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HEARING  
BEFORE THE  
SUBCOMMITTEES ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE  
AND ON  
INTERNATIONAL ORGANIZATIONS  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS  
SECOND SESSION

NOVEMBER 19, 1980

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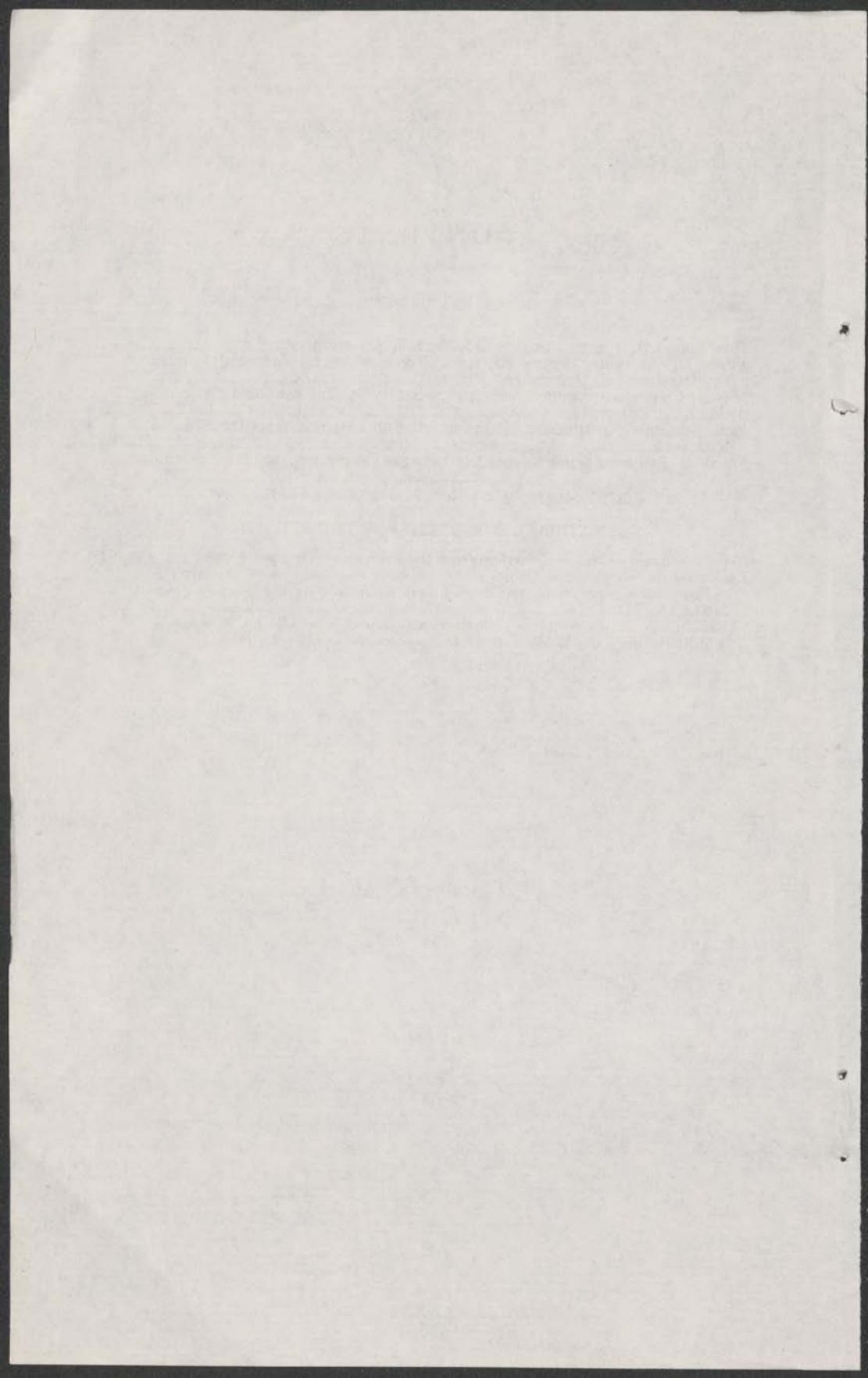
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## U.N. SPECIAL SESSION ON DEVELOPMENT: A REVIEW

WEDNESDAY, NOVEMBER 19, 1980

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEES ON INTERNATIONAL ECONOMIC POLICY AND TRADE, AND ON INTERNATIONAL ORGANIZATIONS,

*Washington, D.C.*

The subcommittees met at 2 p.m. in room 2255, Rayburn House Office Building, Hon. Don Bonker (chairman of the Subcommittee on International Organizations) presiding.

Mr. BONKER. The subcommittees will come to order.

This is a joint hearing of the Subcommittee on International Economic Policy and Trade and the Subcommittee on International Organizations.

This is the second in a series of two hearings to assess the results of the recently concluded United Nations special session on development and to review U.S. policy and performance at the special session.

The Congress was represented at the session by Congressman Benjamin Gilman, who is a Representative from New York, and who is to be our leadoff witness, but he is in the Capitol having lunch with President-elect Reagan. He will be arriving shortly and when he does we will interrupt the hearing to hear from him.

We shall proceed with the executive branch witnesses, Hon. Robert Hormats, Deputy U.S. Trade Representative, and Elinor G. Constable, Deputy Assistant Secretary of State for International Finance and Development.

Please come to the table.

### STATEMENT OF HON. ROBERT D. HORMATS, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. HORMATS. Thank you.

I appreciate the opportunity to appear before you today.

I also would like to acknowledge the presence of Marion Creekmore, who is Deputy Assistant Secretary, Bureau of International Organization Affairs, and Catherine Gwin, North-South issue coordinator.

I appear both because of my bureaucratic interest and because of my personal interest in the subject.

I have witnessed two things. One is a dramatic improvement in North-South relations in the course of the 1970's and the other is the frustration of the dialog, by what I believe to be unproductive rhetoric, and quibbling, and tactical maneuvers which do not serve the interests of the developing countries. So it is a positive picture

in some senses and negative and disappointing in other senses. These two themes characterize what I have to say.

I will summarize my remarks briefly by giving a general overview of shall we say the psychological state of the dialog and discussing some of the more specific elements of policy. Then I will turn to my colleague, Mrs. Constable, in particular, to give her views. She is chairperson of the U.S. delegation to the recent meetings that took place in New York.

#### DIFFICULTIES IN NORTH-SOUTH RELATIONS

One of the problems in the dialog is there continues to be an underlying lack of confidence by each side in the motives and objectives of the other. The North tends to feel that many of the South's ambitious plans would harm important interests of the developed countries and, indeed, weaken the international economic structure.

The South tends to feel that the North does not have sufficient political will to undertake the major structural and institutional changes necessary for developments beneficial to the South. And, in fact, many institutions today are dominated by the North, and the South wants to have a greater role in those institutions.

I think that the position that the developing countries took at the 11th special session is indicative of their desire to gain a greater role in the institutions of the international economic system.

Also, I think it is important to recognize that the dialog, as I say, has tended to bog down to relatively specific bureaucratic problems and has not focused adequately on common objectives and interests, which I believe could permit progress in accommodation by generating popular support in both developed and developing countries.

There are a number of long-term issues—a number of issues where common interests are involved—which seem not to have received adequate attention. I mention a couple of these in my testimony.

In addition, there is insufficient recognition that the North-South dialog involves a number of components. One is the political component which centers in the United Nations and UNCTAD. There is also a functional/economic component which involves the IMF, GATT, World Bank, et cetera, and a bilateral or regional component which involves the various working groups of the United States and Nigeria, ASEAN, the United States and Mexico, and a number of dialogs of that nature which are in many cases very productive.

We tend to look at the United Nations as the barometer of the state of North-South relations, and we tend infrequently to focus on the progress made in these other forums.

Substantial progress has taken place precisely because the economic institutions have been functioning. We want to avoid making any commitments or concessions in the United Nations which compromise or undermine the integrity of those institutions.

The IMF, the GATT, and the World Bank in particular are institutions that have been doing very well on their own, and we

have been resisting very strongly efforts by the United Nations to overpoliticize the work of those institutions.

The final point is that the political component of the dialog frequently suffers from the dominance of appearance over substance. In many cases this tends to put the United States at somewhat of a disadvantage. Frequently, other developed countries offer compromises in the full knowledge that the United States, which tends to regard its commitments more seriously and more literally than many of them, will stand up and object.

This gives the other developed country credit for having supported a compromise without ever having to deliver on its words, and puts us at a disadvantage in many cases. These tactics do a disservice to the dialog because they mislead developing countries by reducing the need for them to put forward pragmatic suggestions, and often put the United States in a difficult position of appearing alone to be blocking accommodations.

#### A FOCUS ON GLOBAL PROBLEMS

There are a number of ways to overcome such differences which the United States has tried. The recent reports that we have before us, the World Bank development report, the IMF world economic outlook, the global report to the President, and others, depict a fairly consistent picture of the economic outlook for the developing countries and the global economy. One point underlies all of these reports, and that is that many of the world problems that we are going to face collectively over the next decade require the participation of the developing countries if solutions are to be found.

For example, the food problem is not going to be solved unless we are able to help the developing countries deal with their food situation. If we don't help them, the world and the American economy will be volatile.

Energy is a problem which requires the participation of all countries to resolve. Similarly, world environmental problems and the overall problem of shortage of resources and raw materials require the common efforts of a number of countries.

It is increasingly important that the United States in its own interest, in terms of managing its domestic economy, also take a hard look at how we can better manage, along with the developing countries, the world economy. This should be done not for altruistic reasons, but in our self-interest.

Here is a problem on the supply side of economics. If one looks at the implications of deteriorating cropland and declining forests, one recognizes that these supply-side constraints can play havoc with the world economy and contribute very directly to inflationary pressures in the American economy.

#### ENERGY

The U.S. policy with respect to the developing countries has focused on a number of important, mutually beneficial sectors. One is energy in which the United States has taken a leading role in pressing international institutions to come to grips with the situation.

In particular, we have taken the lead in urging the establishment by the World Bank of a new energy facility to expand lending to the energy sector in developing countries. This is important for two reasons:

One, it can lead to an additional amount of energy on the world market.

Two, to the extent one can help the developing countries overcome their energy constraints, their development will proceed at a more rapid pace. That can be helpful to the United States also in terms of added exports to meet the demands in these developing countries.

One of the difficulties is in the development of the international development strategy; the developing countries seem unwilling to recognize explicitly the crucial role of energy in their development outlook.

This is discouraging, and in fact we have pressed rather hard to have energy given its due as both a problem in the world economy and an area where there is potential for collaboration between developing and OPEC countries.

The developing countries seem to feel that if they agree to having energy put on the agenda, then they can extract certain concessions from us. They seem to feel we want energy on the agenda so much that we will pay to have it put on there, and in my judgment this is a major miscalculation.

It is quite logical to assume that if we are discussing the problems of the world economy and the problems of the developing countries, energy belongs on the agenda quite logically. It is probably the single most important problem for developing countries today.

To omit energy from the agenda of the North-South dialog and from a discussion of the world's problems is equivalent to discussing the problems of Noah without mentioning the fact that it rained.

With respect to food, we have been more successful. A great deal of work has been done in helping the developing countries to increase their food production.

#### PROCEDURE

One point with respect to procedure. The United States is continuing, and the State Department is in the lead in those efforts in New York and in other fora, to seek a consensus in order to provide agreement on procedures and agenda for New York for the negotiations which are due to take place next year.

This has run into a number of difficulties, which Mrs. Constable can describe a bit later on. I think it is important, though, that the U.S. position be clear to the developing countries on this. We cannot agree simply to make institutional or structural changes unless we see some important benefit to be served, either of a humanitarian nature or in terms of improving the world economy for the benefit of both developed and developing countries.

Our sense of international responsibility does not include support for changes in institutions simply for the sake of short-term political atmospherics, especially if those changes will weaken in the long run the mutually beneficial aspects of these institutions.

## TRADE AND INVESTMENT

I turn now to the specifics of trade and investment on which I won't dwell because my written testimony covers them in some detail. It is obvious that there is increasing pressure on the world economy as a result of higher oil prices the last several years, particularly the sharp increase in the wake of the Iranian revolution.

As a result, many of the countries have regarded it as urgent that the developed countries avoid protectionist pressures and continue to open up their markets. This urgency has characterized the position taken by the developing countries in the United Nations and other fora.

I think the United States, by and large, can be proud of the fact that, despite a major recession in the mid-1970's, we have kept our markets quite open to the developing countries. There has been an increase in developing country exports to the United States and, indeed, to other developed countries, and this has been something that has been particularly helpful to developing countries.

By the same token, the fact that during that major recession the developing countries were able to sustain a high level of demand in part by borrowing was helpful to us. It meant during a period when we had a decline in demand, the developing countries' purchases, which were increasing at the rate of 5 to 6 percent per year, were particularly helpful to certain sectors of our own economy in buffering the recession in the developed countries, in preventing it from being even worse than it was.

## INTERNATIONAL DEVELOPMENT STRATEGY

With respect to what happened in the United Nations in the discussion of the international development strategy, let me make a few general points:

There are a number of elements to this strategy that we have indicated our strong objections to, but there are also a number of elements that we believe to be quite constructive.

We have I think very strong common interest with the developing countries with the results of the multilateral trade negotiations. They lead to a more open trading situation. We also recognize that for a time while they are developing, developing countries should get differential treatment. However as they develop, they should assume a greater share of the responsibility for the international trading system both in adhering to the rules of the system and in opening up their markets.

Mexico or Brazil can't be treated in the same category as Burundi. They shouldn't be, and their level of development demands that they take a share of responsibility in the trading system. We have a number of jobs in the strategy with the targets that the developing countries have indicated they want us to commit ourselves to.

The so-called Lima target of a 25-percent LDC share of the production of manufacturers by the year 2000 is totally unrealistic, and the United States has dissented from that target and dissented strongly from the developing country target of their having 30 percent of world trade manufacturers by the turn of the century.

This is also unrealistic and unacceptable. We have also dissented strongly from the developing countries' desire to have industrial redeployment as a result of either international negotiations or national fiat.

In other words, there are a number of people in the developing countries who would like us simply to begin exporting the textile, the shoe, and other industries from the United States to the developing countries.

We have indicated that the world market leads to what we call dynamic changes in comparative advantage, and these take place over time. These changes result from changing comparative advantages among countries and among sectors, and they should not be done by government fiat. Therefore, as a result, we can't accept the Lima and the Arusha targets.

We have a strong interest in reciprocity in international trade. Trade is not a one-way street. It requires both developing and developed countries making a contribution to the system. A number of the developing countries understand this. Their stake in the international trading system contributes to its health. Therein lies the distinction between the GATT and such institutions as the United Nations.

In the United Nations, there is an attempt to politicize those efforts and argue for solutions which developing country representatives in such institutions as the GATT would simply recognize as being unrealistic. There is a major dichotomy between the United Nations and institutions such as the GATT and the IMF where the debate is mainly carried on by technical people who understand the nature of the trading system and would not subscribe to the types of political solutions which are advocated by the representatives of the same countries in the United Nations.

It's one of the elements that we have had to cope with and one reason why we wanted to favor the specialized institutions such as the Bank, the Fund, and the GATT as institutions where practical progress can be realized.

This is not to denigrate the United Nations as an institution to focus on major problems, but the negotiations of the solutions must be left to the functional institutions.

Another point I would make about the overall dialog is there is a greater recognition now than ever before that OPEC and the socialist countries of Eastern Europe need to play a greater role. There is no question but in the past the Socialist countries in particular have not done very much in the aid area. Their amounts of aid are pitifully small and most developing countries are coming to recognize that these countries must play a greater role within the system.

It is also clear to many developing countries, although they don't say it quite as vocally, that OPEC needs to play a greater role, particularly because you have now a transfer of resources from very poor developing countries to OPEC countries. This transfer of resources has proved highly detrimental to the development prospects of some of the poorer countries, and we are beginning to get pressured by these poorer countries and OPEC to redress the imbalance through subsidies, direct loans or similar mechanisms.

By and large, I would say that while the dialog—and the strategy in some cases—has not achieved the objectives that the United States has sought to attain, it has enabled us to clarify our positions in a number of areas and, as Mrs. Constable will indicate, there have been some areas where agreement has been reached which is in our common interest.

#### U.S. INTERESTS IN DEVELOPING COUNTRIES

Those of us who have worked in the area of North-South relations, and I believe the Members of Congress who have followed this issue, are more and more coming to recognize that we have important interests in the developing countries. Those are not simply interests of an altruistic nature but hard American interests which are served by our relationships with the developing countries. More and more the developing countries are going to have a say, whether we like it or not, in the evolution of the international economy.

The real question boils down to whether or not we are going to be able to take a constructive enough role in the world economy and, particularly, in institutions where developing and developed nations work together in order to maintain the sort of leadership which is in our interest and which can enable us to press forward on solutions to these global problems of food, energy, the environment, forest management, and the structure of the international economy. It is my firm judgment that while there are clearly in this country today pressures to turn inward, doing so, that is, and turning our backs on the developing countries or failing to exercise leadership in these institutions, would not serve American interests.

Clearly, we may need to rethink what our interests are in some respects, but the interests are there, and my hope and my expectation is that work between the executive branch and the Congress will enable us to come to a clearer perception of where our interests are. This would provide a firmer basis for pursuing those interests in the future.

Thank you.

[Mr. Hormats' prepared statement follows:]

PREPARED STATEMENT OF HON. ROBERT D. HORMATS, DEPUTY U.S. TRADE  
REPRESENTATIVE

I am pleased to have the opportunity to appear before this Committee as it considers the results of recent North/South discussions and the likely course of North/South relationships in coming years.

I approach this subject as one who for the last ten years has been closely involved with, and deeply concerned about, the North/South dialogue. I have witnessed the dramatic improvement in North/South relations over the course of the 1970's and the efforts by each side to accommodate to the needs of the other. But I also have seen and felt the frustration of countless wasted hours spent in rhetoric, quibbling, and tactical maneuvers which have not served the interests of developed or developing nations.

Difficulties in North/South Relations

The failure to reach agreement on a basis for beginning the Global Negotiations at the recently concluded Eleventh Special Session of the United Nations is symptomatic of a broader set of difficulties in North/South relations.

First, there continues to be an underlying lack of confidence by each side in the motives and objectives of the other. The North tends to feel that the South's ambitious plans for restructuring the world economic order/would harm many important interests of the industrialized nations, would weaken international institutions which have proved beneficial to both developed and developing nations, and would be less helpful to the developing nations than leaders of the Group of 77 realize.

The South tends to feel that the North does not have the "political will" to undertake the institutional and structural changes genuinely beneficial to the South, that current international institutions are "dominated" by the industrialized nations which use them to perpetuate certain "advantages," and that the only way to improve the situation is to exert pressure in "political" institutions such as the United Nations in which developing country influence and solidarity are greatest. This last point accounts for the strong effort made by the Group of 77 at the Eleventh Special Session to strengthen the role of the central negotiating forum in the United Nations vis-a-vis other agencies and international institutions in the coming Global Negotiations.

Second, the dialogue has not focused adequately on those common objectives and interests which could permit progress and accommodation by generating popular support in both groups of countries. Human progress and wellbeing, which should be the starting point and ultimate goal of the North/South dialogue, tend frequently to be submerged under volumes of rhetoric about tactics, procedures, and institutions to the point that those goals--which might induce political support in developed countries for changes which developing countries want--are blurred, if not totally obscured. Similarly, many of the benefits of mutually beneficial global economic, resource, and environmental cooperation--focus on which could lead industrialized nations to play a greater role in assisting developing nations--appears to suffer from lack of emphasis.

Third, there is insufficient recognition that the North/South dialogue involves many components: the political component, which involves the UN and UNCTAD; the functional/economic component, which involves the IMF, GATT, World Bank, WHO,

commodity negotiations, etc.; and the bilateral/regional component, which involves consultative arrangements and working groups between developed and developing nations (e.g., the Lome Agreement, the U.S./Nigerian working groups, and the U.S./ASEAN consultations). Too little attention is paid in the political fora, particularly in the United Nations, to the genuine accomplishments in other components. While perhaps inadequate from the point of view of some developing nations, negotiations in the functional institutions have resulted in substantial benefits for the developing nations and in institutional improvements which promise continued responsiveness. This responsiveness was demonstrated dramatically in this year's IMF-IBRD Annual Meetings during which several important efforts were launched to respond to the current economic difficulties facing developing countries. Precisely because we believe that IMF, IBRD, and GATT have achieved progress beneficial to developed and developing nations, we have, in discussing the mandate for the Global Negotiations, strongly objected to procedural arrangements which could undermine the integrity of such institutions.

Government officials in developing countries, and the public, frequently, but mistakenly, tend to see the climate in the United Nations as the only "barometer" measuring the state of North/South relations. In fact sustained progress has been made bilaterally and in multilateral fora, irrespective of what the United Nations "barometer" from time to time indicates. In fact, this progress is frequently recognized by economic officials of developing countries, while their more political representatives in the United Nations frequently either are unaware of such progress, state that since it was not made in a political forum it does

not really count on the positive side of the developed countries' ledger, or have no interest in acknowledging such progress for fear it would weaken their demands for more progress.

Further, the political component of the dialogue often suffers from the dominance of appearance over substance. Developed countries from time to time offer "compromises" with the manifest objective of improving the international atmosphere--often acknowledging that such compromises, if implemented, would harm their interests and that they, therefore, have no intention of implementing them. Frequently such "compromises" are offered with the full knowledge that the United States, which tends to regard its commitments more seriously and literally than many other countries, will stand up and object. This gives the developed country which supported the "compromise" the chance to take undue credit for being accommodating without even having to deliver on its word. Such tactics do a disservice to the dialogue, mislead the developing nations (reducing the necessity for them to put forward pragmatic suggestions), and often put the United States in the difficult position of appearing alone, or with a few likeminded countries, to be blocking "accommodation."

#### Can These Difficulties Be Overcome?

A recognition of these impediments to mutually beneficial progress in the political component of the North/South dialogue

gives some indication as to how the dialogue can make a more effective contribution to human progress.

#### A Shifted Focus

One key improvement would be to shift the dialogue away from short-term tactics and institutional differences and to focus instead on specific global problems whose solutions require the collective efforts of developed and developing nations, and on medium and long-term objectives which developed and developing nations share.

During the past year we have seen an unprecedented series of reports which discuss the outlook for developing nations. These reports stress the problems that the LDC's face and the relationships between their problems and global difficulties. In addition to the World Bank's annual World Development Report and the IMF's World Economic Outlook, we have the Global 2000 Report, the Report of the Brandt Commission, the OECD Interfutures Report, and the Report of the Presidential Commission on World Hunger. Each of these depicts a consistent picture of the economic outlook for developing countries.

The Brandt Commission Report stresses that we are confronted with more and more problems that affect mankind as a whole and for which the solutions are international. The Global 2000 Report to the President provides stark evidence of this trend and identifies the resolution of the problems of the Third World as a critical element in meeting the global challenges facing the international community in the remaining decades of this century. For example, world population will have increased by 50 percent by the year 2000, with 90 percent of that growth in developing countries. As world population and income grow, increased demands will be placed on the world's resources and the environment. Demands for fresh water, for example, are expected to increase by 200 to 300 percent, with the greatest increases in demand originating in the LDC's, many of which already are experiencing water shortages.

The overall picture painted by Global 2000 is one of:

- an increasing gap in income between the richest and the poorest nations;
  
- higher real prices for food, energy, agricultural land, fresh water, and forest products;

- increased potential for international conflict stemming from various forms of resource tightness; and
- serious environmental impacts, such as the loss of 40 percent of tropical forests.

The global economic outlook has serious implications for the United States. In past years, economists have tended to see the objectives of growth and low inflation as being in conflict with the objectives of those concerned with conserving natural resources. In this era of "supply-side" economics, however, there is a growing recognition that the interests of the two groups converge. Deterioration of cropland, deforestation, and water shortages, particularly in developing countries, and declining energy and resource availability worldwide portend higher rates of inflation, slower growth, and potential price and supply volatility. None of these problems can be resolved without a substantial degree of coordinated effort among developed and developing countries.

The general economic outlook highlights the need for a redoubled effort by the international community to resolve the problems identified in these studies.

Energy

Major progress has been made, in large measure as the result of U.S. leadership, to increase bilateral and multilateral resource transfers to help energy-deficient developing nations increase energy exploration and development. The World Bank is examining the possibility of establishing a new energy affiliate or other facility to expand its lending in the energy sector, and the IMF's Interim Committee has urged both industrial countries and oil-exporting countries to provide more concessional assistance to the non-oil developing countries. On the other hand, in the just concluded negotiations on the International Development Strategy, the developing countries were unwilling to recognize explicitly the crucial impact of the global energy situation on their economies or to use the Strategy to further collaboration, especially with OPEC, in the energy area. This attitude provides discouraging evidence of the unproductive dominance of politics over pragmatism in such fora.

The United States has argued that the issue of energy, particularly the question of helping developing nations increase their energy production, is a natural component in the dialogue. In light of the centrality of energy in the World Bank's analysis of developing country economic prospects, failure to discuss it would be absurd. Our interest in discussing it, however, has

been interpreted by some countries to mean that they can insist upon our acquiescing in extreme demands simply to get energy on the agenda. This is a total miscalculation. For countries to insist that the United States or other developed nations make concessions simply to put on the agenda an item which logically belongs there, and which is at least as important to the developing countries as it is to us, totally misses the point. Energy's omission from the agenda would be equivalent to discussing the problems of Noah without mentioning the fact that it rained.

#### Food

In contrast to energy, the subject of assisting developing nations to increase food production has received a high degree of attention in international discussion and negotiation. The emphasis on this subject in the consensus reached on the International Development Strategy at the Eleventh Special Session attests to the high degree of importance that the international community attaches to this subject. Creation of the International Fund for Agricultural Development (IFAD), the Food Aid Convention, assistance to developing country food strategy formulation and the World Bank/IDA provision of roughly one-third of their total loans to agriculture constitute a substantial record of cooperation in dealing with a serious global problem.

However, the outlook for many developing nations is bleak without more ambitious efforts in such areas as food aid, food reserves, and food production, storage and waste prevention, distribution, management of agricultural land and water management. Both because of our humane concerns and because food shortages in developing nations will cause inflationary pressures and price volatility in our own nation, the United States has a strong interest in strengthened international efforts to respond to present and expected food problems. Accordingly, we have made food a major part of our North/South policy.

Lest I be seen as overly negative about so-called political fora, however, let me point out that work done in the political component of the North/South dialogue did lead to greater attention to the subject in developed and developing nations and to greater efforts in the functional/economic and bilateral/regional components to strengthen programs that address the many aspects of the food problem.

#### Other Global Problems

More broadly, it would be in everyone's interest if the dialogue were to focus to an even greater degree on some of the more compelling resource management problems facing the world over

the coming decade. The Global 2000 Report, and other reports on problems facing the world economy, underline the compelling problems of health, population, and the environment. These are world problems, the solution to which would benefit the peoples of all nations.

We need to improve the management of forests, agricultural land, and other natural resources through such measures as wider dissemination of new and improved technology. Global cooperation is essential to achieve this end. Similarly, increased collaboration on education and training in technical and other skills can be an important global objective to the benefit of all nations. Environmental management and enhanced health and population programs also are key objectives. In virtually all of these areas, there are strong relationships between progress in the developing countries and an improved global outlook. The recognition of these subjects in the International Development Strategy should focus more attention on them in the appropriate functional fora.

#### Procedure

Developed and developing nations will need to reach a clearer understanding as to the relationship between the negotiations carried on in New York and those conducted in the functional institutions. We are continuing to seek such a consensus during

the current session of the General Assembly, but we cannot in good conscience permit the negotiations in New York to undermine the authority of the functional institutions. This is not a bureaucratic argument. It is an argument based on our view as to how practical progress can best be made. The seriousness with which we hold this position was demonstrated by our firm stand during the Special Session and by the President's address at the Bank-Fund Meetings.

Developed and developing nations also will need to reach a consensus on the end product of the exercise. Many of the institutional and structural proposals of the developing countries which are not directly related to achieving progress of significant human benefit or to furthering some other mutually-agreed objective will stand little chance of support in the United States or other developed countries. The United States historically has recognized the importance of efforts to improve the international economic system because it recognizes that improvements are in its own interests and can contribute to improved human wellbeing in other nations. Our sense of international responsibility, however, does not include support for changes in institutions simply for the sake of short-term political atmospherics, especially if those changes will weaken in the long-run the mutually beneficial aspects of those institutions. Similarly,

that same sense of responsibility prevents us from agreeing to verbal commitments which we know to be unrealistic or inconsistent with broad U.S. interests and, thus, unsupportable in this country.

#### Trade and Investment

I now turn to the specific issues of trade and investment. The immediate economic prospects in developed and developing nations are not very promising. Furthermore, if nations try to remedy their economic ills in uncoordinated ways and with little concern about the interplay between domestic and international economic forces, no nation will achieve its long-term social and economic objectives. To illustrate this point, let me turn for a moment to the economic situation that we face in the North/South context in the first half of the new decade.

The sharp increases in oil prices of 1979 have placed great strains on the external accounts of the developing countries, and the consequent adjustment to these strains is impeding the growth of many developing nations. In 1980, the oil-importing developing countries are expected to incur current account deficits of \$60 billion--more than twice the size of the deficits incurred only 2 years ago. While these deficits may be financed successfully in the immediate future, ultimately the borrowing countries will have to divert resources from their development efforts in order to meet their higher fuel import bills.

Meanwhile, the developed countries are confronting their own adjustment problems and expect to experience continued slow growth in the coming years. Their sluggish performance limits the ability of the developing countries to pursue export expansion efforts such as those that helped several of them to adjust successfully to the oil price shocks of the mid-70's. By the same token, slower growth in the LDC's will prevent them from helping to bolster demand for developed countries' products, a role that they played to our benefit during the 1974-75 recession. Finally, slower growth amid accelerating inflation is likely to engender greater political instability in the Third World and most certainly will have a negative effect on LDC governments' efforts to alleviate poverty in their societies.

It should be noted that the record of the developed countries, and of the United States in particular, in the area of trade has been excellent, especially when one reflects on the substantial pressures for protectionism that have come from various quarters. Between 1970 and 1978, for example, imports from oil-importing LDC's to all developed countries grew at an average annual rate of more than 19 percent, and exceeded \$100 billion in 1978. U.S. imports from the developing countries have grown even faster. Between 1970 and 1979, our imports from the non-oil developing countries increased at an average annual rate of 20.9 percent, which was nearly 30 percent faster than the growth of our imports

from developed countries during the same period. Moreover, the growth in developing country exports to the U.S. market has been most rapid in manufactured goods, which are essential to the diversification of LDC production and trade. Between 1970 and 1979, exports of manufactured goods from the developing countries to the United States expanded at an average annual rate of 25 percent, which permitted the share of LDC products in total U.S. imports of manufactured goods to increase from 13.5 percent to 23.5 percent. Currently, the United States purchases more than 50 percent of the LDC-manufactured goods shipped to the Big Seven industrialized countries.

We know from the experiences of the mid-70's that successful structural adjustment and a return to acceptable growth rates in developing countries depends, among other things, upon a substantial expansion and diversification of their exports. A strong export performance enables a country to maintain critical imports of raw materials, capital goods, and intermediate inputs even in the face of higher energy import costs. It preserves the country's creditworthiness in financial markets and its attractiveness to foreign investors. Maintenance of an open trading system will be extremely important during this round of adjustment because so many developing countries are entering the adjustment period with high debt-service obligations from previous borrowing and with the prospects for substantial increases in

concessional financing not particularly bright. This situation compels the developing nations to seek commitments from the industrialized countries to maintain and eventually improve the openness of their markets.

This is the trade setting in which the Special Session completed the drafting of the International Development Strategy (IDS). The Strategy for the 1980's clearly reflects the fact that several developing countries have used international trade very successfully in their development efforts during the 1970's. The new IDS states that a fundamental objective of the world community is to achieve a system of trade based on a "dynamic pattern of comparative advantage and reflecting a more effective international division of labor." This trade objective is meant to increase and diversify the production of the developing countries.

Let me state at the outset that the United States does not support, and has not agreed to, some important elements of the IDS. We do, however, support other important elements of it. Let me now describe the Strategy as it relates to trade and investment, and then give our position in greater detail.

The major focus in the trade section of the IDS is an increased access for the developing countries to the markets of the developed countries. The most immediate task in this regard

is to implement the agreements reached in the Multilateral Trade Negotiations (MTN). Countries, particularly developed countries, are urged to reduce progressively their remaining non-tariff barriers and to avoid new sectoral agreements that hamper the growth of LDC trade. Countries also are exhorted to make efforts to avoid the extension of existing sectoral agreements, with a view to their eventual elimination. Agreement on a multilateral safeguard system is identified as a major negotiating objective to ensure that safeguard actions are not taken for protectionist reasons or to hinder structural change. Finally, the developed countries are advised to exert their best efforts to improve access to their markets for exports of agricultural products and to avoid adverse effects on LDC economies in the formulation and implementation of their domestic agricultural policies. The major gap in the IDS's treatment of market access is its silence on the issue of trade liberalization by the LDC's themselves.

The second major thrust of the IDS approach to trade is the call for differential treatment on behalf of the LDC's. Specifically, the developing countries seek more effective implementation of the principle of differential treatment, and they support the Generalized System of Preferences as an important long-term instrument for promoting increased LDC participation in world trade. The IDS also includes a call for special unilateral measures by developed countries to reduce further the trade barriers facing developing countries in the area of tropical products.

The goal of the various liberalization measures included in the IDS is to support the LDCs' aspirations of a substantially increased share of world trade and production, especially in manufactures. The Strategy explicitly cites the so-called Lima target of a 25 percent LDC share of world production of manufactures by the year 2000 (a target from which, I might add, the U.S. dissents strongly because it is unrealistic) and refers to the Group of 77's Arusha Program for Collective Self-Reliance, which includes a target of an LDC share of world trade in manufactures amounting to 30 percent by the turn of the century. The United States also dissents from this target. No specific target is mentioned for international trade in services, but a goal is set of a "more balanced" international distribution of services industries.

The trade section of the Strategy is linked closely to the industrialization section. I already have mentioned the Lima and Arusha targets. The industrialization section states that the major elements in achieving these targets should be the creation of new industrial capacities in developing countries and the "redeployment" of industrial capacities from industrialized countries to developing countries. Countries are urged to support this process by pursuing policies that encourage the continued reallocation of resources and domestic factors of production to more internationally competitive product lines and sectors and away from less competitive activities.

The Strategy also encourages direct private investments that are compatible with the national priorities and legislation of developing countries, but it does not offer much guidance on the sorts of LDC domestic policies and economic environment in which the benefits of direct foreign investment can be maximized.

The IDS also contains a relatively brief section on trade in commodities. The main elements in this section are full and effective implementation of the Common Fund, continued progress in concluding international commodity agreements, consideration of additional measures for the stabilization of commodity export earnings and support for increased LDC processing of their raw materials. Steps to improve the competitiveness of natural products from the LDC's vis-a-vis synthetics and substitutes from the developed countries also are urged and include the harmonization of production of natural products with synthetics.

While we support many of the elements in the trade strategy, we have substantial difficulties with some of the points. Our delegation made clear the nature and extent of our difficulties in a formal statement before the Second Committee of the General Assembly on November 11. This statement indicated that U.S. objectives in trade are to encourage LDC participation in a market-oriented trading system with appropriate reciprocity in trade concessions and an ultimate goal of a single set of rules

for all countries. We stressed that trade flows should be determined by comparative advantage in an open and expanding trade system, not by government fiat and, therefore, that we cannot accept the Lima and Arusha targets (which, as noted above, we also consider unrealistic), the goal of harmonizing natural products with synthetics or commitments to any specific balances in services trade. We also restated the well-known U.S. position on reciprocity, namely, that while LDC's should not be expected to make trade concessions to developed countries that are inconsistent with their individual development, financial and trade needs, they should make contributions that are consistent with those needs. This means that the developing countries should increase their adherence to GATT obligations in accordance with the progressive development of their economies and improvements in their trade situation. Related to this point, we repeated the U.S. position that GSP is a temporary program and that such preferential treatment of imports from developing countries is appropriate only to the extent that it encourages the ultimate integration of all developing countries into the trading system as full partners.

The U.S. position on "redeployment" also is well-known. The United States views restructuring and structural adjustment in the industrial sector as global phenomena that are occurring

continuously, primarily as a result of market forces. Through this process new industries emerge, recede, and at times emerge again. "Redeployment" of industries will result from the evolution of economies, not from international negotiation. Indeed we strongly object to policies that attract investment through subsidies or "performance requirements" because they have a harmful effect on jobs in the United States. The normal evolution of industrial production responds to market forces. Our government will not intervene directly to shift industries from the United States to developing nations and will object to investment policies of others which seriously distort investment decisions.

The United States supports the commitment in the Strategy by all countries to an open and expanding trade system and to further international progress in trade liberalization. Indeed, the greater the contribution of developing nations to these objectives, the greater will be our own contribution. We are particularly pleased that the Strategy recognizes the importance of full and prompt implementation of the MTN agreements. We will be implementing our tariff cuts over the next several years on schedule.

We also will be implementing faithfully the Codes on non-tariff barriers and will insist on others doing so as well. The relevance of these Codes to the LDC's in principle is great.

In practice, it will depend heavily upon the extent and quality of LDC participation in the various Code committees within the GATT. We have been working very hard during the past year to encourage widespread LDC acceptance of the Codes. Acceptance gives participants a greater voice in the evolution of the trading system--and includes important benefits and obligations. We have had some important progress, but we still have a long way to go.

We also must deal with the major item of unfinished business from the MTN, namely a new Safeguards Code. We believe that the IDS correctly emphasizes the need for agreement on a multilateral safeguard system to provide greater uniformity and certainty in the implementation of safeguard actions. During a time of sluggish economic growth and pressures for structural adjustment, all nations can expect to encounter a rising sentiment for safeguard actions. There is an important need to bring the safeguards negotiation to a successful conclusion. This could well be the most important step in support of world trade growth that we could take in the next several years.

The United States also supports steps to facilitate structural adjustment and to resist protectionism in all countries. We feel that there would be merit to a global trade pledge that would provide guidelines for all countries to achieve these objectives.

We already have stated that such a pledge would be an appropriate element in an early action program within Global Negotiations.

Given the important role that foreign investment can play in the industrialization process, we support the IDS's recognition of the need to encourage such investment in support of development objectives. We feel, however, that the strategy could have gone further in considering ways in which to promote a favorable environment in the LDC's for direct foreign investment. A central concern of foreign investors, of course, is the legal system under which they will operate in a host country. Certainly each country must set its own investment priorities and conditions regarding the admission of foreign investment, but it may be useful to explore various mechanisms, for example, bilateral investment treaties, that would facilitate investment to the mutual benefit of developed and developing countries. The IDS did not deal with questions of investment incentives and performance requirements--which often cause major trade and investment distortions. If trade flows are to correspond to comparative advantage, efforts will have to be made to curb those investment policies and programs that distort trade. We are making a major effort to that end bilaterally, in the OECD and in the World Bank framework.

In the area of commodities, the United States has participated in producer-consumer discussions on possible commodity agreements under the auspices of UNCTAD's Integrated Program for Commodities.

Each agreement has been considered on its own merits, and the differences between commodities have been reflected in the mechanisms adopted in each agreement. Now that agreement on the Common Fund has been reached, consideration is being given to the compatibility of any new commodity agreements with the terms of affiliation with the Common Fund. The seriousness with which we have taken continuing discussions on commodity agreements is demonstrated by our participation in the negotiation of the new International Natural Rubber Agreement and by U.S. ratification of the Agreement in May 1980. We are cooperating with other nations in exploring a possible basis for a new agreement in cocoa, and we are involved in negotiations for the Sixth International Tin Agreement. The United States also is a member of the Third International Coffee Agreement, although the economic provisions of that Agreement have never been used.

Finally, we are heartened that the Strategy recognizes that others--beyond international organizations and industrialized countries--are in a position to provide assistance to developing countries to facilitate and promote the latter's trade and production capacities. The time is past due when the responsibilities of OPEC and the socialist countries of Eastern Europe toward the LDC's are acknowledged in the North/South dialogue. The USSR has long played an inadequate and irresponsible role in providing aid to developing nations.

Conclusion

I have discussed what I believe to have been the problems in the North/South dialogue so far and what I consider to be opportunities for future progress.

I conclude by underlining the need for the United States, in its own interest, to play a constructive leadership role in addressing the problems of the developing nations. We have been alerted by a variety of very distinguished groups to the urgent global problems in which developing countries play a central role. All of our bookshelves are filled with such reports. Unfortunately, the airwaves and the popular print media are not. Can any of you recall a single substantial reference to the Brandt Commission, Global 2000, or the World Bank's Development Report on television? Public awareness of our interdependence with the developing world remains low, and the perceptions of interdependence that do exist are generally negative.

The basis for conducting a meaningful North/South dialogue, and for adequate attention to those problems of the developing countries which so directly affect our humanitarian, our economic, our resource, and our environmental interests must be greater understanding and support of the American people. They must be encouraged to recognize the important and growing links between

their wellbeing and that of developing nations. Slow growth, resource shortages, volatility in food production and environmental problems in these countries will directly affect our nation's prospects. Their contributions to an open international trading system will benefit our people, as our contributions will benefit theirs. Indeed, the two must go hand in hand.

This Committee, the Congress, and the Executive Branch have a common responsibility to convey more effectively than we have in the past the very real U.S. interests involved in our relations with the developing countries. Our failure to do so will reduce our ability to play the leadership role of which we are capable and which, in the final analysis, will be a key factor in fashioning an international economy which serves the interests of the American people.

Mr. BONKER. Thank you, Mr. Hormats, for an excellent statement.

Just one question: Where do the oil-producing countries line up?

Mr. HORMATS. Part of the Group of 77, part of the developing country caucus.

Mr. BONKER. How can they qualify as a developing country? Who qualifies?

Mr. HORMATS. The best way to describe the Group of 77, which is now on the order of 104, 105 countries, is as a political rather than an economic entity. For instance, there are countries in the OECD which are members of the developed country caucus but have much lower GNP's per capita than a number of members of the Group of 77. Yet, as a result of political tradition, they are part of the developed country caucus.

Mr. BONKER. Did this come out of the CIEC Conference?

Mr. HORMATS. It goes back to 1964.

Mr. CREEKMORE. And even back to 1955.

Mr. BONKER. An effort on the part of the West to help developing countries is admirable. But to help the countries of Saudi Arabia and Kuwait, and others who are much richer per capita than we are, seems storage.

Mr. HORMATS. The assistance effort is not mainly directed at those OPEC countries, nor even at the Brazils and Mexicos, but focuses more—particularly the concessional assistance—on the poorer countries. Trade is somewhat of a different situation, because the more developed of the developing countries, such as Mexico and Brazil, are by all accounts in a much better situation and take advantage of things, such as generalized preferences and open trading. This is why the concessional assistance needs to be devoted—

Mr. BONKER. More an economic classification?

Mr. HORMATS. Exactly.

Mr. BONKER. OK.

Mrs. Constable, I see your statement is fairly comprehensive, so if you can follow the fine example set by your colleague and summarize your statement, the full text will be included in the record.

**STATEMENT OF ELINOR G. CONSTABLE, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE AND DEVELOPMENT, DEPARTMENT OF STATE**

Mrs. CONSTABLE. I fully intend to follow Ambassador Hormats' fine example. I will not be able to be as eloquent as he but I will try and be concise.

I very much appreciate the opportunity of being here today to talk about the substance and the process of the North-South dialog.

I will focus a little more on process than substance, although the statement which we have submitted on behalf of Under Secretary Cooper does discuss substance. I will, as I said, skip over some of that, but I would like to pick out two or three points which are essential and worth emphasizing.

## GENERAL CONSIDERATIONS

One point which is extremely important and was referred to by Ambassador Hormats is that the economic backdrop for these negotiations and discussions is in our view not a very happy one. There are further details in the statement, so I won't go into them, but there is a consensus on that.

Another very important consideration is the fact that the North-South dialog can of course be defined, and we think probably should be defined, as the whole range of discussions between industrialized countries and developing countries, bilateral, and regional, as well as multilateral, but the focus does tend to be on the political arenas, in New York, UNCTAD, and UNIDO.

A further consideration which underlies our approach to these discussions is that we are sympathetic to the goals and aspirations of the developing countries. We do not, however, always agree with the prescriptions which are offered by these countries and, in particular, we have problems with the idea that radical surgery is needed on the international economic system.

In this connection, we think it is crucial to recognize that the degree to which developing countries will work within the system depends largely on our own ability to meet their basic and legitimate needs and demands in areas such as trade and increased resource flows and, of course, by that we would be referring to both public and private, concessional and nonconcessional flows.

We also differ with some developing countries and, in fact, some observers of the North-South dialog in our own country, who see the kind of multilateral negotiations which receive the most public attention as the primary means of addressing the economic challenges of the 1980's and the needs and demands of developing countries.

We think that the problems of the 1980's will primarily have to be tackled by individual countries through appropriate domestic policies and the generation of domestic resources, as well as international action.

We do believe that national action must be complemented and reinforced by international cooperation. It is very important to work in that area as well, but it is essential not to neglect the national dimension.

## GLOBAL NEGOTIATIONS

Let me turn to the global negotiations and the international development strategy, although Ambassador Hormats covered most of the essential points I would make on the latter.

You all know the idea of global negotiations was formally proposed last fall at the General Assembly, and at that time we indicated our willingness to participate in the preparatory work and perhaps even eventual negotiations themselves, but we urged that priority in these negotiations be given to issues on which results were possible.

We also urged that duplication of the work of specialized agencies be avoided. We have stressed these themes throughout the preparatory work and the special session.

We have been concerned about the nature of the subjects to be negotiated and the relationship between a negotiating process

based at the United Nations in New York and work underway in specialized multilateral fora, and it was this precise issue over which the discussions in New York broke down in September.

During the preparatory work we suggested that a useful approach would be to focus on four areas which we thought were of general concern on the one hand, but at the same time held out the opportunity of some consensus on the other.

Energy, the development of energy resources was one, and a trade pledge was another. Improved world food security and the problem of recycling were the other two.

The developing countries rather predictably countered that proposal with a very long and very detailed agenda which collected in effect all of the issues which have been under discussion in various fora for a number of years.

I say predictable because since the Group of 77 acts as a group, the proposals which it does put forward reflect the individual views of the various members, and there is a diversity among the members. Of course, issues of interest to OPEC had to appear on that agenda.

We did not work on the agenda during the special session. Informal discussions are underway at the moment in New York, but there has been no agreement. We anticipate that in the end we will have to agree to a rather general agenda that goes far beyond the four principal issues we had originally proposed.

As I said, it was not on the agenda that the discussions broke down but on the problem of procedure and on the basic issue, and for us a very fundamental issue, of the a balance to be struck between the central body in New York which we saw as giving an overall sense of direction and impetus to the global negotiating process, and the autonomy of the specialized fora, such as the IMF, the GATT, the World Bank, and even UNCTAD where we have in the past had certain difficulties.

If there are to be global negotiations, it should be obvious that a body of some sort will have to have oversight capacity, and we agree that such a body could indeed determine general guidelines for the overall process.

We also believe that once it has done so, the issues falling within the competence of specialized fora ought to be sent to the decision-making organs of those bodies for actual substantive negotiations. The results could then be reported back to the central forum, but we do not agree that the central body could renegotiate those results.

We are willing to discuss any issue in New York. Where there are no appropriate bodies already covering such issues, such as is the case with energy, we would negotiate that issue in the central body or in ad hoc groups created by it.

We were not able to reach an accord in New York, and at the end of the day two other governments did stand up publicly with us in opposing the draft procedures: the Federal Republic of Germany and the United Kingdom. While we were alone in formally seeking stronger procedural assurances that would preserve the integrity of the specialty agencies, the substance of our concern was shared by all of the developed countries and, in fact, even some of the developing countries.

The other governments, however, were willing to accept a somewhat more ambiguous procedural language on the theory that they would be able to take a firm position on matters of substance when they came up later in the negotiating process, presumably in January.

We thought it made more sense to get a clear consensus now on the role that the central body would play. There has been a certain amount of publicity surrounding the disagreements at the special session and, unfortunately, some observers have focused on the fact that we ended up quibbling over a handful of words.

That usually is, in any negotiation, the last stage of the process, and in this particular case those words were terribly important in that they reflected our differing conceptual views on the process. We felt very strongly that it was not appropriate to paper those differences over at this time.

#### INTERNATIONAL DEVELOPMENT STRATEGY

Let me turn very briefly to the international development strategy. I really would only wish to add two or three points to the very good review that Ambassador Hormats gave a moment ago.

The first is that the special session has been described by a number of observers as a failure. They overlook the fact that there were two important agenda items at that session, global negotiations and the international development strategy. We did agree on an international development strategy, and it could have been adopted at the special session.

The developing countries chose to defer formal adoption of the strategy because they did not want any formal results at the special session and wanted to link the strategy with global negotiations.

Another point worth stressing is that the United States took a very prominent and visible role in the IDS negotiation and worked very, very hard to broker language and keep things going, especially in the 20 straight hour session that I have referred to in the testimony. On at least two or three occasions we kept the process from breaking down.

We think that the document has a number of strengths and a number of weaknesses. The weaknesses have been eloquently described by Ambassador Hormats and I don't have to go through them again.

We expect the strategy to be adopted shortly and it has already been accepted by the second committee in New York. We made our statement of reservation in that committee. Other governments plan to make statements in plenary.

If I may depart from the statement just a moment in response to a question posed earlier, one of the issues that was discussed in the development strategy was the role to be played by OPEC and by East European governments in the process of assisting developing countries.

We insisted, and we weren't entirely successful, that the strategy reflect a role for both of these groups of countries. There is some obscure language buried in a paragraph in the strategy that says that "others in a position to do so" should assist developing countries. That was a euphemism for oil exporting countries.

Back to global negotiations; we still hope we will be able to find a mutually acceptable formula to allow these negotiations to get underway and seek some positive results from them. We think it is essential, however, that the critical issues which have been discussed here today, issues such as energy development, food security, an open trading system, must be dealt with whether or not we succeed in launching a global negotiation process.

We will deal with these nationally, bilaterally, and through multilateral agencies, whichever is appropriate, and depending on which approach affords the best possibility for success. Considerable work is underway on new approaches, for example, a larger role for the World Bank in energy development.

These programs require resources or difficult policy decisions in almost every case. We must do our part and we in turn will demand that others make contributions according to their ability, but if our views are to have credibility and if we are to contribute to positive solutions to the difficult problems ahead the United States will have to meet its commitments to multilateral agencies and conduct an active and expanded bilateral assistance program as well.

Thank you.

[Mrs. Constable's prepared statement follows:]

PREPARED STATEMENT OF ELINOR G. CONSTABLE, DEPUTY ASSISTANT SECRETARY  
FOR INTERNATIONAL FINANCE AND DEVELOPMENT, DEPARTMENT OF STATE

I appreciate the opportunity to talk with you today about both the substance and the process of the North-South dialogue. This is an opportune moment to do so. As you know, we recently participated in a Special Session of the UN General Assembly. That session brought together both a variety of substantive issues in the negotiations on an International Development Strategy for the 1980's, and procedural questions of how to establish a round of global negotiations on key economic issues. The session succeeded in reaching agreement on a development strategy, but was not able to find a consensus on all issues relating to global negotiations.

Before looking at the specific accomplishments and problems of the Special Session, it would be useful to briefly examine the general characteristics of the North-South dialogue and the economic backdrop against which that dialogue will be conducted in the nineteen-eighties. The dialogue can be defined in general terms as the whole range of discussions and negotiations between industrial and developing countries -- bilateral, regional, and international. Usually, however, the term North-South Dialogue is used to describe the discussion of economic issues in the most political fora at highly visible multilateral institutions -- particularly the UN, UNCTAD, and UNIDO.

In these fora the developing countries press for restructuring of the international economic system in ways they believe would benefit them. They want to make systemic changes and obtain commitments from industrial nations which would make more foreign exchange available to developing countries, improve their access to technology, and enlarge their voice in international economic decision making. The dialogue has historically concentrated most heavily on questions of how developing countries can obtain the foreign exchange they need to support their development process -- through improved prices and market access for their raw materials and manufactured goods; through borrowing and obtaining equity investment on more favorable terms; and through increased aid flows.

Industrial countries have generally been sympathetic to the underlying goals of the developing countries. They have rejected the notion, however, that radical surgery is needed on the international economic system for those goals to be met. In the past three decades, the system has generally responded flexibly to great changes and has helped to cushion extraordinary stresses and strains. World trade has expanded rapidly and resources have been transferred through both official and private channels to the developing countries. Industrial countries recognize the system must continue to change to meet different circumstances and new demands by the international community, but such change must not disrupt the overall functioning of the system.

The degree to which the developing countries identify with the system or attack it depends largely on how well basic LDC demands are met for better trade opportunities and increased resource flows. This in turn relates to industrial country decisions on such matters as import protection and support for bilateral and multilateral assistance programs. Unfortunately the attention of the developing countries to such issues is at its highest when economic conditions are difficult, precisely the time it is most difficult domestically for industrial countries to respond positively to those needs.

While the main underlying issues of the North-South dialogue have remained more or less constant over the past decade, emphasis and interest level have varied somewhat according to the state of the international economy. This will be true of the eighties. While projecting trends for a decade is a risky business, I believe that economic conditions will result in the developing countries having a high level of interest in the North-South dialogue, and that some relatively new issues such as energy will command attention.

Realistically, the international economic outlook for the next decade is not a happy one. The most critical single factor is the question of oil prices and availability. Most analysts predict that the real price of oil will hold constant or rise slowly. If so, this will mean continued pressure on prices throughout the world economy, lower world economic growth and an enormous drain on resources to pay for imported oil and to finance new investment in alternative energy sources.

Related to high oil bills are major imbalances in the world financial system. Oil exporting nations, principally those in the Persian Gulf, will amass a surplus this year of around \$120 billion; for the next few years their surpluses may decline slowly, but will still be large. Conversely, industrial countries and oil importing developing countries will each have to shoulder corresponding deficits. Most of the recycling required to move funds from surplus to deficit countries will again have to be handled by the private sector, but that sector may require more official assistance and involvement may be required than was the case in the mid-seventies.

The strains on national economies and the international financial system are likely to affect the world trading system as well. Slow growth will reduce demand for raw materials and manufactured goods, and heighten protectionist pressures in all trading countries. Maintaining an open trading system will be a major challenge for all countries.

Finally, even though there are encouraging signs that the rate of population growth is starting to turn down in many countries, the eighties will increase the strain between population and resources. Population in developing countries will increase by 800 million over the decade. Under current trends, developing countries representing a third of the Third World population, particularly in Africa and the subcontinent, will suffer food deficits of around 75 million metric tons a year by 1990.

The challenges for the international community are clear. Over the next decade we must make major strides in shifting from oil-based economies to economies based on a mix of energy sources, and we must expand the production of hydrocarbons as well. We must assure that the recycling of funds from surplus to deficit countries occurs in such a way as to allow acceptable levels of growth in developed and developing countries. We must increase food production and improve food security. We must keep an open trading system. And we must increase the opportunities and incentives of people to participate in family planning.

These tasks are enormous. They will primarily be tackled by individual countries with domestic policies and resources. But the international community will also play a major role. International cooperation and agreements will be required if these challenges are to be successfully met. The North-South dialogue should be able to play a constructive role in advancing international cooperation on these issues.

As noted, some of these issues, such as the international trading system and food security are not new -- but the urgency remains and more needs to be done. But the centrality of the energy question is relatively new, and has now entered fully into the North-South dialogue.

Many developing countries at first welcomed OPEC's success in raising oil prices in the mid-seventies. They believed it signaled a new fundamental change in the international economy in which developing countries could collectively use their raw materials to force a new international economic order. Most oil importing countries now recognize that this will not happen easily and that it was they who suffered most from OPEC's success.

As a result, a number of oil importing developing countries have encouraged the discussion of energy in international fora, beginning at UNCTAD V in Manila in 1979. Similar pressures from within the Nonaligned Movement in Havana of the same year resulted in a compromise among the oil importing and exporting developing countries. They called for a round of global negotiations which would address major issues in the areas of raw materials, energy, trade, development and money and finance. The idea was proposed formally by the developing countries last fall at the General Assembly and endorsed by all members.

At that time Secretary Vance stated that the US would participate actively in the preparatory work to produce a plan to conduct effectively such global negotiations. He noted that priority should be given to issues on which concrete results were possible, and that duplication of work already conducted in existing institutions should be avoided. We consistently supported those positions throughout the preparatory work and at the Special Session. And it is

these two issues -- the nature of the subjects which should be negotiated, and the relationship between a negotiating process based at the UN in New York and the work underway in specialized multilateral fora -- that still must be resolved before global negotiations can be launched.

During the preparatory work on global negotiations, the United States took the position that an effort should be made to focus such negotiations initially on topics which were of immediate concern and where consensus on action seemed possible. We suggested an early action program which would stress four such subjects:

-- Assistance for exploration and development of energy resources in energy deficient developing countries.

-- A worldwide trade pledge to resist protectionist pressures and to promote positive adjustment.

-- Improved world food security through fulfilling national targets of the food aid convention, backing these commitments with food aid reserves, and improving food storage and distribution in developing countries.

-- Suitable steps to facilitate the recycling of payments surpluses.

We believe that each of these topics addresses some aspect of the major problems which will face the world community in the next decade. We are also convinced that for each some progress is possible on an international level largely because such progress would provide strong mutual benefits to all participants in the world economy.

The developing countries have countered with a long and detailed agenda covering most topics which have been discussed over the past years in the North-South arena. The political process within the developing country caucus leads to such a maximum list. There is a wide and growing diversity among the developing countries which leads to different priorities and interests. The poorest countries need increased official development assistance, middle-income countries want balance of payments support with reduced conditionality and improved reforms from commodity trade, and the wealthier developing countries are most concerned about access to markets for industrial products, to private capital markets, and to technology. Oil-importing countries want stable oil prices and help to pay for the oil; oil-exporting countries worry about industrial-country inflation and security of their financial assets. Policies which might help one group of developing countries are of limited value or even detrimental to others. The overall result is a list of demands based on a maximum common denominator, which satisfies their collective political needs but limits their political effectiveness in dealing with industrial countries, and greatly complicates the overall dialogue.

We have not completed negotiations on an agenda for global negotiations. We are well aware that politically it will probably be necessary to settle on a broad agenda. Some means will have to be found to assign priorities to the agenda items which are selected, or we risk the kind of

limited results produced by UNCTAD V, which suffered from such a broad agenda that attention could not be focused on a few critical areas.

It was not on the question of agenda, however, but rather on the problem of procedures governing global negotiations, on which discussions took place at the Special Session. The basic issue was the balance to be struck between a central body in New York which could give a sense of overall direction and impetus to a global negotiation process, and the autonomy of specialized forums such as the IMF, the World Bank, the GATT and UNCTAD.

Clearly if there are to be global negotiations, a single body will have to have some kind of oversight capacity. We agree that such a body, working from a neutrally worded agenda, could determine general guidelines for the overall negotiating process. But once it has done so, issues falling within the competence of specialized fora ought to be sent to the decision making organs of these bodies for actual substantive negotiations. Results from such negotiations could be reported back to the central forum, but we do not agree that the central body could itself renegotiate those results.

The specialized agencies include diverse memberships, various mandates, and their own rules of procedures. Some institutions, such as the IMF, World Bank and GATT, have evolved steadily over those decades as the result of decisions taken under prescribed rules and with the

ratification of member states. Other institutions are newer, such as the International Fund for Agricultural Development and the African Development Bank. Still others have been renegotiated but have yet to come into existence, such as the Common Fund and International Rubber Organization. We do not believe that it is realistic that a single body in New York could superimpose its will over this array of institutions and their own decision making processes, and we will not agree to any procedure which implies that it can.

To make our position clear -- the United States is willing to discuss any issue in a New York forum. And, where there are no appropriate bodies already covering an issue, such as is generally the case with energy, we will negotiate such issues in the central body or in ad hoc groups created by it. But there are a number of issues which are already handled in specific forums which we are willing to negotiate but not in New York.

We were unable to reach an accord at the Special Session on procedural ground rules which satisfied both sides. We all learned a great deal about various configurations a global negotiation process might take, and about the sensitivities of various countries which would participate in such a process. I should note that at the end of the Special Session the United States, along with Germany and the United Kingdom, were alone in seeking stronger assurances regarding presentation of the integrity of the specialized agencies. In fact, a number of other industrialized nations,

and even some developing ones, agreed with us on the substantive issue of protecting the specialized fora. They were willing to accept less clear procedural language, however, and take a tough position once substantive discussions began with the global negotiations next year. We believed that rather than fight the same issue a number of times next year, it made more sense to obtain a clearer consensus now on the role the central body would play relative to the specialized agencies. Thus the problem at the end of the session was not one of a few trivial words, but rather strong conceptual differences symbolized by those words. Had the words been unimportant, the developing countries would presumably quickly have conceded them.

I now wish to turn to the other major item on the agenda of the Special Session--the International Development Strategy for the 1980s. Our perhaps modest success in agreeing on the strategy has received little attention.

The IDS accepted by consensus at the Special Session, is the third such document that has been negotiated. The first one served as the aspirational development framework to the decade of the 1960s; the second to the 1970s. As with its predecessors, IDS III is intended to provide guidelines on development priorities and issues for developing countries and bilateral and multilateral aid donors during the current decade.

Preparatory work on the IDS had been in progress for almost two years when the Special Session opened. Differences remained on a number of outstanding issues. Our goal throughout the negotiations had been to produce an ambitious yet realistic document that placed the primary responsibility for development where it belonged -- on the developing countries themselves -- but also the critical supporting role the developed countries must play in the process. The developing countries sought to intensify pressure on donor countries -- Eastern European Communist countries as well as Western industrialized countries -- to increase aid flows and to make structural changes in the international economic system in their favor.

In the Special Session, particularly difficult and arduous negotiations -- one lasted almost 20 straight hours -- resulted in an agreed text. The U.S. played a particularly constructive role in this effort. We frequently took the initiative in suggesting language that provided the basis for acceptable compromise.

We believe the IDS document has many strengths. It contains much useful language on social development. The developing countries go further than they have before in committing themselves to action to improve housing, education and the health of their citizens; to ensure the availability of information on population control to encourage family planning; and to provide more employment opportunities, particularly in the rural areas. The IDS recognizes the importance of accelerated action to increase food production,

improve nutrition, and enhance food security in developing countries. It stresses the need for assistance of all types -- non-concessional as well as concessional -- and from all sources, including the oil exporting developing countries, to speed development of the poorer developing countries. In addition, largely because of U.S. insistence, it initiates in its review and appraisal provisions the first step in a process by which development programs of developing countries will be periodically assessed along with the aid performance of donor countries.

The document also has weaknesses. The most glaring is its less than comprehensive treatment of the importance of energy to development. While it contrasts with its predecessors in having major energy sections, IDS III does not adequately recognize the role of energy supplies and prices to future development prospects of developing countries. The oil exporting countries refused to agree to stronger language; because of G-77 internal discipline, the oil-importing developing countries acceded to the oil exporters' position. The IDS also contains an overly ambitious growth target for developing countries in the 1980s -- an annual average of 7%, calls for donor countries to reach the 0.7 ODA target measured against GNP, and insists on some trade concessions for developing countries that go beyond the Multilateral Trade Negotiations.

During the IDS negotiations, we signaled our intention to reserve on the 0.7% ODA target; on some trade, transportation and monetary paragraphs; and on references to permanent sovereignty over natural resources that are not qualified by references. A number of other governments indicated they would do the same. The IDS could have been adopted at the

Special Session but the G-77 indicated a strong preference to have the IDS and agreements on global negotiations both approved at the 35th Session of the General Assembly. At the UNGA the IDS has been accepted in Second Committee but has not yet been adopted in Plenary. With regard to Global Negotiations, informal discussions are now taking place in New York City on agenda and procedures.

We still hope that we can find a mutually acceptable formula which will allow global negotiations to get under way, and we are still hopeful that some positive results will emerge from such negotiations. We should make clear, that the critical issues I mentioned earlier -- such as energy development, food security, and an open trading system -- must be dealt with whether or not we succeed in launching a global negotiating process. We will deal with these issues nationally, on a bilateral basis, and through multilateral agencies. Much has already been accomplished, and considerable work is underway on new approaches. A larger World Bank program on energy development, expanded and reshaped IMF facilities, replenishment of IFAD and enlarged food aid commitments through the Food Aid Convention, and implementation of the new codes and lower tariffs resulting from the Multilateral Trade Negotiations, are just some examples of the improvements we will work toward in the world economic system.

As already noted, many of these programs require resources or difficult policy decisions. We must do our part, and we in turn will demand that others make contributions according to their abilities. If our views are to have credibility, and if we are to contribute to positive solutions to the

difficult problems ahead, the United States will have to meet its commitments to multilateral agencies, and conduct an active and an expanded bilateral assistance program as well.

It is our strong hope that the North-South dialogue in general, and global negotiations in particular, can stimulate all countries into doing their fair share to help resolve the critical problems which face our world in the remainder of this century. This can best be done by quickly resolving procedural issues and concentrating our resources on tackling specific substantive problems in which we all have a stake. We must remember that the North-South Dialogue is not an end in itself, but rather a means to produce a better world for all people, especially those who live in the developing countries. We hope that in that spirit we will find a way to launch the global negotiations next spring -- negotiations which will produce real results of benefit to all participants.

Mr. BONKER. Thank you, Ms. Constable.

#### LOG EXPORTS

Ambassador Hormats, I would like to ask you about one item which is not terribly relevant to today's topic but is something of a followup on your previous appearance. First, I would like to take this opportunity to commend you and your staff for successfully negotiating with the Japanese to import more of our finished lumber. As I understand it, a committee has been set up consisting of Japanese and American businessmen to discuss and explore various ways by which the Japanese can import more finished products.

I would like to commend you for that effort, but as we attempt to resolve that problem I discover that the Chinese are starting to buy our unprocessed logs, and the battle continues. This time it is a little different. The PRC does not have a tremendous economic need for our raw resources for its mills, and they have indicated an interest in purchasing our finished products.

In fact, we are now exporting some 2 by 4's to China, but I would hate to see us get into the same routine which we did with Japan.

As long as the Chinese are interested in finished products and because of raw resources being so important to our economic stability in the Northwest and in order to allay potential fears of getting back into that practice, is there anything that your office can do to

encourage the Chinese to proceed with the program of purchasing our finished products instead of unprocessed logs?

Mr. HORMATS. I was unaware of this new opportunity, and I will very quickly pursue it.

It is an area that would be very helpful, I believe, to the Northwest, and we will take this up with the Chinese as soon as we can. It is a very constructive suggestion, one we will follow up on.

Let me return the compliment on the first point. There are times when the Congress plays an extremely useful role in prodding the Executive to do things that we should be doing. This is one such time.

Your leadership in pressing us to move on the exports of lumber and pressing the Japanese has been instrumental in the progress that has been made. We will certainly follow it up and make sure this bilateral group really does what it is supposed to do. In addition, we will monitor events with respect to the Chinese.

Mr. BONKER. I hope the next administration will also apply pressure and prod and be constructive, as you have.

For the record, the report that we have is that China will import 200 million board feet of raw logs from the Northwest, which is a sizable amount.

I will call on Mr. Lagomarsino for his questions.

Mr. LAGOMARSINO. I would like to compliment both of you on very articulate statements.

#### CITRUS EXPORTS

Following the line of the chairman, could you tell us what is happening in Europe with the EEC and U.S. citrus?

Mr. HORMATS. I can't give you as positive a report as I can give the chairman.

We have taken this up. Indeed, the last occasion was yesterday. We took this up with the Europeans. We had a consultation between the United States and representatives of the Commission of the European Communities, and I must say that the response was similar to the response we have gotten over the last couple of years.

This has not deterred us, although it has disappointed us somewhat. One problem, as you doubtless know, is that of Italy. The argument that the Commission makes on behalf of Italy is that they are suffering from economic difficulties, that they are threatened by citrus imports from Caribbean countries, North Africa, and Spain, and that they will under these conditions find it very hard to undertake a liberalization that we have requested.

Now, as you know, there is underway a movement to bring Spain into the Community as the 11th member of the Community. We have not taken up citrus in that context because that is a couple of years off, but we certainly have taken up the citrus issue in the current context and will continue to take it up with the Europeans.

Unfortunately, to be very frank, we have not made the progress we wanted, but we will not diminish our efforts.

Mr. LAGOMARSINO. Thank you.

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Mr. LAGOMARSINO. Thank you.

would be thrown off. The supplies, the price assurances that we had relied on, wouldn't be there.

There is another element that would cause problems. Suppose that as a result of an Iranian revolution, the OPEC end of the deal was disturbed or destroyed. Would we then feel comfortable having made commitments to the poorer developing countries as part of this package? Should we cut off our aid to them simply because OPEC couldn't deliver on its end of the deal?

That is the sort of problem that one would face if we tried to do a package deal.

#### DIFFERENCES OF APPROACH AMONG DEVELOPED COUNTRIES

Mr. LAGOMARSINO. On page 5 you talk about compromises offered by other developed countries. Can you us an example of that.

Mr. HORMATS. As a general proposition, a number of developed countries offer compromise in the area of world resource redeployment. The developing countries would like us by fiat or through negotiations to agree to targets like a 25-percent LDC share of world production. This is totally absurd, and unrealistic. Yet there are a number of countries which will go along with it, knowing full well that they could never comply.

It would take some tremendous increment of manufacturing capacity and transfer to meet that target, which is just impossible. For us to demean the negotiations and diminish the validity of our own word by going along with it, we consider dishonest. It makes a mockery of what we would like to have as constructive negotiations.

Mr. LAGOMARSINO. Do we call those other countries?

Mr. HORMATS. We do. They will freely sit there and admit to you that they have no intention of living up to that or doing what is necessary to live up to it. They know the United States, which takes its word literally and has to account to this Congress for what it says, is not going to go along.

Mrs. CONSTABLE. Let me give you an interesting example of that: in these negotiations we have been asked to agree to a 0.7 percent of GNP target for official development assistance. We have refused to do so, but all other governments, with the exception of the East Europeans, have agreed, even governments whose aid level is lower than ours.

At the special session the developing countries took the next step and said now you have agreed to the target, let's put a time frame around it. Are you going to do it by 1984, 1985, or when? We, having been honest in the first place, were able to sit back while the time frame was negotiated, because we didn't even agree to the target.

Mr. HORMATS. Sometimes the target is couched in such ambiguous language that other countries can find a way of weaseling out of it.

That is done on occasion. There are many instances where this constitutes a problem.

I will give you another example, that is, the points that Mrs. Constable is making about the mandate for the global negotiations. The language is somewhat ambiguous, and some of the developed countries say there is enough protection of the functional institutions, such as the World Bank, in the language.

Our judgment has been that the language is so ambiguous that it does not afford the necessary protections, and that is the reason why we have been so firm in resisting this ambiguous language. It is inevitable if there is an ambiguity that in the next round of negotiations it could be interpreted in a way not to our advantage.

Mr. LAGOMARSINO. Thank you.

#### HAZARDOUS PRODUCT EXPORTS

Mr. BARNES [presiding]. Before turning to Mr. Gilman, let me ask a couple of questions related to an aspect of development policy that is slightly off what we have been discussing but very close to the matters at hand.

As you may know, I and other members of this committee have been concerned about the current U.S. policy which allows the export goods which are banned in the United States.

I have believed that this situation poses a threat to our relations with Third World nations, and hurts the work of the UNDPA, and also does damage to our Nation's reputation as a responsible trading partner.

In an effort to resolve this, and to do so in the context of the North-South dialog, I sponsored, and 42 members including a number of members of this committee have cosponsored, H.R. 6587, which would prohibit the export of hazardous goods except under certain limited conditions.

The administration has opposed the bill but in its place posed an Executive order. During a hearing we held last September, the subcommittee was told that the order was about to be promulgated. However, as yet nothing has happened. I know, Mr. Hormats, you have been involved in this issue. Can you tell us where things stand with respect to the Executive order? Is the administration going to do anything to complete the process that has been going on for 2 years now, before January 20?

Mr. HORMATS. I will do my best to tell you where it stands. I am not I confess completely up to date. I can give you a report as of about a week or week and a half ago.

There was, as you say, an Executive order moving through the bureaucratic process. There were two types of issues outstanding to be resolved. One was the legal issue concerning what legislation was applicable in this case, that is whether you could use the export administration provisions or some other provision took precedence. That is now being referred to the Attorney General for an advisory opinion. It was referred to him by the White House, and my impression was that the opinion was coming down any day. Now I do not know, I have not seen it, but I was told that Justice was moving on this and moving rather quickly.

The second is a policy issue, and I have been in touch with Esther Peterson, who as you know is coordinating the development of this Executive order, to try to work out some differences. There were, I should add, some differences between our office, the Department of Commerce, and a few other offices and her office, the Department of State and a couple of other agencies, EPA and CEQ. We have been trying to work these out.

Let me say that we have not wanted to kill the Executive order, but I know it has been portrayed in the press otherwise. We have

some policy differences, some legal differences which we are trying to resolve in a way which meets our needs and hers, but we are not trying to kill it. We would like to resolve these differences before it goes out.

The status of it is that we should be getting one more look at a draft Executive order within the next few days. We have not seen it yet. Once we do, and once we have resolved these things, I suspect it could go out. I do not know when, but perhaps within the next 3 or 4 weeks. Her intention I gather is to get it out before this administration ceases to exist.

Mr. BARNES. And you think in fact that will happen?

Mr. HORMATS. That is her intention, and I think it probably will happen, yes. I think it will but I do not want to mislead you. I have no assurance that it will and I do not know how quickly it is moving through the process.

Mr. BARNES. Am I right there have been two prior rulings by the Justice Department that the Export Administration Act is applicable to this issue and can in fact be the vehicle?

Mr. HORMATS. There was one ruling. I think the Deputy Attorney General made one ruling on this, and he questioned whether the Export Administration Act could take precedence over some of the specific acts which regulated some of the particular exports involved, the particular substances involved. My impression was that he was not as clear on that. I have to go back and refresh my memory. Our lawyers took a look at this, and they said that there was a question under the law—indeed a question as a result of his ruling—as to whether the Export Administration Act did in fact take precedence. What I can do is send that down to you and let you take a look at it.

Mr. BARNES. I would appreciate that.

Mr. HORMATS. Not being a lawyer, I find it difficult to resolve these legal differences. I can send it down so you can take a look at it and get a feel for what our lawyers have been telling us.

Mr. BARNES. I do not want to spend too much time in this hearing on what could be arguably an extraneous issue, but you are able to appraise Mr. Bonker's prodding with respect to certain other issues, and if it appears that some congressional prodding on this question will be of assistance between now and mid-January, there are a number of us here who are prepared to prod. On both sides of the aisle there has been substantial interest in development of this policy. In fact I think it is fair to say in this committee and the Subcommittee on International Economic Policy and Trade, specifically, we have held off moving legislation until the administration completes its process.

Mr. HORMATS. I understand.

Mr. BARNES. We did so on the basis of constant assurances over the last year that action was imminent.

Mr. HORMATS. As I say, there are policy differences and legal differences, but it has been my hope—indeed I have written a letter to Esther Peterson to this effect—that we can resolve these in a satisfactory way. There are those who want to kill the whole Executive order. That has not been our position.

Mr. BARNES. Your statement in the Los Angeles Times is that you think control should be used "Only very sparingly and only

under circumstances posing extreme hazard." It should not be viewed as opposition to the policies?

Mr. HORMATS. Indeed it is not, and Mrs. Peterson is quite aware of that. It is really a question of when you use those controls. I speak for myself in recognizing that there are certainly instances where they are meritorious, indeed honorable. My worry has been that these not be abused to the point of making them totally restrictive provisions.

Mr. BARNES. Thank you.

Mr. Gilman.

#### FURTHER STEPS IN THE NEGOTIATIONS

Mr. GILMAN. Thank you, Mr. Chairman. I want to thank the panel for joining us today, and for expressing their views concerning the recent special session. What do you see as the time table down the road for getting this thing back on the track, agreeing upon an agenda and trying to undertake actual negotiations?

Mr. HORMATS. Mrs. Constable.

Mrs. CONSTABLE. We really do not know. If the General Assembly session is able to agree on a procedural framework, the agenda negotiations could theoretically move rather quickly, and the global negotiations could begin on schedule in January, but there is not any conventional wisdom on the time table, unless my colleague Marion Creekmore has different information. It is very much up in the air because at this stage we do not know whether agreement will be reached on the procedural framework.

#### STATEMENT OF MARION CREEKMORE, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE

Mr. CREEKMORE. I might just comment on a few more details. There is going on in New York now informal negotiations being chaired by the President of the General Assembly that are grappling with both agenda and procedures. Some progress is being made, but as Elinor says, we do not know if both issues will be resolved and if so when, but it is not a matter of things not happening. There is a lot of negotiation going on right now.

Mr. GILMAN. How are those negotiations being accomplished now? The General Assembly is in session, is it not?

Mr. CREEKMORE. The General Assembly is in session. The negotiations are going on informally outside of plenary. Tomorrow a series of statements on the followup to the special session will be given in plenary. It will go tomorrow, Friday and maybe next week, but these negotiations on procedure and on agenda are taking place informally outside of the plenary. They do not involve the whole list of countries.

Mr. GILMAN. Is it being done by working groups in committee?

Mr. CREEKMORE. It is being done by what is called a "Friends to the President" group under the chairmanship of Mr. Von Wechmar.

For instance last weekend a group went away and spent the entire weekend working on the procedural question itself. We are narrowing differences but we are not there yet.

Mr. GILMAN. Then how is that distributed around?

Mr. CREEKMORE. Various people participating are keeping their other colleagues informed to a greater or lesser extent. If agreement is reached, then there will be an effort made by the people participating to bring on all the other members in other countries so that we could get a final agreement within the General Assembly.

Mr. GILMAN. Is that an unusual procedure?

Mr. CREEKMORE. No. It is used that way at times. Sometimes you use ad hoc groups, sometimes committees, sometimes informal friends of the President.

#### EVALUATION OF THE SESSION

Mr. GILMAN. I note that one of the witnesses who will be appearing this afternoon, Dr. Schultheis, concludes in his statement with regard to the outcome of this special session that:

In regard to the evaluation, two facts are inescapable. First, the special session failed to accomplish its basic objectives. And second, the U.S. is perceived by most observers and participants to be primarily responsible for that failure. I might go further. The U.S. has opposed over the past ten years most of the international issues to promote development.

Would you comment on that statement?

Mrs. CONSTABLE. Marion, are you looking at me?

Mr. CREEKMORE. I will be happy to comment on that.

Mrs. CONSTABLE. I would like to comment on it but I think the others would as well. I think it is wrong. It is true that as far as the special session goes, statements have been made to the effect that (a) it was a failure and (b) the United States is responsible, so I suppose if one were to say that we are perceived as responsible that might in a very narrow sense be an accurate statement. The fact of the matter is that, as I said earlier, there were two principle objectives of the special session. One of them was achieved, agreement on an international development strategy. In that process, the United States played a crucial role, and in fact, the Pakistani chairman of the working group and the Indian spokesman of the Group of 77 have both said that we would not have a strategy had it not been for the U.S. role in the negotiations, so I think it is incorrect to characterize the special session that way. I think it is also incorrect to say that the United States has opposed every proposal or program over the last 10 years for the advancement of developing countries. I would hope that Ambassador Hormats and Marion Creekmore could comment on that in more detail, but one could cite a number of examples not only of proposals which we have supported but proposals which we ourselves have made, which perhaps have not received as much support as they might have.

Mr. CREEKMORE. Just to follow up, just to run down a few. Obviously a number of changes have been made in the International Monetary Fund in terms of facilities that have been created or expanded, that have been very much in the interests of developing countries. The International Fund for Agricultural Development has been established. The recently concluded multilateral trade negotiations have direct and positive benefits for developing as well as developed countries. The United States played a major role in that negotiating process for the general capital increase in the

World Bank, on which the Congress will be giving its opinion later. We have been a leader in the support of the funding of the bank, of IDA, of all the regional banks, so I think the record is good. I think a lot has been achieved over the last 10 years. That is not to say that one should be prepared at this time to stop. There are obviously other things that need to be done, given the state of the economy and the fact that there are a lot of people around the world that need a great deal of help. As Ambassador Hormats mentioned, I think we have to redouble our efforts across a whole series of things, but I think it is incorrect to say that nothing has been achieved or that the United States has not been out there in a leadership position in carrying on that process.

Mr. HORMATS. I have very little to add. Elinor and Marion have described it well. I think that quote that you have given is an indication of what I said earlier, and that is that people tend to regard the U.N. as the barometer of progress when in fact it is not a good barometer of progress. It is one component and one barometer among several. If one looks at the IMF, dramatic changes have taken place in the way it operates, in particular in the ways it has helped developing countries overcome the current very large deficits resulting from the oil crisis. It has also come up with structural adjustment loans that the developing countries have been crying for for years, and appropriately so. The World Bank resources have been increased dramatically. Both cases are a result of American leadership. In the MTN negotiations, the United States was really the one country which insisted on inclusion of the developing countries in the codes and in the overall negotiations themselves. Now as Marion said, this is not to say our efforts are adequate. They are not adequate. Let us not kid ourselves. We do not give as much aid as we should. We are very low down on the totem pole. We should be doing more in our own interests as well as because of our humanitarian concerns. There are a number of other areas where additional progress might be made, and indeed should be made, in our own interests again; however, the statement in that testimony I think is wrong and indeed misleading, because it ignores some of the other very fruitful elements of the dialog.

Mr. GILMAN. I am sure Dr. Schultheis will have more to say.

Mr. HORMATS. I am sure he will.

Mr. GILMAN. I note too in the statement by Frank Ballance, senior associate for the Carnegie Endowment for International Peace, that he concluded:

The United States does not believe that it is possible to structure a global economic deal that would include binding commitments from OPEC on stable oil prices and dependable supply. Without such an energy component a global economic bargain looks very one-sided to the United States. Unfortunately there is practically nothing in developing country rhetoric that leads a reasonable observer to believe that a mutually beneficial arrangement is possible. Therefore, the UN is thrown back on the same shop worn rhetoric and stale programs that call for massive increases in aid, extensive LDC industrialization, much of it capital intensive, and more concessions from the West, with scarcely a mention of OPEC or the Communist countries. It is not a respite designed to gain much sympathy from the American public.

I might add, or from the Congress either.

On the other hand, there is very little U.S. leadership on these issues, and no effort to educate the American public. The deadlock at the end of the special session

is a fitting symbol for the intellectual stalemate that has been reached on North-South issues.

I will give you an opportunity to comment.

Mr. HORMATS. On the first point, that the United States does not believe it is negotiable, he is absolutely right. We have gone through this at great length, and Mr. Ballance has been one of the leaders in the effort to try to think this thing through both when he was on the Hill and in the private sector. A number of us have gone through this, and we have concluded, I think all of us, pretty much the same thing. A credible energy package, energy deal, is simply not on.

Now with respect to stale formulations, I could see where one would conclude that some of the things were stale. There are certain things that are necessary in aid, in financial assistance. Concessional and less concessional money is needed by the developing countries. Many of the poor countries cannot borrow at market rates. They need aid. They certainly need access to the markets of the developed countries, and they also, of course, in order to get that, need to make contributions to the trading system. So there are certain fundamental elements of the dialog which perhaps we could approach more creatively, but by and large they are going to be with us for some time.

Let me just say, however, that we have made an effort to try to overcome these constraints by looking at some of the broader global problems that I have been mentioning, such as energy and food. Some of the broader environmental population health problems are very important areas of mutual interest. Our hope has been that we would be able to bridge the gap that exists now and avoid the sort of bickering which tends to go on by focusing on the medium term, the longer term objectives, and our common interests.

With respect to publicizing and making the American public aware of the importance of acting on these things, I think he is probably right. I think that the executive branch has not done enough. I think perhaps the Congress may not have done enough. I think that the private sector has not done enough just in terms of its own interests. We export more today to the developing countries taken together than we do to Europe and Japan taken together. You never hear of that. The private sector has a major interest in the well-being of these countries and in their economic development. Yet how many times do you have the private sector, even companies which have major exports to the developing countries, come up and knock on your door and say aid is important or the World Bank is important. Not often. I think we all have a responsibility here. The more interdependent, to use a hackneyed phrase, the world becomes, the more we rely on these countries for markets, for raw materials and for the solution to energy and other problems, the more important it is going to be to convey to the American people. I think that point is dead right.

Mr. GILMAN. Do you have any comments, Mrs. Constable?

Mrs. CONSTABLE. I would agree with all that and just add one point. I think it is quite clear that an awful lot of the rhetoric that moves back and forth in New York on economic matters is not terribly helpful in terms of persuading either the American public

or, as you pointed out, the Congress that their support for particular ideas or proposals is useful or desirable. My own view is that there is on occasion a little too much emphasis placed on that rhetoric, that perhaps we should take it for what it is, rhetoric, and look beyond at the substance of the proposals that are discussed and reflect on the implications of those, and the desirability of supporting or opposing them.

There is no question but that there are a lot of unhelpful statements made in New York, and as negotiators we sometimes have to sit and listen to them for weeks on end, but one learns what one should take seriously and what one should ignore.

#### WHY SO LITTLE SUPPORT FOR U.S. POSITION?

Mr. GILMAN. How is it that we ended up with only England and West Germany assisting us when we disagreed with the proposals?

Mrs. CONSTABLE. Well, that is an interesting question. I am not quite sure I can answer it. One is tempted to say that they were the only two who saw the wisdom of our approach. One is also tempted to say that we were not sufficiently persuasive in trying to talk other governments into agreeing with us. I think there was an honest difference of view in terms of where the stand should be taken, whether we should accept an ambiguous procedural framework on the theory that in any case the procedural document could not afford full protection against the kinds of proposals which we know will come back at us in January, for restructuring the International Monetary Fund as one example, and our own view in the U.S. Government, that it was essential to achieve as much clarity in that document as possible. In that connection, I would like to go back to the issue of the success or failure of the special session. I think the fact that we and at least two other very important countries, if you look at trade flows and aid flows and foreign exchange reserves and other criteria, were willing to take a very clear position on the substance of the issue and not paper it over was healthy, and should not be described as a failure. Perhaps one could regard it as a situation in which lines were clearly drawn, which enabled the more intelligent and focused exchange to take place as the procedural discussions continued. The ultimate answer to your question is that I do not know.

#### ROLE OF PRIVATE SECTOR

Mr. LAGOMARSINO [presiding]. I might say with regard to Ambassador Hormats' statement about business not supporting foreign aid and so on, I think that we on the Hill and you in the Executive do not really give business, private enterprise, the credit it deserves for development; I know that is not deliberate. You recognize the value of it, but I think it has to be more of a partnership, and we have to work more in concert. I think that sometimes we are all doing our own thing.

Mr. HORMATS. You are right. I think that is a very compelling point, particularly over the next several years when, let us face it, the foreign aid budget is not going to be growing by leaps and bounds. Foreign investment in many cases is going to be the key

vehicle for development in many, many countries, particularly the middle income developing countries, and I think you are right.

The private sector in many cases in very pragmatic ways is ahead of the Government, because there have been many efforts made by the private sector to accommodate the desires of developing countries to have 50 percent or 51 percent local ownership. There have been a lot of very imaginative arrangements made between the private sector and the developing countries.

Mr. LAGOMARSINO. But there certainly should be a better partnership between us here and the private sector with regard to this?

Mr. HORMATS. Yes.

Mr. LAGOMARSINO. I think a good example appears to be starting out very well in the organization that has been set up with regard to the Caribbean, private sector organization.

Mr. HORMATS. That is correct.

Mr. LAGOMARSINO. I might say also that with regard to perception, I think the public can understand when you talk about aid given specific Third World countries, aid given developing countries, but when you throw them all in and say we have to do this for all of them, there is not much support and that is understandable. There are some of those countries that are deserving of help, that are helping themselves, others that they perceive as not.

Mr. HORMATS. You have Jamaica as a good case.

Mr. LAGOMARSINO. Absolutely.

Mr. HORMATS. Where you have government now. Let us face it, the Manley government's economic policies would not have gotten a class A rating from any economist I could name.

Mr. LAGOMARSINO. They did get some from some politicians in this Government at one point.

Mr. HORMATS. Oh, yes, you are right, I was talking about economists. Now there is a genuine disposition on the part of the Government to develop new economic policies which really come to grips with the major economic difficulties Jamaica has, and there is a country very close to us. It is making efforts to do the right thing, to get its economy in order, and there is a country which really I think deserves shall we say a new chance.

Mr. LAGOMARSINO. I agree. We have no further questions. We thank the witnesses.

Mr. Gilman.

STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GILMAN. I would like to present a brief statement at this time and submit my entire statement for the record.

Mr. LAGOMARSINO. Without objection your entire statement will appear in the record.

Mr. GILMAN. I appreciate that. I welcomed the opportunity to serve as a special adviser to the U.S. delegation to the 11th special session. I also appreciate the opportunity to report to our subcommittees, and I will submit a complete report to the full committee. When the special session ended in September there were of course mixed expressions of disappointment and satisfaction, but there was a consensus reached on the international development strategy

for the 1980's as we have heard here today. A resolution was adopted urging all the countries that were able, both north and south, to increase official development assistance to the least developed countries by the mid-decade. In addition, a resolution was passed urging the 35th General Assembly to consider the recommendations made by Secretary Waldheim last summer to overcome the critical economic situation in many developing countries.

At the same time, however, the session was unable to reach its major goal of adopting agreement on procedures and an agenda for a new round of global economic negotiations. I believe it was recognized from the beginning that it would be difficult to balance the need for a central coordinating body, to provide guidance and stimulation to the global negotiating process against the preservation of the roles and the expertise of the specialized agencies within that body.

The U.S. delegation expressed its concern that the final text could do more than adversely affect ongoing negotiations. It might in fact result in an adversary relationship that would prevent cooperation where it is essential.

The failure of all the parties to successfully compromise on this major issue prevented the special session from achieving its main goal on procedures for global negotiations. The United States determined that this difference of opinion was far too important to proceed further only to readdress this issue time and time again as the actual negotiations began.

I think we should bear in mind the statement made by Ambassador McHenry when he addressed the final plenary session and said:

We should not, however, be quick to trumpet our inability to reach consensus on procedures for global negotiations at the end of the North-South dialog or to impute insincerity on the part of any of the participants.

He concluded that:

We are discouraged when progress in the dialog is delayed by differences among the participants, but we refuse to admit that the existence of differences constitutes defeat. We will continue to participate in the dialog.

I believe that the whole process of global negotiations is extremely important. It is new. It is ambitious, and should not be taken lightly or in haste. The work of the special session I do not believe is lost. On the contrary, I think it provided an extremely important foundation from which to build. I think it is important that we keep the issue before the new Congress, and attempt to elicit some policies with regard to the negotiations from the new administration early in its term. I would hope that our committee would explore those opportunities.

Mr. Chairman, at this point I would like to submit my statement in full.

[Mr. Gilman's prepared statement follows:]

PREPARED STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF NEW YORK

Thank you Mr. Chairman.

As the Congressional Advisor to the United States Delegation to the 11th Special Session of the United Nations General Assembly on Economic Development, I appreciate the opportunity to report to our Subcommittees. As a Member of the Subcommittee on International Economic Policy and Trade, I have participated in the earlier hearings in this series on the new International Economic Order and

wish to thank Chairman Bingham and Bonker for focusing our attention on this important subject.

In his concluding remarks to the 11th Special Session of the United Nations General Assembly on Economic Development, U.S. Ambassador Donald McHenry observed that "the Special Session has not been all that we had hoped. Yet it has not been without its successes." While this statement hardly reflects a ringing endorsement of the progress accomplished in this latest chapter of the North/South dialogue, I believe the results do represent an important step forward. When one considers the tremendous tasks undertaken by the Special Session in just a few short weeks, that progress becomes more apparent.

Secretary of State Muskie spelled out these tasks in his opening address before the Special Session on August 25. He noted that the meetings were taking place when all nations were "in the midst of a world economic crisis" and there was a need to work together to overcome these problems. Toward that end, he was hopeful that the Special Session could "adopt a realistic international development strategy that will help improve development prospects" and "agree on procedures and an agenda for a new round of global economic negotiations."

When the Special Session ended three weeks later on September 15, there were mixed expressions of disappointment and satisfaction. There was a consensus reached on an International Development Strategy for the 80's. A resolution was adopted urging all countries that are able—both North and South—to increase official development assistance to the Least Developed Countries by mid-decade. In addition, a resolution was passed urging the 35th General Assembly to consider the recommendations made by Secretary General Waldheim last summer to overcome the critical economic situation in many developing countries. At the same time, however, the Session was unable to reach its biggest goal, an agreement on procedures and an agenda for a new round of global economic negotiations.

The center of debate surrounded the procedures question as the first step toward reaching a consensus on how to launch a round of global negotiations. The conceptual differences on this key question are substantive. They reflect a fundamental disagreement over the responsibilities of the proposed United Nations Conference on Global Negotiations, which would be the central forum for global negotiations, and the various specialized agencies that are part of the U.N. system.

The developing nations led by the Group of 77 sought to force through procedures that would centralize global negotiations in a single body. This body would have had greater authority than the specialized agencies such as the World Bank and the IMF. Given the current weighted voting systems in those specialized agencies, the intent was to transfer the power to the 153 member General Assembly where the Third World nations and the G-77 dominate.

The United States agreed to participate in the Special Session talks leading to global negotiations with the understanding that those negotiations would not interrupt, impair the integrity of or adversely affect the functions of established organizations. The report that was developed on the procedures question was judged by the United States to contain language that could be interpreted as permitting the central negotiating body to renegotiate agreements reached by the specialized agencies.

It was recognized from the beginning that it would be difficult to balance the need for a central coordinating body to provide guidance and stimulation to the global negotiating process against the preservation of the roles and expertise of the specialized agencies. The U.S. delegation expressed its concern that the final text could do more than adversely affect ongoing negotiations. It might in fact result in an adversary relationship that would prevent cooperation where it is essential.

The failure of all parties to successfully compromise on this major issue prevented the Special Session from achieving its main goal on procedures for global negotiations. The United States determined that this difference of opinion was far too important to proceed further, only to address this issue time and again as the actual negotiations began.

The decision by the Administration to draw the line at this point in time should not be seen as a change in our attitude toward the North/South dialogue or our commitment to global negotiations. As stated by Ambassador McHenry in his speech to the final plenary session:

"We should not, however, be quick to trumpet our inability to reach consensus on procedures for global negotiations as the end of the North/South dialogue or to impute insincerity on the part of any of the participants. For it clearly is not the end. The North/South dialogue is a complex, multifaceted process. It began many years ago and it will continue as long as there are developed and developing countries that believe it is important to keep up an exchange of views.

"The United States believes in the importance of the North/South dialogue. We are buoyed by its successes: The evolution of the World Bank into a principal lender for development; the agreement to reduce tariffs and eliminate certain anti-competitive trade practices reached at the GATT; UNCTAD's completion of the common fund negotiations; the liberalization of IMF lending policies.

"We are discouraged when progress in the dialogue is delayed by differences among the participants. But we refuse to admit that the existence of differences constitutes defeat. We will continue to participate in the dialogue."

The outcome of the Special Session underscored the point that the United States was willing to defend a minority position if necessary to protect the integrity of the specialized agencies. The whole process of global negotiations is new and ambitious. It is not to be taken lightly or in haste. The work of the Special Session was not lost. On the contrary it provided an extremely important foundation from which to build upon. The 35th Regular Session of the General Assembly will continue the discussions, hopefully leading to global negotiations themselves early next year.

Those of us in the Congress have a special responsibility in helping the American people become more aware of the importance of the North/South dialogue. At a time when our national government is in transition from one Administration to another, we can play a unique role in providing support for those initiatives that are beyond partisanship and represent the national interest of all Americans.

It is extremely important that the Congress share the leadership in this area to help educate the American public about the vital nature of issues at stake. We must keep the issue before the Congress and encourage the new Administration to express its support early in the new term. I would hope that our Committee would be in the forefront of this effort.

Many of the decisions that are now being made at this and other international forums will have profound effects, not only in this country, but the entire world. These decisions are far too important to be made for the people but must be made by the people of the United States.

Mr. LAGOMARSINO. Thank you, Mr. Gilman. I have one question for you. Do you think that the United States did all it could at the special session to try to reach some kind of agreement?

Mr. GILMAN. I think that our delegation exhaustively explored the methods for attempting to arrive at a consensus. As we all recognize, when we are dealing with the 150-some nations in the body of the United Nations, even attempting to arrive at a consensus is no simple matter. You and I have both been involved in the Law of the Sea Conference, and we recognize that that process has been going on now for some 7 or 8 years as we tediously try to arrive at consensus. I think a great deal was accomplished in a very short period of time, and I think that the delegation did a meritorious job in attempting to arrive at reasonable consensus.

Mr. LAGOMARSINO. Thank you. Now we will hear from a panel of outside observers who followed this session very closely, Mr. Frank Ballance, the senior associate of the Carnegie Endowment for International Peace, and Mr. Michael Schultheis, staff associate of the Center for Concern.

**STATEMENT OF FRANK C. BALLANCE, SENIOR ASSOCIATE,  
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

Mr. BALLANCE. Thank you, Mr. Chairman.

Let me summarize some of the major points of my statement if I may. I am pleased to testify before your subcommittee today. I think it is quite important that you are holding hearings on this subject of the 11th special session. I will address myself primarily to a political interpretation, if you can call it that, of the talks and the dialog, and before I begin, I might say one or two things about the administration's testimony.

In many ways, I think it depends upon whether you look at this as a glass half full or a glass half empty. In fact, I was really very

pleased by the realism of the administration's testimony. I think it was very good testimony. They were realistic about what they accomplished. They obviously put the best face on it that they could, but I think they were really quite realistic in the way they presented their role in the session. Although in some ways my remarks may seem somewhat critical of the administration, I think they are considerably more critical of the other side.

#### DIFFICULTY OF U.S. POSITION

The administration is in a very difficult position in a conference of this sort, and I am sure you gentlemen are fully aware of that, particularly Congressman Gilman who was there. At the session they are under tremendous pressure from the developing countries who operate with a strategy that puts everything on the agenda, puts tremendous pressure on the developed countries to respond to that agenda, and the pressure overwhelmingly focuses on the United States. The Europeans play a kind of moderating role, if you will, but the real pressures fall on the United States, so that the U.S. delegation is under tremendous pressure.

At the same time, they recognize that there is a rather unsympathetic climate for many of these proposals in the United States, and they have to walk a tightrope because of that. The session was, of course, in the middle of a political campaign. These issues were not exactly the major issues that were being discussed in the political campaign, but they are crucial issues in the world, that the new administration must grapple with. The outgoing administration, which at that point did not know whether it was going to be in for another 4 years or out, did not want to raise the issues in such a way that they became politically controversial, and in that I think they were absolutely correct. Furthermore, they did not want to get terms here that would bind themselves unduly in the future or bind a future administration.

Then frankly, we also have to confront, which you will know from previous discussions of this, that the formulation of many of these proposals is clearly questionable in a number of ways. They are questionable in purely economic terms. They are questionable from the benefits they would provide to many of the developing countries. A number of studies have been done on this. In fact, there is a series of quite interesting studies being done now that show that the benefits from a number of these proposals are heavily skewed toward the upper income developing countries. For instance, the proposals on trade liberalization would benefit primarily the higher income developing countries, whereas in fact many of the worst problems, as you know, are in the poorest developing countries.

Even some of the commodity proposals that are being made—and it depends upon the particular type of commodity proposal in question obviously as to which country produces it—would benefit primarily the higher income developing countries. It is not at all clear that the proposals put forward by the developing countries would benefit the developing countries in an optimum way. But even beyond that, it is quite clear that a number of the proposals as put forward would not be in the U.S. interests when one came actually to applying those proposals. One of the things that must

be done in these sessions is to work out, if it is possible, a mutually acceptable formulation so they are mutually in the interest of the developing countries and the developed countries. Frankly that has been a slow and difficult process, although in some areas there has been a certain amount of progress.

#### EVALUATION OF SESSION

The United States was in a difficult position in this conference, and in my testimony I said: "The efforts to reach compromise failed clearly." I would not necessarily call this conference a failure. I think there are two things that could be said about that. In the first place, it is useful occasionally to have a conference of this sort fail. I do not find a temporary failure in a long period of these negotiations necessarily harmful at all. It makes it clear that the United States has certain points that it will stick to, that we have a conception of what we are after, and that we will not concede on important issues on purely political grounds. I think that is positive, so that it does not bother me particularly that this session failed to reach agreement.

Frankly, this is part of a process of very long-term, ongoing negotiations, like the Law of the Sea, that will change over time. The climate will change with world conditions. I have every expectation that in 1981 these will be resumed in one form or another and that some sort of formulation will be agreed upon to allow the discussions to go on.

With that said, let me summarize my testimony. In the first place, I state that the meeting was notable in a negative sense for two reasons. First, it received very little coverage in the U.S. press. This was in contrast to previous global meetings, such as the seventh special session and UNCTAD IV in Nairobi. Secretary Kissinger attended the latter and raised it to a very high political level. This latest session was downplayed by the U.S. Government, some of the reasons for which I have touched upon.

Mr. LAGOMARSINO. Could I interrupt you at that point. You said it is downplayed but Senator Muskie did attend, did he not?

Mr. BALLANCE. He did.

Mr. LAGOMARSINO. They just did not—

Mr. BALLANCE. They did not publicize it to the same degree. Secretary Kissinger made a major publicity effort out of his attendance at the UNCTAD Conference. He presented a very broad set of proposals. I do not think I brought that along, but I have in my files the long list of proposals that Mr. Kissinger made at the conference. He made a positive impression on the conference. It was treated as a major political event, whereas this one was downplayed in every way, and even Secretary Muskie's statement, as Congressman Gilman knows, did not contain those kinds of proposals that would have been of substantial interest in developing countries.

Second, as I say, this meeting ended in genuine stalemate, which is somewhat unusual for U.N. conferences because there is almost always an attempt at the end of these to try at least to paper over the difficulties in some way. This one actually ended in disagreement despite continuation several times beyond its original scheduled date of termination. This was not accidental. It represented a

calculation by the United States, rescued from its isolation by Great Britain and West Germany, that it was preferable to have the negotiations break down over procedure rather than later over substance. In fact, the effort to pull Great Britain and West Germany in occurred rather near the end of the conference. For most of the conference the United States was substantially in isolation, for many of the reasons that were touched upon by administration witnesses. They made a major effort to pull in West Germany at the end, so that they would not stand alone on this.

#### INTERNATIONAL DEVELOPMENT STRATEGY

I mention that the two major tasks of the 11th special session were the adoption of an international development strategy for the 1980's and the establishment of a framework to govern the conduct of global negotiations in 1981. The international development strategy, of course, is a nonbinding statement of development principles that is to be used to guide and influence government behavior. It can contain various lapses, contradictions, and illusory goals without very much harm to any of the governments involved.

There was a certain amount of tension between the United States and other Western governments over the weight to be attached to the language of the international development strategy document. This has been touched on by previous witnesses. The U.S. delegation kept arguing for a realistic but hopeful document, with some relationship between target figures, such as those for global growth, and probable reality. Others were less concerned with how realistic the document was and more concerned with reaching a political accommodation with the Third World. Whether this represented a more honest American approach, as the U.S. delegation implied, or a more practical European view of the impermanence of the U.N. language is a matter of opinion, but the difference is reflective of the split between the United States including West Germany and Britain, and other Western countries. Such a division has been evidenced in the remarks of the Western countries for some time. The small European countries have generally been more sympathetic to the demands of the developing countries and have felt themselves more vulnerable to energy and raw material disruptions. France frequently goes its own way.

One factor of significance—and I think this is worth mentioning because it was not touched on and it brings into this the relationship between the political and economic issues, and emphasizes once again that this is a political forum primarily—is the growing division of opinion between Europe and the United States over the future of the Middle East, the source of Europe's energy. Europeans are increasingly disenchanted with the Camp David process, and are particularly worried about the lack of progress on the Palestinian issue. At the height of euphoria over the Egyptian-Israeli Peace Treaty, Europeans were willing to wait for positive results. Now they are very restive and less ready to support U.S. stonewalling when it seems contrary to their economic interests, which goes along with my prior point about their being more willing to bend on issues where they see their economic interests at stake.

The strategy was agreed upon at the end, but it leaves out a good deal on such issues as OPEC oil price increases and recycling. It is frankly impossible to gain any sense from the document of the magnitude of the impact of higher oil prices on the economies of the poorest developing countries. It was widely recognized that the sections of the strategy on energy and finance would remain empty shells as long as there was not agreement on the framework for global negotiations, since these are the two key issues for negotiation.

It is worth mentioning here that the OPEC countries were particularly adroit at avoiding opprobrium from the developing countries. This issue has been touched on before. Secretary Muskie attempted to place a measure of responsibility on them by calling rising oil prices a ponderous drag on development growth and a major cause of inflation. There was a minirevolt at one time in the conference led by Bangladesh, but it was suppressed by OPEC promises of more aid. Saudi Arabia and Kuwait were noticeably quiet at the special session. At the same time they were at home telling IMF officials they would not provide funds unless the PLO was granted observer status is indicative of their intention to bring issues more directly to the forefront in the international financial institutions.

The OPEC countries, looking at it strictly in political terms, clearly won. They maintained their cohesion with the developing countries and blunted American attempts to divide them; they diverted the session's attention from energy issues to the procedural issues of global negotiations; they insured that the IDS, by its omissions and unrealistic targets, would be junked as a meaningful document to guide action in the 1980's.

It was the procedural issues that the special session really focused on and were the important issues. The real difference in opinion has been touched on. It was that the United States insisted that the real work of the global negotiations take place in the specialized agencies, such as the IMF, the World Bank and various U.N. agencies. The United States did not object to their being referred back to a global body, but they did not want that global body to undo the work of the specialized agencies; whereas the developing countries wanted all of the decisions taken in the specialized bodies to be referred back to the U.N. General Assembly, meeting as the Committee of the Whole, where decisions could be reopened and a final global round of negotiations could take place to the advantage of the developing countries.

In other words, the United States was determined to maintain the weighted voting system in various specialized agencies, and not have this supplanted by an overriding conference conducted by the U.N. General Assembly.

I mention that the efforts at a compromise failed. I think it might be useful just to quote the language that was tried in the draft proposal for the procedures, because the United States refused to accept language that would empower the Committee of the Whole to coordinate and conduct negotiations. The sticking point came in paragraph 2 which said:

The conference should have universal participation at a high political level and will be a forum for coordinating and conducting global negotiations with a view to

insuring a simultaneous, coherent and integrated approach to all the issues under negotiation. The conference should result in a package agreement.

And I note that the United States was also very unhappy with the idea of a package agreement, which goes along with the idea of reopening all the issues and trying to create a package.

My view is that the special session obviously did not break down over a word. It broke down over a conceptual difference over what this was about, and what the global negotiations should lead to. The United States basically does not believe that it is possible to structure a global economic deal that would include binding commitments from OPEC on stable oil prices and dependable supply. Without such an energy component a global economic bargain, at least that proposed by developing countries, looks very one-sided to the United States. Unfortunately, there is practically nothing in developing country rhetoric that leads a reasonable observer to believe that a mutually beneficial arrangement is possible.

I might say that I think Mr. Hormats gave a very good assessment of why it is not possible to reach a binding agreement on the energy issue, certainly at this time, and I might also mention that it is necessary to look beneath developing country rhetoric at various times. Their rhetoric is often anti-Western or anti-United States and yet on a bilateral level it is possible to cooperate with many of these countries, and it is possible to reach mutually beneficial arrangements on bilateral levels or even on some multilateral levels, but at least the rhetoric is such that the kind of global deal they seem to be proposing seems very unlikely. The U.N. is thrown back on a program that has been around for a long time, the New International Economic Order, with its same rhetoric for massive increases in aid, extensive LDC industrialization, and more concessions primarily from the West, very little mention of OPEC or the Communist countries. It is certainly not a recipe designed to gain much sympathy from the American public. On the other hand, there is very little U.S. leadership on those issues, and no effort to educate the American public. I might mention here that I think U.S. leadership on these issues is absolutely essential. It is absolutely essential in the 1980's, and these issues are such that they will not go away. They will only deepen, and the new administration has a new opportunity to rethink and recast these issues and to stimulate thinking on these problems in the United States.

It is worth mentioning here that there is a very low level of congressional interest in these issues. It often borders on antagonism, and it does make it extremely difficult for the administration to offer programs when they are constantly fearful of being undercut by Congress. This is particularly true, of course, in the aid area, where Congress must authorize and appropriate aid funds.

#### U.S. PERFORMANCE

It is ironic that at the end of the Carter administration the U.S. negotiating stance toward the Third World, at least in this forum, was more determinedly unbending than in the latter days of the Ford administration, despite the earlier Carter rhetoric about the importance of the Third World and the symbolic appointment of Ambassador Young to the United Nations. Individual bilateral relations with developing countries may have improved or deteriorat-

ed, but the United States still stands in major opposition to the new international economic order as proposed by the developing countries. Changes in the world economy that erode U.S. strength are likely to force political accommodation, but probably not in ways envisioned by U.N. resolutions. Drift and indecision are likely to produce the worst of all possible worlds for the United States. The old U.S. strategy has failed; it is time to try new approaches.

I would close by quoting from a recent article by Roger Hansen in which he cites three major hurdles that must be overcome before it would be possible to develop a new strategy to manage North-South relations in the 1980's.

\* \* \* First of all, unless a higher priority is given to the management of the North-South relationship, no new strategy is likely to emerge, let alone overcome the inertia of present policies and the decisionmaking machinery which produced them. Such a priority will emerge only if policymakers realize that a much more constructive working relationship with the South is required in order to achieve a broad range of domestic and foreign policy goals, and that such a relationship can quite conceivably be established through an altered process of active mutual-interest bargaining.

The second hurdle lies in the antipathy to experimenting with altered forms of bargaining and system reform. Change will obviously prove somewhat uncomfortable to live with; and strong advocates of the old approach will continue to advise against accepting its risks. Because the old, issue-by-issue approach in specialized institutions dominated by Northern voting power is unacceptable to the South, however, it will fail. Thus a new approach, less predictable and less controlled by the United States, must be tried.

Finally, the hurdle of implementation remains even if the first two are cleared. Can a new strategy be given a convincing coherence? Can its relevance for U.S. national interest be made clear enough to overcome entrenched domestic opposition? And can it respond to Southern interests sufficiently to overcome the present distrust and suspicion long enough to attempt an altered process of North-South diplomatic interaction?

The possibilities of failure are obvious. But so too are the growing costs to the United States of not making the effort. \* \* \* Despite the recent Soviet assist in weakening that leadership, only altered U.S. policies relating to the South and its constituent units can ensure the transition to a more constructive, flexible and potentially complementary range of diplomatic relationships between the United States and the developing regions of the world.

I will ask, Mr. Chairman, if it would be possible to insert for the record a very useful article that appeared recently in the Economist, and mentions some of the reasons why it is difficult to reach agreement on commodities. It appeared in the Economist on October 4, 1980. Also there was a very interesting and useful session toward the end of last weekend by a number of participants from developing countries sponsored by the Stanley Foundation. I did not attend this meeting, but they have prepared a preliminary draft that goes into a number of these issues in substantial detail, primarily from the perspective of the developing countries, which I think is quite a useful document. It is in preliminary draft form at this point, but in 2 or 3 days it will be in final draft form, and the Stanley Foundation has said that they would be happy to have this to go in along with the other items.

Mr. LAGOMARSINO. Without objection both of those documents will be entered in the record. You will furnish us with the final version of the conference report.

[The information referred to follows:]

THE COMMODITY CHIMERA<sup>1</sup>

Attempts to control the markets don't work. There are better ways to help countries hurt by yo-yo prices for their exports.

A \$400m buffer stock fund has now finally, after years of bickering, been agreed on by the rich and poor nations. Encouraged by paternity, the fund's parent, the United Nations Conference on Trade and Development (UNCTAD), is on the prowl for new commodity agreements to help level out the volatile free markets in commodity futures. Why bother, when all around earlier attempts to bypass the free markets by such agreements are tottering?

Take the efforts of the coffee producers and consumers this week to breathe new life into the coffee pact. Since the new agreement was put into effect four years ago, it has had little relevance to coffee prices. These are now at a four-year low, but only after having shot up, after devastating frosts in Brazil, to levels so high that consumer demand dropped away. Coffee has been second only to oil as a commodity in world trade—so surely, the well-meaning Unctad official asks, it must harm everyone to have its price see-saw so violently. With half a dozen countries either producing or consuming over 75 percent of the world coffee crop, some agreement of common interest between the two sides of the market should be possible. Not so.

Time after time short-run price jerks have wreaked havoc with the most careful agreements. Who is willing to shell out good money to keep the coffee price at a higher or lower level than the ruling free-market price, however much it might gyrate? As with currencies, so with commodities, every central attempt to peg the price guarantees a speculator's gain.

Thus it has been with the commodity agreements for sugar and tin. Each buffer stock was quickly exhausted once prices rose through their respective ceilings. As every speculator knew they would be exhausted, he could safely take a bet against the buffer stock manager. The five-year-old cocoa pact died in March (although the two sides cannot decide whether to bury it) after years of laboriously accumulating a \$220m buffer stock fund. The international rubber agreement should have started this month, but is already looking dated even before it is ratified or actually working: current market prices for rubber are now above the upper limit set by the pact.

## AGAIN THE UNATTAINABLE

Despite these failures, international bureaucrats persist in seeking the apparently unattainable because in an ideal world stable prices would be so compellingly attractive. Producing and consuming nations have a powerful common interest in the need for steady raw material prices and supplies. Reducing uncertainty about future prices would—could it be done—promote investment, growth and international trade. It would also dampen world inflation.

Nearly all pacts have tripped up on short-term greed. But there are other problems. Producers and consumers disagree about what they mean by "stable" prices. The industrialised world wants raw material prices to stick around a long-term trend, generally in line with the price index of developing countries' imports. Developing countries demand—with increasing vigour—real increases in raw-material export earnings to make up for what they feel has been a long decline in prices for commodities relative to manufactures between the mid-1950s and the early 1970s. So price ranges in commodity agreements are the result of messy compromises usually quickly overtaken by inflation.

But even if these schemes were created according to strictly rational economic calculation, they would scarcely be effective. It is not possible to predict with real accuracy the response of world supply and demand of particular materials to changes in price. Primary products are affected by the trade cycle, changes in technology and the ease with which one commodity can be substituted for another; and for agricultural products there is always the uncertainty of climate. The only things capable of dealing with all these variables are the often speculative and by no means perfect futures markets, which effectively measure and price marginal supply and demand. Back to the see-saw.

Opec-style cartels have been tried as an alternative by bauxite and copper producers, and failed. Tin-mining countries have also considered the idea, but they would fare no better, because it is too easy to substitute other materials for tin. Cocoa and copper exporters have toyed with their own buying organisations to support prices artificially on the futures markets. Yet the temporary success achieved by the coffee-producing Bogota group should prove warning enough. They had to accept defeat this summer after Brazil's coffee crop emerged unscathed from the frost season.

<sup>1</sup> From the Economist, Oct. 4, 1980; reprinted with permission.

## A BETTER PRESCRIPTION

But mainly thinking up complications, as so many consuming countries do, is not good enough. Developing countries do have legitimate complaints against the west's free (and speculative) markets. Their export earnings and therefore their development programmes and even political stability have to ride the roller coaster of London or New York prices. Zambia, for example, earns 90 percent of its hard currency from copper and the price of it on the London Metal Exchange has fluctuated between £612 and £1,375 a tonne in the past four years.

More help could be given through the International Monetary Fund's rarely-used scheme to extend credit to countries whose export earnings plummet. The Brandt commission has sensibly urged that loans should be based on need, not the size of quota. It has also called—rightly—for the IMF's fund to be trebled to \$12 billion. Similarly, the EEC's "stabex" scheme should be enlarged and liberalised still further.

Unctad's common fund is far too small to take on the world's commodity market. Where it could be helpful is in financing export promotion, research, and downstream investment. It is a pity therefore, that contributions to these more intelligent forms of finance are both voluntary and small (\$350m). Other schemes to aid the raw-material exporters of the third world, less grandiose than commodity pacts, are more likely to work.

Greater emphasis should be put on diversifying exports. There is still a large number of countries—particularly in Africa—who derive most of their foreign exchange from one export. More long-term deals with suppliers should be made. Prices on such contracts tend to fluctuate less because they are determined by a moving average of market prices rather than minute-to-minute market swings.

The Brandt commission has suggested a tax on the world arms trade to be distributed to the third world. If former political leaders can adopt the idea, why not those still in power? Need that always be a fat hope?

RAPPORTEUR'S REPORT—CONFERENCE ON GLOBAL NEGOTIATIONS ON INTERNATIONAL ECONOMIC COOPERATION FOR DEVELOPMENT, SPONSORED BY THE STANLEY FOUNDATION

## INTRODUCTION

Over the past year there has been a growing realization that a United Nations Conference for Global Negotiations on International Economic Cooperation for Development will convene in mid-January of 1981 and continue for a specified time frame, often mentioned to be about eight months. It would represent the culmination of several decades of what is generally termed the "North-South Dialogue," a series of formal and informal, sometimes promising and often frustrating, discussions and negotiations on the broad issue of economic relations between developed and developing countries. The question of whether or not such a conference will actually commence as planned still hangs in the balance, since differences persist on the procedures to be followed and on the agenda of issues to be addressed.

A great deal of progress has been achieved since early 1980, narrowing gaps of perception and understanding on these issues through lengthy and painstaking diplomatic efforts exerted by the various participants. Given the complexity of the issues, the number of actors, the emotional history of the dialogue, and the interwoven nature of the different dimensions involved—political and economic, domestic and international, and interests clustering around many diverse groupings of countries—it is nothing less than surprising that so much agreement has been reached in such a short time. However, a few stumbling blocks remain and they now serve as a test case to determine the capacity of participants to compromise in the pursuit of common interest. If they cannot be surmounted, then the entire process is in jeopardy since many feel that resistance to overcoming existing differences raises the level of uncertainty and injects concerns over intentions.

As a result serious efforts are now being undertaken to resolve outstanding issues and remove misunderstandings so that the conference can commence and substantive discussions and negotiations can begin. The purpose of what follows is to report on the proceedings of a meeting designed to facilitate that effort by clarifying positions and creating an environment more conducive to international agreement and action. Sponsored by the The Stanley Foundation, the "Conference on Global Negotiations on International Economic Cooperation for Development" brought together a number of individuals, largely drawn from within the UN system, to discuss informally and off-the-record their views, concerns and ideas related to the current status of preparations for the global negotiations. This report aims to record

the major thrust of the discussions as candidly and succinctly as possible, attributing no specific points to any individual. Since these comments are meant for an audience deeply involved in the process, no attempt is made to cover familiar ground by describing the background to current positions and issues. In addition, some reference will be made to the positions of groups of actors involved in the negotiations to facilitate a clear understanding of the various viewpoints presented. However, nothing stated at this conference was done so officially, nor would it necessarily represent what might be raised at formal meetings. The conference focused exclusively on procedures and agenda items, currently the major areas requiring resolution.

At the outset it should be noted that no one disagreed that urgent action is needed, given the level of problems confounding the international economy and confronting particularly those developing countries faced with deteriorating economic prospects and high levels of poverty.

#### PROCEDURES

Once the discussions began, the basic conflict over procedural matters quickly surfaced—the issue of the role and treatment of the specialized agencies in the negotiating process. This conflict was manifested at many levels, such as the language incorporated in the procedural text (agreed to by many but not all at the close of the Special Session), the perceptions as to intentions of how the negotiating process would operate, and the possibilities of discriminatory treatment among issues on the agenda.

A fair amount of attention was given to the procedural text under consideration (A/S-11/AC.1/L.1/Rev.1). Those who found fault with the text felt either that the integrity of the specialized fora was not sufficiently accounted for specifically in the draft, even though it was the general intention of the draft's authors, or that the overall balance of centralized/decentralized negotiations implied in the text required some correction. Advocates of the existing draft felt that the text was the product of considerable compromise and further alterations would prove onerous if not impossible, that in practice the negotiations would have to proceed with the cooperation of the specialized agencies, and that the centralized body within the United Nations could not dictate fundamental changes in the specialized agencies outside of the normal procedures of those institutions.

Notwithstanding these differences of approach, a number of points of consensus became clear. First, it was generally agreed that institutional change is the result of internal and external stimuli, but that formal constitutional change must be adopted within the established procedures of the institution involved. Second, it was acknowledged that changes in structure and policy can take place and have taken place within specialized agencies, although there may be disagreement as to whether the pace and degree of change is adequate. Third, and most important, all participants agreed that the results of global negotiations could, and probably should, include measures for institutional reforms of the specialized agencies, or at least that reforms should not be precluded by procedural rigidities.

One area where procedural matters were intertwined with substantive issues was that of jurisdictional authority. In specific terms, questions involving money and finance are currently seen within the purview of the International Monetary Fund (IMF), whereas other concerns, especially energy issues, are largely dealt with in the absence of any multilateral institution. Some participants felt that if the authority of the centralized negotiating body is limited in dealing with certain issues (via measures to protect institutions governing those areas), whereas issues not within the jurisdiction of existing institutions would be subject to the full authority of the centralized body, this would amount to discriminatory treatment. The response to this line of reasoning was that the ambiguity of the current procedural text precluded the setting of parameters of change that could be negotiated for any issue area.

Those participants who expressed concern over the general balance of the procedural text raised a number of possible corrective measures. One suggestion was to insert a sentence, along the lines of the following—In so doing, the Conference will not prejudice the competence, functions, and powers of the specialized United Nations fora—to serve as the penultimate sentence in paragraph 2. Those offering this measure stressed the point that neither the exact wording nor the placement of the sentence were important, but that the essential meaning of the sentence should appear somewhere. Others who felt that the term "prejudice" may appear ambiguous suggested alternative formulations, such as—The competence, functions, and powers of the specialized United Nations fora shall be entirely respected.

Proponents of the existing text raised the question of whether the proposed changes might affect the assigned role and task of the Conference, and whether or not at some future stage of the negotiations some party might claim that the

integrity of the specialized fora was being compromised, thereby placing the entire process in jeopardy.

This led to a lengthy discussion on the intended meaning of terminology in the existing text and in the suggested additions, focusing on the level of precision or ambiguity desired to provide both protection and flexibility, especially with regard to the meaning of the term "objectives and guidance."

There emerged a general consensus around the fact that arriving at a mutually agreed-upon set of procedures required flexibility and pragmatism on the part of all parties involved. One idea that surfaced as a possibility for reaching closer agreement would be to add an additional sentence to that noted above, along the lines of—The preceding words do not preclude the Conference from considering objectives and guidance on reform of the specialized fora. Discussion on these items indicated that the environment was conducive to some imaginative approaches.

In conjunction with the overall objectives of achieving balance among various parties, several comments were made on other terms currently incorporated or proposed for the procedural text. Some participants expressed concern over the use of the term "detailed" in the present text, since the level of specificity to be applied by the various negotiating bodies is not determined. One relevant observation noted the length of time required for the completion of multilateral agreements, such as trade negotiations and the Law of the Sea deliberations, thus the amount of time currently allotted for global negotiations is likely to be insufficient.

Other participants suggested means for achieving balance in procedures may involve the substitution of the phrase "negotiating a package agreement" for the current term "reaching a package agreement" in paragraph 5 of the text. Historical references were then cited on problems over the meaning of "negotiate." Some noted the different contexts in which the term is applied—to the entire process of arriving at a package agreement and to specific bargaining taking place in different bodies. Others suggested that the term "negotiate" might imply the "renegotiation" of previously agreed upon measures. It became evident that these semantic differences and interpretations emanated from real concerns over the actual functioning of the global negotiations.

The discussions on procedural matters indicated a clear willingness by the participants to clarify intentions and apply the creative thinking necessary to overcome differences. Without such efforts the prospects for global negotiations themselves would be seriously diminished.

#### AGENDA ITEMS

At the outset of the discussions it was noted that major progress had been made on many agenda items to the point that agreement is nearly at hand. However, problems remain on two broad functional areas: energy, and money and finance. It was therefore agreed that attention should be focused on these items, beginning with money and finance.

##### *Money and finance*

Given the fact that financial matters are significantly associated with the International Monetary Fund, the session opened with a discussion of the Fund's role, operations and policies. This began with a general assessment of the deteriorating financial conditions facing non-oil developing countries, whose current account deficits are anticipated to rise from about \$70 billion in 1980 to about \$80 billion in 1981. IMF financing of these countries is expected to more than double in calendar year 1980 over the previous year, from \$5.75 billion to an approximate range of \$12-14 billion. Several participants observed that despite the growth in levels of IMF financing, the levels are far less than sufficient to meet current and projected requirements.

The discussion then turned to IMF practices and how these might relate to matters to be taken up within the global negotiations. Some concern was voiced over the amount of time required to implement major changes, such as the adoption of new levels and methods of distribution of quotas. The response was that certain changes, such as quota adjustment, were in fact time consuming due to difficult technical and negotiating problems to be overcome but that other changes can be adopted within a shorter time frame.

Several participants noted that a large number of items on the agenda for global negotiations are already under consideration within the IMF. It was generally agreed that several items are being examined on a selective or continuing basis but that some proposals are not currently being considered explicitly.

After brief comments on the World Bank's role in these issues, the participants turned to the specific agenda items in question, particularly items 19 and 20. As with procedures, the basic differences quickly emerged. While there was agreement on the presence and phrasing of several items, certain participants felt strongly that

other items were phrased in such a way as to imply prenegotiated outcomes. In their view, the agenda should provide a neutral framework within which negotiations could proceed, and the items should not be biased inherently in favor of developing countries. Proponents of the Group of 77 formulation replied that developing countries tend to be weak and vulnerable due to biases in the current system, so the negotiations cannot commence with perfect neutrality. In fact, the stated purpose of the negotiations themselves is to assist the developing countries in their development efforts.

The discussion on "neutrality" led to a large degree of consensus on the feeling that developing and developed countries alike can achieve benefits from changes in international financial policies and practices, although special emphasis should be placed on the problems and needs of developing countries, especially the poorest of the developing countries. If the term "neutrality" refers to either the prejudging of outcomes or a bias in favor of developing countries, several participants suggested that steps could be taken to remove the former but not the latter aspect. This suggestion received considerable support. The session concluded with a general agreement that parties in the deliberations undertake efforts to establish more mutually acceptable formulations of the agenda items.

#### *Energy*

While some progress has been made on overall energy matters, the present formulations for agenda item 11 on energy are fundamentally at odds: the Group of 77 formulation focuses on the improvement and protection of the purchasing power of the unit value of developing countries' energy exports, whereas the European Community's version emphasizes predictability in energy supply, demand, and prices. These variations represent deep-seated differences on how the basic question of energy should be approached. Producers are concerned with the purchasing power of their earnings, and consumers are concerned with predictability of supply and price.

While strong statements were made in defense of both producers and consumers, some agreement was also expressed that both considerations are related and important, and the agenda should reflect a balance between the two. One thought offered as a possible means for approaching a balance was to add language to the Group of 77 formulation along the lines of the following—Energy supply and demand problems, as well as criteria for pricing, taking into account the interests and responsibilities of all countries concerned, with a view to facilitating the smooth transition.

The discussion which followed concentrated on clarification of positions and the relationship between earnings protection and supply/price protection in the overall agenda. One suggestion raised was to incorporate the issue of purchasing power of the unit value of energy exports elsewhere in the agenda where the purchasing power of primary commodities and raw materials earnings are covered. Participants concluded that the issue of energy in the agenda is still fluid, given the inter-related nature of energy concerns with many or all items currently under consideration.

#### CONCLUSIONS

Concluding remarks noted that the presence of the participants acknowledged their desire to overcome differences, and that this meeting of minds will assist future efforts to draft mutually acceptable procedures and an agenda for global negotiations. Throughout the discussions participants concurred on the urgency of the need to begin negotiations on a sound footing in early 1981, given the severity of problems confronting the international economy and the developing countries. Regardless of differences on form and substance, a strong consensus was voiced on the need for flexibility and imagination to reach common ground, and a strong degree of willingness to attempt such an effort was apparent.

Mr. LAGOMARSINO. Mr. Schultheis.

#### STATEMENT OF MICHAEL SCHULTHEIS, STAFF ASSOCIATE, CENTER OF CONCERN

Mr. SCHULTHEIS. Mr. Chairman and friends. My name is Dr. Michael J. Schultheis. I am a staff associate of the Center of Concern, an independent interdisciplinary team engaged in social analysis, religious reflection, and public education around questions of social justice with particular stress on the international dimensions. We hold consultative status with the United Nations and have participated in many U.N. conferences on international

social policy—issues of population, food, women's rights, trade, development, and unemployment.

My own background is international economics and development. I have lived in Africa for 7 of the past 10 years and presently am on leave from the University of Dar es Salaam, Tanzania, where I am lecturing in economics and working with an economic research institute. Next week I return to my work there. In recent years I have participated in four U.N. conferences: UNCTAD IV, Nairobi 1976; Desertification, Nairobi 1977; UNCTAD V, Manila 1979; and the recent U.N. special session on economic issues in New York City. I ask your permission to submit for the record an article which appears in the current issue of *America* magazine—November 22, 1980. In that article we have reviewed the dynamics of the special session and placed it in the larger context of the North-South dialog.

Mr. LAGOMARSINO. Without objection it is so ordered.  
[The article referred to follows:]

#### THE UNITED STATES AND THE NORTH-SOUTH DIALOG<sup>1</sup>

(By Michael J. Schultheis and Jane V. Blewett)

The eleventh session of the United Nations General Assembly on Economic Issues (UNGASS) concluded on Sept. 15, after three weeks of deliberations. Four times the scheduled two week session had been extended, and delegates continued their efforts to reach a compromise agreement. In the end efforts failed. The United States, supported by Britain and West Germany, rejected a compromise document on which the other 148 member nations of the United Nations could agree.

What had gone wrong? Or was it inevitable, given the apparent divergence of interests between the richer industrialized countries and the many developing nations that a conference that addressed the basic structures of the global economy should end in confrontation? And what are the basic issues behind this failure and some of the implications for the future of the world economy? What were the basic issues and the dynamics of the special session, and what was the context of the on-going debate surrounding the New International Economic Order (N.I.E.O.)?

The special session, in preparation for nearly three years, was designed to prepare an International Development Strategy (I.D.S.) for the 1980's. Last December the General Assembly gave it the additional commission of preparing the framework for global negotiations on the world economy. Such negotiations, sometimes referred to as the North-South dialogue, have been stalemated since the breakup of the Paris Conference on International Cooperation (C.I.E.C.) in 1977. The basic concept of a Decade for Development, however, goes back to Sept. 25, 1961, when President Kennedy proposed to the United Nations General Assembly that the 1960's be designated a development decade. He challenged all nations to cooperate in the difficult and sustained battle against poverty, ignorance and disease.

The first Development Decade largely identified development with economic growth. The Program for International Economic Cooperation, as the resolution of the first decade was termed, proposed overall economic growth targets of 5 percent per annum for the underdeveloped countries and regions of the world. Moreover it advocated development assistance or foreign aid as an important component in attaining this target. Perhaps the most important aspect of the decade, however, was that it expressed a political commitment of the United Nations system and the member states to the concerns of the third world.

The political geography of the world changed markedly during the 1960's as many countries achieved political independence. Western countries attempted to bolster relatively weak political and economic units with development of infrastructures and the rapid commercialization of their economies. The second development decade for the 1970's, consequently, was a program much more specific and comprehensive in scope and may be termed an international development strategy. It expanded the measures of the first resolution, set growth targets, delineated policy measures and reiterated aid pledges.

But even as the decade of the 1970's unfolded, it was obvious to many in both

<sup>1</sup> From *America*, November 22, 1980; reprinted with permission.

developed and developing countries that such measures were inadequate to meet the needs of the majority of the world's people. Although per capita food production in most countries was rising, the numbers living in absolute poverty and hunger were increasing. At the same time development assistance from the rich countries was falling, relative to gross domestic product, from 0.4 percent in the early 1960's to 0.3 percent by the end of the 1970's.

The developing countries has begun to question certain features of the world market economy already in the 1960's. Under the framework of the United Nations, the first Conference on Trade and Development (UNCTAD I) was convened in New Delhi in 1964. There 77 developing countries (the Group of 77 or G-77, now numbering 119) urged the developed nations to grant them better terms of trade on their processed exports, stable and remunerative prices on primary products, and increased development assistance to build their social and economic infrastructures. The developed countries were not prepared to go beyond token concessions in the second and third UNCTAD's, which were held in Geneva (1968) and Santiago (1972).

The agenda for the Global Negotiations included five items: raw materials, energy, trade, development and money and finance. Basically all parties, both the G-77 and the industrialized countries, agreed to this agenda. Details, however, were not discussed at the session, because of differences over procedural issues.

Against this background and suddenly conscious of the bargaining power of oil, exercised so effectively by the Arab oil producing nations during the Middle East war of 1973, the developing countries began to demand structural changes in the international economy. The sixth and seventh special sessions of the General Assembly in 1974 and 1975 set forth the basic elements of a N.I.E.O. that would function to the benefit of the developing countries.

Essentially the N.I.E.O. demands major structural changes in the world economy in three broad areas: 1) world production, i.e., transfer of industrial production from the North to South; 2) world markets, i.e., stable and remunerative prices for primary products by means of a common fund and commodity agreements, revision of the International Monetary Fund (I.M.F.) and transfer of financial resources; and 3) world decision making, i.e., enabling the developing countries to transform their numerical majority into action. The notion of structural change—"based on justice, equality and mutual benefit"—is fundamental to the concept of the N.I.E.O.

Since the seventh special session, several conferences have attempted to advance the implementation of the N.I.E.O. These have included UNCTAD IV (Nairobi, 1976), UNCTAD V (Manila, 1979) and the United Nations Conference on Science and Technology for Development (U.N.C.S.T.D. [Vienna, 1979]). Although some achievements can be noted, for example, the Common Fund negotiated within UNCTAD in 1979, progress has been painfully slow.

The developed countries have not adjusted well to hearing the developing nations define the basic problems of development in terms of political, economic and cultural liberation. Understandably the richer industrialized countries are slow to accept the need to modify an economic system that has worked reasonably well for them over the last three decades and that they believe can be modified to accommodate the crises that emerge, like inflation, unemployment, depletion of basic resources and despoliation of the environment. Many argue, however, that these stresses confirm the need for fundamental structural changes in the world economy.

The eleventh special session sought to bring these two elements together. Initially, the main business of the session was two-fold: 1) review the achievements of the second development decade and progress toward implementation of the N.I.E.O. and 2) adopt an International Development Strategy for the 1980's. However, it was evident to the developing countries that progress on the N.I.E.O. had dead-centered. Consequently, the G-77 proposed that the General Assembly commission the special session to inaugurate a round of global negotiations between the North and the South. The developed countries supported a General Assembly resolution (34 to 138) to this effect, provided the agenda included energy. In addition, the special session was to undertake a new assistance program for the poorest developing countries.

A preparatory committee (Prep Comm) made up of all United Nations member states was established to draw up an International Development Strategy. In the name of the G-77, India submitted two informal papers: one on goals and objectives of the I.D.S. and a second on policy measures for the I.D.S. They contained what the G-77 considered priority issues. The paper on goals and objectives dealt mainly in specific targets for economic growth as well as in aid requests for the decade. In this respect the strategy was similar to that of the second development decade. The United States responded that these targets were unrealistic and political and offered lower alternative figures.

In a revised draft, the G-77 emphasized more what the industrial world could do

to assist the third world in the development process. These included the following principal items: international trade, measures to promote third world industrialization, the increased transfer of financial resources (ODA to reach 0.7 percent per annum by 1982 and 1.0 percent by 1990), restructuring of the I.M.F., and energy.

In reacting to the G-77 revisions, the United States in particular objected to the ODA target levels and dates. The United States also resisted vigorously the G-77 proposal to alter the conditions under which the I.M.F. granted assistance and extended credit facilities to countries facing balance of payments deficits. In passing it may be mentioned that the United States controls about 20 percent of the votes within the I.M.F. and has been able to protect itself from balance of payments deficits by floating the dollar. In effect this procedure allows it to pass the burden of adjustment to weaker economies.

During this same period, the United Nations Committee of the Whole (COW) was preparing the framework—procedures, agenda and timetable—for the Global Negotiations. Immediately this committee had to face the basic conflict which remained throughout its preparatory work and the special session itself. In essence, it is the question of where the final decision-making authority is to rest.

Within the United Nations system specialized bodies like F.A.O., WHO, UNESCO, I.L.O., I.M.F. and the World Bank have been established for specific tasks. Because of their history, the I.M.F. and the World Bank operate with a considerable autonomy, for the most part outside the framework of the United Nations. The G-77 proposed that these specialized agencies also be brought within the overall framework of the Global Negotiations. By centralizing the decision-making, it should be possible to achieve an integrated approach, in contrast to the present decentralized and piecemeal negotiating process. This not only would demonstrate where interests converge but it would also facilitate the packaging of agreements.

The General Assembly had specified no guidelines with respect to the procedural question: How and where would negotiations be conducted? The G-77 wanted them to be centralized in a forum in New York, even for the specialized agencies. The European countries agreed to this in the COW, but the United States adamantly refused to consider any changes in the decentralized system. This issue had not been resolved in the committee prior to the special session. Thus the stage was set for the stalemate that eventually emerged.

The agenda for the Global Negotiations included five items: raw materials, energy, trade, development and money and finance. Basically all parties, both G-77 and the industrialized countries, agreed to this agenda. Details, however, were not discussed at the session because of the differences over procedural issues.

The special session was convened as scheduled on Aug. 25, although until the week preceding there were rumors that it might be postponed or canceled because the preparatory commission had failed to agree on final drafts of their respective documents. While a plenary body listened to each country's representative address the topic of the world economy, the real work of the session was organized around two groups: Working Group I to finalize the I.D.S.; Working Group II, the Global Negotiations. Although major areas of disagreement were present in each working group, from the outset it was evident that the critical issue of the special session related to the procedural rules which would govern the Global Negotiations.

By the end of the second week, the scheduled date of the conclusion, negotiations in Working Group II were deadlocked. A compromise text prepared by the chairman of the group, Bogdan Crnobrnja of Yugoslavia, had served as a basis for long hours and protracted debate over its carefully worded 12 paragraphs. Repeatedly, the two main negotiators, Charles Meissner from the U.S. State Department's Bureau of Economic and Business Affairs and Brajesh Mishra, India spokesperson for the G-77, came together with one or other high-level special session or United Nations official to try to resolve the differences. Inside sources indicated that the White House and Secretary of State Muskie were also deeply involved.

Finally, a second compromise text by Mr. Crnobrnja was drawn up—by now, the Session was in its eighth day beyond its scheduled time—and in a wrap-up session, it was presented to the full committee of both working groups for their endorsement. The same 12 paragraphs had been reworked endlessly in an effort to dispel especially U.S. fears.

The text called for a central forum for "coordinating and conducting" global negotiations with a view to ensuring a simultaneous, coherent and integrated approach to all the issues under negotiation. The central forum would both entrust agenda items either to specialized agencies or to ad hoc groups for negotiations and receive the results of their actions, with a view to reaching consensus on a package agreement.

The exact role of the central forum, the autonomy of the I.M.F., the final "package agreement," which would somehow leave open possible renegotiations of deci-

sions made in the specialized agencies, all was too vague and uncertain for the United States. When it was its turn to make a public response to the compromise text, the United States refused to accept it as a basis for the Global Negotiations. To avoid being totally isolated on this issue, Washington had pressured London and Bonn (over the heads of the E.E.C. negotiating team in New York) and both countries joined in rejecting the text.

In order to record accurately the amount of support for the text, the G-77 proposed that the committee inform the General Assembly that: "With the exception of three delegations, all members of the committee expressed their readiness to accept the compromise text as the procedural framework for the global negotiations \* \* \*." There was no doubt which country(s) had held to a hard, uncompromising line and blocked the next step in the North-South dialogue.

Working Group I eventually reached consensus on the I.D.S. text and at the final plenary, the consensus was "noted." However, the document was not adopted by the session but rather, along with the documents from Working Group II, forwarded to the 35th General Assembly regular session for some future action. The G-77 purposefully would not agree to the I.D.S. being adopted since this would have allowed the United States to speak of the special session as a "success" while glossing over the failure of the more significant Global Negotiations.

Referring the special session issues to the general assembly leaves open the possibility that both sides could renew efforts to reach agreement on procedural matters if they so wish.

The G-77 have yet to decide on their course of action, but almost certainly they will attempt to obtain action on global negotiations during the coming three months of the regular United Nations session. If they are successful, these negotiations will begin early next year. Such action is essential to ensure implementation of the goals and objectives of the International Development Strategy. The United States is not likely to accept a compromise position, however, until after the November elections.

The failure of the special session raises several troubling questions regarding the future of the North-South cooperation. For many there is the specter of the United States retreating into a militaristic and neoisolationist stance during the 1980's. The hardline and often arrogant stance of the United States in such international negotiations tends to confirm this and calls into question the pledge that Secretary of State Muskie made to the plenary, that the United States is committed to a constructive role in the North-South dialogue.

One lesson reinforced by the special session is that there is very limited citizen support in the United States for the problems and concerns of the third world. The mass media gave almost no coverage to the session and the issues discussed there. One wonders why this was so. Surely this was an occasion to educate people across the country to issues of vital concern to the peoples of the third world. How many American citizens know, or care, that most developing countries see the United States as a principal obstacle to their economic progress and social development?

Yet there may be some glimmer of hope in all of this. It is evident that the global economy is vastly more complex today than when President Kennedy called for the first United Nations development decade. There is greater decentralization of power. No longer can any one country exercise a dominant role, as did the United States during the 1950's and 1960's. New alliances are forming. Workers and peasants, women and trade unionists, are calling governments and multinational corporations to account for their stewardship. Precisely for this reason the United States cannot afford to remain apart from the new initiatives that are shaping global institutions.

Perhaps the Eleventh Special Session can be viewed as part of a process in which there is no going back. Poverty and hunger can be turned around, and living standards of the masses of the world's poor can be improved only if certain structural changes occur. This will be facilitated by the concerted and sustained efforts of the entire community of nations. There will be no long-term beneficiaries for failure.

Thus the continuation of the North-South dialogue is essential for every country. No country can gain by refusing to move forward in a spirit of compromise agreement on global negotiations. The challenge is for rich and poor countries together to fashion institutions that are capable of creatively responding to emerging global crises and the pressing human needs of the 1980's and the 1990's.

[Michael J. Schultheis and Jane V. Blewett are on the staff of the Center of Concern, Washington, D.C.]

Mr. SCHULTHEIS. We appreciate very much this opportunity to address the subcommittees, and wish to compliment you for this

interest, and perhaps give a different viewpoint to what spokespersons for the administration who have carried the burden of the preparation and the negotiations have given. I will give something of a counterposition perhaps to the statements that they have made.

I have divided my remarks into three different sections: First, dealing with the outcome of the special session, second, the reasons for the deadlock, why I think it is important for the United States to support the global negotiations; and then finally some concluding remarks.

#### OUTCOME OF THE SESSION

It is my opinion that is shared widely I think by Third World and many developed country observers, that in fact the special session failed. Certainly there is no question that it ended in deadlock.

Second, that the United States is perceived by many observers, both from the northern countries and also from the south, as being primarily responsible for that failure, for that deadlock, and I find this somewhat more dismaying, particularly in having worked in developing countries, that the United States in many areas is perceived as having stood against the major international initiatives which have been designed to promote development over the past several years. Perhaps in the question period I can come back and explain or refine that a bit.

I think a major exception would be in terms of aid to the least developed of the developing countries, and I would also say that there perhaps are some legitimate reasons for opposition to some of these initiatives, but I think that statement with qualification can stand.

I would also add that because of its hard line and often arrogant position that it has taken in such international forums as the special session, that the United States is increasingly seen as a major obstacle to the development of the Third World, perhaps only second to Russia. I find this distressing. I know a lot of members of the NGO community also find it distressing, and I am sure inasmuch as that is true, it is distressing to most of you here also.

Several questions then would come from these observations. First, were the objectives of the special session realistic in the sense that they were able to be achieved? Second, and I think this is also a legitimate question: Is it inevitable that an international conference which addresses the fundamental issues that relate to the basic structures of the global economy should end in confrontation and deadlock? And a final question might be asked, though I think it is too broad for our answering: Where do the real interests of the United States and other countries of the North, the industrialized market-economy countries, lie in their relations with the so-called developing world, the South? I would agree with Mr. Balance that the South is a very heterogeneous group of nations, but the question would be whether our interests lie in polarization, confrontation, or in a cooperative effort that would address the major problems facing the world economies at this time.

The 11th special session concluded on September 15 after 3 weeks of deliberations. It had gone into and completed a third

week. The efforts of the delegates to reach agreement on the basic questions of the procedural framework which would govern global negotiations were not successful. You have already seen this. The United States was supported in the end by Great Britain and West Germany, and my understanding was that they supported the United States only after appeals had gone from Washington to Bonn and to London, and it was only as a result of pressure at very high levels of government that Germany and Great Britain finally supported the United States in its position. The other 148 U.N. member countries did accept that document as a basis for the global negotiations.

#### REASONS FOR THE DEADLOCK

Now the reasons for the deadlock. I think there are several reasons for this, but perhaps they would come down to this. That the United States has never been very happy with the South's demands for more fundamental restructuring of the world economy, and the questions now are becoming increasingly focused on some of those fundamental questions.

The special session initially was commissioned to prepare an international development strategy for the 1980's, the third development decade. I want to go a little bit into the background of that. It was last December that the U.N. General Assembly gave the special session the additional mandate of preparing the framework for global negotiations on a better management of the world economy. Such negotiation, sometimes referred to as the North-South dialog, has been stalled since the breakup of the Paris Conference on the International Cooperation (CIEC) in 1977. You may recall that this itself emerged out of the move by the United States to bring the energy question into a high level conference, primarily with the OPEC countries, but the OPEC countries, flexing their new found solidarity and reaching out for support from the Third World, insisted that other questions also be involved at this point. In their testimony, the spokespersons for the administration in part glossed over that essential aspect. The United States together with some of the Western European countries that are very dependent upon energy have tried to isolate energy and treat it in its own sort of special forum, but the OPEC countries have insisted that energy should be included along with other issues that relate to the international economy.

The reasons for the deadlock between the North and South in 1977, at the CIEC Conference, were much the same, I would argue, as in the recent special session. We do not have time here to go into the details about the origin and key elements in the development of the North-South dialog but a few points are relevant. In the past three decades the political geography of the world has changed dramatically. Many countries, having acquired political independence in the late 1950's and 1960's, seek a more active role in the world political and economic arena. We have the formation of the nonaligned countries in the middle 1950's. Within the U.N. system many began to urge that the North grant them better terms of trade on processed products and access to markets, stable and remunerative prices on primary products and increased finan-

cial assistance for social and economic infrastructure. This developed then within the United Nations structure into the creation of the U.N. Conference on Trade and Development (UNCTAD). The first session of UNCTAD was in New Delhi in 1964. It was followed 4 years later in Geneva, UNCTAD II, 4 years later in Santiago, UNCTAD III. But the Northern countries were not prepared to really address the basic issues that were being raised, and only token concessions were forthcoming. These have been in the form of general licensing preferences and a few other items.

The North-South dialog entered a new phase, however, in early 1970. This was a result of the Mideast war, when the Arab oil producing countries embargoed oil shipments to the West, and formed the Organization of Petroleum Exporting Countries (OPEC). With its new found bargaining power through OPEC, the South then began to demand structural changes in the international economy. The outcome of all this was the 1974 special session on economic issues. The first of the special sessions to deal explicitly with the state of the world economy was followed the following year, in 1975, by the seventh special session. In the December 1975 meeting of the General Assembly, there was passed the charter of economic rights and duties of states, known as CERDS. These sessions set forth the principal elements of a new international economic order, that would function somewhat more to the benefit of the developing countries.

The NIEO involves structural changes in the world economy in three broad areas. First, world production, that there should be a transfer of industrial production from the North to the South; second, world markets, establishment of stable and remunerative prices for primary products by means of an integrated commodity program which would involve a common fund, a type of banking funding mechanism and monetary agreements, the revision of the International Monetary Fund and establishment of mechanisms for the transfer of financial resources.

Finally, changes in world decisionmaking that is the modification of institutions which would enable developing countries to transform their numerical majority into action.

I don't say running rough shod over the rights of the minority, but transferring their needs into action at the international level.

The notion of structural change based on justice, equality, mutual benefit is fundamental to the concept of an NIEO.

At the seventh special session in 1975, the U.S. position shifted from its 1974 stance with a recognition that there had to be some reconciliation, some reaching out to accommodate the demands of the developing nations. Mr. Kissinger's speech at the special session is well known.

Although there have been some achievements, for example, the Common Fund negotiated in UNCTAD in 1979, progress has been painfully slow and frequently achieved despite the United States.

The administration's spokespersons are reluctant to admit this. I have heard different spokespersons from the administration referring to the Common Fund as the single achievement in which the United States has taken initiative.

The historical record shows that is not a correct statement. In

my opinion the U.S. policy position and delaying, tactics in an attempt to divide the developing countries among themselves, is based on a fundamental misreading of the signs of the times.

By following a narrowly defined policy of self-interest, our policymakers have seriously compromised the potential of the United States to exercise a positive political, moral leadership in the world today.

Several major studies have documented the extent of the present world economic crisis and the devastating impact it has had, particularly on the nonexporting developing countries.

Mr. Hormats has referred to these studies. Yet when the developing countries stress that the present crisis is symptomatic of serious maladjustments, when they reject the short-term and piecemeal policy measures proposed by developed countries, as inadequate to resolve the crisis, the United States counters that they are being unrealistic and political.

I think that it is something more than a problem of terminology. The richer countries of the North are reluctant to modify a global economic market system that has worked to their benefit reasonably well over the past three decades. But their reluctance to address the underlying issues and support the major initiatives proposed by the international community suggest that other factors are involved.

It is important to recall that the major institutions which are at the center of the world economic system are largely owned or controlled by the North. For example, the United States with about 20 percent of the voting stock effectively controls decisions made by the IMF.

The United States has not hesitated to act independently or to change the rules of the IMF when such action seemed appropriate.

To defend my remarks against the earlier speakers, this is a very important aspect. And when Mr. Creekmore suggested the number of initiatives that have been taken and referred to the MTN, the new facility within the IMF, and the World Bank, I agree to that, but those are largely within the institutions over which the United States has control. So these are not, I would argue, major international initiatives, even though and in many cases they are essential for the economic health of the Third World countries.

These observations may help us to evaluate the policy and the performance of the United States at the recent special session. The South has urged that the international development strategy and the global negotiations embody a comprehensive and integrated approach which would address simultaneously the many complex and complementary effects of the current crisis. The United States has argued consistently for a limited and realistic approach that is economic rather than political in nature.

What can be pointed to then in the way of achievements at the special session? The working group on the IDS did reach agreement on a final text. This consensus was noted, but the text was not forwarded to the plenary for approval because of the deadlock in working group II on the global negotiations.

The Group of 77 had decided not to advance the IDS to the plenary session, where presumably it would have been approved after the United States and other countries that had reservations would have entered those reservations. The Group of 77 did not

agree to that process precisely, and we have evidence of their fear, so that the United States would not be able to point to the special session as a success.

The record this afternoon would be an illustration of that.

Since the United States as well as several other countries had expressed reservations on the text, those will be included in the final IDS when it is approved by the General Assembly.

The Working Group on Global Negotiations did not agree on a final document. The final text called for a central forum which would coordinate and conduct global negotiations with a view to insuring a simultaneous, coherent and integrated approach to all the issues under negotiation. The United States objected to the text on the grounds that it was too vague about the exact role of the central forum, the autonomy of the IMF and the final package agreement, which seemed to leave open possible renegotiations of decisions made in the specialized agencies.

There are a number of cogent reasons why it is in both the short- and long-term interests of the United States to support actively global negotiations on the world economy. Many of these have been argued elsewhere and time prevents us from a closer examination here today.

#### WHY UNITED STATES SHOULD SUPPORT GLOBAL NEGOTIATIONS

Mr. Chairman, I would like to return to the questions posed at the beginning of these remarks. It is imperative that the twofold objective of the special session be achieved; that a new international development strategy be adopted for the third development decade and that global negotiations on the world economy be launched soon.

Although it is evident that the North and South have somewhat different perceptions of the crisis affecting the world economy, these differences at the international level often translate into policy measures rather than more fundamental ones.

For example, the South neither takes issue with nor seeks to undermine the world market system and the institutions which support that system.

Both the international development strategy and the document on global negotiations seek to improve the operation of the present world economic system, to open it to wider participation by better access to markets and by increased representation in the major institutions like the IMF and GATT, and to restructure the system to accommodate the needs and legitimate interests of the developing countries.

All of these items are consistent with an expanding world economy and democratic institutions. To support them clearly is in the best interests, both short and long term, of the United States. I make the point here simply in terms of our dependence on Third World countries for exports. In 1978 almost 40 percent of total U.S. exports went to developing nations; of this amount, some 26 percent went to non-OPEC nations. But the economic reason is not the only reason why it is in the vital interests of the United States and consistent with the best traditions of our society.

It is evident to most of us that the world in which we live is vastly more complex than the one into which we were born. There are many more actors and stages. This recognition challenges us all to think more creatively and to work more industriously in the development of new institutions of cooperation.

The United States cannot remain apart from the new forces which are shaping the world, even if it wished to do so. But it can submerge and obstruct them at great cost to our own country and to the world community. One fears a reversion to an outdated policy of militarism and interventionism as a potential catastrophe on limited dimensions. I really feel that.

#### CONCLUSION

In conclusion, Mr. Chairman, in his address to the plenary assembly of the special session, Secretary of State Muskie pledged that the United States remained committed to a constructive role in the North-South dialog and the special session.

In the light of the failure of the special session and of the U.S. responsibility for that failure, many observers and participants question both the sincerity of his pledge and the extent of that commitment.

It is our hope that the United States will yet assume a leadership role in promoting a true internationalism and the economic health of the world community.

We understand that the United Nations General Assembly this week is considering the unfinished work of the special session and that global negotiations may be convened early next year.

We urge the United States to support in fact and in principle the main elements which were before the special session. Essentially these can be summarized in three items:

Wider representation and participation of the developing countries in the decisionmaking structures of the world economic institutions;

A more equitable sharing of the global product;

The mobilization of the world's human and financial resources to meet the needs of the world community and to provide a minimal standard of living for all.

I understand, and we all do, the political problems of moving on that kind of an agenda.

More specifically, Mr. Chairman, we at the Center of Concern urge that the subcommittees take the following action:

One. Schedule congressional hearings early in January to encourage the administration to be forthcoming in the global negotiations;

Two. Recommend to the administration that the United States participate in the global economic summit, which was recommended by the Brandt Commission and which is scheduled to be held in June 1981. More than 25 countries have already indicated that they will attend. I understand that the United States declined that invitation; and

Three. Convey to your counterparts in the Senate your concerns on the issues of global negotiations and urge that they have future Cabinet appointees respond to these issues.

In conclusion, Mr. Chairman, I wish to commend you and these subcommittees for holding these hearings. It is important that policymakers and the general public be aware of the importance of these issues which remain before the world community.

I was dismayed at the lack of press coverage of the special session. When one compares it to the International Monetary Fund session in late September, there is no comparison.

Certainly a positive response by the United States in any future global negotiations would do much to advance the North-South dialog and to promote the success of the international development strategy for the 1980's.

We of the Center of Concern urge the Congress and the administration to move in this direction. We pledge our fullest cooperation and assistance in your efforts to do so.

Thank you.

#### MIDDLE EAST INSTABILITY AND OIL SUPPLIES

Mr. LAGOMARSINO. You make reference to the disenchantment of Europeans with the Camp David process, or at least the implementation of it, and I would like to ask you, do you think that the feeling is the same now as it was perhaps before the outbreak of the Iraq-Iran war?

What I am getting at is I think that there are a lot of people who thought that if the Israeli-Arab problem was solved, that there would be no problem at all in the future with regard to oil supplies.

We see now two major producers at each other's throats, both of whom are strong enemies of Israel. Has that changed the feeling about the Camp David process?

Mr. BALLANCE. I think this operates at two levels. I have to say in advance that I am not an expert on the Middle East.

On the one hand, it is true that the Iraq-Iran war has raised to a very visible level the tensions that are present in the region quite apart from the Israeli involvement. Of course, these tensions have been there for a long time.

There is a real division of opinion among Arab and Moslem countries so that this is bursting forth into war, but the tension was there and there are fundamentalist and religious tensions going on in a number of countries besides Iran.

Also it diminishes any European attempts to try to proceed with their own independent strategy for a solution on the Palestinian issue. As long as the Iraq-Iran war is going on, people will focus on that and somewhat less on the Palestinian issue.

But, leaving that aside there is a real sense in which the Palestinian issue is a fundamental issue that has been a part of the problems in the Middle East for a long time.

I think unless some progress is made on that issue, it will present the kinds of tensions in the area that will continue to make it a major trouble spot in the world, continue to make Western relations with those countries extremely difficult, and will continue to be a basis on which the more radical regimes in the region can argue that the West is acting contrary to their interests and contrary to the Palestinian interests, so it is very much in our interest

and in the European interest to move toward a resolution on those issues.

Mr. LAGOMARSINO. My point was that I think a lot of people have come to the opinion that although it is certainly important to do that, that it is not going to be a magical wand, that merely by settling that issue you are not going to remove the tensions that caused the Iraq-Iran war. In fact, it might cause more because they won't have the common enemy to go after.

Mr. BALLANCE. I am not sure it will cause more.

Mr. LAGOMARSINO. That doesn't mean we shouldn't do everything we can.

Mr. BALLANCE. It is a continuing thorn.

#### PROCEDURE VERSUS SUBSTANCE

Mr. LAGOMARSINO. Why do you believe the United States wanted to see the negotiations break down over procedure rather than substance; that is really what you are both saying.

Mr. SCHULTHEIS. I would not separate the question of procedure from substance. The two are identical. Whether the ultimate decisionmaking authority will remain in the specialized agencies, the IMF, the World Bank and GATT or whether it will come back to a central forum which will have a coordinating and conducting right, and out of that would emerge a package agreement.

These are substance questions, so the procedure and the substance come together here. I think our negotiators or policymakers understood this, so they held negotiations up at the procedural level because you have to eventually resolve that.

If you are talking about coordination of global agreements, somewhere they have to come together for review and say, well, how do we coordinate this? The World Bank is doing one thing; GATT is off doing another. Can we not somehow review this?

I don't think the Third World is arguing that they will set up a mini-IMF in New York City when you have all of this capability in Washington, but this issue should be integrated with the other key items that are on the agenda for global negotiations.

Mr. BALLANCE. I would say that, given the stage at which things had come at the Conference, the difficulty in reaching agreement prior to this, the time that it occurred in the political life of this administration, I think they saw it as preferable to be hard on this issue now, rather than say we will try to find compromise words and deal with the issues substantively when they come along next year.

I think that they felt when those issues came along next year, had they not managed to get the wording that they wanted here, that they would inevitably be presented with a series of package proposals, that they would then have had to fight on substantive grounds as a package.

I don't think they wanted to do that, and particularly on issues having to do with the IMF. The IMF annual meeting occurred in Washington shortly after this, and it began before this was over actually. There have been some changes in the IMF.

In fact, this meeting and the United Nations meetings have an impact on specialized agencies. The IMF has moved to liberalize

somewhat its conditionality requirements in developing countries, and that is probably a useful move actually.

Mr. LAGOMARSINO. This is the bottom line and you are going to have to negotiate above that line; would you agree with that?

Mr. SCHULTHEIS. I would; I don't want to be too hard on the American negotiating team in New York because I know they were very dedicated. The decisions in large part were out of their hands, but look at what has just gone on at the IMF—I thought it was rather unconscionable that Mr. Bergsten would take the podium on Friday before even the IMF meeting had opened and give out a kind of agenda for the IMF which had not been really cleared with the members of the Board of Governors. This, I think, is where the Third World countries, to speak in categories, find the arrogance of the United States so offensive.

Another example: Mr. Kissinger in Nairobi at UNCTAD IV, when he came into the Conference with his own agenda, most people thought this was the height of arrogance. Rather than accept and negotiate in good faith on an agenda that was on the floor for several months and to try to move that forward he introduced his own separate proposals.

To some extent the same thing was true with issues before the special session. They were in the planning stage for almost 3 years, they have been in the negotiating committee on the IDS for almost 2 years, and global negotiations only since last September.

#### U.S. SELF-INTEREST

It is a question of where you see your basic interest lying, but I would say, we are defending the integrity of the specialized agencies in order to maintain control. It is messy when we have to work in terms of the U.N. General Assembly which we cannot dominate and control.

We do not hesitate to take unilateral action on issues that normally are considered within IMF when it is in our benefit to do so. So we ourselves are not consistent when we talk about maintaining the integrity of these specialized agencies.

Mr. LAGOMARSINO. You mention the 20-percent voting rights we have. How much money do we put in?

Mr. SCHULTHEIS. About the same amount.

Mr. LAGOMARSINO. You would have a very difficult time convincing Congress or the American people.

Mr. SCHULTHEIS. I understand that.

Frank brought out very well, I think, the problems of negotiating in the special session, given the political issues, and I understand that very well, so I am trying to be critical and I am critical, and in part we are asked to respond in a critical way to the administration, but I think, given the difficulties of the politics, then maybe, well, I have to soften my criticism in part because there is a constraint in terms of what can be achieved.

Mr. LAGOMARSINO. In your statement, you say:

By following a narrowly defined policy of self-interest our policymakers have seriously compromised the potential of the United States to exercise a positive political and moral leadership role in the world today.

Are you saying that we shouldn't do things in our self-interest or do you disagree with what they are saying our self-interest is?

Mr. SCHULTHEIS. I would say our self-interest lies in a larger definition than simply what is good for business. I don't want to simply bring up the multinational issue. Oftentimes what is good for business is not necessarily good for the United States. I think this is particularly true in Third World issues.

#### EXPORT OF BANNED SUBSTANCES

For example, one of the real complaints in many Third World countries, and the issue was raised by one of the Congressmen here before, is about the export of goods to Third World countries that are banned within the United States. Now, a lot of Third World countries are very angry about this. At some future point they will be able to address this problem.

At present their ability, I can speak from personal knowledge, to supervise imports, to establish something comparable to the Food and Drug Administration, is fairly limited.

The United States is reluctant and has not taken an initiative—and I have to check back with people on the U.N. Committee on Transnationals—in terms of entering into codes of conduct for the multinationals that would prohibit this kind of transaction. The machinery does not exist very well. The United States has opposed things like multinational binding codes of conduct.

Mr. LAGOMARSINO. Why can't any country that you mention pass a law saying you can't bring it in unless we say you can. All they have to do is pass a law saying it has to be something approved by the FDA.

Mr. SCHULTHEIS. In terms of monitoring in their own countries, some are moving to do this, but how do they get at the multinational? If multinational corporations are an important factor in terms of their own economy, it itself is involved in partly control of—

Mr. LAGOMARSINO. What about the other side of that? It does bring up some interesting points because there are a lot of other lesser developed countries that feel that they should make the decision whether they need just to pick one out, whether they need DDT, it shouldn't be banned just because we don't like it here.

Mr. SCHULTHEIS. This becomes very difficult; the same thing in terms of whether Sierra Leone will allow a U.S. company to come in and bury our atomic waste. Well, now somebody there may be getting a payoff. Somebody is involved in that decision. It is quite clear that it is not in the best interests of the country.

Why should I determine for the Government what is correct, but it also is correct that at the United Nations level certain things, certain decisions can be made that in fact help those countries make national decisions that they may not be able to make themselves without the international support.

Mr. BALLANCE. Could I make one comment on what he said at the beginning, before the discussion on the question of exporting particular items.

I would like to associate myself with Mike's conception of widening our definition of self-interest. This is very important in terms of our dealing with these issues. One of our problems is that, frankly on many of these issues, it is impossible, if you define self-interest in very narrow terms to determine a self-interest compo-

ment in every aspect of this, which is why in some sense the package idea is attractive.

The problem is the agenda is set to the G-77 in ways that we don't like. Therefore, it comes to us in a prepackaged form that we don't like very much, but I would not want to go on record as being completely opposed to the package concept.

There are useful elements in it, and if you widen your definition of self-interest sufficiently, you may find that there is a substantial interest on one particular item in the United States, and you may have to balance that off on others.

Congress does that all the time in terms of domestic interests, and it is perfectly understandable that people agree upon it. It is more difficult in an international environment, but I do think we are going to have to broaden our conception of what is in the national interest.

#### ROLE OF OPEC

Mr. LAGOMARSINO. If the OPEC nations were successful, as apparently they were, in diverting attention away from energy issues and insuring that the international development strategy would not be a meaningful document, why don't we say that caused the Conference to fail, in other words, had they taken another approach?

Mr. BALLANCE. It is true in a way.

I think if you look just strictly in the short run, there is absolutely no doubt that oil price increases have been the most destructive factor in the world economy and far more destructive to the economies in developing countries than they have been to our economy, where we have some resilience, so the developing countries have suffered terribly under this burden.

There is an extremely poignant article in the New York Times Magazine this Sunday; I recommend it to you.

It has a picture of a starving Ugandan child on the front of it and it is an example of how badly things can go awry in a developing country that was a relatively prosperous one.

Uganda from a decade of Amin's rule and Government incompetence has now been reduced to a situation where their major crop, coffee, most of which is smuggled out of the country, but what little is managed to be produced and sold through Government channels produces about \$10 million a month in revenues, every last penny of which goes for their oil bill.

They have absolutely nothing left over by the time they finish paying their oil bill in Uganda. That is a worst case example, but there are other cases in the world where the situation is extremely serious.

In fact, the developing countries themselves are going to have to confront this issue, and both the more enlightened OPEC countries and some of the more enlightened developing countries are struggling for a way to do this.

Venezuela and Mexico are now beginning to make arrangements in the Caribbean for discounting the price of oil and allowing the extra amount up to the market price to be used for local development projects, which makes a lot of sense and is something that is basically in our interest as well.

Mr. SCHULTHEIS. I do not want to discount the importance of OPEC because I have seen that in Tanzania as well. At the present time we import less petroleum than we did 10 years ago and pay about 10 times more than we did then. The government has taken measures. From Thursday night to Monday morning, the gasoline stations are closed. No driving of private vehicles on Sunday afternoons until Monday morning, so there has been an emphasis, an effort to try to cut down on the consumption. I think another point is raised here, that if we in the North were equally concerned about problems of the South, we would make a much greater effort to cut back on our own consumption to relieve the pressure on available oil supplies, and make some of that available to others. I think there are other factors as well though, and we may be moving to a position of confrontation within the South. We should have a member of OPEC here to defend their position because they would do a better job on that. They in fact have moved to increase their aid flows through development banks. They are far superior in terms of percentage of gross national product to many of the Western countries, including the United States. The United States is 13th of 17 ranking countries in terms of official development assistance, with less than or approximately two-tenths of 1 percent that goes in terms of official overseas development assistance, where the OPEC countries as a group are more than five times the per capita as a percentage of GNP. So I think that there are movements in that direction, but in part the question still comes back to who controls the structures of the international economy. Only a little coffee is exported to Saudi Arabia but most of it goes to the West. There is very little ability to control any aspect of that process other than the production. This is partly what is involved in the international economic discussions. Tea is being largely auctioned in London. This whole area of shipping, the whole question of redeployment of industries, which you were talking about before, whether 25 percent is a legitimate target figure, that is arguable, but that there should be some sort of shift in terms of the international institutions to face this problem of international development. The poverty of the Third World is really the crucial issue before the United Nations. It is on the agenda for the international community, and the United States is largely unaware of that judging from our response. I think that until we move in that direction, we both fail in terms of the potential moral leadership that we might exercise, and we are certainly not rising to the challenge that I see for the remaining two decades of this century and perhaps all of the next. I think that is the crucial issue of our time. What have successive administrations done to try to educate, to try to move to more imaginative creation of institutions to adjust that inequity? I would argue very, very little, and that is really the great tragedy. I think that the United States will be judged very harshly by history, if history judges.

#### VOTING PROCEDURES

Mr. LAGOMARSINO. You suggest, Mr. Ballance, in quoting Roger Hanson, that a change in voting procedures should be tried.

Mr. BALLANCE. Yes. Let me pick out Roger's point here again. Now it seems to me that there are two things to be said on voting

procedures. One is that there is a natural change in voting procedures that occurs as other countries put in more money to an institution, or as the United States for one reason or another decides to diminish its role, then its voting share will go down. That has happened in various international financial institutions, the World Bank and so on, and it seems to me that is eminently fair. Countries put in more money, they should have more of the voting rights of the total, and if the United States puts in less it will have less, and that obviously will apply in multilateral institutions where there has been real pressure in the Congress to diminish the U.S. role in these institutions. If that continues, the U.S. voting share will diminish, and I do not think anybody can complain about that.

I think second, that with new institutions, and in many ways we are talking about new institutions here, that there are new experiments in voting rights that can be tried and work rather successfully. An example is the International Fund for Agricultural Development. Basically the voting rights are one-third, one-third, and one-third. One-third developing countries, one-third OPEC, and one-third the Western countries, and that seems so far not to have presented any substantial problems. In some cases, the OPEC countries vote with the Western countries, because after all, when they are talking about putting up their money, then they have an interest in seeing that the money is well spent too, so that they may vote with the Western countries in that sense.

I do not see any problem in new institutions in trying different patterns of voting rights, and I think it is healthy and creative. Where I think there is a problem is when the voting rights get too far out of line with the economic weight of the state involved on economic issues. A lot of other people would also have a problem. On U.N. issues, on political issues, there is a reasonable case for the one nation, one vote system of the United Nations and the General Assembly. That was to be counterbalanced by the Security Council, which is proper.

The problem becomes that the U.N. General Assembly has been the forum for talking about a lot of economic issues, where the United States, West Germany, Japan, Britain, and France have the real weight, and it is not realistic to expect that the shift will occur to a one nation, one vote system, when we are talking about economic weight in the system, but I am perfectly prepared, and I think a lot of other people would be, to see experimentation occur in other bodies.

Mr. LAGOMARSINO. Thank you. The subcommittees are adjourned at this point.

[Whereupon, at 4:40 p.m., the subcommittees adjourned to reconvene at the call of the Chairs.]

