that we end up by giving her a significant source of leverage over us. Nor should we resume the extension of credits to Poland if no progress is made towards liberalisation and economic reform in that country. . . .

The new religion of so-called "self-reliance" which holds sway in London and Washington will, I believe, suffer its demise as it becomes plain that it damages not only the economies of others but their own as well. In the United States, the unprecedented overvaluation of the dollar caused by the contradictory pursuit of high interest rates and loose fiscal policies is bound to produce large trade deficits and to do further damage to its economic growth. Sooner or later, this will lead to a major fall in the value of the dollar, which in its wake will bring more instability to the world's currencies and impart a powerful impulse to inflation in the United States itself.

The determination of the American authorities to avoid intervention in the exchange markets to help control the value of the dollar will exacerbate these effects. Only the speculators will draw comfort from this situation. The ranks of the unemployed will continue relentlessly to swell. And the rest of the world will probably wait patiently for the next shock which a collapse in the dollar will impart to the global system of trade, finance, and investment.

Yet I believe that Europe neither need nor should wait patiently for this to happen. The Community ought to take action to insulate itself more effectively from changes in U.S. interest rates which are geared primarily to American needs. This could be done by the selective use of exchange controls and by greater supervision of the Euro-currency markets. It would require the Community to develop a more effective policy towards the dollar for the European Monetary System than exists at present. And it would need to be supported by greater harmonisation between the member states of their fiscal instruments, particularly taxation on portfolio investments.

The alternative to these policies is that Europe will be condemned sheepishly to follow U.S. monetary objectives. This will leave it with no choice but to tighten fiscal policies even more sharply. The almost inevitable result would be to endanger expenditure on defence and security. . . .

Some may say that these policies would contribute to the further erosion of international cooperation. I believe that they would do the opposite. First, by helping to stabilise currencies they would contribute to the maintenance of an open international trading system, precisely because turbulent exchange rates are such a potent cause of protectionist pressures. And second, *they would contribute towards the development of a regional approach to the management of global economic and monetary affairs—which I believe will be the only successful approach in the long term. . . .*

Third World Diplomacy

India stresses joint North-South stakes

by Daniel Sneider, Asia Editor, from New Delhi

How developing countries will face what Indian Prime Minister Indira Gandhi characterized as the "visible deterioration in the global economy even in this short period of four months since the Cancún Summit" was the topic of three days of consultations in New Delhi beginning Feb. 21.

The meeting, requested by Mrs. Gandhi, brought together representatives of 44 developing nations to seek a common perspective on future North-South negotiations to promote modernization of the "South," or underdeveloped sector. Of immediate concern to the participants was the continued foot-dragging by the Reagan administration on entering such talks, and the related administration failure to address the world economic crisis. This crisis, Mrs. Gandhi warned in her opening speech, has "disastrous consequences for mankind."

The New Delhi meeting intersected an apparent intensification of disunity among the developing-sector nations themselves over how to respond to the Reagan administration's stalling tactics. Frustration and anger is running high in all the developing countries over the lack of progress in the North-South talks that have been off and on since at least 1974. A group of radical, "hardline" nations led by Cuba and Algeria is using this mood among the developing countries to argue for, alternatively, an inflexible confrontationist attitude toward the United States, or a virtual abandonment of North-South talks with a "go-it-alone" strategy for the developing countries.

India, with strong backing from Mexico, sought to use the New Delhi talks as a forum to organize the other developing countries around a viable strategic perspective for future talks. The element Mrs. Gandhi emphasized was the *reciprocity of interest* between the developed and developing countries—the industrialized countries can only recover if they export technology to the so-called Third World.

In the end, the talks failed to reach the desired agreement on how to approach the Reagan administration's foot-dragging, because the developing countries are supposed to function on the basis of unanimity, but Cuba and Algeria refused to alter their positions. The question of tactics will now return to the United Nations in New York, where the developing countries' negotiating arm, the Group of 77, will further consider the issue. They hope to reach a common approach by March 16, when the U.N. General Assembly reconvenes with the North-South issue on the agenda.

Mrs. Gandhi sets the tone

In her inaugural speech to the delegates, Mrs. Gandhi emphasized the crisis in the world economy, and the consequences for developing countries of sharp cutbacks in financial flows as a result of high interest rates. "One has only to image the effects of prolonged and mounting unemployment, inflation and interest rates," she said.

Mrs. Gandhi was bluntly critical of the lack of progress in North-South relations. "Progress in the developing countries will help to rejuvenate the stagnating economies of the industrialized countries. In turn," she said, "improvement in the economies of the industrialized world offers better prospects for our own development."

Mrs. Gandhi's views found broad agreement among the developing nations represented. Mexican delegation head Jorge Eduardo Navarrete, a top Foreign Ministry official, told delegates in private session that the monetary and trade policies of some industrialized countries were being pursued with the " 'beggar-thy-neighbor' approach of the 1930s which brought about widespread, cumulative recession."

Navarrete, clearly referring to the Reagan administration and Paul Volcker, criticized the "restrictive monetary policies and increased interest rates" that are causing "increased indebtedness and debt burden" for the developing countries.

The conference discussions were divided into two areas: North-South relations and South-South relations.

Most attention focused on the area of greatest contention, North-South relations, and particularly the stalled effort at the United Nations to convene "global negotiations" on the world economy. The effort is blocked by Reagan administration refusal to concede a broad and comprehensive range for such talks, specifically encompassing the functioning of the International Monetary Fund and the World Bank.

The United States insists that agenda items can only be discussed *within* those bodies, where the weighted voting rights of their Bretton Woods charters gives the United States and other advanced countries control. No progress has been made since the October North-South heads of state meeting at Cancún, Mexico. The current stalemate was solidified in December 1981, when the United States reiterated its policy on this issue, and proposed that a "preliminary conference" be held before the "global negotiations" begin. While rejecting this U.S. proposal, the developing countries must now come up with a response.

In the discussions, the lack of unity among the developing countries emerged, with Cuba and Algeria adopting their positions that absolutely no concessions be made in an attempt to break the deadlock. Others, led by Pakistan's United Nations Ambassador Niaz Naik (Vice-President of the General Assembly and a key participant in the negotiations) urged compromise, and proposed the convening of an "organization session" for the "global negotiations." This proposal, which reportedly had the go-ahead from the United States, was made in the belief that it is worthwhile to get some movement on the talks, and leave the main issues—the status of the International Monetary Fund and World Bank—for later.

The Indian hosts generally weighed in on the side of the moderates, and their attempts to bridge the positions was reflected in the final statement of the meeting, which called for the developing nations to be "firm and flexible—firm in its commitment to the basic objectives and flexible in its approach and strategy."

Informed sources say the Indian government did not want emphasis placed on the global negotiation procedural issue, but rather on substantial issues like finance and energy, with the aim of "getting something done," rather than getting "bogged down in technicalities" at the United Nations.

The issue which brought out the strongest remarks was financing, followed by the question of cooperation among developing countries themselves. An Indian delegate told the committee on North-South relations, that "oil importing developing countries are being hard hit by recession, by sharp deterioration in the terms of trade, by high interest rates, by adverse exchange rate movement" and by sharp drops in low-interest concessional lending from the institutions like the World Bank's International Development Agency. Countries especially from South Asia and Africa are being told to seek capital in the high-interest-rate dominated private markets, to compensate for the cutbacks in International Development Agency lending announced by the Reagan administration.

The final conference statement condemned this trend as one which will "accentuate the already heavy debt burden of the developing countries." It also attacked "outmoded concepts" such as "graduation," the World Bank's description of a stage when countries supposedly "graduate" from receiving low-interest loans to participating in private capital markets. The statement summing up the talks also condemned "the tendency toward stricter conditionality" in the effort to push private financial flows.