Finafrica Bulletin



CASSA DI RISPARMIO DELLE PROVINCIE LOMBARDE

3 - 1975 - II

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AFRICA, THE OIL CRISIS AND REFORM OF THE INTERNATIONAL MONETARY SYSTEM

1. It is now a year and a half since the oil crisis burst upon the world, and we are beginning to get a clearer view of its implications and of possible solutions. In the first shock of total uncertainty following October 1973, many countries adopted defensive, short-term policies designed to re-adjust balance-of-payments deficits in purely monetary terms. Now the three groups of countries involved, the oil producers and the oil consumers, both developed and developing countries, are trying to work out and apply longer-term strategies.

The main efforts have been directed to the recycling of oil funds via private international capital markets and through the International Monetary Fund (IMF) scheme of oil facilities, which was renewed and extended in January 1975. Rather more problematic is the so-called Kissinger-Simon plan for a common front of consumers and an OECD self-help recycling fund, agreed upon in April 1975 and scheduled to come into operation before the end of the year.

2. African oil-importing countries have been hit very hard by the four-fold increase in the price of crude, and are at present in a weaker position than ever in their economic relations with the rest of the world. How can they hope to get their external payments back into some sort of balance? A few possible ways out of the crisis are sketched below.

(a) Increased exports of raw materials. Trade flows are of paramount importance in the international economic relations of any country and most of all of developing ones, because for a long time to come exports are the only means by which they can obtain foreign exchange for the purchase of capital and consumer goods and for the repayment of existing debts — and this means, in the last analysis, that it is on exports that the chances of economic development must rest.

It is tempting for the producers of other vital agricultural and mineral raw materials to follow the example of OPEC, the cartel of oil-exporting countries. By fixing sales prices, other nations of the Third World might hope to improve their terms of trade. But OPEC has the advantage of conditions which cannot be reproduced for other commodities, to wit, concentration of output in a limited area and a fair degree of homogeneity among member nations. Most often sources are widely dispersed (copper for instance, is found in Africa and in Latin America), so that market control is left in the hands of multinational

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companies and stable commodity agreements are hard to achieve. In consequence, the problems of exports must be seen in a broader context.

(b) Triangular flows between oil exporting, industrial and developing countries. An interesting proposal known as the "Carli plan" was discussed not long ago at a conference in Cairo. It involves all the three groups of countries concerned and presupposes Arab adherence. As the scheme is outlined in a document prepared by the Bank of Italy, the main idea is that oil-exporting countries should channel their excess funds to developing nations, which in effect would mean basing credit on the real resources of the latter instead of, as now happens, on those of the industrial nations. These loans would give the beneficiaries the means to make large-scale purchases in industrial countries and thereby enable the latter to adopt more expansionary policies, which in turn would make room for more exports from developing countries and in general would ease the adjustment process. Subject to an equitable distribution of the burden of interest payments on these loans and to the establishment, where necessary, of joint ventures to smooth the way for these flows, it should be possible to reconcile conflicting requirements in one overall perspective.

(c) Aid-linked Special Drawing Rights. Another scheme under active discussion concerns the vital role of Special Drawing Rights in the proposed, but perhaps still distant, reform of the international monetary system.
Special Drawing Rights (SDRs) have, since 1 January 1970, been a new instrument of international liquidity. They are created by the IMF and allocated by it to member nations in proportion to their Fund quotas. The first allocation, for the years 1970-72, amounted to SDR 9.5 billion, which were a net addition to gold, dollars and other strong currencies used for payments among the central banks of different nations. The effective value of SDRs lies in acceptance by the countries participating in the scheme, which means that central banks are committed to accept SDRs (up to specified amounts) in payment for their credits as an alternative to settlement by other assets.

3. As the SDR scheme works at present, it is a means of channelling new liquid resources to developing countries, which so far received 27 per cent of the total, this being the sum of their IMF quotas. A question springs to mind immediately: Is it right that all the poorer countries together, numerous

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as they are and beset by the most pressing financial needs, should get barely more than one quarter of total allocations? Since under proposals now under study for the reform of the international monetary system SDRs are destined in the future to play a key role as a component of liquidity, reserve assets and means of payments, is it possible and realistic to hope that the SDR scheme will be so altered as to make more generous allowance for the needs of developing countries?

This is what is known as the "link problem", the link, that is, between SDR creation and development financing. It is a problem which has been debated for years. Briefly, two types of link are proposed: one organic, the other inorganic. The first would imply that a more or less sizeable part of SDRs be used directly to finance development, leaving the remainder to be allocated as at present; the second type of link would require the IMF to credit part of the SDRs to the finance institutions of the World Bank group, to be used by them for loans to developing countries.

In either case there would be a larger automatic flow of resources to the Third World and in time this flow might partially or wholly replace today's bilateral capital transfers, with all their snags and limitations.

Without underestimating the implications of this link for international liquidity, nor its possible inflationary effects, such a system would surely be a real breakthrough in the unbalanced relations between the industrial and the developing world, and it would narrow the gap without imposing unduly heavy conditions upon the latter. The interest rate on SDRs was raised, as of 1 July 1974, from 1.5 to 5 per cent; if it were brought even closer to market levels, this would admittedly place an inevitable burden upon developing countries, but would also induce the sellers of capital goods (the industrial nations) to keep the SDRs received in payment for their supplies. The system would not be free, but it would have the merit of institutionalizing a transfer mechanism carrying the ultimate guarantee of supra-national control either by the International Monetary Fund or by the World Bank.

4. These proposals have had a mixed reception so far. Developing countries obviously have welcomed the idea of a link in one form or another; the leading industrial nations are divided. A majority (including Italy, which has supported the "inorganic" type of link ever since 1969) seems to be in favour of a link, but two, the United States and Germany, are against it. It is perhaps hardly

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surprising that the world's richest nation should be hostile to such a scheme, for fear that some day a new means of international settlement might replace the dollar, the chief vehicle of American expansion in the world.
This inevitable clash on the question of the new function of Special Drawing Rights in connection with the reform of the international monetary system is assuredly of great import, for ultimately only global solutions can in the long run really benefit the Third World.

Sergio Bortolani

L'AFRIQUE, LA CRISE DU PETROLE ET LA REFORME DU SYSTEME MONETAIRE INTERNATIONAL

RESUME

En prenant comme point de départ les conséquences découlant de la récente crise du pétrole, l'Auteur analyse les alternatives les plus importantes de longue période susceptibles de porter remède au déséquilibre des balances des paiements des pays en voie de développement. En examinant, en particulier, l'augmentation des prix des matières premières, il considère la possibilité de la formation d'un trust des pays producteurs de pétrole, de la création de flux entre les pays exportateurs du pétrole, les pays développés et les pays en voie de développement (plan Carli) et de la réforme du système monétaire international, notamment en ce qui a trait aux liens existant entre le financement du développement et la création de nouveaux droits de tirage. Sur ce dernier point, l'Auteur souligne l'opportunité de réformer le système d'attribution des droits spéciaux de tirage en vue de créer des avantages pour les pays en voie de développement.

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