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The Energy Crisis and the Third World

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The economic implications of the latest upsurge of the oil prices for the whole world – and for the developing countries in particular – are such as to make a strategy of common responsibility of industrialized and developing countries more urgent than ever. Rainer Offergeld, Federal Minister for Economic Cooperation, elucidates his ideas about such a strategy.

Nowhere are the common interests, the need for common solutions and the acceptance of a common responsibility by the industrialized and the developing countries more clearly evident than in the sphere of energy. The oil crisis is leading to forfeiture of growth, boosting inflation and causing unemployment in industrialized and developing countries.

The enormously increased oil bill of the developing countries – in 1980 it will probably be far in excess of $ 50 bn – is the principal cause of the anticipated drastic rise of their current account deficits to about $ 70 bn in 1980. A grievous impairment of their economic development must be apprehended. If not given effective aid, the poorer developing countries in particular will face ruin.

Preference for Private Finance

Some may say that, since the first oil crisis was satisfactorily dealt with, this was too gloomy a picture. But is the situation now really similar to what it was then?

When the first oil shock was over the oil monies of the OPEC states flowed back to the industrialized countries in the form of demand. The current account surplus of the OPEC states contracted between 1974 and 1978 from $ 68 bn to $ 6 bn – i. e., the same amount as in 1973, before the first oil price explosion. The industrialized countries adapted themselves quickly to the expanded demand from OPEC states. This safeguarded the employment situation in many industrialized countries.

A part of the oil monies flowing back after 1974 went into a few developing countries but most developing countries financed their current account deficits mainly by borrowing from private-sector banks. Soft credits by way of public development aid, direct investments by the industrialized countries, export credits and balance of payments assistance by the International Monetary Fund played a smaller role. The IMF could only make a minor contribution to the financing of the balances of payments of the developing countries even though it extended its range of instruments after 1974. It was a task to which primarily the big US and European banks applied themselves.

The result was that the indebtedness of the developing countries to these banks increased from $ 33 bn in 1974 to $ 111 bn in 1978. To give an example, the developing countries owe to 58 US banks a sum of $ 57 bn – i. e., 130 % of the combined equity capital of these banks. The share of the private-sector banks in the financing of deficits of developing countries rose from 38 % in 1975 to 55 % in 1979.

The reason for the small role of the IMF is probably to be found in its attempt to help to bring order into the economic policies of the recipient countries when it provided finance. Whether it always set about such attempts with the necessary discretion is not to be discussed here. It is however undeniable that the private deficit financing has not conduced to the ultimately indispensable structural readjustments in the developing countries by means of which the causes of the imbalances would have been removed. This is one of the objectionable aspects of the preference for private finance. The large-scale recourse to commercial credits had besides, owing to

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their stringent terms, an aggravating effect on the indebtedness of the developing countries.

The repercussions of the oil price explosion of 1974 have been carried forward by many developing countries until now as debit balances in their accounts. It is clear therefore that the starting position for the recent new oil price explosion cannot be compared with that in 1974.

A Dangerous Situation

The new situation is fraught with danger. Problems do not arise from the debts of the developing countries as such: in an expanding economy these are a correlate of development. But the higher oil prices and the inflation in the industrialized countries will impede the growth process significantly.

The developing countries have to spend one-quarter of their 1980 export earnings on imports of oil, a good many of them have much more: Turkey about 59 %, Brazil 41 %, the Philippines 39 % and India 34 %. These payments are additional to those for interest on and redemption of old debts. It can no longer be taken for granted that new loans will everywhere be duly serviced and repaid. It will therefore no longer be possible to increase the private bank lendings to any substantial extent. In January-March 1980 developing countries borrowed $ 2.8 bn from private-sector banks; in the corresponding period of the preceding year the sum had still been $ 6.8 bn.

The developing countries are on the horns of a dilemma which the former Indian Minister of Finance has expressed in these words: "India can neither afford to pay for her oil imports at the new prices nor do without them."

Readjustment of Economic Structures

What then is to be done? The time has come to take cognizance of an inexorable fact: The price of oil may seem to us to be high. Seen in the light of the tenfold nominal increase in the course of a few years it is "too high". Specific problems have ensued from the abrupt oil price hoists in 1973 und 1979 with price reductions – in real terms – in between. The high prices are however a prerequisite for the tremendous efforts and investments required to search out new sources of oil and develop alternative energy resources. If the estimates about the quantities of oil which will be available in the next two decades and about the energy requirements of our planet are more or less accurate, the time schedule for the transition to other forms of energy would without price increases be even tighter. Geared as they are to cheap oil, the consumption patterns and economic structures of the industrialized and developing countries need a prolonged period of adjustment. Without the price increases which have now been effected the time scale would probably have become too tight. We shall have to cope with onerous economic and technological tasks. Cheap oil in the eighties would probably have rendered these tasks insoluble.

This does not mean – it may be added in parenthesis – that all adjustment problems can be solved by market-economic price mechanisms alone. An efficaceous price mechanism presupposes that supply *and* demand respond to price signals. This is not the case if higher prices induce the suppliers to curtail their supplies – a tendency which has become obvious in regard to the oil market.

A second truth calls for plain speaking: The OPEC oil price policy – which is commonly regarded as the root of all evil – presents such a threat to the world economy because the boosts to inflation from this side worsen the unresolved inflation problems of most industrialized states. Internal distribution clashes in the industrialized states and the redistribution in favour of the oil producers are causing an aggravation of the inflation problems which are presenting an unprecedented threat to the world economy today. The vicious circle is in full view: The home-made inflation of the industrialized states compels the OPEC to raise its prices steeply as this is the only means of increasing the exchange value of the oil relative to industrial products. This is in turn the cause of new price hoists in the industrialized countries. Put differently: Stable prices in the industrialized states are capable of curbing the rise of the oil prices. A relentless policy of stability is more necessary than ever in the industrialized countries of the West.

The main victims of the international inflationary spiral are the oil-importing developing countries. The consequence of the second oil price explosion for them will be a further worsening of their terms of trade in general. The prospects for easing the plight of the 800 million people living in absolute poverty are being impaired. The non-oil developing countries' ability to finance imports – and imports are in most cases indispensable for economic and social progress – is in jeopardy. Repercussions on the industrialized states are foreseeable.

This being the situation, an adjustment of the economic structures to the changed parameters is the most important task – in the industrialized as well as in the developing countries. The *causes* of the balance of payments crises have to be removed.

It has to be assumed in this context that the oil prices will continue to rise in real terms. Hence a need to embark on three lines of approach:

First: Saving energy wherever possible, especially in the industrialized countries, but also in the developing countries.

Secondly: Opening up new sources of energy – everywhere and especially in developing countries.

Thirdly: Creating prerequisites for investment of the surplus capital resources of many OPEC states. New avenues have to be found for recycling the petrodollars.

Saving Energy by Investing

Per-capita energy consumption is in the industrialized countries a hundred times as high as in the poorest countries – which shows where energy savings will produce results. An American uses twice as much energy as a German and three times as much as a Swiss or Japanese although the incomes in these countries do not differ much.

The industrial structure of a country has certainly a major bearing on its consumption of energy. A comparison of consumption figures therefore does not always serve a useful purpose. But the fact that in the 20 years of maximum growth in the Federal Republic of Germany – between 1953 and 1973 – the energy input of industry per unit of production declined by 40 % demonstrates the feasibility of economies. In the future savings will be possible in private households and in transport in particular.

Saving energy means first of all investing. The industrialized countries must use the impetus of the energy crisis for a new thrust forward in the field of innovation.

Saving energy is one side of the coin. The other side is the opening-up of new sources of energy. The developing countries are offering special opportunities for finding additional traditional and novel sources of energy. The existing potentialities in this field open favourable prospects for the long term.

The oil-importing developing countries possess 2 % of the so far *proven* oil deposits. The World Bank estimates however that they possess up to 15 % of all exploitable reserves. The difference is explained by arrears of exploration as is shown by the fact that the well-drilling density in potentially oil-bearing areas in the industrialized countries is 40 times higher than in the oil-importing developing countries.

Inadequate use is also made of the wealth of hydraulic power in the Third World. Of the technical hydro-electric power potential only about 2 % is being utilized in Africa, 6 % in Latin America and 12 % in Asia. Installations for the use of solar energy, the force of the wind, terrestrial heat and biomass are also no technical gimcracks. Too little use is made of coal and lignite deposits. Such deposits could be opened up in 20 developing countries where they are known to exist.

Nuclear energy is indispensable. Even if many developing countries do not yet offer the requisite technical and safety conditions to consider its use in the foreseeable future in every country, it will lessen the world-wide pressure of the demand for oil wherever it is put to use.

The energy generation in developing countries will be assisted this year with some four billion dollars of public bilateral and multilateral funds.

The Federal Republic of Germany alone is supporting energy projects in 1980 with about DM 800 mn of public development aid commitments. This is more than twice as much as three years ago.

The energy resources of the earth are immense. But to open up new sources of energy takes time and requires a considerable amount of finance. Faced with a rapidly widening gap between oil prices and their own payments potential, many developing countries no longer possess the necessary means for using their opportunities and bridging a period of scarcity with their own resources.

New Avenues for Recycling Needed

A few OPEC countries will accumulate annual current account surpluses greatly in excess of $ 100 bn. If the world economy could be regarded as one entity, this would represent a high world savings ratio, and if this were matched by corresponding investments, it would open up more opportunities than risks. As however no extra demand will be generated by the OPEC surpluses which have been taken out of the circular flow in the industrialized and oil-importing developing countries, the oil price problem has not only a much-discussed inflationary aspect but a deflationary aspect to which so far little attention has been paid.

The world is not short of capital or technical know-how, of raw materials or energy resources or labour. What causes so much trouble is the problem of the productive investment of the oil funds, their combination with the other production factors in such a way as to facilitate the required structural adjustments which seem almost unattainable, especially in the developing countries. Nevertheless the recycling problem has never yet been put on the agenda of any of the big international conferences.

The surpluses of the oil countries must be turned to use by being lent to borrowers whose urgent problems they would help to solve. But the oil countries must at the same time be given an incentive to go on selling oil instead of leaving it in the ground because they expect its value to rise further.

It is only reasonable to spread the oil extraction in the oil countries over a longer period. The alternative however is not between either leaving the oil in the ground or bringing it up at an extra-fast rate. Neither we nor future generations wish to sit in the dark. What is wanted is a sensible middle course and the evolvement of forms of investment which safeguard and enhance the value of the oil monies. Opportunities for profitable investment of the surpluses exist in the form of loans and other capital investments in industrialized countries. But these are not sufficient. It is important that the developing countries are brought into the recycling process. As has been explained earlier, this will be significantly more difficult in the future.

The Role of the IMF

More use has to be made of the International Monetary Fund and other multilateral financing institutions as recycling intermediaries. In the future the developing countries will have to cover a larger part of their additional borrowing requirements with the IMF and, as far as can be foreseen, also with the World Bank than they have done hitherto. The Monetary Fund is on the right road. It is already much more involved in the financing process than in the last two years. But the Monetary Fund must be recognized by the developing countries as not only a source of finance but a helpmate in ineluctable adjustment processes.

This is also the object of the structural adjustment loans which the World Bank is to accord to the developing countries in the future. All the parties concerned will have to strive for a better combination of what is economically desirable and politically practicable than was achieved in the past. This means amongst other things that more consideration will have to be given to the social and political repercussions of adjustment measures without impairing the fundamental aim of achieving a better balance between balance of payments financing and economic policies which eliminate the causes of the deficits. The bilateral development aid will also have to be directed towards this aim in the next few years.

Increased Resource Transfer

There is a greater need than ever before for increased resource transfers to the developing countries even though many industrialized countries are facing problems of their own which render such transfers also more difficult than ever.

The Federal Republic has markedly increased its funds for bilateral and multilateral development aid despite a difficult financial situation. In 1979 the German development aid reached a record level of over DM 6 bn, i. e., about twice as much as two years earlier. Its share of the gross national product rose from 0.27 % in 1977 to 0.44 % in 1979. The Federal Republic is contributing a larger share to the capital increase for the World Bank and the sixth replenishment of the International Development Association (IDA) which is of special importance for the poorest developing countries. In the coming years the German aid will increase at least twice as fast as the expenditure of the Federal Government as a whole.

The eastern bloc does little in the Third World that is not intrinsic to its military engagement there, and there is unfortunately little reason to expect it to adopt a different attitude in the future.

Public development aid will however continue to be of limited proportions. The high oil prices – which are after all *also* transfers to the Third World, albeit mostly to its more prosperous part – do not make it easier to increase the development aid in favour of the poorer countries. With the current account deficits of Third World countries – overwhelmingly due to oil imports – estimated for 1980 at $ 70 bn, all the public development aid contributions of the industrialized countries of the West, which together amount to about $ 28 bn, are not nearly enough even to maintain the status quo in the Third World, to say nothing of advancing it.

Greater Commitments by OPEC States

Development aid by the industrialized countries and increased support by the IMF and the World Bank are needed but do not suffice for a solution of the external economic problems of the developing countries. A much stronger direct commitment in the developing countries on the part of the OPEC states is indispensable. This applies to the public development aid of the surplus states which at about $ 6 bn already accounts for more than one-fifth of the development aid contributions of all the donor countries but has hitherto been concentrated on a few Islamic developing countries. Above all however it applies to private capital investments in the Third World. Why should not, for instance, a German company undertake an investment in the Third World together with a Saudi-Arabian financier? Why should joint German-Arab ventures not be launched in the Third World?

Bureaucratic obstructions keep many investors from engagements in developing countries which also often lack the requisite infrastructure. Many of the obstacles in developing countries are home-made.

In many developing countries the incalculable hazards from state regulations and red-tape weigh much more heavily than the actual commercial risks. This situation is not conducive to franc, petrodollar, mark or riyal investments by profit-motivated investors.

It is the concern of the developing countries to determine the overall conditions for private business activities by foreign enterprises in their country. In doing so they must respect the interests of their partners in private commercial cooperation if investments are to be facilitated. This entails adherence to the principles of international law in regard to expropriation, nationalization and compensation for such acts. They must guarantee the free transfer of capital and set out their economic, monetary and social policies in such unequivocal terms that foreign firms can comply with these policies.

Agreements between transnational enterprises and the developing countries must be fair. They last longer if they are. The Federal Republic is therefore cooperating actively in the efforts under United Nations auspices to lay down clear rules of conduct for the transnationals as well as for their home and host countries. Such rules of conduct are certainly also in the long-term interest of private business.

Improved conditions for private investments cannot eliminate the risks inherent in civil wars or political upheavals. Thought should therefore be given to ways and means by which the international community can lessen or exclude the risk to capital investors. Proposals pointing in this direction have been made in the discussion by economists: An international institution could for instance offer to the oil countries securities with a nominal rate of interest which would have to be above the annual rate of price increase of industrial products. The oil countries would be enabled to invest their surpluses at a guaranteed real rate of interest. A part of thus deposited oil monies could be used for credits on favourable terms to oil-importing developing countries.

Such a guarantee policy might prove advantageous even if involving manifest losses because the industrialized countries could in return obtain regular oil supplies at by and large predictable prices. When hundreds of billions of dollars have to be recycled it may in any case be asked whether an international risk-bearing community of industrialized countries would not ultimately prove more worthwhile, even if it incurs losses, than the alternative open to some OPEC states: they can leave their oil in the ground instead of piling up more investment-seeking surpluses.

Being the interested parties, the industrialized and the developing countries must ask themselves whether a useful purpose would be served by submitting an offer of this kind to the oil countries. The rich oil countries have various options open to them. They can wait. The others have to act.

The situation brooks no delay. The ecological situation has also been aggravated by excessive use of wood and manure as energy sources in the Third World. The catchword of "the other energy crisis" offers an accurate description. A time-bomb with a highly-explosive mixture of famine and population growth is ticking away alongside the energy crisis.

A Common Responsibility

How to supply mankind with energy is not yet a question of limited resources. It is a question posed by our limited ability to make sensible orderly arrangements and to harmonize divergent interests.

A great deal has already been said about the eighties and their tasks – more than we can possibly know but less than we ought to know. It is evident however that we live in an interdependent world economy with increasing mutual dependences. The peace of the world and the security and progress of the western democracies are as vulnerable to economic and monetary upheavals in the world as to military challenges. Our world-political system is a pluralist one in which the influence even of the two superpowers is limited.

The only sensible solution is international cooperation, peaceful harmonization of interests between East and West and between South and North.