FOREWORD

The increase in the international price of oil from $2.70 per barrel in October 1973 to over $8.00 per barrel from January 1974 has most profound and widespread implications for world development in the rest of this decade. The additional revenue of the 11 major oil exporting countries has been estimated to exceed 1973 total revenue by some $65 billion in 1974. Of this, some $55 billion is estimated to come from developed countries and the remaining $10 billion from non-oil producing developing countries.

Although such estimates obviously only give us the rough order of the size of financial transfers involved, there is a risk of becoming so pre-occupied with margins of error that the *magnitude* is missed. Indeed the magnitudes are so large that their significance may be missed without some comparative figures.

- Total net official development assistance from OECD countries was less than $9 billion in 1972.
- Total net flow of private overseas investment from OECD countries to less developed countries was $9½ billion in 1972.
- Total exports (including oil) from all less developed countries were only $74 billion in 1972.

Thus the increase in export earnings of the oil producing countries in one year alone is almost as great as *total* Third World export earnings (including oil) two years earlier. As a shift in world income distribution arising from an increase in the price of a single item of world trade, and taking effect in such a short space of time, it is difficult to think of any change of comparable magnitude and significance.

Given this dramatic shift in world income distribution, it is scarcely surprising that the world economy has been sharply thrown off balance. There has been a significant shift in the world's economic centre of gravity – but not, so far, the other structural changes needed to make it a positive advance. At the time of writing, the world economy is moving rapidly into recession, in which the only point of debate for the rich countries is whether it will be of merely serious or of crisis proportions. But for many countries of the Third World, particularly India, Bangladesh and Sri Lanka, even this cruel

alternative is no longer at issue. The position in these countries is of crisis proportion – and according to the World Bank's September projections, without major international changes of policy, more than 800 million people in the developing countries can expect almost no material improvement in their lives for the rest of this decade. All we can rely on now, one senior official recently commented, is the willingness of these people to suffer.

In this issue of the bulletin we explore the background and some of the main implications of this "watershed" in international relations; particularly the extent to which it will affect the development prospects of poor countries and the climate of trade between poor and rich in the next few years. The first two papers are concerned with providing background information drawn from recent events and available statistical information on the financial changes implied by the price increase. To the extent that a number of more detailed studies provoked by the crisis will soon be coming to fruition, some of the present figures should be treated as preliminary estimates only. This is followed by a paper by Biplab Dasgupta which examines the part played by the major international oil companies in developments in the oil market leading up to the events of autumn 1973.

The papers by Manuel Fombona on whether it appears possible for the oil producers to maintain oil prices at current levels, and by Cres Barker and Bill Page on the potential for similar market strategies by other mineral exporters, are outcomes of a Study Seminar (SS 40) held at the Institute in March this year on the theme of development strategies for mineral exporters. Both papers emerge with broadly optimistic conclusions, from the viewpoint of developing countries, on their future capability for controlling their own destinies in trade: the former that in the short term at least the oil producers should have little difficulty in maintaining the price levels now achieved; the latter that in the climate of international trade following the oil crisis developing countries have greater potential for more active participation and control in the international marketing of products of central importance to their development. These are followed by a paper by Ray Curnow which looks at the effect of science and technology on the options open to producers and consumers of raw materials.

It is early as yet to judge the full economic implications of the current world crisis, especially the consequences for the Third World. It is important not to "blame" the oil producers for this crisis. The foreign exchange difficulties of the Third World are chronic and even in the past year the oil price increase is one of many sharp price rises in the international economy – and indeed many countries of the Third World have benefitted more from the rise in price of a metal (e.g. copper) or a cereal (e.g. rice), than they have lost through the rise in oil prices.

One of the biggest lessons of the oil price increase lies in the way it has brought out the distinction between resource-rich and resource-poor countries within the Third World. The remaining papers are concerned with various aspects of the difficulties currently being experienced by different groups of developing countries and in particular with the exceptional difficulties of the large poor countries (India, Bangladesh, Sri Lanka), with critical effects on their ability even to maintain incomes at current very low levels. Richard Jolly's paper highlights this distributional question and proceeds to explore some of the ways in which the financial imbalances will need to be redressed in the direction of relief of countries in serious difficulties. Given the overwhelming tendency for the surplus revenues of the oil producers to accumulate in Western financial centres, there is an urgent need to "re-cycle" these funds to poor developing countries. Hans Singer suggests ways in which British aid and development policies can be directed to alleviating the problems of the "NOPEC" countries; Michael Lipton puts the case for balanced bilateral trade agreements between such countries and individual rich countries or blocs as a more promising framework for achieving expansion of their exports than the multilateral framework agreements of the past.

It has not been possible to cover in depth all the themes and implications emerging from the oil price increase in this collection of papers. Important omissions include (a) a clear presentation of an "OPEC viewpoint" both on the events of the last year and on the organisation's future objectives in the oil market and plans for the use of surplus revenues (b) a detailed study of the exact nature of the financial flows currently being generated – particularly on the proportions of revenues accruing to various financial institutions and

investment, and on the potentialities of re-cycling. In spite of these omissions we hope to have covered many of the central issues to emerge from this massive and continuing redistribution of world income – a redistribution which will have immense, and hopefully positive, repercussions for development in the next decade.

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F.E.
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