

Tense relations among economic powers

There are multiform threats looming over the economic security of nations; specifically over their capacity to devote attention to their own economic and social development.

The rise of protectionism, formerly confined to the traditional industries of steel, textiles, and so forth, could spread to advanced industries such as electronics. While East-West trade passes from trade embargos to the signing of contracts with major political connotations—the recent gas supply contracts for example—the countries of the South search for more satisfactory form of integration into the world economy. The progress of South-South trade, a small but dynamic component of international trade, bears witness to this search.

The soundness and adaptability shown by the financial and monetary framework to date should not lead to complacency regarding the risks involved in excessive fluctuations of major exchange rates and interest rates. Similarly, there does exist a “system risk” associated less with financial liquidities per se than with their relationship to national economic policy objectives. As for the better known “country risk,” it now concerns the countries of the Eastern bloc as much as the LDCs. The crisis faced by the multilateral financial institutions—far from being the epiphenomenon the Reagan administration appears to regard it as—is therefore likely to be a future source of vulnerabilities since it leaves us unequipped to deal with these risks.