

**“MAJOR DEVELOPMENTAL ISSUES IN  
NON-ALIGNED MOVEMENT (1961-1983)”.**

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DECLARATION

This is to certify that this dissertation entitled: "MAJOR DEVELOPMENTAL ISSUES IN NON-ALIGNED MOVEMENT (1961-1983)", submitted by VAPRUMU DEMO in partial fulfilment of the requirements for the award of the DEGREE OF MASTER OF PHILOSOPHY, has not been previously submitted for any degree in this or any other University. This is his own work.

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## PREFACE

## PREFACE

The concern of the Non-Aligned Movement (NAM) has substantially shifted from bipolarity to underdevelopment. This has provided NAM a continued relevance and cohesion making it a great force in the global affairs. One cannot, today, conceive any viable world economic system in disregard of the interest of the developing and the non-aligned countries. While pursuing a new economic order the movement has shown an interesting point of departure. It is generally felt that the essence of NAM has remained a reformist and not a revolutionary doctrine, a change and not a means to destroy the world order, a structural delinking and not a total breakaway from the world system. It embodies the philosophy of live and let live.

One cannot, at the same time, deny the fact that inspite of the declaration by the world community for a NIEO progress on the economic front has been modest. Disappointingly, NAM has not been able to bring about any major change in the existing Bretton Woods system. In a conversation with us the Prime Minister Rajiv Gandhi frankly admitted: 'But we have not made any achievement'. The main obstacle, he pointed out, lies in our inability to

free ourselves from the attachment of political colonialism and economic neo-colonialism.

The purpose, important as it is, of this work is to dig and find out why and where NAM has succeeded or failed to bring about a change in the global structure. Mention, however, may be made here that it is not possible to discuss the whole aspect of development issues in NAM. Only major issues have been specified and taken for study. Although strenuous emphasis has been made on those items that were taken up during the period following the Belgrade Summit to the New Delhi Summit, recent developments have not <sup>been</sup> ignored.

The work seeks to discuss the economic setting in the post-colonial era characterised by global crisis and social penury, especially in the newly emerging independent countries. It also discusses the emergence of the solidarity of the 'wretched of the earth' - the non-aligned movement, with a new concept of the NIEO based on popular participation. (chapter-I).

In course of its development NAM adopted several practical forms. The first issue that the movement discussed in great detail was the whole question of world trading system

and third world development. In view of the present situation viz., trade relations between the manufacturing countries and the primary goods producing countries, more emphasis is given on protectionist policy and third world exports. (Chapter-II).

The focus of the new economic order purely on trade, in the course of the NAM, shifted to the demands for a new global fiscal policy and a reform of the whole international monetary-financial system. (Chapter-III).

The expectations pin-on North-South negotiations in the field of trade and money got bogged down due to the recrimination between the two parties. Not surprisingly then, this led the current leaders of NAM to propose economic cooperation among the developing countries (ECDC), commonly called South-South Cooperation, for enhancing more collective self-reliance. Since then, inter alia, South-South trade expansion and South Bank have been gaining more prominence in the movement. (Chapter-IV).

The conclusion is not exactly a summary of what has been discussed earlier, rather it is an assessment of the contributions as well as the shortcomings of NAM. It also tries to highlight the possibility and potentiality that could be

advanced both at the domestic and regional level but quite often ignored and neglected by the non-aligned countries. (Chapter-V).

Those who have been helpful in my task are too numerous to thank individually here. However, my special thanks are due to several persons.

I am thankful to the Prime Minister Rajiv Gandhi, who honestly pointed out the shortcomings of the individual non-aligned countries and from whose suggestions I could draw my conclusion.

I am deeply indebted to my teacher and supervisor Professor Rasheeduddin Khan, who has been so understanding and cooperative and without whose proper guidance I would not have finished my work.

I am also indebted to all my friends, especially to Shahber Pasha and Khape for their constant moral encouragement and unfailing assistance in various ways. My appreciation also goes to the helpful librarians and Mr. Tulasidharan for the neat and careful typing of this work.

1988

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Abbreviations

C-20	:	Committee of Twenty
COMECON/CMEA		Council for Mutual Economic Assistance
DCs	:	Developed Countries
ECDC	:	Economic Cooperation among Developing Countries
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
GSTP	:	Generalised System of Trade Preferences
G-10	:	Group of Ten
G-24	:	Group of Twenty-Four
G-77	:	Group of Seventy-Seven
IBRD	:	International Bank for Reconstruction and Development
IDA	:	International Development Association
IMF	:	International Monetary Fund
IMS	:	International Monetary System
ITO	:	International Trade Organization
LAFTA	:	Latin American Free Trade Association
LDCs	:	Less Developed Countries
MFA	:	Multi-Fibre Agreement
MTN	:	Multilateral Trade Negotiations
NAM	:	Non-Aligned Movement

NIEO	:	New International Economic Order
ODA	:	Official Development Assistance
OECD	:	Organisation for Economic Cooperation and Development
OPEC	:	Organisation of Petroleum Exporting Countries
SELA	:	Latin American Economic System
SDRs	:	Special Drawing Rights
STO	:	State Trading Organization
TCDC	:	Technical Cooperation among Developing Countries
TNCs	:	Trans-National Cooperations
UN	:	United Nations
UNCTAD	:	United Nations Conference on Trade and Development

Chapter-I

NAM AND THE ECONOMIC IMPERATIVES IN

THE POST-COLONIAL ERA

## Chapter-I

### NAM AND THE ECONOMIC IMPERATIVES IN THE POST-COLONIAL ERA

#### I

One of the significant events of the post-Second World War system in international relations is the emergence of national self-assertion and independence of Afro-Asian countries, (which until recently had been under colonial exploitation and domination), and its final culmination into the Non-Aligned Movement. Historically considered the appearance of non-aligned movement is closely related to, and achieved its strength and sustenance from the intensification of global polarization resulting from the formation of military blocs, maintenance of military alliances and the pursuit of cold war.

The term 'non-alignment' does not reflect adequately its positive essence and range of activity, because it has appeared in various phases of international relations since the Second World War with different emphasis and priority demands. However, it was originally given its name on the

basis of its attitude towards alignment which had led to the formation of two sides of the cold war.<sup>1</sup> "Its prefix 'non' is indeed the sine quo non of non-alignments primordial opposition to military blocs, arms race and bifurcation of the world into compartments."<sup>2</sup> "The emphasis was (and continue to be) upon the freedom (and self-determination) of States to make their own policy-decision in respects of any matter before them. In this sense it was anti-interference and therefore anti-colonial and anti-great power (or anti-Super Powerism) in its connotation."<sup>3</sup>

What is of added significance and far reaching importance, is that the newly liberated countries (- identified variously as the 'third world', the 'developing countries', the

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- 1 See Leo Mates, in L. Acimovic, ed., Nonalignment in the World of Today, (Beograde, 1969), 'Preface', p.7.
  - 2 Rasheeduddin Khan, ed., Perspectives on Non-Alignment, (New Delhi, 1981), p.3.
  - 3 John Burton, "Nonalignment and Contemporary World Politics", in L. Acimovic, ed., op.cit., p.256.

'less developed countries', the 'South', the 'Nonaligned countries', etc.), which are today politically independent and legally sovereign, constituting two-third of the UN system, continue to remain dominated economically and militarily, by the old industrially advanced States. The roots of the present economic system, and the relationship surrounding it, goes far back into the colonial past. The extent of this colonial influence can be judged from the vast amount of territory and the large population that were <sup>under</sup> their control.

"In 1800, Europe and its possession (including ex-colonies) covered about 55 per cent of the land surface of the world; in 1878, 76 per cent and in 1914, 84.4 per cent. Expansion continued: by 1939 the only significant countries which had never been under European rule were Turkey, parts of Arabia, Persia, China, Tibet, Mongolia and Siam."<sup>4</sup>

Much of this colonially dominated global system continued till the end of the Second World War. But it was virtually in the 1960s that most of the ex-colonies become

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4 Quoted in Karl P. Sauvant, ed., Changing Priorities in the International Agenda: The New International Economic Order, (Oxford; 1981), p.4.

independent or liberated themselves from the political domination of their former hegemonic powers. However, "political decolonization in quintessence, is nothing more than the recognition of the right of an ex-colonial country to organise its political, legal and administrative affairs in an atmosphere of national independence."<sup>5</sup> True, most of the ex-colonies got their political independence but it is precisely here that the doctrine of dependence emerged. The disappearing phase of colonialism dove-tailed into a new and more subtle form of domination, which we now call 'neo-colonialism'.

The UN Declaration on the Granting of Independence to Colonial Countries and Peoples (Resolution 1514 XV) of December 1960, underlined the fact that economic emancipation was an essential ingredient of political decolonization. But the status quo had in its functioning over the years revealed a number of hurdles that lay in the path of the developing countries in their endeavour to realise their economic objectives.

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<sup>5</sup> Rasheeduddin Khan, "Nonalignment, Leading the Struggle", World Focus, August 1984, p.14.



The traditional classification of States as 'big' , 'middle' and 'small' powers is now intersected by another term, having an economic tone, that is as between 'developed' and 'undeveloped' or 'backward', and 'advanced' or 'agrarian' and 'industrial' or 'north' and 'south'. This is considered as "more basic and relevant than the division of the world between East and West", in terms of "power rivalries of the major world powers and the paramountcy of the Atlantic-cum-European States system to determine the trend and tenor of world politics."<sup>6</sup>

Henry Kissinger considered this trend as "one of history's most tragic ironies, (that) at a time when we were putting behind us the tensions of cold war, we were to enter into a new conflict between the North and the South, the rich and poor".

Thus, the period following the Second World War saw the emergence of not what the UN had originally envisaged as 'one world' of international economic relations, but as the three worlds : "the industrially advanced market

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6 Rasheeduddin Khan, n.2, pp.16.

economies led by the USA; the State managed economies of East Europe led by the Soviet Union; and, the under-developed economies of the developing countries of Africa, Asia and Latin America".<sup>7</sup> Of the three world that emerged the first two were capable of holding their own. The first world, having undergone the 'Industrial Revolution' two centuries ago (a historic event which the third world had not experienced) in recent decades it has passed through, what is sometimes called the 'Second Industrial Revolution' or the 'Technetronic or Cybernatic Revolution' again aided by the neo-colonialist and neo-imperialist exploitation of the third world.<sup>8</sup> The second world - i.e., the world of socialism comprising its European industrialised segment - had developed under the overall impact of its highly centralised, planned economy. The third world were, in this system not left alone to determine their own economic development. On the contrary, they were 'used' for the economic development of the affluent, industrially advanced capitalist countries. "That is to say that they were condemned in perpetuity to the peripheral status and economic

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7 K.P. Saxena, "The United Nations and the North-South Conflict", in M.S. Rajan, ed., Great Power Relations : World Order and the Third World, (New Delhi, 1981), p.70.

8 Jayantanuja, Bandyopadhyaya, North Over South : A Non-Western Perspective of International Relations, (New Delhi, 1982), p.1.

serfdom to their metropolitan powers."<sup>9</sup>

According to the bloc doctrines "economic relations are also in the function of the ideological and military relations (so) their development must be part of the overall strategy in the context with the opposite bloc ....The natural consequence of this view ... was the inception of processes which hampered economic integration, the revival of world's trade and invigorating of world production, ... under the cloak of an ideological conflict between the capitalist and the socialistic blocs,"<sup>10</sup> which led to an extremely unfavourable effect on the position of the developing countries. Both the blocs adopted the view that any 'State that is not with us is against us'. This situation did not suit the great number of the newly liberated countries which had just shed the shackles of many years of colonial tutelage and were faced with solving the acute problems of their economic backwardness.

Besides, an obstacle preventing the incorporation of the newly independent State into the global economic

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9 K.P. Saxena, n.7, p.72.

10 Timohir Djokanovic, "The Nonaligned Countries and the Development of New Economic Relations in the World", Socialist Thought and Practice, vol.24, no.6, 1984.

community as equal partners was the existence of the Western dominated systems of international economic relations. The existing institutions - be it the TNCs, Government Agencies, IMF, World Bank, GATT, etc. - favoured the continuing expansion of the countries which had already built up their economy, possessed sound monetary reserves and exercised considerable influence on the international and commercial streams. The simplistic assumption that the world is a free economy unguided by any one, no longer had force.

In 1944, when the Bretton Woods Conference was held apart from Latin American States, only Egypt, Ethiopia, India, Iran, Iraq, Liberia and Phillipines took part in it, whose interests were largely ignored. In fact, the Bretton Woods system dates back from a time when the majority of today's developing countries did not yet exist as States. Obviously, it cannot accommodate the present geopolitical diversity and development needs of the Third World. It was in this infamous conference where two central institutions for international financial and monetary cooperation were

established: the IBRD, popularly called World Bank and the IMF.<sup>11</sup> Originally, it was intended to include an International Trade Organization (ITO) which was negotiated and agreed in Havana in 1948: but the Havana Charter was never ratified by the US Congress. Some of its commercial provisions were incorporated in the less ambitious General Agreement on Tariffs and Trade (GATT) which was intended as an interim agreement; but became a mechanism which served as the principal forum for multilateral trade organisations. The wider aims, including steps towards organising commodity markets, were never implemented.

The Third World was further isolated from global economic relations with the emergence of the Economic alliances that was established both by the bloc powers after the Second World War. The US and the West European States formed the Organisation for Economic Cooperation and Development (OECD). The Soviet Union and the East European

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11 The IBRD was meant to provide loans to assist the reconstruction of Europe and Japan and for the developing world, and the IMF was to be the regulator of currencies, promoting stable exchange rates and providing liquidity for the free flow of trade. These international financial institutions are open to all countries but the right to manage them are based on the size of the paid-up quotas. While the quotas themselves are determined by the size of their economic strength and for that matter a monopoly of the developed countries.

States formed on their part the Council for Mutual Economic Assistance (CMEA) - also called COMECON.

With the Western and Eastern economic systems having thus taken place, the Third World found the UN and its agencies as a very convenient forum for their discussions and recommendations. They saw developmental issues as critical to their relations with the rest. Between the Bretton Woods - which follow a more conservative approach - and the UN institutions, each with their own language and assumptions, there remained a difference of orientation and of power. "With the admission of new States to United Nations, a major fundamental change developed in the voting pattern in that organs and bodies of the organisation ... there were occasions when both Super Powers voted together, and still remained a minority in the General Assembly."<sup>12</sup> Thus, "the Third World had majority votes in the UN which gave assurance of passing resolutions; but the North's position in the World Bank and IMF gave it control over key areas of money and finance. These development were no more than a coup de grace to a system already severely weakened...."<sup>13</sup>

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12 Leo Mates, n.l, p.169.

13 Dewan C. Vohra, Economic Relevance of Nonalignment, (New Delhi, 1983), p.177.

Therefore, the incorporation of the Third World in the current global economic structure proceeded under extremely unfavourable condition. Their economic structure were undeveloped and ramified while their industry was mostly based on raw materials and partly on agricultural production. In this phase, their monetary reserves were negligible, their economy as a whole at a standstill, the outcome of which was a social penury. In short, "the economies of the Third World was designed in the era of imperialism to be what they are - subject to unequal international division of labour and therefore dependence."<sup>14</sup>

## II

From the economic point of view, the 25 years immediately following the World War II, were the years marked by many structural changes resulting in the emergence of new trends in the history of capitalism. This evolution however, unleashed contradiction, imbalances and tensions, which

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14 Samir Amin, "After New International Economic Order : The Future of International Economic Relations", in U.S. Bajpai, ed., Nonalignment, Perspectives and Prospects, (New Delhi, 1983), p.211.

earlier were unknown to the system.<sup>15</sup> The world today is in the grips of an acute economic crisis which is worse than the Great Depression of the 1930s. A NAM Summit stated:

"Our era is at the crossroads of history ... The epoch making scientific and technological revolution has opened up unlimited vistas of progress but at the same time, prosperity has not come to every body, and as a result a major section of mankind still lives under condition, unworthy of man...."<sup>16</sup>

The economic gap between the North and South is increasingly widening - 'the rich growing richer and the poor remains poor'. The Conference declared: "... it is intolerable today for some to enjoy an uncontrolled and comfortable existence in exchange for the poverty and misfortune of others."<sup>17</sup>

Today, about 75 per cent of the world population ( 5 billion) lives in the Third World; some 800 million people received an annual per capita income of less than

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15 See Fidel Castro, The World Crisis : Its Economic and Social Impact on the Underdeveloped Countries, (New Delhi, 1983), p.21.

16 The Lusaka Summit Economic Declaration, 1970, para-4.

17 Ibid., para-9.



\$ 150; more than 500 million suffer from hunger and malnutrition and about 200 billion people lack adequate and permanent water supply; 814 million people are illiterate and over 200 million children lack schooling facilities; over 500 million people are unemployed.

A totally different picture prevails in the industrially advanced societies. In spite of the fact that they consist of only 25 per cent of the world population, they account for 83 per cent of world's products; consume 75 per cent of world's energy; 70 per cent of all technical resources, and 89 per cent of all money spent in education in the world. This shows that "there is a disproportionate concentration and blocking of economic resources in the affluent ex-colonial/re-colonial countries",<sup>18</sup> 'the bloodless abstractions that haunt wounded consciences'.<sup>19</sup>

The inevitable outcome of this unequal relationship is the dependence of the 'two-thirds poor' on the 'one-third rich' for aid and assistance, and for that matter a constellation of this external debt to the Western

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18 Rasheeduddin Khan, n.5, p.15.

19 Rikhi Jaipal, Nonalignment, Origins, Growth and Political for World Peace, (New Delhi, 1983), p.159.

financial institutions - private, public and global. The share of the Third World borrowing from private banks has gone up from 16 per cent (1970) to 80 per cent (1980) and their per capita external debt also increased from \$ 85.5 billion (1971) to \$ 1000 billion (1984). The present total debt of the Third World is more than trillion dollars.

These are the dimensions of the Third World poverty which the mechanism of the international economic system had failed to contain. In 1944, the International Labour Organization (ILO) Conference in Philadelphia raised the slogan - "Poverty anywhere constitutes danger to prosperity anywhere". The world constitutes one economic whole and the policy of narrow economic egotism of the thirties - the policy of 'beggar thy neighbour' cannot but lead to world catastrophe. The widening gap between the North and the South is a consequence of the fact that the decision-makers have forgotten the fact that poverty is a threat to 'world peace and prosperity'.

"The greatness of individuals as well as of collective actors and movements is the clear recognition of the true meaning of trends and historical moments of decision and

turning points. From this point of view, the Nonaligned Movement has undoubtedly well understood the significance of the great crisis of humanity after the Second World War and acted in the right direction"<sup>20</sup> for the democratisation, humanization and adjustment to the demands of economic and other kinds of world integration. Basically, NAM was "an unwelcome vote of non-confidence in the management of world affairs just at the point of time at which each side to the ideological conflicts - (represented by Warsaw Pact - COMECON economic-political, military complex and the NATO-OECD economic-political, military complex) - was asserting the universal benefits to be derived from its leadership."<sup>21</sup> Naturally, the nonaligned countries "economically underdeveloped and sensitive to external pressures decided to protect themselves against a possible loss of independence by remaining outside the blocs and by resolutely opposing any encroachment in their sovereignty, except when it might be for the benefit of the international community."<sup>22</sup>

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20 Leo Mates, "The Origin and the Development of Nonalignment", in Hans Kochlen, ed., The Principles of Nonalignment, (London, 1984), p.38.

21 John Burton, n.3, p.256;  
See also ... Dewan C. Vohra, n.12, p.xiv.

22 Leo Mates, Nonalignment : Theory and Current Policy, (Beograde, 1972), p.110.

"It is in tune with this that nonalignment represents a shift of focus from power to development, from the doctrine of status quo to the theory of change, from the acceptance of inequality in global relations to assertion of sovereign rights of big and small states, from alliances for domination and for spheres of influence to counter alignments in defenses of the inalienable rights of the poor, the exploited and the underdeveloped and for the ushering of a more human and a more just world order."<sup>23</sup>

The dissatisfaction and the disappointment with the prevailing global economic system surfaced in the 1970's, which dramatically changed the whole course of the Nonaligned Movement. The great expectations that economic development would 'trickle down' from, and/or follow political independence did not come in the 1970s. The First Development Decade launched by the UN in 1961 with high hopes felt short of its objectives and its extension in 1970 was viewed

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23 Rasheeduddin Khan, n.2, p.

with dampened expectations. The UNCTAD<sup>24</sup> has also similar promising start with its first meeting in Geneva (1964) but did not make considerable progress in its Second (1968) and Third (1972) meetings mainly because of stiff opposition from developed countries. The Group of 77 faced the same obstacles. This has only increased the sense of frustration in the Third World. A Summit Conference held: "... The failure of the First Development Decade and the implementation of the recommendations of the Third Session of the United Nations Conference on Trade and Development together with the disappointment result of the first three years of the casual years, have already jeopardised the achievements of the objectives of the International Development Strategy."<sup>25</sup>

In a world of economic development (i.e., internationalism) no country can promote its own prosperity without bearing in mind the interest of other nor can it "shy away from its share of responsibility under any pretext, nor can

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24 At the behest of the nonaligned countries, in 1962 the UN General Assembly approved a resolution offering for a world wide conference in trade and development. The first UNCTAD held at Geneva (1964) was a landmark in the history of the Third World solidarity precisely because it was here for the first time that the Third World countries confronted the rich nations 'as a group' demanding certain economic reforms in the world economic order.

25 The Algiers Summit (1973); Economic Declaration, para-II.

it afford to ignore the fundamentally indivisible nature of the global prosperity."<sup>26</sup> The Cairo Summit of NAM made it clear and loud that "economic development is an obligation of the whole international community" NAM with a new economic dimension was therefore confronted with the following questions which were of a momentous importance for the future of human civilizations:

- (a) "shall we seek the solution of our future behind the walls of economic discrimination or in the widest and most intensive world cooperation?
- (b) should security be sought in armaments or in general welfare?
- (c) shall we put economy in the service of 'power politics' and 'cold war' or shall we use the channels of trade and finance for the benefit of building up true coexistence among nations?"<sup>27</sup>

For the developing and the nonaligned there is no question of rejecting development; the only question is what direction

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26 The Havana Summit, 1979, Economic Declaration, para-8.

27 Vladimir Popovic, "Problems of Economic Development", Socialist Thought and Practice, June 1962, p.23.

this development should take. What the nonaligned countries advocate unlike those of the bloc powers - is neither confrontation nor division of the world. The economic relations would encourage the developing countries "to develop either as independent unit or as associated ones forming part of the world's economy and not as bases for powerful industrial centres which have today replaced the one time metropolies from the period of colonialism. It is a question, therefore of international economic relations which would have a positive influence in the independent inclusion of the developing countries into the international division of labour and a system of interdependence of national economies without the mediation of industrial centres."<sup>28</sup>

Since 1970 there has been a decisive shift of global correlations of powers chiefly due to three major political developments that has a profound impact on international relations:

- (1) The three-fold increase of newly independent states in the world scene, particularly in the UN system : from 50 (almost none from Asia and Africa) in the mid-fifties to 159 today (two-third of which are from the Third World) ;

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28 Srdjan Kerim, "Activities of Non-aligned in Building a New Economic Order", in A.W. Singham, ed., Non-Aligned Movement in World Politics, (Delhi, 1972), p.177.

- (2) The growing solidarity among the non-aligned countries, other developing countries and the liberation movements, and their increasing political relevance in international arena;
- (3) The political and economic strength of socialist countries which has eroded the hegemony of the capitalist economy, thereby increasing the room for manouvering of the Third World (today about one-third of the world's population lives in the countries in which communist party is in power).<sup>29</sup>

### III

In the course of its rapid development as an international movement, nonaligned movement has gradually transformed itself from being a social movement into a much more highly organised pressure group.<sup>30</sup> It virtually

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29 Rasheeduddin Khan, "NAM, India and the Soviet Union", in Girish Mathur, ed., Sinews of Self-Reliance, (New Delhi, 1987), pp.48-49.

30 Timothy M. Shaw, "Political Economy of Non-Alignment : From Dependence to Self-Reliance", International Studies, 1980, p.478.



established itself as the principal political coalition of developing countries, it has set up a high structured organisations; and it embraced the developmental issues and included it among its objectives. In its evolution four critical meetings - two Summit and two ministerial conferences - via., Lusaka (1970), Georgetown (1972), Algiers (1973) and Lima (1975) particularly "attributed to the evolution of a basic structure of policy premises on al issues of economic reconstruction on the entire gamut of developmental problems for ushering in a more just and an equitable world order."<sup>31</sup> However, this does not mean that economic issues did not play a role in the 1960s: only that they were not considered matters of first priority, but rather as subject of a technical nature. In 1955, the Bandung Conference had already given considerable attention to development. And much of the work in 1950s and 1960s in the UN was related to the First Development Decade which had received repeated the strong support from the nonaligned countries. Similar support was also given to UNCTAD, which was formed at the behest of the nonaligned countries. The nonaligned countries themselves held in 1962 a conference



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31 Rasheeduddin Khan, n.29.

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exclusively on problems of economic development - the only nonaligned conference of this kind in the 1960s.

The Lusaka Summit Conference marks a new and important stage, in so far as international economic questions relating to basic structure of the global system assumed major significance. The head of States or government had recognised, for the first time that economic questions are matters deserving intensive discussions at the highest level. As late as UNCTAD III (1972), question of economic development were regarded as 'low-politics'; they were left to the ministers of economics, planning and finance. Since Lusaka developmental issues had become 'high-politics'. In fact, a very broad and continuous consensus soon emerged on these issues, a consensus seldom achieved for crucial political matters.

It adopted a separate and detailed Declaration on economic issues. It also decided to have a full length separate Declaration of Nonaligned and Economic Progress where specific guidelines and Action Programme were laid down. Lusaka, on the basis of the speech of Julius Nyerere before the 1970 Dare-es-Salaam preparatory Conference, concentrated on the task of strengthening the economic

position of the less developed countries, of cooperation and solidarity in economic matters emphasising collective self-reliance, thereby becoming the main plank of the economic programme of the nonaligned countries. The major item on the agenda of the Georgetown Ministerial Conference was subdivided into political issues, economic issues and cooperation and coordination among nonaligned countries. A political committee dealt with the other issue areas. The 1973 Algiers and 1975 Lima conferences were structured in a similar way.

However, it was in the Algiers Conference that the economic course of the nonaligned movement was chartered and launched in the main. In fact, it marks a decisive watershed of the nonaligned movement and became an 'international pressure group' and a 'global trade union' of the 'have-not states'. That is, it gave the movement an 'economic incarnation'.

The 'Economic Declaration' and the 'Action Programme for the Economic Cooperation' refers to a 'new type of international economic relations' a 'new and more equitable international division of labour', a 'new international monetary system', etc. The Economic Declaration even

contained a reference in which it was decided to 'use all possible means' to achieve the establishment of an NIEO. The term 'New International Economic Order' appears for the first time in the nonaligned summit conference. Again for the first time they envisaged economic cooperation with the socialist countries.<sup>32</sup>

At the behest of the nonaligned countries, the UN Secretary General called the Sixth Special Session of the General Assembly, at a high political level, exclusively devoted to the problems of development. It met in 1974 and adopted the Declaration and Programme of Action on the Establishment of a New International Economic Order. It was the first ever special session in the history of the UN convened particularly to address the economic developmental issues. The preparation of this session and again the 29th Annual Session of the UN General Assembly - which had been exclusively the 'Third World Affairs',<sup>33</sup> saw the defacto

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32 That the Algiers Summit has a socialist bias is very clearly visible from the fact that one-third of the Action Programme for Economic Cooperation is devoted to this subject.

33 See Ankie M.M. Hoogvelt, The Third World in Global Development, (London, 1982), p.27.

merger of UNCTAD's Group of 77 and the Nonaligned movement, if not in membership, atleast in programmes and objectives for the NIEO. The UN declaration on an NIEO stated:

"We, the Members of the United Nations ... solemnly proclaim our united determination to work urgently for the ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER based on equity, sovereign, equality, interdependence, common interest and cooperation among all states irrespective of their economic and social systems, which shall correct in - equalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries, and ensure steadily accelerated economic and social development and peace and justice for present and further generations."

Subsequently, a Charter of Economic Rights and Duties was passed by the UN in 1974, with several developed countries voting against it. A year later, the Seventh Special Session of UN met to further the ideas embodied in the concept of an NIEO and passed a resolution on Development and International Cooperation.

The Colombo Summit Conference (1976) testify the preoccupation of the nonaligned states with the global economic system. It was convinced that "nothing short of a complete restructuring of international economic relations through the establishment of the new international economic order will place developing countries in a position to achieve an acceptable level of development." Accordingly, it offered an integral concept and gave a new impetus for an NIEO, which should include:

- (a) fundamental restructuring of international trade, with special reference to the terms of trade;
- (b) fundamental restructuring of world production on the basis of a new international division of labour;
- (c) radical overhauling of the existing international monetary arrangements;
- (d) adequate transfer of resources 'on an assured, contineous and predictable basis;
- (e) urgent and adequate solution to the problem of actual debts, particularly of the 'least developed and the most seriously affected nations;
- (f) financial and technological assistance to the developing nations for the development of their agriculture, and
- (g) free access to sea for landlocked countries.

Particular emphasis was given to economic cooperation among the developing countries (ECDC) and they emphasised the need for collective self-reliance and the 'inter-dependence within the global economy'. They had a "firm feeling that only a confident spirit of collective self-reliance on the part of the developing countries can guarantee the emergence of the New International Economic Order." Mrs. Gandhi said: "In the 1950s and 1960s, the rallying cry of the deprived people was independence. Today it should be self-reliance." Self-reliance implies "a firm determination on the part of the developing countries to secure their legitimate economic rights in international dealings through the use of their collective bargaining strength... it means willingness to explore and pursue the immense possibilities of cooperation among themselves in financial, technical, trade, industrial and other fields."<sup>34</sup> The development and consolidation of a policy of organised struggle of the nonaligned countries gives strongly support of the Georgetown Ministerial Conference (1972), at which for the first time a programme of action for economic cooperation primarily among the developing countries was adopted. The programme underline

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34 The Colombo Summit Declaration on Collective Self-Reliance, para-1.

the responsibility of the developing countries for their own economic transformation and laid foundations for reliance on their own and on collective resources, and emphasized the importance of appropriate organisation of the nonaligned and the developing countries.

Despite the Colombo Declaration that "the widening gap between the developing and developed countries is one of the most threatening sources of tensions and conflicts ... and the establishment of the NIEO is of almost political importance." The global negotiations failed. Till the next summit in Havana there was a series of activity amongst the developing countries within the outside the UN for the promotions of Economic Cooperation among Developing Countries (ECDC) and Technical Cooperation among Developing Countries (TCDC), culminating in the high level ministerial meeting at Caracas (Venezuela) in 1981.

The Havana Conference got entangled into the entire spectrum of political, economic, social and cultural issues among the poor nations, because of the attitude of the North, who are guided by economic considerations rather than by political recommendations. But the economic part



once again overshadowed its political and other aspects. It placed even international political relations within the content of global economic relations. It unequivocally declared that but for radical changes in the international economic system the world's economic problems could not be solved. Actually, it may be said that upto the Sixth Conference the new international economic system had in principle been accepted as an alternative to the existing one. But Havana emphasized that "nothing useful would be gained from principled endorsement, unless primarily the developing countries were the first to act in accordance with the provision of the new international economic system." President Tito therefore underlined the importance of building a new international economic system in his address at the conference - "to find a new international economic system is the only way to grapple with the difficult problems of development and with the profound crisis into which the world's economic has floundered."

Besides proceeding from the processes of internationalization as an objective tendency in the development of the world's economy, this conference opposed regional isolation which results in the fragmentation of international economic relations and pressed for the moving of

global negotiations concerning international economic cooperation. It pointed out that certain problems in the world's economy are of a general character and that neither countries nor regional individually can solve them, this being possible only by joint negotiations concerning all outstanding international problems bearing in mind the interest of every country by the world.

India had been not only the founder but the 'pioneer, progenitor and promoter'<sup>35</sup> of NAM as an international movement. In these circumstances it seems rather odd that it should take 22 years after Belgrade for the chairmanship to come to India in 1983. Nevertheless, the movement gains its stability and solidarity under the leadership of Mrs. Gandhi. In the keynote address she said: "The Nonaligned Movement is history's biggest movement". This was no mere rhetorical flourish when 101 nations took part as members, 16 as observers and 26 as guests - representing the biggest assembly of world leaders, outside the UN system.

Compared to the earlier Summit Conference, the Seventh Nonaligned Conference adopted the most comprehensive

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<sup>35</sup> Rasheeduddin Khan, n.29, p.58.

document on economic issues. The main reason for this is the gravity of the world economic crisis which "threatens to engulf the whole world in a major depression worse than the Great Depression of the 1930s." The Economic Declaration, the New Delhi Message, the Declaration on 'Collective action for global prosperity' and 'the Declaration on 'Collective self-reliance among developing countries' re-emphasised the need for establishing an NIEO: called for global negotiations; restructuring of international monetary and financial systems; the need for a programme of immediate measures in critical areas - food, energy, industry, etc., and the imperative of intensifying South-South Cooperation.

Nonaligned Movement is about five Ds - Decolonisation, Detente, Development, Disarmament and Democratisation of International institutions. And since development is one of the "central issues of our time" a special document - the New Delhi Message made a special appeal to all the leaders of the great powers for global talks to be held immediately for recordening the current global economic system. It said:

"The present crisis has demonstrated the inadequacy of the existing international order to deal with the problems of development. A through-going restructuring of this order through a process of

global negotiations is necessary. All hurdles must now be overcome so that these negotiations can be launched without delay. Nonaligned countries are committed to strive for the establishment of the New International Economic Order based on justice and equity."

Underlying the imperative of a new economic order Mrs. Gandhi called its members to decide:

- (a) "to demand more purposeful steps to carry forward the democratisation of the international system and to usher in a New International Economic Order;
- (b) to call for an international conference on Money and Finance for Development, which will devise methods to mobilise finance for investments in the critical areas of food, energy and industrial development; and
- (c) to assert our commitment to collective self-reliance."

## IV

Since the world economic crises is primarily 'a system of structural maladjustment' in the present unjust world economic system, the nonaligned states are committed to promoting the establishment of a NIEO. They are sure that the attitude of 'what we have, we hold' which do not stop political decolonization will not stop economic decolonization.<sup>36</sup>

In the period between Belgrade and New Delhi there has been two UN Development Decade and five UNCTAD conferences whose result were just insignificant. It yielded nothing but an "institutionalised frustrations" and a pattern of pervasive and constantly enlarging disparities in the human conditions and between the world's people."<sup>37</sup> The proposal for the establishment of UNCTAD and for the Declaration and Programme of Action for the establishment of a New International Economic Order, have been "feathers in the nonaligned cap".<sup>38</sup> NAM through

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36 Edward Sanu, "Nonalignment and the Foreign Policy of Nigeria", in, A.W. Singham, ed., p.28, p.4.

37 Quoted in Rasheeduddin Khan, p.5, p.25.

38 Ibid., p. 16.

UNCTAD, UNIDO and Regional Commission of the UN has succeeded only in identifying problems and bottlenecks defining some aspects of an NIEO and elaborating various ways and means to remove towards the desired goals. But they failed to persuade the North to accept the goals or events make modest moves towards them.

The stalemate behind the North-South talks may be attributed to the various conceptions held by the developed and the undeveloped countries. Among the rich nations the socialist tried to practise detachment on ground of what the Chairman of the Socialist Delegation at the Seventh Special Session said: "It is not the Soviet Union who has for ages used to plunder the national wealth of former colonial possessions which nowadays have come to be sovereign states. It is not the Soviet Union who used to exploit their population for centuries. Therefore, the Soviet Union does not bear - I specifically underline it - does not bear any responsibility whatsoever for the economic backwardness of the developing countries, their present hard situation,, particularly under the conditions of the aggravations of the economic crisis of the world capitalist economy." Thus, they showed an indifference to the call for NIEO by NAM, although recently they are becoming more accommodating.

The capitalist combines on the other hand "are not willing to go beyond what may be called reformist approach; for, in their assessment, the poverty and underdevelopment in the Third World are due eventually to want of determined national efforts and faulty economic policies rather than the prevailing structure of international economic relations."<sup>39</sup> There are two distinct ways of looking at this problem - the super-structure and sub-structure levels.<sup>40</sup> "While the nonaligned countries increasingly demand change in the sub-structure, recognising that this will increasingly affect the super-structure, the industrial states advocates changes at the level of the super-structure only, with the hope of preventing diplomatic agreement from affecting economic exchange and at the same time reestablish their dominance throughout the global economy. The rich seek only a form of words hoping to protect their economic hegemony while the poor want structural changes because of their alienation from the global economy."<sup>41</sup> The North's

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39 See K.B. Ball and S.D. Muni, "Nonalignment and the International Economic Order", in K.P. Mishra and K.R. Narayanan, ed., Nonalignment in Contemporary International Relations, (New Delhi, 1981), p.157.

40 Timothy M. Shaw, p.30, pp.484-85.

41 Ibid., p. 484

approach is one of rejuvenating market forces in ways that would consolidate their primacy,<sup>42</sup> which does not take the Third World into the expanding global economy.

In short, the developed countries has summarily rejected the demand of the nonaligned countries for an NIEO on the premise that "the present international structure and processes are as equitable as the realities of international politics allow,"<sup>43</sup> and stands in the way of its realization. But to date no alternative or counter proposals has ever been formulated by them in opposition to the New International Economic Order, to which the Third World is committed.

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42 K.B. Ball and S. D. Muni, n.37, p.152.

43 Rasheeduddin Khan, n.5, p.27.



Chapter-II

INTERNATIONAL TRADE AND THIRD WORLD DEVELOPMENT

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There is ample historical evidence to show that trade has been an 'engine of development' and it remains to be one of the main-springs of the world economy. The New International Economic Order (NIEO) adopted in the Sixth Special Session of the UN General Assembly regarded trade as an engine of economic development. In this, trade has been performing two major functions : to generate foreign exchange earnings necessary to finance the import of capital goods, and to stimulate industrialisation.

The expansion of trade recorded since the World War II however, did not benefit all, particularly the LDCs. This emphasises "the precarious situation of the LDCs, the inability of trade to push forward, a development which it actually hinders, while reflecting the deep inequities of the present system of international economic relations. This trade situation is unable to promote development in the LDCs and also present one of the exploitation devices to further widen the gap between the affluent West and the

underdeveloped periphery."<sup>1</sup> Thus at the very first nonaligned countries summit the members demanded "just terms of trade for the economically less developed countries and, in particular constructive efforts to eliminate the excessive fluctuations in primary commodity trade and the restrictive measures and practices which adversely affect the trade and revenues of the newly developing countries."

Table-I

TRENDS IN WORLD TRADE — 1970-1984 ANNUAL RATES OF GROWTH

	1970-80	1975-80	1981	1982
<b>WORLD EXPORTS</b>				
Volume	5.8	6.0	-0.8	-2.0
Unit Value	14.1	11.5	-2.3	-4.0
<b>DEVELOPED COUNTRIES</b>				
Export Volume	6.4	6.5	1.5	-0.7
Terms of Trade	-2.1	-2.1	-0.1	-0.7
Purchasing Power of Exports	4.3	4.4	1.4	1.6
Import Volume	4.9	5.7	-3.0	0.8
<b>DEVELOPING COUNTRIES</b>				
Export Volume	1.2	2.8	-8.7	-3.8
Terms of Trade	8.3	4.9	8.7	-3.6
Purchasing Power of Exports	10.5	7.7	0.0	-7.4
Import Volume	7.3	0.0	11.2	-3.4

Source: UNCTAD, Trade and Development Report, 1983,  
pp.33-36.

1 Fidel Castro, The World Economic and Social Crisis,  
(New Delhi, 1983), pp.52-53.

The share of LDCs in world trade has steadily declined from 30.8 per cent (1950) to 18 per cent (1972). The down trend only reverse itself in 1973 when the value of OPEC oil exports began to contribute an increasingly larger portion of the total export earnings to the LDCs. But a conference of the nonaligned countries said, "the sudden increase in commodity prices which occurred in 1973 and part of 1974 however, was due to exceptional circumstances in demand as a hedge against inflation and exchange rate changes rather than to any conscious international policy."<sup>2</sup> This trends in trade also shows strong effects in the production and the available technology. Thus in 1958-1977 the per capita Gross Domestic Product (GDP) - in 1970 US dollars - increased by \$ 126 in the LDCs. Moreover, the rich prefer to channel more than 70 per cent of the overall trade among themselves, and a little over 20 per cent with the LDCs - over one-third of which is with the OPEC nations. On the contrary, LDCs' trade with the rich accounted for above 70 per cent, 25 per cent among themselves and approximately 4 per cent with the socialist countries.

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2 Special Conference of the Developing Countries on Raw Materials: Dhakar Declaration : February 4-8, 1975, Document. para-9.

Table-2REGIONAL COMPOSITIONS OF WORLD TRADE, 1963-1982(Percentage Shares in World Trade)

	1963	1973	1978	1979	1980	1981	1982
Developed Countries	64	68	65	63½	61	61	61½
Traditional Oil-Exporting Developing Countries	6	7½	11	13	15	14	12
Other Developing Countries	14½	12	12	12½	13	13½	14
Socialist Countries	12	10	9½	9½	9	9½	10½

Source: GATT, International Trade, 1982-1983.

The international division of labour has created a situation where the LDCs have to depend primarily on export earnings from raw materials and primary production to finance imports and domestic development. Most of their export earnings come from primary commodities — 57 per cent in 1978, or 81 per cent of oil is included — and commodities contribute as much as 50 to 60 per cent to the GDP of some countries.<sup>3</sup> Despite the preponderance of raw materials and primary products reports from developing countries, they are not the leaders in the export of these commodities; the US and Canada dominates world exports of the principal cereals such as wheat, corn and rice. Thus, the LDC's main exports is based on non-cereals primary commodities like bananas, cocoa, rubber, sugar, and tea.

This dependence on primary products is further accentuated by their dependence on a limited number of products, since they are denied the greater income

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3 See Willy Brandt, North-South : A Programme For Survival, (London, 1980), p.141.

stability that goes with a more diversified pattern of production. Besides, oil, about a dozen raw materials represent half of their commodity exports.<sup>4</sup> Myrdal said: "most of the underdeveloped countries are saddled with a basket of traditional export goods ... the prices of which have been lagging behind."<sup>5</sup> Some example of countries which in recent years have obtained almost all their export earnings from one commodity - apart from oil - are Zambia (94 per cent from copper); Mauritius (90 per cent from sugar); Cuba (84 per cent from sugar), and Gambia (90 per cent from groundnuts and groundnut oil).<sup>6</sup>

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4 The major commodities of the LDCs are: coca beans, bannanas, tobacco, tea, coffee, sugar, rice, wheat, hides, and skins, natural rubber, cotton, jute and forestry products.

5 Quoted in Richard S. Wekstein ed., Expansion of World Trade, (New York, 1968), pp.91-92.

6 Willy Brandt, n.3, p.145.

Table-3COMMODITY COMPOSITION OF WORLD EXPORTS

(Percentages)

	1965	1970	1980
All Food Items	18.2	14.7	11.1
Agricultural Raw Materials	7.8	5.8	3.8
Ores and Metals	12.0	12.8	8.5
Fuels	9.6	9.3	24.0
Manufactured Goods	49.8	56.4	50.0

Source: UNCTAD, Hand Book of International  
Trade and Development Statistics, 1983,  
p.90.

Figures do not add upto hundred.



"The main positive effect of international trade on the underdeveloped countries was in fact to promote the production of primary products."<sup>7</sup> But poor countries have suffered a long-term deterioration in 'their' commodity terms of trade and this had inhibited their development. A major obstacle to the expansion of commodity exports from the LDCs is that it is not they but the industrialised countries through to TNCs that control markets, technologies, transport, investments and finance. Hence, "what may look like trade between rich and poor nations is actually trade between rich nations and their multinations in foreign countries."<sup>8</sup> and they exert tremendous control over commodity marketing. For instance, apart from hides and skins, TNCs control over the marketing of 18 commodities which make up the vast majority of third world exports ranges between 50-60 per cent, and 85-95 per cent of 11 per cent of these products.

A second major obstacle is the fact that technological progress has not only reduced raw materials to capital

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7 Gunnar Myrdal, "International Inequality", in Richard S. Wekstein ed., Expansion of World Trade, no.5, p.63.

8 Dr. Glenn T. Magagula, "Problems of Third World Trade", African Insight, 1980, vol.10, no.1, p.18.

ratio but has also produce synthetic substitutes — synthetic rubber, fibers and plastics — for many commodities. Thus, "the direct and indirect effects of technological progress are responsible for the fact that the world demand for primary commodities is growing so slowly, to the detriment of the developing countries."<sup>9</sup>

A third obstacle is the enormous price fluctuation from which most commodities suffer. Almost one-tenth of LDCs non-fuel primary commodity exports were subject to price fluctuations of over 15 per cent from one year to the next, and another one-fourth to fluctuations of 10-15 per cent. The establishment of the integrated commodity programme and a common fund to finance buffer stocks has been part of the discussion of the NIEO. Progress, however, has been painful and slow, the main problems involving the lack of financing the buffer stocks, the opposition of certain industrialised countries to intervention in the market in order to stabilise them, the resistance to the extension of negotiations to processed and semi-processed products, the producing countries' failure to

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9 Raul Prebisch, "Toward a New Trade Policy for Development", in John A. Pincus ed., Reshaping the World Economy: Poor and Rich Countries, (Prentice-Hall, 1968).

coordinate common positions and differences in the outlook and proposals for the consuming countries.

The Singer-Prebisch thesis suggest that "the terms of trade between agriculture and manufacturing shifted to the advantage of manufacturing because monopolistic elements in this products and factors markets allowed industrial countries to keep the benefit of this technological progress in the form of rising factor incomes, whereas in primary producing countries the gains in productivity have been distributed in price reductions."<sup>10</sup> The nonaligned countries pointed out: "The fact that developing countries have been denied adequate participation in the determination of the international prices of their exports commodities has led to a permanent transfer of real resources from developing to developed countries."<sup>11</sup>

The increasing gap between the imports and exports during the post-war period for the LDCs have been financed by liquidation of reserves and by loans and grants from industrial countries. But this led to serious proportion

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10 See Richard S. Wekstein, ed., n.5, p.92.

11 Dhakar Conference: Documents, para-4.

of debt repayment. Thus, the high rates have made the cost of borrowing from commercial banks very high; in the absence of increased flow of financial assistance the net financial resources available to LDCs have also been steadily declining and are far below the expected target (0.5 per cent instead of 0.7 per cent of GNP of the donor countries as agreed in UNCTAD); and, the decline in prices of major product of interest to LDCs.

Over the last three decades the trading position of the LDCs has deteriorated seriously. Exports have followed one trend line, a slow growing one. Imports have followed another trend, increasing more rapidly than exports. And "if the less developed countries develop economically at a rate consistent with economic and political stability, imports will continue to grow at a faster rate than exports and an ever increasing trade deficit will be generated."<sup>12</sup>

Exports of the LDCs are sensitive to the trade policies of the rich countries. Since most of their exports are primary products which are processed and consumed in the

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12 Robert Loring Allen, "Trade Policies for the Nonaligned Countries", Current History, 1962, vol.43, p.84.

industrial countries, protective and revenue tariffs, quotas and other trade barriers depress the level of their exports. These barriers takes the form of import taxes, direct subsidies to domestic producers and import quotas often imposed or intensified at short notice. The extent and severity of these restrictions is due to two sets of influence — (1) "increasing range of LDCs sensitive products which are competitive in western markets — leather goods, shoes, textiles, garments, engineering products, electronics and ships; (2) western economies have shown reluctance as inability to undertake structural changes to accommodate the increased volume of competitive imports. The switch in the North to other activities in sometimes resisted and protection is demanded."<sup>13</sup> Most industrialised countries import from LDCs only a fraction of the manufactures which they export to them : in 1978 total imports of manufactures and semi-manufactures were \$ 32 billion compared to trade in opposite direction of \$ 125 billion, while total imports of the rich countries from LDCs amounted to \$ 216 billion compared to \$ 200 billion exports to these countries.<sup>14</sup>

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13 P.G. Salvi, The Emerging Developing Countries, (New Delhi, 1982), p.55.

14 See Willy Brandt, n.3, p.178.

The president of the World Bank, S.W. Clausen said:

"The currently pressures for production are partly provoked by recession, but more protection makes the recession worse by encouraging production in other countries and by making the protected economy lags sufficient for years to come. Protection to a limited extend sustain employment in threatened industries but it reduces employment elsewhere in other countries and in other industries of the same country. Protection can also postpone difficult adjustment to shift international comparative advantage but only at the cost of increased inefficiency and damage to the protected economy."

GATT has operated as the focus of post-war tariff-cutting rounds culminating in substantial tariff reduction authorised in 'Kennedy Round' negotiations in 1967. However, GATT reduction did not have equal effect on LDCs' trade which has always been encountering difficulties both in the US Congress and in the EEC Council of Ministers. The three major principles of GATT - multilateralism, non-discrimination and transparency are under severe

strain. Over one-third of LDCs exports (by value) are subjected to one or more types of protectionist barriers on developed market economy countries. In sector where developing countries have a relative comparative advantage, the value of trade subject to such measures is far higher. Non-tariff measures apply disproportionately to products in which LDCs specialise vis-a-vis the developed. UNCTAD estimates that 65 per cent of the exports of the South in manufactured goods were subject to non-tariff measures whereas the corresponding figures for the same products from the developed countries was only 23 per cent. In the EEC, four out of five existing restrictions facing textiles and weaving apparel under the Multi-Fibre Agreement (MFA) apply solely to the LDCs. Bilateral quotas, voluntary export restraints, anti-dumping and countervailing duties, "negotiated" restrictions, market sharing arrangements and organisation of five trade are some of the instruments.

The provision for special and preferential treatment to LDCs reaffirms at the Tokyo Round - have also been eroded and concepts such as reciprocity and graduation are increasingly sought to be introduced by the rich countries. The proposal by the USA backed by other major industrialised nations for a new round of multilateral trade negotiations (MTN) had tended to focus on issues such as expanding the

jurisdiction of GATT to include areas such as services and direct foreign investment to the neglect of the unfinished tasks of the earlier rounds of trade negotiations in crucial areas of interest to developing countries such as textiles, agricultural products and indeed to earlier commitments on 'standstill' and 'rollback' of protectionist measures. It is a fact that "the aforementioned negotiations convened by GATT were above all aimed at settling trade problems among the US, the EEC and Japan."<sup>15</sup>

The LDCs pressure to link trade and development had to the creation of UNCTAD in 1964 which was considered "a turning point in the evolution of international organization". But UNCTAD which represent the principal forum of G-77 has so, far been a failure. Many reasons have been advanced for this but "the main reason is surely that, from the developed countries point of view , it seems all give and no take."<sup>16</sup>

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15 Fidel Castro, n.l, p.73.

16 Paul Streeten, "The Dynamics of the New Poor Powers", in G.K. Helleiner ed., A World Divided : The Lessdeveloped Countries in the International Economy, (Cambridge University Press, 1976), p.77.



In a Report of the Nonaligned Summit:

"Eight years after launching of the programme for the New International Economic Order, after the two so-called Development Decades ... The position of the third world in international trade is probably worse than even before."<sup>17</sup>

The Report also stated:

"The measure proposed as possible solutions or as polliatives - of debatable efficiency - remain more or less at a standstill or very far from their original projections."

Thus, the goals of Integrated Commodity Programme and its main component the common Fund, are still very far from being achieved; the North not only reject but even refuse to discuss on Indexing; Producers' Associations have been 'accused, boycotted and portrayed as satanic factors that disrupt markets and unleash crises; Compensatory financing

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17 Fidel Castro, n.l, pp.74-75.

for drops in export revenue is still restricted to the context of ominous IMF dictates and its interventionist policy of conditions and the STABEX system attractive mechanism have a restricted scope due to the limited resources it channels and the neo-colonial burden it bears. Today GSP, the major achievement of UNCTAD has been converted into "GSD - a generalised scheme of discrimination."<sup>18</sup>

The Sixth Special Session of the UN General Assembly said:

"All efforts should be made (for the) fulfilment of relevant commitments already undertaken in the United Nations Conference of Trade and Development and in the International Development Strategy for the Second United Nations Development Decade."

"Why is it that the resolution of UNCTAD are not implemented? It is because there are no sanctions. No country is threatened with dangerous consequences for not implementing a conference resolutions."<sup>19</sup> UNCTAD came into

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18 Quoted in L.K. Sharma, "GATT, UNCTAD : Disappointing Programme", World Focus, May 1984, p.10.

19 Ibid., p.10.

existence specifically with a purpose of reorienting the direction of Trade, through crystallisation of opinion in a forum of discussion. However, the nonaligned countries has pointed out that the rich nations are responsible whatsoever for the "non-implementation of resolutions adopted in UNCTAD and other forums with respect to pricing policies and access to markets and the increasing trends towards protectionism in developed countries."<sup>20</sup>

Perhaps for the LDCs trade is still the main instrument of economic expansion. They have even adopted the slogan - "Trade not Aid". But the prospects looks dim. The Annual Report of UNCTAD, 1982 remarked that "the outlook for the world economy is uncertain at best, and the immediate outlook for the developing countries is grim". The World Bank also hold: "Since the central case assumes that economic growth in industrial countries will be lower in 1985-1995 than it was in 1950s and 1960s, it is postulated that world trade will also grow slowly." It is projected to be around 5 per cent annual growth rate, about the same as was achieved in 1973-80. This will particularly effect the LDCs balance of payments. The ever

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20 Dhakar Conference Document, para-17.

increasing deficit in the current account balance which was estimated to increase to \$ 118.2 billion in 1982 is likely to rise to \$ 276.2 billion in 1995; and the adjustment problem will still remain.

The immediate aim of a new trade policy, according to Prebisch is to bridge the potential gap. "This potential gap is the external limitation factor and, if it is reduced it will be less difficult for the developing countries to reach and exceed the rate of growth postulated for the Development Decade."<sup>21</sup> To reduce the "trade gap" he suggest four proposals for action to stimulate development:<sup>22</sup>

1. "Duty free entry for the manufactured products of the underdeveloped countries in the market of rich countries;
2. Commodity agreements designed to raise and stabilise the price of poor identities food and raw material exports;
3. Supplementary (compensatory) finance which would provide international subsidy for countries whose effective report earnings lag, thereby prejudicing their economic development;

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21 Raul Prebisch, p.9.

22 Ibid.

4. Economic integration among underdeveloped countries in order to expand their markets and establish industrial production on a more rational basis."

To suggest global development without trade is unthinkable, trade must be promoted. "International trade is a powerful force for the introduction of progress, often destructive of existing economic structures, and it is this role that it is a carrier of progress, not just the idea of progress but the machinery of progress itself."<sup>23</sup> Recognising that "nothing short of a complete restructuring of existing international economic relations will provide an enduring solution to world economic problems", the Colombo Summit call for a — "Fundamental restructuring of the entire apparatus of international trade", and "basic restructuring of world production on the basis of a new international division of labour."

Since the existing trading system is characterised by protectionist barriers, steady deterioration in terms

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23 See Editorial note to Gunnar Myrdal's "International Inequalities", in Richard S. Wekstein ed., n.5, p.62.

of trade of the LDCs, contraction of commodity markets, the collapse of commodity prices and the organised manifestation of the prices of raw materials, the Seventh Summit Conference has called for the urgent adoption of the following measures:

- "substantially increased market access in developed countries for exports from developing countries;
- special emphasises on special and preferential treatment for the exports of developing countries, further developed countries must refrain from any restrictive conditional, selective and discriminatory treatment to the detriment of developing countries."

The Declaration also appeal to the rich nations to :

(a) refrain from imposing 'any' new restrictions on trade originating from LDCs; (b) eliminate forwith restrictive measures incompatible with their international commitments or aimed at evading those commitments, and (c) draw up a programme for eliminating of protectionist measures including subsidies on uncompetitive products, which adversely affect the trade prospects of the LDCs.

In the report of Brandt Commission:

"Protectionism threatens the future of the world economy and is inimical to the long-term interest of developing and developed countries alike. Protectionism by industrialised countries against the exports of developing countries should be roll back; this should be facilitate by improved institutional machinery and new trading rules and principles."

"A diminution in the protection and subsidization of agricultural production by the industrialised countries should have a significant impact upon imports of these products by primary producing countries. Relatively small changes in domestic production in industrial countries can have a large impact on imports."<sup>24</sup>

If, some western commentator feared, the industrialised countries becomes more protectionist, this would force developing countries to explore a range of second best options; this would include trying to expand trade with the centrally planned economies and with other developing countries on a discriminatory basis. One might ask why is

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24 Robert Loring Allen, n.12, p.85.

it that the western countries share in the total volume of the developing countries' trade amount to 75 per cent, while the socialist countries' share is less than 5 per cent, although the latter claims to conduct this trade with the LDCs on "democratic, just and mutually advantages" basis. It is imperative that the socialist countries should, besides their political support, accord a favourable terms for intensifying trade, economy, scientific, and technical cooperation with the LDCs.

The nonaligned countries have time and again reiterated that expansion of trade and economic development can be realised in and through speedy structural adjustment in the rich countries; increase market access to LDCs' exports; restructuring the rules and principles of governing the inequitous international trading system; expansion of GSP in the interest of LDCs, return to rational trading rules of GATT; implementation of trading principles of GATT and rules of conduct of TNCs in the Third World countries. In commodities: early ratification and contribution towards common fund; improvement of International Commodity Agreements; liberalisation of IMF Buffer Stock Financing Facility; increased Producers Associations; Mobilization of commodity report earnings of



LDCs; increased participation of LDCs in the processing, marketing, distribution and transport of their commodities. Finally, the establishment of a new compensatory financing facility for commodity-related shortfalls in export earnings of the developing countries with special arrangement for the least developed countries.

The solution to the unequal trade exchange would also depend on the successful outcome of the <sup>MFN</sup>MTN. Thus, there is a need for a new round of negotiations with a view to realise the commitments undertaken by the rich nations in the Tokyo Round, vis-a-vis preferential and special treatment and the explicit recognition of nonreciprocity as against the concept of the Most Favoured Nations (MFN). In the words of Prebisch, "However valid the most favoured nation principle may be in regulating trade relations among equals, it is not a suitable concept for trade involving countries of vastly unequal economic strength."<sup>25</sup> The nonaligned are opposed to "the application of the concept of graduation, differentiation and selectivity, under which endeavour are made to suspend special treatment when the developed countries unilaterally and arbitrarily consider

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<sup>25</sup> Quoted in P. Nicolaidis, "Preferences for Developing Countries : A Critique", Journal of World Trade Law, July-August, 1985, p.375.

that a developing country does not meet the requirement for the granting of preferences."<sup>26</sup> Also, "there should be no question of reciprocal concessions from developing countries under any circumstances"<sup>27</sup> as reaffirmed in the Tokyo Round.<sup>28</sup>

The rich countries has failed to reciprocate the LDCs' demand for the NIEO. They are not convinced at this moment, that the survival of North depends on the life of South. "While they agree in principle that discrimination policies and barriers against LDCs' export must be reduced, they seem bent on using forums that do not engage the active participation of LDCs, e.g., the Kennedy Round, the Nixon Round, GATT and the Tokyo Round."<sup>29</sup> The main arguments against the preference proposal are: that preferences would relatively<sup>do</sup> little to promote the exports

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26 The New Delhi Summit, Declaration, p.79.

27 Ibid., p.80.

28 The Tokyo Round said that the developed countries do not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariffs and other barriers to trade of developing countries, that is, the developed countries do not expect the developing course in course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs.

29 Dr. Glenn T. Magagula, n.8, p.20.

of the developing countries and that they would involve serious cost (i.e., the administrative cost of operating a preferential system, and what may be called the 'moral risks' of introducing the preferential principle)<sup>30</sup>. The complaints against the extension of GSP are that -

- (a) "not all LDCs industrial products are included;
- (b) not all developing countries are given preferential treatment; and
- (c) goods on the GSP list are subject to value and quality restrictions."<sup>31</sup>

They are also doubtful whether commodity agreements would have desirable effects, given past experience with similar agreement - International Sugar Agreement, International Tin Agreements and the Coffee Agreement.

A western commentator said that: "the US and other industrialised countries should regard their trade policies affecting the export markets of less-developed countries as being equally if not more important to the economic development and welfare of these countries than the provision of economic assistance. Unless steps are taken to permit

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30 See Harry G. Johnson, "Trade Preferences and Developing Countries", in John A. Pincus ed., p.9.

31 P. Nicolaidis, "Preference for Developing Countries : A Critique", Journal of World Trade Law, July-August, 1985, p.381.

a broadening of world markets for products of less-developed countries, foreign aid will be wasted in the sense that these countries will never achieve the objective of self-sustaining growth and will increasingly be subject to political will and economic instability."<sup>32</sup> The fact lies in the words of late Mrs. Gandhi : "The question is not whether developed countries can afford to help and cooperate with the developing countries, the question is whether they can afford not to do so."

The main contribution of nonaligned movement is not so much in the form of specific proposals for trade preferences, but the link that is sought to establish between trade expansion and industrialisation. Thus the Cairo Summit stated that: "a new international division of labour is needed to hasten the industrialisation of developing countries and the modernisation of their agriculture, so as to enable them to strengthen their domestic economies and diversify their export trade." The Brandt Commission emphasised: "the industrialisation of developing countries as a means of their over all development efforts will provide

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32 Robert Loring Allen, p.12, p.87.

increasing opportunities for world trade". In order to achieve the Lima target of 25 per cent share of world industrial output for the LDCs by 2000 years, as against 7 per cent now being produced, the LDCs have to maintain a rate of growth beyond 5 per cent points higher than the rest of the world. This is possible with an increased official (bilateral and multi-lateral) development assistance in terms of foreign aid. That the OECD nations should attain the UN objective of granting 0.7 per cent of their GNP annually to the LDCs. The recycling of petro dollars back to LDCs has been quite modest and has, among the LDCs, benefited mainly the Moslem and Arab oil importing states (44.5 per cent in 1980). Thus, it is highly essential that the OPEC nations should continue to increase not only the volume of aid but to provide aid which is geared more to the real development needs of recipients and which permits them a greater degree of flexibility and autonomy in meeting their development priorities.

In view of the current state of world trade situation very often the policy makers and international organisations suggest that expansion of South-South trade should be preferable to the uncertain North-South trade relations. Important as it is, cooperation between the LDCs is no

alternative to the development of economic ties with the industrially advanced states, equally as it cannot serve as a substitute for pressing socio-economic changes.

Economic cooperation of developing countries is one of the factors of their economic progress on the basis of which they can accelerate industrial and economic development as a whole, raise the competitiveness of local commodities and promote their sales on the market of the rich countries.

The solution of these tasks is also found along the lines of broadening and solidating the LDCs' trade and economic cooperation with the socialist countries, as called by the Algiers Summit and the Seventh Special Session of the UN General Assembly. Meanwhile, the LDCs themselves have to change their traditional approach to negotiations with the rich nations. As Dhakar Conference suggested they should do the "job of processing the raw materials they produce in their own national territories, potential wealth and improve their real terms of trade with developed countries". "Further processing of their own commodities and exporting processed goods rather than raw materials would be a prime benefit of a relaxation on trade barriers by industrial countries."<sup>33</sup> But "measures

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33 Ibid., p.86.

to expand world markets of less-developed countries for industrial products may be even more important than those designed to increase their markets for primary goods.

Less-developed countries must broaden their export base by exporting some highly processed and finished manufactures.<sup>34</sup>

Concentration on few products causes economic vulnerability and instability. Thus, vertical diversification has to be achieved and speeded in a harmonised policy in order to improve the value-added and productivity.

An imperative condition is to reform the internal economic policy of the LDCs. There are certain structural rigidities that obstruct the way of propagating technological advances and which therefore hinder the growth of productivity and per capita income in the Third World : land tenure; limited social mobility and the ignorance of the masses; and the concentration of income in the hands of relatively small population groups.<sup>35</sup> This demanded a "political will" and a "positive action" on the part of the government.

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34 Ibid., p.87.

35 See Raul Prebisch, n.9, p.117.

Chapter-III

REFORM OF THE INTERNATIONAL MONETARY SYSTEM



Chapter-IIIREFORM OF THE INTERNATIONAL MONETARY SYSTEM

The fact that there is now a widespread dissatisfaction with the working of the International Monetary System (- in conjunction with the world economic crisis -) as a framework for trade and payments, is widely shared by those in 'very different situations and with different point of view'.<sup>1</sup> It has been criticised by peoples and governments from different parts of the world - from the rich North and the poor South including the OPEC nations - as for instance is evident in the various reports of UNCTAD, Brandt Commission, Committee of Experts of Commonwealth, the North-South Conference at Arusha, etc.

The International Monetary System (IMS) envisaged at Bretton Woods was "a product of its time; its philosophy and institutional modalities reflected the economic and political conditions of the immediate post-War period."<sup>2</sup>

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1 See Arjun Sengupta and Frances Stewart ed., International Financial Cooperation : A Framework for Changes, (London, 1982).

2 M.M. Sakbani, "A Critique of the Prevailing Monetary System : Principal Themes of a Reformed System", Third World Quarterly, July 1981, p.461.

From the very beginning two major shortcomings were obvious in this system designed to meet the needs of the industrially developed countries led by the USA and UK. Firstly, universality was not assured, as the socialist countries of Eastern Europe did not join although they took part in the conference. Secondly, the system ignored the specific problems and requirements of the developing countries most of which did not yet at that time have national freedom, thus, not in a position to define its specific problems and possible solutions.

For almost a quarter century after the war, with the world economy recording unprecedented growth, the system functioned relatively well, despite certain weaknesses. But by the late 1960s, and early 1970s a crisis arose and the existing system collapsed. A key part of the system, that is, fixed currency exchange rates, (the very heart of IMS) was abandoned and floating rates were instituted. In fact, the break was quite open with the burst of inflation in US, resulting into large dollar outflows. This finally led to a phenomenal increase in the supply of international resources. "Whether this increase in global international reserves, together with the consequent

expansion of world money supply was the main cause of the subsequent international inflation or not, it certainly contributed to the breakdown of the Bretton Woods system."<sup>3</sup>

It is worth recalling that "the fundamental, although unplanned, characteristic of the post-War evolution of the IMS has been the increasing reliance on a major national currency - the US dollar:

- (a) as the international numeraire in terms of which all exchanges were defined and readjusted from time to time;
- (b) as the main component of international reserve accumulation by all countries other than the US, and in consequence;
- (c) as the main instrument for central banks intervention in the exchange markets and for settlement of balance-of-payments surplus and deficits; and

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3 Arjun Sengupta, "The Functioning of the International Monetary System : A Critique of the Perspective of the Industrial Countries", World Development, 1986, vol.14, no.9, p.1214.

(d) as the currency in which 'working funds' were invested by private traders and investors for the conduct of international business between third world countries as well as the US itself."<sup>4</sup>

In 1973, 93 developing countries had their currencies linked to that of the developed countries; in 1977 that number dropped to 75; in 1975, 52 developing countries tied their currency to dollars; in 1978 that number was still 42. An IMF survey said that participation of dollar in the structure of world reserves is stable and ranged from 77 per cent to 82 per cent (1970-1979); the pound dropped from 9 per cent to 1.5 per cent; mark rose from 2.1 per cent to 9.6 per cent. At the end of 1977 monetary reserves (minus the socialist bloc) amounted to 317.1 billion, the North with 54.4 per cent and the OPEC with 22.8 per cent.

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4 Robert Triffin, "The International Monetary Order", The Indian Economic Journal, July-September, 1977, vol.5, pp.1-2.

The reliance on the dollar as the major denominator lies at the root of four major defects of the IMS:

- (a) "the uncontrolled inflationary explosion of world reserves, doubling them in dollar terms over the three years 1970-72 and tripling them over the years 1970-75;
- (b) the total frustration of the much wanted adjustment mechanism for the few countries, whose currency liabilities are accepted as settlement of their deficits...
- (c) the earmarking of reserve growth for financing of the richest and capitalist countries, irrespective of their policies rather than for financing of internationally agreed objectives, such as, among others - economic development in the poorest and most under-capitalist countries ... (and finally)
- (d) the instability inherent in the system led to growing movement of speculative capital, frustrating national monetary management in the recipient as well as in the loaning countries."<sup>5</sup>

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5 Ibid., pp.3-4.

While this has affected all countries adversely the LDCs have found to their cost that they were more vulnerable to the current global monetary turbulence and currency neo-colonialism. Developed countries, on the other hand, have their own easy arrangements - currency swaps, FIS facilities and measures to General Agreement to borrow should it become necessary. The LDCs have to depend heavily on IMF. But IMF, the imperialist "petty-cash-box"<sup>6</sup> as it is called, is "encumbered by certain shortcomings which has shown to be - even recently - a veritable gendarme of the most reactionary interest of international financial capital."<sup>7</sup> The rich nations argued that 'IMF is not an aid agency', and recently the G-10 pointed that IMF financing should be made — (i) temporary, (ii) related in amount to quotas and (iii) conditional upon adopting appropriate short-to-medium term adjustment programme.

Thus, the functioning of IMS and the IMF are torn between the unsolved issues in determining parity between reserves and other national currencies, the issuing of

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6 See Fidel Castro, The World Crisis: Its Economic and Social Impact on the Underdeveloped Countries, (Havana, 1983), pp.77-94.

7 Ibid., p.82.

Table-4

BALANCE OF CURRENT TRANSACTIONS AND RESOURCES ASSIGNED BY THE IMF  
TO THE NON-OIL DEVELOPING COUNTRIES

	1976	1977	1978	1979	1980	1981	1982*	1976-82
Balance of Current Transactions (1)	-32.0	-28.3	-39.2	-58.9	-86.2	-99.0	-97.0	-440.6
Total Assigned by the IMF (2)	2.4	2.2	1.0	2.5	3.5	5.5	5.8	22.9
Percentage Compensation 2 : 1	7.5	7.8	2.6	4.2	4.0	5.6	5.9	5.2

\* Estimated

Source: Based on Data in the IMF 1982 Report.

reserve currencies, collecting assets for maintaining international liquidity for helping the LDCs. The Brandt Commission rightly pointed out that "the current monetary disorder, together with the growing tide of protectionism and persistent inflation and recession, could have increasingly dangerous consequences for all countries", particularly the LDCs. It said, "There is an urgent need to establish a mutually agreed international monetary order which would take into account the changes in the world environment since 1944.

The obvious need to improve the faltering IMS and the demand that LDCs be represented in global negotiations<sup>8</sup> led in mid-1972 to the establishment of the Committee of Reform of the International Monetary System of the IMF Board of Governors - the C-20.<sup>9</sup> The main issues assessed were : an effective and symmetrical adjustment process; and appropriate form of convertibility with symmetrical obligation on all countries; and, a better management of global liquidity, with the SDRs becoming the principle

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8 See William R. Cline, International Monetary Reform and the Developing Countries, (Washington D.C.: Brookings Institution, 1976).

9 The Committee of 20 included gets from Argentina, Australia, Belgium, Canada, Ethiopia, France, Germany, India, Indonesia, Iraq, Italy, Japan, Morocco, the Netherlands, Sweden, the USA, the UK, Venezuela and Zaire. Most of these delegates represented several countries in addition to their own.



reserve asset; cooperation in dealing with disequilibrium capital flows; and, the promotion of the net flow of real resources to developing countries, including possibly a link between development assistance and SDRs allocations.

Although issues relevant to the LDCs were voiced out in the C-20 deliberations and few found their way into the recommendations, it did not meet the basic assumptions of the IMS in the light of the evolved conditions of the world. Its recommendations were primarily confined to standard monetary issues in isolation from the real and financial issues. The outline of Reforms which was produced did not prove acceptable to all the members and the C-20 terminated its work in June 1974.

Subsequent negotiations took place in the Interim Committee of the IMF in Jamaica, 1976. The important result was the adoption of the Second Amendment to the Articles of Agreement, which legalised mixed exchange rates arrangements; introduced some reforms regarding the SDRs and gold and set up surveillance authority for the IMF with respect to exchange rate policies of the members. But the surveillance authority has no clear and effective

rules for enforcibility with respect to countries not in need of IMF resources. None of the outstanding issues were addressed. Thus, the proposal for the so called "major revision" was confined to the "mere legalisation of the present situation."<sup>10</sup> The proposed new Article IV on Obligations Regarding Exchange Arrangements "allowed every country to do whatever it wishes; to peg its rate to any denominator whatsoever." Glaringly absent are any specific and operational provision regarding the problems previously regarded as critical by the negotiators themselves - "global liquidity, adjustment and convertibility."

They also did not solve in a rational way the major problems raised by the far larger gold holdings of national monetary authorities i.e., their ultimate disposal or retention as part of the international reserve and settlements system and the inflationary implications of a sudden market prices. "The Jamaica agreement can at best be regarded as the official burial of the core of Bretton Woods system and the dismissal failure of twelve

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<sup>10</sup> Robert Triffin, *ibid.*, p.4.

years of efforts to reform the International Monetary System."<sup>11</sup> It is doubtful, therefore, whether these changes in the IMS may be regarded as 'reforms' particularly from the point of view of the LDCs.<sup>12</sup>

The small improvements of interest to developing countries could not contribute to recovery of the system and the crisis has continued to this very day. Although over the years the system has shown its inability to cope with the difficulties of the situation, or to respond appropriately to the challenges, a virtue has been made to find temporary solutions and adhoc arrangement or of 'improvisation' or 'working through patch-work solution' without attempting any systematic reform. In fact, "the gap between action and pronouncement seems to derive not so much from normative and economic judgements as from political considerations, judgements with respect to proper timing and above all a persisting perception of conflict of interest among various countries and group of countries."<sup>13</sup> Thus, "a new and as yet inconclusive stage

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11 Ibid., p.5.

12 See A. Jennings, "The International Monetary System and the LDCs : Reform, Change and the Second Amendment", in Subrata Ghatak ed., Monetary Economics in Developing Countries, (London, 1981).

13 M.M. Sakbani, n.l., p.460.

of disorder and even a monetary warfare in the international economy was ushered in"<sup>14</sup> which Raul Prebisch described it as the "second crisis of capitalism". The crisis in the 1980s hit the LDCs far harder and they are unable to emerge from it.

The rich countries hold that "the key elements of the current international monetary system require no major institutional changes."<sup>15</sup> Obviously hopes turn to the nonaligned countries which are free from partial interest and have broader scope for sponsoring a drive for certain changes. They "reaffirm that the solution of the economic problems of developing countries requires the establishment of a new universal and equitable monetary order" and called for a "radical overhauling of the present international monetary arrangements"<sup>16</sup> in the present system which is characterised by: (a) "a decline in global

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14 Fidel Castro, n.5, p.79.

15 The G-10, in its report in 1983, agree that the system has "shown weaknesses" and that "there is a need to improve its functioning." But the changes in the operation of the system as suggested by them are marginal, more in the nature of improvisation, in keeping with the usual approach of the industrial countries to these issues.  
For detail see also Arjun Sengupta, n.2.

16 Colombo Summit, Document, para-10.

liquidity coupled with dwindling reserves; (b) mounting debt burden, the servicing of which has become increasingly onerous, coupled with high interest rates; (c) substantial decline in concessional flows for development; (d) hardening in the conditionality of financial assistance, and (e) increasing obstacles imposed by the rich on access to global capital markets."<sup>17</sup>

The reform of the IMS as part of the efforts to set up NIEO is undoubtedly "one of the most complex issues over present in international negotiations".<sup>18</sup> This was recognised by the Brandt Commission, which observed: "the prospects in all areas of world trade, whether on commodities or manufactures, in energy or in the activities of multi-national corporations are greatly influenced by the functioning of the world monetary system." The proposal for a new IMS had already been outlined in the programme documents containing the basic trends in establishing an NIEO, adopted in the Sixth Special Session and in the Charter on the Rights and Duties of States and Action

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17 New Delhi Summit Document, para-

18 Dr. Timohir Djokanovic, "Reform of the International Monetary System", Review of International Affairs, 1983, vol.34, no.796.

Programme for the Establishment of a New International Economic Order. In UNCTAD members also devoted to discuss the global monetary and fiscal policies concerning the LDCs. Unfortunately, the rich refuse to cooperate on the pretext that UNCTAD is not an appropriate forum to discuss the global monetary system.

In the Algiers Summit, the members affirmed that "the reform of the international monetary system concerns the developing countries in all its aspect and the highest degree." To that end the New Delhi Summit called for the convening of an international conference on money and the financing of development with universal participation. It gave the following arguments in support of its calls: the need for comprehensive reform of monetary-financial system; for efficiently resolving the development and financial needs of world economy; and, the need for development oriented structured adjustments. The IMS does not operate in a vacuum. Without putting together the money and finance systems in the context of the operation of the global economy little may be expected of the reform exercise. Thus the nonaligned countries insist that the conference should deal not only with monetary systems but also with financial issues, specially from the aspect of development and international trade.

The Ministerial Meeting of the G-77 held in Buenos Aires in 1983, supported the initiatives to convene an international monetary-financial conference. The G-24 operating within the IMF and the World Bank also took similar action. According to the report of the Group of Experts on Direction of Reform - the Future of the International Monetary and Financial System,<sup>19</sup> the main characteristics of the Conference would be: (i) "inclusion of all monetary and financial problems geared to economic development: (ii) universal participation, given the shortcomings of the existing system in which the socialist countries of Eastern Europe did not take part; (iii) decision-making based on consensus."

A noteworthy move in favour of such a conference was made by the French President Mitterrand in 1983 and seconded by the New Zealand Prime Minister Mulroney for a reform of the status quo to consider a New Bretton Woods, thereby transforming the institutions of the

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19 In the autumn of 1983 the presidents of Algeria, Mexico, Tanzania and Yugoslavia together with late Mrs Gandhi named one expert each and appointed a group of Experts. The feeling was that international dialogue would be facilitated if a high level group of experts from nonaligned and developing countries examined the weak points of the existing monetary system and made suggestions for surmounting them.

fourties into institutions of the eighties. But the developed part of the world, in general refused even to consider this idea of a conference. This was particularly evident at UNCTAD VI in Belgrade and the annual assembly of the IMF and the World Bank, in 1983.

If one admits that the role of the IMF is of great importance for the functioning of the IMS, the suggestions on how to reform the latter inevitably would change the IMF's mode of functioning.

This calls for basic amendment to the Fund's charter and pattern of functioning, to ensure an equitable share of all the member States, and this is also where the inadequacies emerge. The existing system of weighted voting gives a virtual veto in respect of important amendment to the "Club of Rich countries", which is inconsistent with the principle character of the institution. Weighted voting, it is argued, in a financial institution is important as "it determines each country's contribution and access to the Fund's resources, serves as the basis for determining its voting power in decision-making and set its participation in SDRs distribution."<sup>20</sup>

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20 Areil Bvira Seira, "Recession, Inflation and International Monetary System", World Development, November-December 1981, vol.9.



It should be evident on closer examination that this system may be appropriate in corporate sector of industrial society, but not in global economic relations. There must be a certain balance between debtors and creditors countries to keep policies and decisions from being made essentially by a single group. "It is worth recalling that the principal debtors and the principal surplus countries are the LDCs and that interdependence is thus a concrete fact in the international monetary sphere."<sup>21</sup> The nonaligned and other developing countries therefore urge that the voting share should be raised to the level of 50 per cent (in the context of the Ninth General Review of IMF quotas and the next capital increase of the World Bank). It has been argued by some that since the LDCs cannot increase their voting rights by paying more dollars, voting right may be increased on the basis of poverty and population.

In order to cope with the shortcomings inherent in the existing monetary system the Group of Experts observed that favourable conditions must be created enabling the international adjustment process more symmetrical and

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21 Ibid., p.1127.

equitable (with special attention to the adjustment needs of LDCs), policy for coordinating macro-economic policies (particularly the major industrial countries), within the framework of multilateral surveillance with effective sanctions to ensure implementation; a more stable but flexible exchange rate structure with the possibility of creating special target-zones, and the establishment of a more direct connection between increased liquidity and aid to the developing countries. This would result in changes in the mechanism of special drawing rights (SDRs) in that the distribution of resources would no longer depend exclusively on the size of the paid quota, but on the extend of requirements and the deficite in the balance of payments, above all of the poorest countries. The process of reform should include:

- (i) "Examination of ways and means of making the SDR more acceptable as an international reserve currency. SDR characteristics etc., may need to be reviewed in this connection.
- (ii) Examination of a new substitution account scheme which unlike the previous proposal, allows for an equitable burden sharing trend risk-bearing in order to facilitate the replacement of national reserve currencies.

by SDRs in pursuance of the objective of making the SDR the principal reserve asset of the monetary system."<sup>22</sup>

The G-24 earlier suggested that the LDCs should increase their present quotas by 25 per cent to 50 per cent so that their share in the Fund's total assets would increase from 33 per cent to 45 per cent. This would strengthen their influence on the Fund's policy and scope for using the latter's assets for promoting their economic development. When in 1983, the IMF revised its member quotas the G-24 repeated its call for a 100 per cent increase and the issuing of SDRs. But as usual the IMF ignored these proposal. Quotas was increased by less than 50 per cent from \$ 61 to \$ 90 billion and this was distributed in such a way that it benefited a group of developed countries.<sup>23</sup> "The small share that the LDCs received of the approved IMF is no

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22 Reports of the Group of Experts, "Direction for Reform : The Future of the International Monetary and Financial System", para-79.

23 Among others, France, West Germany and Japan were most benefited. The issue of new SDRs was not agreed on. And although the funds of the so called general Agreement on loans were increased, it was subject to control of the eleven industrial powers and, recently, Saudi Arabia, which as the suppliers of the funds, decide who are to achieve the loans.

more than an insignificant pallative, albeit extremely costly in political, economic and social terms."<sup>24</sup>

There has been a strong case for analysing the changing nature of the adjustment process in the credit policies of IMF and World Bank. As the Group of Experts has recommended it is important to achieve a proper ratio between the funds extended with conditions and without conditions attached and to apply 'low' conditions in cases of balance of payments difficulties called forth by external factors. Low-conditional compensatory financing facility (CFF) should arrange compensation not only in case of a fall in raw materials prices or an increase in import prices but also for temporary increases in interest rates.

The structure of foreign financing saw a decline in the share of official public aid (preferential, concessional financing) and a rise in less favourable forms of non-preferential bank financing, mostly from private sources. Repayments dates shortened and the costs of financing - interest rates - soared. Multilateral aid, financed

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<sup>24</sup> Fidel Castro, n.5, p.82.

through the International Development Association (IDA) an affiliate of the World Bank is also in crisis with insufficient resources. The Group of Experts pointed out that the worst hit by the decline in financial, preferential aid out of bilateral and multilateral sources are the poor and least developed countries, for whom this is virtually their sole source of foreign financing.

One answer suggested is to increase this form of financing i.e., official public aid to the set goal of 0.7 per cent of the developed countries' GNP to eliminate discrimination in the distribution of these resources. For the case of least developed countries, official public aid should be given in the form of a gift, and amount to 0.15 per cent of the developed countries GNP (within the scope of the said 0.7 per cent).<sup>25</sup> In order to achieve the target 6 per cent per annum real growth in financing, proposals include.

- "to increase the capital of the World Bank in line with the increased quota of the IMF, The 8.4 billion dollar selective increase in capital already achieved does not reach that level, and a general increase in capital should be ensured.

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25 Report of the Group of Experts, para-108.

- to improve the ratio between the Bank's loans and capital from the present (concernative) 1:1 to 2:1. This could double the volume of crediting on the basis of existing capital."<sup>26</sup>

Table-5

PARTICIPATION BY DIFFERENT CAPITAL FLOWS IN DEVELOPING COUNTRIES FOREIGN FINANCING

(Percentage of the total)

	1970	1980	1982
Official Credits	32	25	23
Private Credits	39	45	51
Direct Investments	8	15	14

Source: Based on the World Bank, World Development Report, 1982, p.35.

26 Augustin Papić, "The Future of the International Monetary and Financial System: Financing Development", Review of International Affairs, 1985, vol.85, no.835, p.5.

The Arusha Conference Declaration called for a "massive transfer" of finance to developing countries, which became a major demand of the G-77 and the nonaligned countries. Nevertheless, the resource transfer "should in no way prejudice the expansion of ODA to meet accepted international targets." They have been urging more automatic and condition-free resource transfer mechanisms that are envisaged today, anticipating the suggestions in the Brandt Commission Report for international taxation. The Arusha Declaration stated:

"The mechanism would analytically imply the raising under the collective guarantee of the international community of monies in international capital markets and their disbursement to developing countries over along term period with the international subsidy element as appropriate in the form of both project and programme lending for structural changes."

The nonaligned countries has, on the other hand, requested that international measures should be taken to reverse the net transfer of resources from the LDCs to developed countries.

It is important, in the face of new challenges to strengthen the role of World Bank to fulfil its commitments

in respect of development growth and poverty alleviations, as enshrined in its Article of Agreement. It is equally important that the World Bank should actively negotiate the participation of the socialist countries and the OPEC to increase the global development efforts. There has been a suggestion that if IDA is delinked from the IMF/IBRD - as an independent IDA - it might create appropriate condition for the socialist bloc to join the financial body.

The non-oil producing developing countries have repeatedly proposed in various international fora that oil exporters recycle a portion of the so-called "free dollar surplus"<sup>27</sup> to them in order to improve the international

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27 There has been two oil price increases during the period 1973-1974 (\$ 60 billion) and 1980 (\$ 116 billion), the inflow of resources on this basis resulted in free dollar surpluses in these countries balance of payments. These comparatively outstanding dollar assets were 'free', for at first time the OPEC nations did not use them for increased purchases of goods technology or services. So that it was opined that they might have a negative effects on international liquidity and that they should be put back into the international payments turn over by direct or indirect sales, in order not to upset the ratio between the volume of international leader (in this case the dollars). It was then that the 'petro-dollar' was first mentioned while international financial circles discussed new sources of short range banking assets, which had becomes the object of monetary transactions. However, petro-dollars are a monopoly of certain Arab countries - Kuwait, Qatar, Libya, the UAE and Saudi Arabia.



liquidity of the poorest countries and alleviate their deficits in balance of payments. This needs the expansion of the role of the IMF and the World Bank to engage themselves in taking over those dollar surplus and cede them to these countries seriously affected by the unfavourable trends in international commodity exchange or faced with chronic deficit in balance of payments. Firstly, there are insufficient resources for the IMF to help member states on the basis of regular quotas. Secondly, they also counted on the OPEC solidarity with the LDCs. Consequently the petro dollar would help increase the Fund's source of assets. Finally, withdrawing these resources from the world capital market would reduce the amount of "floating capital" and contribute to stabilization of rate of interest on the world monetary markets. With an increased SDRs, recycling would improve the source of assets of the IMF and boost the policy of helping its members.<sup>28</sup>

Table-6

EXTERNAL DEBT PAID BY THE LDCs AT THE END OF THE YEAR

( Billion of Dollars )

	1975	1976	1977	1978	1979	1980	1981*	1982*
Total Debt	179.1	216.9	264.6	336.6	397.3	456.2	524.0	626.0
Annual Average Change (Percentage)	24	21	22	27	18	15	15	19.5

\* Estimate

Source: Based on OECD, Development Cooperation Review, 1981,  
(Paris, 1981), p.218.

The LDC's debt remains a burning issue<sup>29</sup> and the G-77 and the nonaligned countries have devoted great attention to resolving the debt problem : extending repayment deadlines, interest rates and other costs, linking up debt repayment to the debtor country's paid currency inflow, solution to debt servicing including the "method of rescheduling", etc. The most important contribution of the nonaligned countries is the proposal to adopt an all-embracing multilateral frameworks for a fairer solution to the debt problem. It is now increasingly being accepted that debts are not just the problem of debtor-country alone but of the creditor as well, that they are not just economic-financial problems, but also political, and that it is along these lines that solutions should be sought. Especially important is to establish political dialogue between debtor and creditor.<sup>30</sup>

It is generally accepted that political barriers are likely - and it is - to block the global negotiations of

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29 The Second International Conference of the Nonaligned countries on Foreign Debt (the first being held in Peru in 1986) at Mohammedia, Morocco on February 22, 1988, reported that the Third Worlds' foreign debt estimated at \$ 1,020 billion, was one of the most serious problems now facing the world economy.

30 See also Augustin Papic, n.25.

this reform : indispensable to a creation of a new world monetary order serving its members in a quite constructive way, and repeatedly - eventhough not unanimously - endorsed in the principles of IMF, C-20, G-24, etc. "Although most government will remain committed to their global endeavour, they will be either unwilling to abide by a full and explicit system of rules or they will seek such different system of rules that no consensus on the desirable roles, or condition of the international economic order is likely to emerge. This lack of consensus stems from government misunderstanding concerning the political requisites and effects of alternative modes of structuring the international economy."<sup>31</sup>

The ability to bring about a reform would therefore, largely depend upon degree of understanding on the part of the developing and nonaligned countries. A major underlying cause of the present IMS is that institutions have not adopted to the new situation i.e., there is an institutional lag. Bearing this in mind the Fifth Summit Conference of Nonaligned countries adopted a special resolution for setting up "a bank of the developing countries."

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31 . . . see Edward L. Morse, in Hirsch Fred ed., Alternatives to Monetary Disorder, (New York, 1977), p.67.

Disappointed with the current limitations of World Bank, Algiers and Venezuela proposed for a 'Third World Agency' which could be directly financed by the OPEC and would involve direct recycling from OPEC, thereby increasing the LDCs' control over financial institutions as well as making a major contribution to the general recycling problem. This would give some reality to the concept of 'self-reliance' as well as to promote South-South trade and ease payment problems.<sup>32</sup> Regional groups such as the Central American countries, the Andean countries, the ESCAP countries, the West African countries and even the COMECON and European community should also do everything possible to palliate the present monetary chaos through faster progress towards their affirmed goal of closer economic and monetary cooperation and integration. "Feasible progress should not be sacrifice to unanimity rule".<sup>33</sup>

Regional arrangements are complementary and indispensable, rather than alternative to the long term objective of continued progressive towards a world wide monetary

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32 For details see, Arjun Sengupta, and Frances Steward eds., n.1.

33 Robert Triffin, n.3, p.6.

system. "They can help serve the double convergent need for centralization and decentralization of a world order now excessively anchored on the obsolete, uneffectual and potentially lethal concept of sovereignty and should facilitate the membership of socialist countries in the new IMF."<sup>34</sup>

With the existing power structure, it is only fair to conclude that an IMS cannot work satisfactorily, unless there is a regular degree of understanding and there is an 'enlightened self-interest' on the part of those responsible for conducting necessary global monetary discipline. The monetary financial crisis lies both in the existing 'attitudinal' postures and 'institutional' arrangements. Therefore, there should be no further delay in moving towards a comprehensive reform of the international monetary system which would secure the objective of reasonable exchange rate and monetary stability, and address itself to the special concern of the LDCs. The call for convening an international monetary conference by the Nonaligned countries should <sup>be</sup> recognised as an appropriate step in this direction.

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34 Ibid., p.6.

Chapter-IV

SOUTH-SOUTH COOPERATION : A MODEL FOR DEVELOPMENT

Chapter-IVSOUTH-SOUTH COOPERATION : A MODEL FOR DEVELOPMENT

## I.

The concept of South-South cooperation brings together various ideas which many Third World intellectuals and political leaders will find acceptable. The paramount need for South-South cooperation, stems from a variety of realization of the contemporary global situation - pessimism about the present world economic order and optimism about their own ability to form a tough common negotiating front and a mutual cooperation among developing countries. "What is known as NIEO is aimed at the progressive removal of historical distortions of the pattern of international economic relations and in the structure of the world economy.... Therefore, a broadening and deepening of economic relations and cooperation among the developing countries are major objectives of the NIEO, on the same footing in the re-structuring of international economic relations."<sup>1</sup>

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1 Kenneth Dadzie, in a dialogue on "South-South Cooperation", in Ann Mattis ed., A Society for International Development : Prospectus., 1984, (Carolina, 1983) , p.102.



However, some open skepticism and unfavourable opinion of the concept are being frequently expressed and its viability questioned. At the extreme are those who deny the existence of South-South Cooperation:

"the only South-South cooperation that exists is in documents of international organisations and of international institutions that make their living from such tales. There is no South-South cooperation because the existing international system cannot allow the existence of South-South cooperation. The existence of South-South cooperation would imply a change in the existing international system."<sup>2</sup>

Such a view refuses to accept the fact that there has always been interaction of some sort - if not cooperation in the fullest term - in the South : a complex relationship that express themselves in bilateral contracts, regional, and sub-regional contacts through some organisations.<sup>3</sup>

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2 Mahdi El-Mangra, in a dialogue on "South-South Cooperation", in Ann Mattis ed., n.1, p.103.

3 Among others, Caribbean community, the Andean Group, Central American common market in the Caribbean/Latin American region; Third World institutions at the regional level - OAU, ASEAN, SELA, etc., and at the global level - G-77 and Nonaligned Movement.

A second view of critical assessment is about the result achieved from such economic cooperation. They are critical on the following grounds: the result achieved are below the objectively possible level of contribution to the development process; they are not proportionate with the efforts invested, but at the same time costly; and, they have unexpectedly created numerous unfavourable effects leading to conflict among the States concerned. To some extent this is right, but the fact that regional cooperation still exist proves its utility and future scope.

A third view regards South-South cooperation as an 'autarchic system' and an 'utopian formula', thereby calling itself off from the rest of the world. While this is not true but as Fidel Castro has pointed out:

"Cooperation among underdeveloped countries is neither an absurd attempt at autarchy nor a utopian formula : on the contrary, it is based on our countries' concrete needs, on lessons derived from a wealth of historical experience and on concrete cooperation possibilities through the use of common resources and the best utilization of our diversity, in order to

contribute to development within the framework of a more balanced world economy."

Southern self-reliance, then implies two things: increased capacity for Third World self-help and the use of enhanced southern unity for more effective bargaining.

"The objective of self-reliance in economic matters is intimately linked to the concept of nonaligned and the logical extension of this to economic cooperation among developing countries (ECDC), which has played a prominent role in the deliberations of the nonaligned movement."<sup>4</sup> They realised that "political nonalignment cannot be sustained except by countries which are economically self-reliant."<sup>5</sup> The need for economic cooperation for development was felt even before the Belgrade Summit was convened. However, it was in the Lusaka Summit that the members pledged to cultivate the spirit of self-reliance and the first ever Action Programme was adopted by NAM, which detailed the area of South-South cooperation. Fifteen years later the

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4 Nitin Desai, "New International Economic Order", in U.S. Bajpai ed., Non-alignment: Perspective and Prospect, (New Delhi, 1983), p. 192.

5 R.C. Dutt, "Self-Reliant Development and NAM", Secular Democracy, August 1986, p.45.

Colombo Summit linked together individual self-reliance with ECDC. The Declaration said: "the achievement of the full economic potential rests on the developing countries and entails the following factors:

- (a) "individual self-reliance in order that developing countries may utilise their economic potential to cooperate among themselves to set up the new international economic order;
- (b) intensification of economic cooperation among developing countries;
- (c) strengthening of their solidarity and the coordination of the activities of the developing countries in a common front against all attempt to imperialist to sow division and to apply pressure."<sup>6</sup>

The New Delhi Summit reiterated the NAM concern and stresses that, "in the present adverse world economic environment and the continuing impasse in the restructuring of international economic relations, the need to accelerate

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6 Colombo Summit, Document on "Nonalignment and Economic Development", para-2.

the pace of economic cooperation among developing countries (ECDC) was even greater." Samir Amin raises basic issues, when he asks:

"In the absence of strong collective self-reliance of the level of North-South relations, can the countries of the South look forward to the strengthening of their position by walking 'on the two legs of 'national self-reliance' and 'collective self-reliance'?" and "Whether the rhetoric meaning of 'delinking' meaning the loosening of North-South relations in favour of an intensification of South-South cooperation programmes (in contradistinction to 'bad' ones ostensibly proposed out of ignorance) not better devoted to finding out why the 'bad' programmes are bad?"<sup>7</sup>

The nonaligned countries rightly pointed out that they "do not consider cooperation among developing countries as a substitute for North-South cooperation."<sup>8</sup> ECDC is only a means of making the North-South cooperation more meaningful, and making it more beneficial in real terms.

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7 Samir Amin, "After the New International Economic Order : The Future of International Economic Relations", in U.S. Bajpai ed., op.cit., p.214.

8 New Delhi Summit, Document, p.159.

## II

Trade links among the LDCs occupy a prominent place. Actually, there has been undue emphasis in the field of trade among the LDCs, because of a remarkable growth rate in trade alone. Exports between LDCs increased at 26 per cent annual average from 1970-1981, while their total exports increased at an average 23.1 per cent rate in the same period of time. The over all data for 1981 show that the value of South-South trade was 26.3 per cent of the total exports of developing countries as against 20.3 per cent in 1970.<sup>9</sup> However, UNCTAD statistics show that the percentage of intra-regional trade has diminished in the last years, from 16.4 per cent (1970) to 12.9 per cent (1979) in their total exports. While in inter-regional trade it increased from 5.9 per cent to 11.8 per cent respectively in the same period. Region wise, Africa is the only region where trade share has not progressed remaining roughly at 10 per cent of the total in 1981,

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9 Statistical figures are referred from the Report of Fidel Castro to the VII Summit Conference of Nonaligned Countries. For detail see: The World Economic and Social Crisis, (New Delhi, 1983), pp.157-68.

Latin Americas trade increased from 16 per cent to 19 per cent, South and South East Asia from 26 per cent to 31 per cent and in West Asia from 14 per cent to 23 per cent.

The expansion of trade links in the South has been due to (i) relative contradiction of markets in developed countries due to negative effects of the economic crisis and the increasingly protectionist policies implemented by them; (ii) expansion of domestic markets with relatively high rates of economic growth obtained in the 1970s; (iii) diversification of exports and a change in their over all composition of commodities, and (iv) the adoption of tariff measures as in countries led to expansion of trade.

There has been a growing shift away from food, agriculture and raw materials towards petroleum and manufactured goods. Thus in the 1960s, food accounted for above 45 per cent of total exports, whereas in 1979 fuels represented about 47.2 per cent of the value of South-South trade and they were the determining commodities of inter-

Table-7SOUTH-SOUTH COOPERATIONPercentage Share of Mutual Trade in Total Exports and Imports of Developing Countries

YEAR	EXPORTS		IMPORTS	
	Including Fuels	Excluding Fuels	Including Fuels	Excluding Fuels
1970	19.8	16.4	19.0	13.5
1973	21.0	21.5	21.9	15.0
1974	21.3	23.9	27.7	14.7
1978	23.6	26.5	23.6	14.4
1979	24.3	28.1	27.8	16.5
1980	24.8	30.0	29.9	16.8
1981	26.4	31.9	28.7	16.7

Source: Department of International Economics and Social Affairs of the Secretariate based on United Nations Conference on Trade and Development. Hand Book of International Trade and Development Statistics, and UN Monthly Bulletin of Statics, 1983.



regional trade and manufactured goods accounted for 44.4 per cent. However, the bulk of the expansion of exports of manufactured goods has been a monopoly of only few newly industrialised countries (NICs). In 1978, twelve countries<sup>10</sup> accounted for over 80 per cent of the exports of manufacturers from the South.

From the statistics cited above we can identify three major problem facing South-South trade expansion. Firstly, if Africa is to be encouraged to participate in further expansion of trade, special efforts have to be made to promote Africa's exports to other third world countries in order to facilitate the financing of continuing trade imbalances. This will require a collective effort by the South to support industrialisation of Africa including mechanism such as joint ventures and financing of trade through export credit, payment arrangements, etc.

Secondly, there is the need for larger involvement of oil exporting countries. The South is an important market for fuel but OPECs' total export of fuel of LDCs is only 22 per cent (1980) the OPEC nations can secure and

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<sup>10</sup> Argentina, Brazil, Honk Kong, Republic of Korea, Mexico, Singapore, India, Yugoslavia, Pakistan, Phillipines, Thailand and Egypt.

expand their trade and increase their imports from other Third World countries. Since OPEC nations maintains open market regimes direct trade measures can be called for to promote imports from other LDCs. At the same time the former is trying to diversify and develop a manufacturing sector, so access to market in the rest of the South may be useful for products like petrochemicals.

Finally, direct investment of the OPEC surplus in the non-oil exporting developing countries can increase the security of imported raw materials, specially of food, quite apart from the scope that such investments could offer for improving real return. The OPEC nations are becoming the principal food deficit areas of the world. By 1990 they are estimated to be importing about 40 million tonnes of foodgrains at a cost of about \$ 10 billion (in constant 1979 US dollars). While developing countries have capacity to produce food surplus they lack the necessary capital. Hence, the OPEC nations can invest a large part of their petro-dollars surplus in food production and agree to receive back their payment in the form of import from those countries.

South-South cooperation is a way of sustaining the process of development and the major achievement in this field has been the growth of certain regional groups whose

objectives varied from preferential agreements to customs union with some emphasise on joint investment and infrastructure. Some typical cases are Latin American Free Trade Association (LAFTA), Central American Common Market (CACM), Caribbean Community and Common Market (CARKOM), and the Association of South East Asian Nations (ASEAN) and of late, the newly established South Asian Association of Regional Cooperation (SAARC). The principal approach has been the gradual liberalization of tariff and non-tariff barriers, of intra-grouping trade. It is difficult to assess the extent to which these measures have promoted trade among member States but there is evidence that five integration grouping of developing countries,<sup>11</sup> have effectively exchange tariff preferences among themselves had made a considerable progress in their intra group trade than that of their total trade—rising from 7.2 per cent (1960) to 15.4 per cent (1978). By 1979 some 50 countries had applied mutual trade preferences as members of different integration groupings. The extension of this policy in 1979 led some 90 countries to apply or negotiate the implementation of trade preferences in South-South trade.

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11 These groupings are Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), the Caribbean Communist and Common Market (CARKOM), the Central African Customs and European Union (CACEAU) and the West African Economic Community (WAEC).

The call for economic and technical cooperation - ECDC/TCDC - has also been taken up in other forums. At Arusha in 1979 the G-77 spelt out a comprehensive programme for collective self-reliance. It also identified, among other things; the Global System of Trade Preferences - GSTP; Cooperation among State Trade Organisations - STO; and the establishment of multilateral marketing enterprises. GSTP was created for the expansion of mutual trade links through liberalising trade as well as promoting trade creation opportunities. However, the slow pace of implementing GSTP led to the establishment of certain institutional trade arrangements - such as the Energy Cooperation Agreement Programme for Central American and Caribbean countries promoted by Mexico and Venezuela and the Latin American Economic System - SELA.

Broadly, GSTP would require the following elements:

- (i) it must go beyond conventional trade liberalization and include joint investment schemes for taking advantage of the potential of the Third World market as well as credit and payment arrangement;
- (ii) it must embody differential treatment to the least developed countries and perhaps for even a wider strategy of the least developed countries in order to make the scheme sufficiently

attractive to the different national interests involved;  
(iii) it must include measures and actions to strengthen the regional and subregional integration instrument, including concerted efforts to attract the support of the entire international community.

The STO that was formed to improve the imports and exports tradings of the South also faced two constraints; only rarely were STO created for the explicit purpose of stimulating trade among the LDCs. Another major handicap is the persisting information gap among the LDCs of the potential and possibilities of cooperation, the available skills and resources and needs in various sectors. The search for new mechanisms of trade cooperation to counter the trade exploitation of the TNCs led to the multinational trading enterprises. Among others, MULTIFERT, NAMUCAR and COMUNBANA of Latin America are a case in point.<sup>12</sup>

Two major constraints that stop the South from exploiting fully the immense possibilities of mutual trade are the market fragmentation and various schemes of preferential access to the developed market economy countries. Market in the North proves to be more attractive

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-12 See Fidel Castro, The World Economic and Social Crisis, pp.166-67.

because with their higher concentration they allow for better sales figures. A further advantage is that the customs regulations are generally better organised. Although this means more barriers for the South exporters, it also means that the privilege few who are able to get in find it easier to operate.<sup>13</sup> Moreover, Souths lack adequate infrastructure, the existing networks of shipping, communications, multinational bankings, export credit and other international services generally links their market with those in the North. Little effort is made to change this traditional pattern. Thus, one of the initial challenges in fostering South-South cooperation will be for governments of the South to set up necessary infrastructure to promote intra-South trade. This need not necessarily involve all the South. As Julius Nyerere said, "if we want for all the 120 members of the G-77 to go forward together, then we shall not move at all". Thus, "the perspective for cooperation may often be functional and geopolitical rather than global and idealised."<sup>14</sup>

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13 The Third World total exports links with the developed market economy countries accounted for more than 70 per cent, less than 20 per cent among themselves and approximately 4 per cent with the centrally planned economy countries.

14 Mahbub-ul-Haq, "Beyond the Slogan of South-South Cooperation", World Development, 1980, vol.8, p.

Recognising the utmost importance of the institutional infrastructure, besides trade expansion, the VII Nonaligned Summit recommended:

- (a) "Setting up of a centre for information on transnational corporations in Havana;
- (b) Setting up of a Centre of Science and Technology in New Delhi;
- (c) Putting into operation the Nonaligned solidarity fund for economic and social development;
- (d) Establishment of a project development facility, and
- (e) Constitution of a Council of Producers Association."

In the report of Raul Prebiskh in UNCTAD I, he said that "in any case, preferences granted by developing to industrial countries should cease." On the other hand, he suggested that developing countries should give preference to imports from other developing countries in their markets.<sup>15</sup> Thus action to promote trade expansion

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<sup>15</sup> See Raul Prebisch, "Trade Preferences", in Richard S. Weckstein ed., Expansion of World Trade, (New York, 1968).

in the South should concentrate on two goals : gradual reduction of trade barriers on a preferential basis; and the realisation of within-groups trade possibilities that are currently not being exploited for lack of information, infrastructure traditional commercial ties or other reasons.

### III

"Finance has been both the bedrock and unfortunately also the graveyard of many an important scheme in ECDC/TCDC<sup>16</sup>". Scarcity of financial resources has been a severe bottleneck, particularly in the intensification of South-South trade. Financial cooperation among the LDCs have moved into three tracks which need to be considered.

(1) Most prominently, OPEC member countries became a major source of concessional resource flows to this developing countries. From net disbursement of 1970 and about \$ 400 million, OPEC aid flows rose to well over \$ 9 billion ten years later. This exceeded over 1 per cent GNP throughout the 1970s and into the 1980s. For the period

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<sup>16</sup> Narendra P. Jain, "South-South Cooperation", Secular Democracy, January-February, 1986, p.64.



Table-8SOUTH-SOUTH COOPERATIONGeographical Orientation of Official DevelopmentAssistance Granted by OPEC

(Percentage)

		1979	1980
Bilateral Assistance	:	100.0	100.0
Arab Countries	:	84.2	80.1
Non-Arab African Countries	:	2.7	3.6
Non-Arab Asian Countries	:	2.9	10.7
Europe	:	0.5	4.4
Latin America	:	0.6	0.3
Unspecified	:	9.1	0.9
Multilateral Assistance from OPEC Arab Member Countries	:	100.0	100.0
Arab Countries	:	48.5	44.5
Non-Arab African Countries	:	28.4	39.6
Non-Arab Asian Countries	:	9.5	6.4
Europe	:	3.0	3.0
Latin America	:	6.4	2.3
Oceania	:	0.4	0.4
Unspecified	:	3.8	3.8

Source: Based on OECD, Development Cooperation Review, 1981,  
(Paris, 1981), p.113.

1976 to 1980, the OPEC aid effort by this measure, averaging over 2 per cent of their GNP was for greater than the comparable ratio of the developed and centrally planned economies.<sup>17</sup>

However, the OPEC aid has been declining due to several reasons. The export earnings have been sharply constrained as a consequences of the weakening world petroleum market and OPEC's decision to curtail its own oil production; the continuing and costly war between the OPEC members - Iran and Iraq - reduced OPEC economic assistance to the LDCs; and, the evolution of International financial institutions among developing countries has also a significant institutional dimension - OPEC special Fund, Asian Clearing Union, Arab Monetary Fund, Central American Clearing House, Andean Reserve Fund, etc., and such other joint financial intermediaries that do not necessarily depend on high oil earnings as a source of funds.

(2) The Second track has been in the area of payment arrangement among the LDCs and regional reserve schemes.

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17 Datas are based on Document of the UN, Department of Economics and Social Affairs, 1983.

Payment arrangement can be fairly modest probably because this arrangement do not include payment for oil, which means that a key element in the trade relationship among the LDCs is not really addressed. It has been argued that the LDCs think of OPEC capital too much internal of concession only.<sup>18</sup> The regional and sub-regional integration has been promising vis-a-vis reserve schemes. This in effects suggest mutual arrangement among the central banks. They include ASEAN group, the Central American and the Caribbean as well as in the Latin American group to name a few. Although the efforts is so far modest, these reserve schemes suggest a mini-IMF emergency scheme on regional scale.

(3) The third track is of recent origin and now an ambitious scheme of financial cooperation among the developing countries. The case for a South Bank as an important institution of the South to provide financial muscle and promote economic cooperation between developing countries specially in trade and other linkages was presented by Algiers, Venezuela, India, Bangladesh, Pakistan, Sri Lanka, and Jamaica among others, to fill the gaps in the

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18 See Sridath Ramphal, "South-South Parameters and Pre-Conditions", Third World Quarterly, 1982, p.464.

existing northern dominated institutions that could not or would not promote ECDC. However, this idea has not been supported by all developing countries. At the Tunis Meeting of the G-77 the Gulf States - Saudi Arabia, Qatar and Kuwait - and Iraq and Nigeria raised objections on the ground that capital surplus oil states have been generous in aiding less advantaged developing countries, so there was no need for any new institutions. Rather efforts should be made to strengthen to existing institutions. The coolness of the Gulf States to the bank undoubtedly arises from their view that this would be another give-away and a drain on their resources when the oil market is soft and their own prospects not so rosy.

The South Bank is aimed to promote — (i) trade among the Third World countries; (ii) buffer stock facilities; (iii) joint ventures, and (iv) balance of payments support. The G-77 expert suggested that the total capital should be \$ 40 billion of which \$ 4.8 billion (17.5 per cent) would be paid-up and the rest would be on call. Callable capital performance guarantee function. Out of paid up capital, \$ 1.5 billion would consist of convertible foreign exchange and the rest would be contributed in national

currencies which should be for use by the Bank without restrictions except for convertibility. The capital base would follow the World Bank system. It also assumes a very conservative of earing ratio of 1:1 between capital and loans.

As the proposal for a South Bank is increasingly becoming an exciting subject certain considerations may be highlighted on the feasibility of the Bank. Firstly, whether the terms of the South Bank would attract the LDCs who are benefitting from the existing multilateral institutions - IBRD, IDA, IFC and ADB. Secondly, how favourable the terms of lending of the bank would be as compared to the existing private creditors. It is pointed out that the cost of borrowing from the South Bank would be higher than most developing countries which are able to attract commercial credits themselves. Again, the cost of borrowing will be higher than those of IBRD, IDA, IFC and the IMF.<sup>19</sup> Thus, it appears that South Bank might not benefit the Third World very much.

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19 For example, IDA provides an ultra soft lending, i.e. 0.75 per cent of interest and 40 years repayment period. The IBRD's rate of interest in 1987 was 7.8 per cent, the existing institutions like the IBRD always try to reduce their cost of borrowing from the international markets by adopting the technique of "currency swaps", - which allows the World Bank to tap low interest markets in currencies such as the Swiss, France, and the 'D-Mark'.

Accordingly alternative suggestions were made to replace South Bank, such as a "South Bank Group"<sup>20</sup>, transformation of "OPEC Fund", into an all-developing country financial institution, and the establishment of a "Third World Bank" co-existing with South Bank. However, in the present context the step for the establishment of a South Bank by the Nonaligned countries would be the most appropriate.

Besides the objectives mentioned earlier, South Bank should provide finance for: (i) "joint ventures in industry and agriculture including cost of development; (ii) investment in natural resources development including finance of energy projects; (iii) import credit extended by developing countries : by promoting their exports, their credit would help moderate import price increases which appear to have been particularly sharp for the OPEC countries; (iv) assistance to regional credit arrangements, provided their cooperation are suitably adjusted; (v) commodity stabilization; and (vi) balance of payments

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20 See Dr. Avramovic, "Commodity Problem : What Next", World Development, May 1981, p.

support under appropriate safeguards which may include to expand ECDC/TCDC."<sup>21</sup>

## IV

The idea of ECDC/TCDC and collective self-reliance are not new discoveries and efforts have been made in the past to promote these concepts and implement them, but these efforts have hitherto met only with limited success due to certain constraints. The emphasis here is on constraints within the South rather than those imposed by the North. It is easy to pin point that there is still the pull of past traditions, the legacy of which has brought 'underdevelopment', 'backwardness', 'poverty' and the gradually widening gap between the 'have' and 'have-not'. "Historically, the relationships of the 'South' have primarily been with the 'North' - more so, in trade and economic relationships. Any relationship among the countries of the 'South' was via the 'North', through the 'North' and more often for the benefit of the 'North'."<sup>22</sup>

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21 See the Introduction in Ervin Laszlo ed., The Challenges of South-South Cooperation, (Colorado, 1983).

22 Sumitra Chishti, "South-South Economic Cooperation" Secular Democracy, Annual Number 1983, p.124.

Under such situation, they "implicitly accepted holus bolus, their external dependence both for ideas and action programmes as well as for imports required for economic transformation."<sup>23</sup> This often produce reluctance by the South to evolve alternative regional economic cooperation, which they feel would, jeopardise their unwelcome but seemingly necessary North-South relations. OPEC's action in 1973 was a missed opportunity. "Often, the strident rhetoric of the intellectuals from the South represent a collapse of expectations from the North rather than a search for cooperation with the South."<sup>24</sup> "This kind of thinking increasingly led to the adoption of delphic prescriptions. And the structural dependence of this economies has resulted into massive economic logjams. This also ties them down to a quagmire of a vicious circle of economic stagnation."<sup>25</sup>

Following the example of Marshall Plan, the South all queued for capital assistance and even made the transfer of 0.7 per cent of the rich GNP to the LDCs as an articles of faith in the Second Development Decade and

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23 For detail see Adebayo Adedeji, "South-South Cooperation", India and Foreign Review, June 1979.

24 Mahbub-ul-Haq, n.14, p.

25 Adebayo Adedeji, n.23.





the foundation on which the LDCs' development depends. "In the process they have become both a victim of and a plaything into the hands of the economic manipulators in the Western market."<sup>26</sup> Thus 'running with the hare and haunting with the hound'. "Hence, an organised assault on the Western monetary system that they have been clamouring for, cannot be achieved through this duplicity of approach. The logic that the South offers the North that the growth of the South is necessary for the survival of the North should be directed to the rich countries of the developing countries."<sup>27</sup> OPEC with its dollar surplus has a special role to play in Southern development and to mutual advantage. And yet there is little evidence of having done anything of the sort. "Perhaps the OPEC countries are not to blame if they thought it wise to make best of their large amounts of investment in the capital markets of the West while the developing countries need them for its survival."<sup>28</sup> However, "if the logic of mutuality does not impress to rich countries of the South, how can it be sold to a reluctant North."<sup>29</sup>

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26 P. Mathur and K.M. Srivastava, Non-Aligned Movement: New Delhi and Beyond, (New Delhi, 1984), p.84.

27 Ibid.

28 Ibid.

29 Ibid., p.85.

Political differences, historical disputes and quite often conflict among the developing countries impede economic integration. More often than not their relationships are characterised by tensions and hostility, as is clearly evidence in the South Asian subcontinent. Perhaps another obstacle is an instinctive mistrust of multilateralism. Many Third World governments, feel that entering into multilateral agreement will greatly reduce their space for political manouvering. There is also lack of self-confidence in each others' abilities and skills and a capacity to deliver goods and services of a quality capable, let alone equal to those of traditional suppliers. This constitute the biggest hold-up for effective cooperation. Moreover, certain narrow and shortsighted forms of nationalism includes: self-centred economic thinking, cultural chauvinism, disparities in size and population etc.

There is, among the South, the feeling that the benefits deriving from such cooperation are not equally shared. The South is a conglomeration of various states with unequal development. Thus there are the 'wealthy' poor with more than \$ 2000 per capita income; the 'well to do' poor with \$ 1000-\$ 200; the 'less' poor with \$200-\$ 999; and finally, the 'rock bottom' countries with less

than \$ 200.<sup>30</sup> "Cooperation among underdeveloped countries must recognise the heterogeneity of the Third World in regards to underdevelopment levels. With a view to preventing a few countries with a certain level of industrialization and exporting capability from reaping most of the benefits."<sup>31</sup>

Shridath Ramphal pointed out that the South are, 'reluctance to be self-critical', 'too declamatory and not empirical enough', 'too generalised and not specific', 'too all embracing and not selective enough', 'too entrenched at the level of marco change... and not organised effectively either for negotiations with the North or for cooperation within its ranks'.<sup>32</sup>

However, a pragmatic orientation could act across and mitigate such fears and blackages confronting integration among themselves through:

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30 See Adebayo Adedeji, n.23.

31 Fidel Castro, n.12, p.160.

32 See Shridath Ramphal, n.18.

- (a) "proper understanding of the challenge posed by the nature and magnitude of the problems which they commonly face;
- (b) a clear perception of the opportunities which exist or which may be created for the solution of such problems through ECDC/TCDC;
- (c) a realistic recognition of the contribution to the solution of such problems through ECDC/TCDC; and
- (d) the formulation of a workable programme of action that will enable them to translate their concept and perception into the nitty gritty of implementable projects."<sup>33</sup>

"Time is of the essence for the developing countries. They have to catch up with the time lost and have to move ahead swiftly towards their declared socio-economic goals."<sup>34</sup> President Kaunda of Zambia said that "the developing countries were destined to play an increasingly decisive role." But this is possible only "if we continue to strengthen economic cooperation among ourselves". Considering

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33 Adebayo Adedeji, n.23.

34 Narendra Jain, n.16, p.63.

the imperative of South-South cooperation: "economic cooperation between us and the developed countries was essential to our development. But economic cooperation among ourselves was a matter of life and death". "The developing countries' proposal for strengthening South-South cooperation and bringing about collective self-reliance implies both economic cooperation and coordination of their stands in dealing with the North."<sup>35</sup>

"In so far as it reduces their dependence, it is also a pressure on the formal colonial powers and their leaders, the US, for a more relaxed relationship."<sup>35</sup> However, "the ultimate problem is one of replacing the longitudinal links, intellectual, cultural, economic, commercial, political and military between the ex-colonies, and the former metropolitan power by new latitudinal links between themselves. This activity would be meaningless unless there is an equally forthright programme of mutual criticism among the developing countries (self-awareness and introspection) on their economic and political strategies."<sup>37</sup>

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35 Xu Mei, "South-South Cooperation : Towards a New International Economic Order", in U.S. Bajpai ed., Nonalignment Perspective and Prospects, no.4, p.239.

36 Girish Mathur, "NAM and South-South Cooperation", World Focus, November-December 1986, p.37.

37 A.K. Damodaran, "Self-Reliance : Positive Treads", World Focus, September 1980, p.33.

The South neither suffer from any lack of advice<sup>38</sup> nor do they 'lack any knowledge of what has to be done'. What they need in political will, confidence, and commitment to move ahead in those areas where the North refuse to do. Julius Nyerere said that the South-South Cooperation requires that kind of "great act of collective imagination, a quantum leap in statesmanship" which Michael Manley called for from the developed world, without which every effort of cooperation and every joint undertaking will collapse when difficulties occurs - as they always have done and always will do.<sup>39</sup>

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38 See Mahbub-ul-Haq, "Developing Countries Alternatives", in Helen Hughes ed., Prospects for Partnership : Industrialisation and Trade Policies in the 1970s, (Baltimore, 1973) , p. 128.

39 See also President Nyerere's Address when receiving the Third World Prize, New Delhi, 22 February, 1982, in Third World Quarterly "Third World Lecture 1982 : South-South Option", 1982, vol.4, pp.433-40.

Chapter-V

CONCLUSION

Chapter-VCONCLUSION

The Non-Aligned Movement (NAM) has made tremendous strides since its inception over 25 years ago. Despite the fact that although lacking in military and economic muscle of the type possessed by Super Powers, it has been able, at certain critical points to articulate the demands of the Third World countries, and on several occasion forced the world system to come to negotiations. The first of such instance was the Cairo conference on Development of 1962, which subsequently led to the UNCTAD I of 1964. Secondly, the Algiers Summit of 1973 played a critical role in the development of the idea of a New International Economic Order (NIEO) in 1973, which was fully developed by the time the Colombo Summit met in 1976. The third could be the Havana Summit in 1979 with its resolutions on collective self-reliance and its call for global negotiations. on  
( collective self-reliance and its call for global negotiations.)  
The fourth is the New Delhi Summit which for the first time called for convening an international conference on money and finance for development with universal participation



and a comprehensive restructuring of the international monetary-financial order.

NAM has throughout its history worked through the UN and its agencies. The UN remain the principal forum and the Group-77, the principal instrument where action in pursuit of non-aligned declarations has been initiated. In UN they combat the North's 'differentiated approach', 'diversionary propositions', 'segregated solutions', and 'piece-meal negotiations' as was evident in Lome Conference (1975), and in EEC and African-Caribbean Pacific (ACP) countries. Yet the UN has its defect and limitations and the North continues to use the system to defend its powers and privileges, inspite of the fact that the third world enjoy the political strength of numbers. They had therefore, even willingly participated-outside the UN - in Paris Conference (1977) and welcome the independent Brandt Commission on North-South relations in the hope that, although limited it would resolve the long pending economic issues.

However, progress on the economic front has not been at all encouraging and the prospect of bringing about a radical change in the existing order looks dim. What needs

to be emphasis here is the long awaited North-South negotiations that has notoriously betrayed the expectations placed in it. In fact it has come to be described as a 'classic dialogue of the deaf between interlocuters with different premises, needs and goals.'<sup>1</sup> And, the external environment in future may even be more hostile, less generous and more unstable.

If this is the case it is most unlikely that the desired effect would be attained by repeating the invitation to developed countries. The third world should try to do something by themselves to advance the movement towards the NIEO based on democracy. They have to do a bit of soul searching. Economic Declarations and debate in summits and conferences while useful in enabling the non-aligned countries to better understand and comprehend the reason for the underdevelopment are not enough. "Perhaps they have outlived their utility."<sup>2</sup>

But it would be a fatal mistake to conclude that the need to do something by the non-aligned countries is a

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1 Robert L. Rothstein, "The North-South Dialogue : The Political Economy of Immobility", in John J. Stremlau, ed., The Foreign Policy Priorities of Third World States, (Colorado, 1980), p.151.

2 Pradeep Mathur and K.M. Srivastava, Nonaligned Movement : New Delhi and Beyond, (New Delhi, 1984), p.19.

diversion of attention from the failure of the so-called NIEO and the North-South negotiations. In this context Samir Amin observed that a "thorough analysis of the situation requires the reinsertion of North-South relations within the global context of the world economic and political system and changes within it."<sup>3</sup> In the New Delhi Summit Fidel Castro said: "We have no alternative but to struggle for recognition of our demands. We constitute the vast majority of mankind, and our rights and interests cannot continue to be trampled underfoot forever."

The challenges ahead for the global community are two-fold: (i) "restoration of the concerns of the South to the heart of global agenda; (ii) restoring confidence and content to multilateral cooperation for development. The two are closely intertwined... A high-level dialogue could enable a greater appreciation of perceptions between North and South and would be valuable in creating a climate of confidence. This seems to be a necessity for meaningful and concrete negotiations in different fora and for reviving the multilateral consensus for development."<sup>4</sup>

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3 Samir Amin, "After the New International Economic Order : The Future of International Economic Relations", in U.S. Bajpai ed., Nonalignment : Perspective and Prospects, (New Delhi, 1983), p.201.

4 Sarita Bali, "Multilateralism : A Non-Aligned Perspective", Secular Democracy, August 1986.

We badly need a change in the status quo. But to accomplish this we also need to be more practical, realistic and at the same time self-critical. Much of the criticism levelled against the movement are largely conditioned by the perceptions of the West, but we cannot refute the weaknesses of NAM. Thus, it would be unfair to put the responsibility for the third world socio-economic crisis squarely on the advanced industrial countries of the West without pondering over our own mistakes and responsibility.

"The tendency to blame the North for lack of effort and inaction on our part have to be watched. The West did not give us independence without a fight. It will not give us economic independence without a long drawn struggle."<sup>5</sup> It was against this background that South-South Cooperation was conceived for enhancing their collective self-reliance. But late Dr. L.K. Jha had pointed out, that "while at the political levels, there has always been the fullest support, at the operational levels, narrow short-term interests have come in the way of concerted action.... Ultimate success in North-South negotiations will come when South-South

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5 P. Mathur and K.M. Srivastava, n.2, p.16.

cooperation is not just an ideal but a living reality, not a passive, defensive device but an active, aggressive instrument."<sup>6</sup> One greatest weakness of NAM is the inability to match principle with performance. There are few countries which have not even tried to live upto the unexceptional principles of non-alignment. For instance despite its commitment to peace and disarmament the non-aligned world remain the biggest buyer of armaments and to a large extent this sustain the economies and hegemonistic designs of the developed countries. The military expenditure (in million of dollars at 1979 constant prices) of the third world countries can be seen in the table given below:

Table-9

Year	Expenditure	Percentage of world total expenditure
1972	32,980	7.9
1974	48,074	11.0
1976	63,946	14.0
1978	66,085	13.0
1980	71,316	14.1
1981	81,281	15.6

Source: Based on SIPRI, Year Book, 1982, p.140.

6 L. K. Jha, "New Economic Order", World Focus, April 1983, p.29.

Fidel Castro pointed out in the New Delhi Summit, that the increase in the military expenditure over the years in the third world is particularly alarming, specially in the context of the extremely serious economic and social problems facing these countries. In economic terms alone, the possibility that reduction - if not elimination - in military expenditure could open for the development of our peoples are clearly positive.

The concept that nonalignment is 'an international movement not really concerned with domestic circumstances'<sup>7</sup> has to be redefined. For too long, perhaps, undue 'emphasis has been given to the external or international postures of the movement', ignoring the 'very internal foundation on which these international postures are based'. In an epoch of 'national-international continuum' problems of national development are no longer issues exclusively and only of the national concern. For the successful completion of the long delayed and much desired process of change, 'the non-aligned countries will have to work out interlinking strategies at three levels: national, inter-nonaligned and international', not inimical to the goals and purposes of NAM.<sup>8</sup> Progress on the internal front would help the

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<sup>7</sup> See K.P. Mishra, Nonaligned Movement : India's Chairmanship, (New Delhi, 1987), p.88.

<sup>8</sup> See Rasheeduddin Khan, Perspective on Nonalignment, (New Delhi, 1981), p.22.

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<sup>8</sup> See Rasheeduddin Khan, Perspective on Nonalignment, (New Delhi, 1981), p.22.

nonaligned countries in their external exposures because, as Nehru pointed out 'ultimately foreign policy is the outcome of economic policy'. They have to learn to deal more effectively with the central problem of inequality in their own countries. The demand for a new economic order should also be 'an equalitarian' and a 'libertarian' demand. With a mass poverty stricken people in its ranks the movement needs to establish its credentials in the economic field, otherwise it will remain as 'written off exercise'.<sup>9</sup> Failure to generate a strong economic bases at home and efficient management of their scare resources would inevitably result in external intervention and dependency and makes nonalignment more difficult, as is evidenced in several countries.

The credibility of NAM as an international organisation, more significantly as the principal forum of the unfortunate less developed countries has been increasingly recognised by the super powers and the latter is trying its best to win the former over to its side. This is also where the non-aligned countries easily fell prey to the old game of the big powers in their political and economic interest. On

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<sup>9</sup> See Dewan C. Vohra, Economic Relevance of Non-Alignment, (New Delhi, 1983), p.341.



the other hand, the non-aligned countries have the tendency to 'first try the West and on failure approach the East'.<sup>10</sup> This strategy is self-defeating and they themselves becomes the victim in their own game. By opening their doors to 'the ideological salesman' from the bloc powers the third world becomes 'a battle ground for global forces'.<sup>11</sup> Too often they give up their autonomy in thinking and in feeling and as a result they spilled over into alignment and ideological conflict among themselves regretably to the detriment of the fundamental purposes and unifying potential of the initiative. They should not forget 'the need to preserve their own basic traditions, thought-styles and priorities' in their 'assessment of possible dangers and opportunities'. It is this attitude of 'self-respect' and 'self-sufficiency' in national policies and collective action which would make the non-aligned movement 'a much more active and responsible participant in global decision-making than before'.<sup>12</sup>

Late Mrs. Gandhi pointed out that NAM has lost its original passion and expressed a widespread feeling that the old elan is missing. Today our 'intellectual integrity',

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10 Mohit Sen, "Non-Alignment and the New International Economic Order", in Vijay Gupta ed., India and Nonalignment, (New Delhi, 1983), p.73.

11 See Soedjatmoko, "Nonalignment and Beyond", in U.S. Bajpai, n.3, p.64.

12 See A.K. Damodaran, "An Over View", World Focus, April 1983, p.9.

our 'inner courage' and our 'very future' is at stake. At the Belgrade conference of UNCTAD VI in 1983, she bemoaned the fact that the nonaligned has failed to speak in one voice in a world fora. It would be proper to quote her: "I am a soul in agony... We are free to run our affairs and yet are we not bound by a new type, a surrogate colonialism?... Is it not time for us to pause from our daily concern to ponder over this dependency? Instead of reacting should we, the developing countries not think of action on our own?".

This calls for a new awareness and a new commitment to meet the challenge. The present leaders of NAM will have to have the same passion of 'commitment, statesmanship, sagacity and foresight' which the founding fathers showed in the past decades. They also have to work collectively in the interest of the group as a whole as against narrow national interest, the rich and the powerful. If this does not happen the movement would find it difficult to measure upto the challenge that lie ahead. "If this does not happen and the movement only limps the verdict of history will not be against the principles and purposes of nonalignment but against those who are its directors and managers."<sup>13</sup>

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13 K.P. Mishra, n.7, p.92.

In the emerging world situation pessimism should not be given a place. If 'the raison d' etre of NAM for nation states individually and collectively lies in the contribution it makes to the solution of problems afflicting the 'world bodiekonomik',<sup>14</sup> it has to choose a new and independent sources of action with regard to economic goals. Since the adoption of the NIEO many changes have occurred in the field of commodity and manufactured goods, international monetary-financial system and economic cooperation among developing countries has become a necessity for maintaining the pace of development in global trade and finance. What is required, therefore, is a new idea and a new definition of NIEO that can serve as a basis of the global negotiations that are under discussions.

Broadly three elements, among other things were required to activate the NIEO:

- (a) "joining of the developed countries in the global enterprise aiming at advancing development in third world;
- (b) changes within the developed countries and within their mutual relations permitting the necessary contribution of the North to global development; and,

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14 Dewan C. Vohra, n.9, p.332.

- (c) changes in the South, as outlined in Lusaka Summit,<sup>15</sup> i.e., expanding horizontal or South-South linkages and developing a strategy of collective self-reliance to achieve greater economic equality.

It is interesting to note that all these three essentials exist to some extent in the South. There are enough financial reserves, particularly in the OPEC countries, there is considerable technical capability and know-how in some of the more developed third world countries and there are enough raw materials and there are still larger advances that could be made. If this should happen it would be easier to pursue the North to come to the negotiating table and at the same time reinvigorating the cohesion and the spirit of togetherness in the ranks of the movement. Unity of action and purpose is the one and best weapon of NAM in their quest for a better world, prosperity in peace and stability. Unity also is, as Julius Nyerere pointed out, our only instrument of liberation from political colonialism and economic neo-colonialism. That is, the most effective weapon to fight against colonial and neo-colonial policy of 'divide and rule is unite and fight'.

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15 Leo Mates, "The Origin and Development of Non-Alignment", in Hans Kochler ed., The Principles of Non-Alignment, (London, 1982), p.61.

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