technology, generate employment for expatriates rather than host country citizens, or merely purchase an existing business rather than adding to the host country's stock of investment.

Many developing countries are also apprehensive about the political control that can come with a foreign direct investment. Individual companies or groups of companies may appeal to a home (source of the investment) country for political assistance in influencing the domestic policies of the host country.

Political control can also come in a number of more subtle ways. The use of development assistance funds may be partially based on the treatment accorded to investments coming from the donor country. The home country may attempt to control the overseas export practices of their multinational firms. For instance, for many years the United States banned exports to Cuba not only from domestic firms but also from subsidiaries of U.S. firms located abroad. Only recently has the latter ban been lifted.

After the foreign direct investment has led to full scale production, the host government is under some pressure to see that production continues. Employees, consumers, and suppliers all become dependent on the output of the multinational manufacturing firm. To the extent that the multinational firm relies on imported inputs, the Government is somewhat restrained in dealing with a balance of payments crisis. Particularly if a country suffers considerable variability in its export earnings, it may be caught between the need to reduce imports or to obtain international loans. If it chooses the latter course, both private banks and the International Monetary Fund may demand the adoption

of fiscal and monetary policies that many developing countries believe create short term political instability and disrupt long-term economic growth.

The developing countries response to these problems has been quite varied. Limits have been imposed on repatriated earnings and the size of royalty payments. Governments have sought to reduce imports and increase domestic production by requiring firms to increase the percentage of locally produced items contained in their products. Some governments encouraged only export oriented investments and others have begun to encourage exports through subsidies and preferential treatment.

Disputes over ownership have proved particularly intractable. Many countries encourage joint ventures so that domestic capital will be involved in both the growth and the future control of the national economy. One group of nations (the Andean group) has gone so far as to require substantial divestment, or phasing out, of foreign interests within 15 to 20 years of the initial investment.[49]

The NIEO program advocates the creation of mandatory codes of conduct to govern the behavior of the multinational firms both in making investments, and in transferring technology. Although the specific terms are not spelled out in the NIEO documents, the thrust of the proposal is to provide developing countries greater political and economic control over the nature and volume of direct foreign investments and to allow the acquisition of foreign capital and technology on better terms.

The U.S. Position on Foreign Direct Investment

As the home country for the bulk of the world's multinational companies, the United States has been concerned about such matters as expropriation and restrictions on foreign direct investment. In general terms, the United States has stressed the economic benefits of foreign direct investment.

The United States has been receptive to the idea of an international code of conduct—in the wake of the Lockheed foreign bribery scandals the United States actually pushed for standards at the multilateral trade negotiations currently being conducted in Geneva—but opposes any mandatory standards. An admonitory—not mandatory—code of conduct was recently developed by the Organization for Economic Cooperation and Development (OECD). The code has received a U.S. endorsement.[50]

The Impact of the U.S. Position on Latin America

The basic U.S. position on foreign direct investment supports the status quo—at best it is a 'more of the same' approach. The economic impact of the U.S. position on Latin America will depend on whether Latin America is satisfied with a mere continuation of the current

[49] For a summary of the relevant provision from the Andean code see John T. Lindquist, "Forced Divestment and the Andean Group," Development Digest, vol. 12, January 1974, pp. 81 to 87.

[50] A copy of the proposed OECD code can be found in the Congressional Record, Aug. 10, 1976, pp. 14004 to 14007. A discussion of the proposed code is contained in "New OECD Guidelines for Multinationals Agreed," Multinational Business, June 1976, pp. 33 to 36.

range of restrictions on foreign direct investment and on whether that investment, on balance, is fostering or retarding economic growth in the region.[51]

Since 1964, there has been a shift to military rule in many Latin American countries. Although traditionally identified with conservative elements that tend to welcome foreign capital, the present military regimes have adopted a number of restrictions on the entry and freedom of foreign multinational companies.

The impact of foreign direct investment on the host country is still a matter of some dispute. One of the difficulties in making an overall assessment is that individual governments differ in their abilities to use effectively foreign capital. Brazil appears to have been particularly adept in attracting a wide variety of American and other multinationals without developing too much excess capacity in any particular industry. Argentina has also received a good deal of foreign direct investment but has been much less successful in rationalizing its market structure.

As Latin American industrialization has proceeded, most governments in the region have become increasingly sophisticated in dealing with foreign multinational firms. Area governments now use mandatory controls, various restrictions, and a number of financial incentives to guide foreign direct investment into desired channels. The current emphasis in manufacturing has shifted to exports—both within Latin America and to the world. For the most part, the multinational firms have been able to adapt successfully to the growing number of controls. Only the Andean Pact appears to have had some negative impact on the inflow of capital resources.

The Impact of Foreign Direct Investment on the U.S. Economy

The implications of the U.S. position on foreign direct investment on the U.S. economy breaks down into two rather distinct questions. First, is the U.S. emphasis on the continued free flow of capital and a strictly voluntary code of conduct likely to stem Third World pressures for greater control over the multinationals? Second, what are the implications for the U.S. economy of continued outflow of domestic capital and the investment abroad of the retained (unrepatriated) earnings of U.S. multinationals?

With billions of dollars invested in the Third World, the United States has a substantial stake in the financial flow of earnings and royalties and, particularly in the extractive industries, the flows of specific commodities. Serious limitations on U.S. capital abroad could reduce present and future gross national product or, in the case of raw materials, actually lead to a disruption of production because of shortages of supply. The most likely outcome appears to be more host country controls on foreign investments, an increase in the national ownership of raw materials and the continued presence and growth of the multinational firms. The developing world is caught between political aspirations for economic independence and economic aspirations for

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[51] A discussion of controls on multinational firms from a Latin American point of view can be found in Miguel S. Wionczek, "Rules for Multinationals, The Latin American Context," World View, V. 18, October 1975, pp. 27 to 33.

future growth. If economic aspirations predominate, the multinational will continue to play an active role.

The impact of further foreign direct investment on the U.S. economy is also unclear. The key question is whether direct investment abroad supplements or supplants investment in the United States.[52] Because the locus of investments in raw materials tend to be determined by the availability of the resource, the problem centers on direct investment in manufacturing facilities. If a direct investment abroad takes the place of investment in the United States, there may be adverse implications for domestic growth, employment, the share of labor in national income, and the balance of payments (under a regime of fixed rather than floating exchange rates).[53] In some cases, however, even where a foreign investment actually supplants a domestic investment, there may be a favorable impact on the home country's present and future exports.

Where direct foreign investment is entirely supplementary to a domestic investment, there can be favorable effects on both the balance of payments and trade (again in a regime of fixed exchange rates) and on future economic growth. For instance, if an American-based multinational borrows funds in the Eurodollar market and uses them to construct a factory that would otherwise have been built by French or German or other foreign interests, the United States will suffer no immediate drain of capital, may export goods to both construct and run the factory and will benefit from any repatriated profits or royalties. Because the factory would have been constructed by a foreign if not an American-based multinational, displacement of U.S. exports would have been experienced in any case. The possibility remains, of course, that the Eurodollar funds could have been invested in the United States with an even greater impact on the U.S. economy.

The debate on foreign direct investment is also closely tied in with the growing concern about the rapid spread of U.S. technology. The technology is often introduced into a foreign country through new machines and intracompany agreements rather than through the formal sale of a patent or the issuing of a license.

The evidence on the overall impact of investment and technology flows on the U.S. economy is simply not all in.

The NIEO and a Debt Moratorium

In the early 1970's, the developing world as a whole was experiencing steady if not spectacular rates of economic growth. Many countries were particularly helped by the sharp rise in commodity prices. Even excluding oil, between mid-1972 and mid-1974 "... primary commodity prices on one index more than doubled . . ." [54] The boom had a particularly favorable effect on the overall current account of the developing world. The advent of high oil prices and a recession in the prin-

[52] In the terminology of Hufbauer and Adler, the question is whether or not classical or reverse classical substitution assumptions apply. See G. C. Hufbauer and F. M. Adler, Study No. 1, U.S. Treasury Department, Washington, D.C., 1968.

[53] For a summary treatment of these questions see Kent Hughes, "International Economic Decisionmaking in the Congress: A Case Study of the Burke-Hartke Bill." unpublished Ph. D. dissertation presented to Washington University, St. Louis, Mo., 1976, pp. 16 to 41.

[54] Richard N. Cooper and Robert Z. Lawrence, "The 1972–1975 Commodity Boom," Brookings Papers on Economic Activity, No. 3, 1975, pp. 671 to 723 at p. 671.

cipal industrial countries, however, combined to put severe strains on the current account position of non-oil exporting developing countries. The "combined deficit increased from $9.2 billion in 1973 to $28 billion in 1974 to an estimated $39 billion in 1975.[55] The $30 billion increase in current account deficit between 1973 and 1975 was partly caused by the direct impact of higher prices of oil and oil based imports and partly by the combination of a recession induced drop in exports to the industrial countries and an inflation bred increase in the price of imports from the developed world.

The sharp reversal in commodity prices, recession in the developed world, and the consequent trebling of current account deficits may have had a great deal to do with the growing pressure for a new international economic order. In addition to calling for more concessional aid, more access to the large markets of the developed countries, and higher prices for commodity exports, the new international economic order program included a request for assistance in dealing with the mounting external debt of the developing world—including the possibility of a debt moratorium.

The U.S. Position on a Debt Moratorium

The United States is strongly opposed to a debt moratorium. It is the view of the United States that a moratorium on debt is a particularly arbitrary way of increasing development assistance and will make it more difficult for the defaulting countries to obtain additional private and even public funds in the future. A moratorium on debt for currently hard pressed countries would tend to reward the relatively well off who were previously able to obtain credit. Many countries, particularly those too poor to obtain much private sector or development bank credit would hardly be helped at all.

The United States also contends that the canceling of debts will introduce another element of uncertainty into future loans for developing countries. Although the desperately poor would not be affected—they have little access to private markets in any case—many of the more economically advanced developing countries could be severely handicapped.

The Impact of the U.S. Position on Latin America

Because Latin America is among the more industrialized regions of the Third World, debt cancellation or a debt moratorium would both help and hinder their development prospects. In the short run, many Latin American countries would experience a substantial lessening of balance-of-payments pressures. But their long run access to the capital markets of the developed world would certainly be curtailed.

Whether because of developed countries' intransigence, second thoughts on the part of the developing world or the possibility of severely injuring the development prospects of several Third World nations, there appears to have been a genuine backing away from the call for a debt moratorium. The Group of 24, representing 100 developing country members of the International Monetary Fund, has recently dropped any demand for a debt moratorium.[56]

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[55] U.S. Development Coordination Committee, op. cit., p. 30.

[56] Hobart Rowen, "LDCs Agree Slower Growth Is the Key to Fight Inflation," Washington Post, Monday, Oct. 4, 1976.

The Impact of the U.S. Position on a Debt Moratorium on the U.S. Economy

As as major source of private and public capital for developing countries, the United States would certainly have suffered some short-run economic loss from any debt moratorium. In the longer term, the tendency would be for capital to flow to other developed countries or to find domestic outlets. In the case of manufacturing investment, the United States might actually improve its prospects for economic growth and employment. However, without investment in new sources of raw materials the United States might be forced to turn to higher priced domestic sources of supply or other substitutes. The result could be less growth and a slower increase in employment.

OTHER PARTS OF THE NIEO PROGRAM

The preceding discussion of the NIEO has focused on a few specific topics. Questions about investment and technology flows, trade in commodities and manufactures and the problem of a debt moratorium have been emphasized. The NEIO, however, is also concerned with a stronger developing countries voice in major international bodies like the IMF and the World Bank and a number of other matters.

The common thread running through the entire NIEO program is the desire to increase the transfer of resources from the developed to the developing world while gaining more political clout in the international economic order. Although many of the specific demands contained in the NIEO program will remain nothing but paper proposals, the pressures for change in the international economic order are likely to persist.

The American response to the NIEO has been detailed, comprehensive, and certainly far from negative. In terms of specifically national initiatives, the United States can most easily control access to its own markets and the level of its bilateral and multilateral assistance. Other suggestions—from commodity agreements to regional institutes for technology development—will come to fruition only after lengthy discussions and considerable international cooperation.