

INTRODUCTION

In some respects the year 1974 may, in retrospect, turn out to be one of the important staging posts in the fundamental question of shaping new economic relationships between the developed and developing countries, in which the transfer of real resources from the former to the latter is an important component. The year may be significant both for the advances made as well as for the opportunities missed.

The Sixth Special Session of the United Nations General Assembly was held in 1974 and focussed attention on the development of new institutions and arrangements which could go some distance towards providing equality of opportunity to the developing countries and assure them of an enhanced share of the income and employment generated by world economic activity. The Session was only moderately successful but it paved the way for introduction of the Charter of Economic Rights and Duties of States which is an important pillar on which the new relationships between developed and developing countries will rest.

The World Food Conference held in 1974 directed attention to one of the most serious manifestations of poverty in the developing countries - the inability of many countries to ensure a minimum food supply to their rapidly growing populations. The Conference established the World Food Council and instituted other arrangements to facilitate an expansion of food production in the developing countries and ensure a minimum stock to meet emergency requirements when crop failures and other disasters threaten serious famine.

The full impact of the increase in oil prices was also felt in 1974; the effects of which were reflected in large balance of payments deficits in the developed countries, some of whom had adequate flexibility in their economic systems and/or arrangements to manage them; and in the developing countries which did not have such flexibility. The higher oil prices increased not only petroleum prices directly but also the prices of important derivatives such as fertilizers and pesticides and this further adversely affected production in the developing countries and increased their need for imports. Conversely, the higher oil prices received by the oil exporting countries resulted in the emergence of a new category of aid donors - the OPEC countries - whose performance in the field of aid, when measured in relation to their collective GNP, already exceeds that of the traditional donors from the DAC countries¹ and the centrally planned economies. The bulk of the surpluses of the OPEC countries was, however, recycled using the existing banking machinery.

These and other developments and the exposure to further public scrutiny of the grave problems faced by the very poor and the most seriously affected countries resulted in certain new international initiatives in resource transfers - for example, the establishment of the IMF Oil Facility and the UN Emergency Aid Fund - as well as in a reappraisal by some developed countries of their aid effort. Some countries took more positive although not in every case very definitive positions on their attitude towards the aid target of 0.7 per cent of GNP fixed for the Second Development Decade; some reviewed the direction of their aid efforts to focus attention

¹ Development Assistance Committee of the Organisation for Economic Cooperation and Development.

on the sectoral distribution of official development assistance, agriculture and rural development generally coming into greater prominence; some reviewed the proportion of their aid to be disbursed through multilateral channels; others announced steps to improve the quality of their assistance through increasing its grant element; and there were one or two instances where the untying of aid received limited attention; in some countries, however, the attitude to official development assistance changed adversely.

The solutions to the resource transfer problem were, and still are, being considered in the context of the situation which obtained in the 1960's and it is doubtful whether, if these measures were fully implemented now, they would have the same impact in the 1970's in the circumstances in which the developing countries now exist and are expected to subsist for some time. The aid target of 0.7 per cent and the untying of this volume of aid were conceived in the context of certain assumed flows of foreign exchange earnings from exports, terms of trade between developed and developing countries and derived import requirements resulting from a target growth rate in the developing countries considered acceptable by the international community and a consequent import deficit for which an inflow of soft funds and support from existing international institutions on their customary scale would provide adequate cover. But the situation in 1974 was qualitatively different from that assumed.

With little or no growth overall, and with the deteriorated terms of trade after a short term commodity boom, the developing countries experienced a deficit of \$41 billion in 1974, four times as large as that conventionally encountered. Clearly, in the absence of a manifold increase in the aid flows, the other arrangements supporting foreign exchange receipts - satisfactory commodity arrangements which would restore real export earnings, access to markets for manufactured goods and availability of international credit on acceptable terms - should have undergone immediate compensatory changes to cope with the new situation. As it transpired, only a restatement of the resolve to increase aid transfers was forthcoming from certain countries; the actual aid performance itself showed only marginal improvement, the ratio of official development assistance from DAC countries to GNP increasing fractionally from 0.30 per cent in 1973 (a bad year for aid) to 0.33 per cent in 1974 as compared with an average of 0.44 per cent in the period 1964-66. There was no perceptible structural change in the other elements that effect the import capacity of the developing countries. What is more, even in the aid field, in spite of the pressing need for additional inflow of funds in the developing countries, there was no widespread evidence that the transfer of resources to the developing countries had yet been divorced from the general issue of domestic economic management in the developed countries. In brief, the basis for the required new economic relationships between the developed and the developing countries was far from being laid.

The Commonwealth was naturally affected by and involved in the international developments. Commonwealth developing countries comprise the larger proportion of the developing world and Commonwealth developed countries comprise a small but influential part of the developed world. The Commonwealth therefore is in a good position to understand the issues involved and the urgency to take action to attack the problems of poverty in both the old and new environment. This understanding emerged with clarity at the Commonwealth Heads of Government Meeting in Kingston in May 1975 when Heads of Commonwealth Governments declared that the gap in living

standards between the rich and poor countries was too large to be tolerated and expressed their resolve to take practical steps to reduce it.¹ Their positive approach to the required new economic relationships between the developed and developing countries was an important factor influencing the position adopted by developed countries at, and the relatively successful outcome of, the Seventh Special Session of the United Nations held in September 1975.

What is clearly necessary is for a conscious effort by the developed countries to agree to arrangements having depth and consistency which will assist the developing countries to overcome the problems of large scale poverty that must threaten world peace and jeopardise the supply of essential raw materials on which most of the world's economic activity depends. A Commonwealth initiative in the relevant areas in the search for appropriate solutions could very well provide the required lead, an initiative which could be exercised both by direct action and policies in the field of development as well as through influencing the councils in which they have a substantial role.

In this report the aid flows from the developed to the developing Commonwealth countries are described. Chapter One describes Commonwealth aid performance in the context of the overall DAC performance. Chapter Two describes the developments in aid policies of the principal Commonwealth donor countries. Chapter Three sets out the developments in policies and practices of the multilateral organizations. Chapter Four is devoted to describing the activities of the Commonwealth Fund for Technical Co-operation. The final Chapter gives limited information on the experience of recipient countries.

Although no analysis is given on the subject, there is a growing aid effort between the Commonwealth developing countries: some of this aid is bilateral while other developing countries use multilateral regional institutions as the vehicle for their aid. Reports received from time to time indicate that India has mounted a significant aid effort to other developing countries and there is an extensive programme of aid among Caribbean countries. However firm data on these flows are not yet available but an effort will be made in future years to describe this development.

Annex 1 to the report gives certain pertinent observations made on aid flows by one of the countries - Botswana - which responded to the questionnaire issued to developing Commonwealth countries.

¹ Final Communique, Meeting of Commonwealth Heads of Government, April/May 1975 Kingston, Jamaica.