CHAPTER I

Bretton Woods - Why and how?

High politics versus low politics - Interdependence concept.

EEC - India Relationship

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"To safeguard our independence - economic, scientific, technical - we must ensure that our activities remain under French direction and administration, even though we confront the enormous wealth of certain countries and although we will not refuse to carry out all kinds of exchanges with them. Likewise, we must support, no matter what the cost, these activities which ensure the value, the autonomy, the very life of all our industry, those sectors which require the most research, experiment, and sophisticated tools or which need the largest team of scientists, technicians, and workers of the highest quality. Finally, when it is opportune in a selected branch to join our inventions and money and skills with those of another country, we must choose the country nearest to us and whose weight could not crush us."


Trade and money, to a modern thinker, are unquestionably perceivable as the two opposite sides of the same coin; the interdependence among issues as well as among nations is an interesting subject area for scrutiny and analysis, in the current international political economy. Prior to World War II there was no such thing as an International Economic Order. Each country pursued its economic

1. Robert Gilpin, France in the Age of the Scientific State (Princeton, 1968) for an enlightening study on France's attempts to preserve its autonomy and independence, a clash between traditional France and the imperative of rapid expansion and use of scientific knowledge.
goals in exercise of its own sovereign rights. While in normal times the interaction of national policies did not create any major difficulties, whenever any kind of a crisis arose, the efforts of individual countries to deal with the situation in terms of their national interests regardless of the consequences of their policies for other countries, often led to chaotic conditions. What one country did in its own interests damaged the interests of others, who took retaliatory action. The manner in which self-seeking policies of individual countries could jeopardize the economies of all was most sharply brought out during the Great Depression. The need began to be felt though it was not voiced before World War II broke out, for some kind of understanding between nations to regulate international trade and payments. The importance of doing so became even more evident when World War II broke out and it was recognised that among the underlying causes of the war, there was economic rivalry between different economic blocks.

Bretton Woods - Why and how?

The Bretton Woods agreements were the first successful attempt, consciously undertaken by a
large group of nations, to shape and control their economic relations. Welcoming the delegates of the United Nations to the Bretton Woods Conference in July 1944, Secretary of US Treasury (Morgenthau), in his opening address stated:

"All of us have seen the great economic tragedy of our time. We saw the worldwide depression of the 1930s. We saw currency disorders develop and spread from land to land, destroying the basis for international trade and international investment and even international faith. In their wake, we saw their victims fall prey, in places, to demagogues and dictators. We saw bewilderment and bitterness become the breeders of fascism, and finally, of war."

In fact, historically, on 25 July 1940, Walther Funk, Minister for Economic Affairs and President of the Reichsbank, outlined during a press conference in

Berlin a plan for the reconstruction and reorganisation of the German and European economy after the war, and for strengthening its position in world trade. He wanted to put an end, he said, to the confusion, caused by 'the fancy ideas and plans' published in the press. The 'New Order' would be based on a very close cooperation with Italy, and the German and Italian productive power would be coordinated for reconstruction of Europe. 'We will use the same methods of economic policy that have given such remarkable results

3. W. Funk, *Wirtschaftliche Neumodung Europas* (Berlin: M. Müller and Sohn, 1940), Europe's New Economic Order. The idea was that the European currencies would be stabilised in relation to the Reichsmark. European countries would be able to trade freely with each other, any balances being offset by the central clearing office in Berlin. Trade with other countries would be regulated by barter agreements, and Berlin would gradually replace London as the World's financial centre.

Walther Funk, in fact, expected that the war, currency restrictions would gradually be removed, except from capital transactions. In order to maintain the highest standard of living, Europe would continue to import raw materials, food, and other goods from all over the world, in exchange for the high grade products of its industry.
beth before and during the war, and we will not allow the unregulated play of economic power, which caused such grave difficulties to the German economy, to become active again. He then described the principles and methods to be used:

Money is of secondary importance; the management of the economy comes first. When the economy is not healthy, the currency cannot be healthy. In the framework of a healthy European economy and of an intelligent division of labour between the various European countries, the monetary problem will solve itself, simply by using the right monetary technique. Obviously, the Reichsmark will have a dominating position. The formidable increase of the power of the German Reich will naturally result in the strengthening of its currency.

The German propaganda machine was soon busy proclaiming that the 'New Order' would bring unprecedented prosperity to Europe, and would put an end to the chaotic conditions experienced during the inter-war period. For several months, the German-dominated radio and press had a practical monopoly in influencing post-war monetary and economic planning. Neither British radio nor, with very few exceptions, the British press had shown any interest or concern.

In November 1940 Britain's Ministry of Information (in London) submitted to Keynes some notes intended to be German propaganda; Keynes wrote, it was intended to appeal to the wide circles and powerful interests in each country which are inclined in present circumstances to value social security higher than political independence. It purports to offer a stable currency system adapted to the commerce of countries which have no gold, and above all a system of economic order and organisation. Counter-propaganda on a negative basis would not be very convincing. 'If we have nothing positive to say we had better be silent'. His position was that Great Britain would offer 'the same as what Dr. Funk offers, except that we shall do it better and more honestly. This is important. For a proposal to return to the blessings of 1920-1933 will not have much propaganda value'.

The central idea that Keynes developed was to create an 'International Clearing Union', which would apply the 'essential principle of banking' to the international scene. Just as the Central Bank of each country issues currency notes, the International Clearing Union would provide its own bank notes. It would make use of the surpluses of the richer countries to allow

5. The background was that Dr. Funk's broadcasts pertaining to the New Order became so popular that Mr. Harold Nicholson, who was then serving in the British Ministry of Information as well as Lord Halifax, who was then the British Ambassador to the U.S., wrote to Keynes specifically asking him to do something effective to counter the German propaganda. On looking at some of these broadcasts, Keynes found himself in sympathy with Funk's ideas which included the abolition of the role of gold as a regulator of international trade and payments. In fact, he wrote to Nicholson to say that he himself did not believe in the gold standard. He also added that 'about three-quarters of the German broadcasts would be quite excellent if the name of Great Britain were substituted for Germany'. However, he did begin to think seriously about the kind of economic system which should be established after the war.
overdrafts to poorer countries. He gave the name 'Bancor' to the units of currency which the Clearing Union would issue.

Almost at the same time in the U.S.A., H.D. White, who was Adviser to the Secretary of Treasury - Morgenthau, was developing a somewhat similar plan for the post-war world. His plan included two international agencies, a Stabilisation Fund and a Bank for Reconstruction and Development. Like Keynes, White pleaded for a new international currency which he called 'UNITAS', but he was more conservative than Keynes in regard to the operations of the Fund. The Fund's resources would be provided by member-nations. It would not be creating credit like Keynes' Clearing Union. However, in one respect White had a wider vision than Keynes. His Fund was to function in conjunction with the Bank which he proposed. The latter could provide long-term loans for reconstruction and development purposes as well as for stabilising commodity prices and financing trade.

In April 1942, Keynes' proposals as well as White's were published. Despite their similarity of approach and the overall friendly relations between Britain and USA there was a good deal of argument, even controversy, over the ideas put forward by either side. Keynes is known to have disliked White as a human being and apparently on a personal level White
was disliked by most people he came in contact with. The Americans had a suspicion that Keynes's ideas about what his Clearing Union should do were meant to solve Britain's problems at the expense of the U.S.A. because the British economy was getting heavily indebted while the Americans were emerging as large lenders.

All said and done a definite step in building the post-war economic order was taken at Bretton Woods in July 1944. At that time forty-four countries followed up on long US-UK negotiations and agreed to establish the International Bank for Reconstruction and Development and the International Monetary Fund. The former was to provide capital to war-impacted areas. The latter was designed to prevent a recurrence of the disruptive monetary disorder of the thirties by establishing, for the first time, conscious international control of the monetary system. To that end the Fund was given a certain authority not very clearly defined because of British reluctance as creditors - to address the economic policy of member-states that turned to it for help in adjusting short-term balance of payments difficulties (by borrowing foreign exchange from it) or 'fundamental' disequilibrium (by changing their exchange rates beyond the narrow range permitted by the agreement). Both institutions embodied American multilateral goals and would be, if not under American control, under preponderant US influence.
The Soviet Union sent delegates to Bretton Woods but did not join either organisation.

Embedded in the Final Act of the Conference were the articles of Agreement of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development. When the Fund commenced operations in March, 1946, nine countries had acquired the necessary ratification of the agreements by their legislatures, and so became the initial members. According to the Articles of Agreement, the purposes of the IMF were:

1) To promote consultation and collaboration on international monetary problems through a permanent institution which provides the machinery for such exchanges to take place;

2) To facilitate the expansion and balanced growth of international trade and thereby promote and maintain a high level of employment and income;

3) To promote exchange stability and orderly arrangements and to avoid competitive exchange deprecations;

4) To aid in the re-establishment of a multilateral system of payments concerning current transactions between members and to eliminate foreign exchange restrictions which hamper world trade;

5) To make the Fund's resources available to members.

with adequate safeguards, so that they may correct maladjustments in balance of payments without resorting to measures destructive of national or international prosperity;

6) To promote measures which shorten the duration and lessen the severity of balance of payments disequilibria.

The World Bank opened its doors at the same time. Membership was open only to those countries that were members of the Fund, although practically all Fund members became members of the World Bank. The purposes of the Bank, as stated in its Articles of Agreement, were:

1) To assist in the reconstruction and development of territories of members;

2) To promote private foreign investments by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing on suitable conditions, finance for production purposes out of its own capital, funds raised by it and its other resources.

Both institutions were to a very large extent the work of two countries: the United States and Great Britain. In the spirit of the times, new agencies, international in character, were seen as the vehicle for avoiding mistakes of the past and dealing with problems already
apparent or likely to emerge. The Fund and the Bank were created in a mood of optimism that anticipated cooperation among countries in ways and to degrees not realised before.

In considering the three pillars of Bretton Woods system namely the emergence of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT), it is worth remembering that they all came into existence when the international system was probably less 'decentralised' politically than at any other time since the Congress of Vienna, if not earlier. The international political system by and large contained but a single 'super power' and the cold war was in its earliest stages, the so-called Third World, or South, had not yet emerged as a force to be contended with at either the economic or the political level. The Southern states that did partake as observers and actors during the construction of the new international economic order for the most part acted as allies of their Northern counterparts that had led the fight against the Axis powers. And since the North itself was basically at the mercy of its own hegemonial power, the United States, international political power -
defined as the capacity to influence the action of others - was highly centralised in the late 1940s and for most of the 1950s.7

The monetary regime reflected in the Bretton Woods Agreement was a reaction to the gold standard (as it was understood) and the monetary chase that prevailed on the occasions, immediately following the First World War and again in the Great Depression in which the gold standard broke down.

The principal feature of the gold standard that made it unattractive to all countries following the Great Depression was that strict adherence to its canons required the domestic economy to be governed by balance-of-payments considerations, regardless of how inflationary or deflationary that might be.

7. Roger D. Hansen, aptly observes that the emerging international economics system was in essence a US design, although it was altered to a certain degree to activate a general acceptability within the non-Communist developed countries of the world. Many of the small compromises that the US did make were forced on it by Great Britain, whose limited bargaining strength resided in the role of sterling in the international monetary system and with existence of the British Imperial Preference System of Tariff Protection. The role of sterling lent the British a great weight in the Bretton Woods discussions than would otherwise have been the case. W.L.Kehl, ed., The Industrial States and the Third World: The political economy of North-South Relations, in Economic Foreign Policies of Industrial States (Lexington, 1977), pp. 215-46.
The Bretton Woods Agreement asserted the primacy of domestic economic policy aimed at the maintenance of full employment and at the same time established the responsibility of each nation to the community of nations in the realm of international financial policy. Domestic economic policies were to be protected from the strictures of the balance of payments through a double screen; temporary imbalances were to be financed, if necessary by drawing on lines of credit at a newly established lending institution, the International Monetary Fund (IMF); and fundamental imbalances were to be corrected by an alteration in the country's exchange rate. Responsibility to the community of nations was to be assured through a new set of agreed rules, policed by the IMF, that among other things (1) required each country to establish a fixed value (per value) for its currency, (2) for-bade restrictions on payments for goods and services, and (3) required international approval of any change in an exchange rate that ultimately had to be made to correct a fundamental disequilibrium in the balance of payments.

The successful operation of the Bretton Woods system has been attributed to certain major factors: (1) the willingness and ability to deviate from it and improvise new processes of international economic relations when and where necessary; (2) the latitude that the system granted
to Western Europe and Japan to recover quickly from wartime destruction and sustain rapid rates of growth; (3) the close fit between the system's norms and flexibility and the domestic and foreign policies of the hegemonial power of the Bretton Woods system.

Thus for at least twenty years after its inception, the Bretton Woods system created a benign international atmosphere for economic growth in the world's leading industrial nations. Therefore, they had little reason to press for changes until the issue of U.S. deficits became a major problem in the mid to late
9. Prof. Marina V.N. Whitman, reflecting around 1975 has observed: "A decade or so ago, when the twin concerns about the balance of payments of the international monetary system began to impinge on the consciousness of a public theretofore indifferent to such esoterica, the opinion of those who were already paying attention fell into a neat dichotomy. Government officials and 'men of affairs' on the one hand, insisted that the continued health of international trade, investment and the world economy required the maintenance of the Bretton Woods system of pegged exchange rates, under which changes in rates were made infrequently and as a last resort. Academic experts, on the other hand, were nearly unanimous in pressing the advantages of greater flexibility of exchange rates with many urging that governments abstain altogether from intervention and allow exchange rates to be determined by the interplay of supply and demand in the market place just like any other price. ('Global Monetarism and the Monetary Approach to the Balance of Payments') - Brookings Papers on Economic Activity, 1975, No.3)

The spectre of competitive depreciation left over from the 1930s was replaced by concern about the rigidity of mechanism for payments adjustment under the Bretton Woods system.

Today, most major industrialised countries are no longer bound to pegged exchange rates. But a funny thing happened on the way to the flexible rate nirvana. The post-Bretton Woods world of managed flexibility has produced surprises undreamed of in the analysis of the 1950s and 1960s; moreover, a small but influential group of international economists has stood traditional balance of payments analysis on its head. I have termed this group the 'global monetarists' - 'monetarists' because of their belief that macroeconomic phenomena can be analysed best in terms of the relationship between the demand for and the supply of money, and global because of their conviction that, as a first approximation, the world consists, not of separable national economies, but of a single, integrated closed economy.

Far from being new, observes Prof. Whitman, these propositions of the global monetarists represent a return to a tradition far older than the Keynesian approach they are challenging - to the price - specie - flow mechanism of David Hume, who argued that the international flows of reserves engendered by a payments imbalance would, through their effects on national money supplies and price levels and thus on the trade balance, automatically restore external balance.


'Political' than it was 'economic'.

Further, for many reasons, some grounded in empirical evidence, some in normative frameworks, and some in pure emotion, the developing world had severe doubts about the Bretton Woods system's impact on their growth potential. Their complaints ranged from the general - the workings of the international markets for goods, capital and technology - to the specific. They perceived the following biases in the system:

1) Efforts at international trade liberalisation through the instrumentality of the GATT have been singularly biased in favor of products of interests to developed country exporters, and the developing countries have therefore gained little from the various rounds of tariff-cutting negotiations that took place.

2) The value and volumes of foreign aid flowing from North to South were unjustifiably low whether measured by 'absorptive capacity' of aid funds in Southern development projects or by proclaimed Northern commitments to assist Southern development efforts.

3) The North has systematically rejected or stalled for lengthy periods before accepting Southern proposals to increase resource transfers to the developing countries. The South suggests international commodity agreements to raise and stabilise the prices for its major exports; the North responds by cataloguing the (generally genuine) problems that commodity agreements raise and by effectively
rejecting the approach except in a very few cases. The South suggests a 'supplementary financing' mechanism as part of the IBRD's efforts to increase North-South resource flows; the North quietly inters the proposal each time it is reintroduced.

4) Northern multinational corporations have in general restricted their potential contribution to the development process in one or all of the following ways; by limiting tax contributions through certain patterns of transfer pricing by limiting job creation through capital-intensive production methods and artificial limitations on exports; by limiting capital inflows through borrowing in host country money markets; by exacting monopoly rents on their technology, and so forth. In addition, these companies have often interfered in the internal politics of host countries, with or without the encouragement of their home governments.

5) The terms of trade have moved consistently against the typical developing country export basket, and they have done so for reasons integral to the operation of the Bretton Woods system.

Finally therefore, the final reason that the Bretton Woods system lasted for over twenty years without major challenge was that it served that political and economic purposes of the one superpower that designed and nourished it -- the United States.
Thus the supremacy of the American dollar reigned right through the fifties and the sixties, besides the predominance of the other two currencies, i.e. British pound and the French franc. The latter two influences are not at all surprising, Britain and France being the two main metropolitan colonizers in the third world. But this development, the predominancy of the three currencies very much complimented the political designs of the Big Powers.

However, the symptoms for the collapse of the Breton-Woods system became apparent when the American dollar collapsed under the weight of the US engagement in Vietnam.10 Healing of the Vietnam

10. Richard N. Cooper remarks 'As the outflow of dollars associated with United States direct investment abroad and then with the war in Vietnam grew steadily, foreign restlessness at the first consequence grew correspondingly. And as the total volume of foreign-held dollars grew, the credibility of their convertibility into gold diminished, until the inevitable inconvertibility was made formal in August 1971.

Thus the Breton Woods system had an imperfect balance-of-payments adjustment mechanism and an imperfect method for satisfying world liquidity needs. Both deficiencies were filled pragmatically through unsystematic adaptation, but the resulting regime was also unsatisfactory. Dissatisfaction mounted rapidly when in the late 1960s what had been moderate US payments deficits threatened to become, and then in 1970 actually become, insupportably large. Major countries began to adjust their exchange rates as called for by the Breton Woods system, and this proved to be highly disruptive of financial and foreign exchange market as well as to general confidence in the smooth functioning of international monetary system and the capacity of governments to manage international financial matters successfully. Finally, governments abandoned any attempt to maintain fixed exchange rates, and in March 1973 (earlier for Canada and Britain) they allowed their currencies to float in exchange markets, several European countries cooperating sufficiently so that their currencies would float together! Richard N. Cooper, "Prologomena to the choice of an international monetary system" in World Politics and International Economics (eds) C. Fred Bergsten, Lawrence B. Krause (The Brookings Institution, Washington, D.C. 1975), pp. 63-97.
wounds has been a great strain on US economy. Again the Vietnam and Algerian crises emaciated the French economy and the British also became weakened during early 1960s.

The foregoing factors and the unduly heavy commitments of the big powers to the arms race (during the cold war), and then the emergence of a large number of newly independent countries in Asia and Africa made increasingly manifest the irrelevance of the Bretton Woods system. In other words, the International System built in the aftermath of the Second World War needed to be restructured with a view to responding

Andrew J. Pierre has observed that 'In the new era of international politics the United States will, at least initially, be preoccupied with healing its Vietnam wounds. During this recuperation period the attention of the nation will be turned to its own body politic. Problems concerning the cities, poverty, the pollution of the environment, race relations, crime, drugs, and so on through this dreary list, will receive priority. In foreign affairs the priority will be placed upon relations with the Soviet Union and probably China, for it is there that the principal threats to peace are likely to originate or receive decisive support. The limitation of strategic armaments and the avoidance of war in the middle east will be aims of active diplomacy. But in other areas of foreign policy Washington will seek to maintain a low profile. Military intervention in disputes in the Third World will be avoided like the plague and will only be easily justified when, for example there exists an immediate threat involving an unambiguous treaty commitment. Such standards of selectivity and reserve would probably rule out armed interventions similar to those of the United States in the Dominican Republic in 1965, Lebanon in 1958, or even Vietnam in 1965'. Andrew J. Pierre, "Europe and America in a Pentagonal World" in 'The European Community in the 1970s' (ed) Steven Joshua Warnecks (New York, Praeger, 1972), pp. 168-69.
to the urgés and aspirations of the new International System which was very much different from the one that existed in 1945.

Thus it would be seen that the energy crisis (1973) and its aftermath entailed meetings of the United Nations Economic and Social Council (ECOSOC) and a special session of the General Assembly, which have witnessed the Third World's demand for a New International Economic Order (N.I.E.O.). On 1 May, 1974, the U.N. General Assembly adopted a Declaration and a programme of Action on the establishment of a N.I.E.O. This was indeed a momentous event, for it summed up in one gesture the dissatisfaction of the countries of the Third World with the prevailing system of economic relations and their conviction that a solution of their problems needed more than peripheral changes or adjustments to this system. The Charter of Economic Rights and Duties of States adopted by the General Assembly some months later lent support to the concept of the need for a changed order. The "Programme of Action" endorsed by the U.N. ranged over a wide spectrum embracing such diverse factors as raw materials and primary commodities, food, trade

12. General Assembly Resolution 3201 (S-VI) and 3202(S-VI) (on the report of the Ad-hoc Committee of the Sixth Special Session (A/9556) adopted at the 2229th U.N. plenary meeting 1 May, 1974 (U.N. Department of Public Information, New York).

transportation, insurance, the international monetary system, developing development financing, industrialisation, transfer of technology, activities of transnational corporation between the developing countries and above all, the role of U.N. system in the field of international economic cooperation.

High Politics vs. Low Politics - Interdependence Concept

Political scientists for the past three decades have generally emphasized the role of power, particularly organised military power in international politics. Military component dominates other means of power in the sense that if there are no constraints on one's choice of instruments (a hypothetical situation that could said to have been approximated on in the two World Wars), the State or States with superior military power will prevail. If the security dilemma for all States were extremely acute, military power and its supporting components, which, no doubt, include a large economic dimension, would clearly be the dominant source of power. Survival is the primary goal of all States, and in the most adverse

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14. 'High Politics' or 'High Policies' would mean those associated with security and the continued existence of the State; 'Low policies' imply those pertaining to the wealth and welfare of citizens. For characteristics of periods in which 'high politics' reigns supreme or vice-versa see E.L. Merse, 'The Transformation of Foreign Policies: Modernisation, Interdependence and Externalisation', World Politics, 22 (April 1970) esp. 379-83. Presently in the Atlantic area, 'low politics' of Economic Interdependence may appear more important than 'high policies' of mutual dependences.
situations, force is ultimately necessary to guarantee survival. This military force is always a central component of national power. But, in so far as the perceived margin of safety for State widens, other goals - such as economic welfare, political autonomy and status - become relatively more important.

The above, in fact, is the current situation, since widespread perceptions of detente have minimised most countries' fear of any use of force by the major military powers. This situation, however, is not necessarily permanent; the cold war could perhaps reappear, or nuclear proliferations could again raise deep national insecurities. For the moment though, economic issues have become far more significant in international affairs than at any point since the beginning of World War II, both because of their increased importance in their own right and because of the decline in concerns about survival and the traditional forms of security. 15

The causes for the recent politicisation of international economic relations and institutions, one observes, are much more complex than the angle of security determinism alone. Political scientists sometimes have a tendency, it has been

observed to let their analysis become imprisoned by overly restrictive notions of national security in the same way that economists sometimes remain locked in the conceptual prison of economic efficiency and market optimality. Indeed, the current disarray of international economic institutions reflects a mixture of political and economic causes. Apart from the noted shifts in the structure of the distribution power, there have been problems created by the tremendous growth in economic interdependence among nations.

One observes that interdependence was visible in product markets as international trade expanded faster than the growth of national economies, in money markets as substantial financial transfers across borders became a routine matter for financial institutions, and even in labour markets as significant amounts of temporary (and permanent) labour migration took place. Interdependence was particularly advanced, it would appear, through the actions of multinational corporations, which increased their direct investment activities to such an extent as to cause a qualitative change in international economic relations.

This quantum jump in economic interdependence, created in many countries fear and insecurity that a corporate decision to close a plant or restrict a market could cause severe unemployment problems and social distress for the country. In the same token, decisions made by other governments to disrupt trade could undermine the very pace of economic activity because of import dependence on raw materials. Finally, interdependence meant that countries could not effectively insulate themselves from world price developments and at times found themselves importing inflation with concomitant social unrest. The political effects of rising economic interdependence are not always benign. One of the effects is to blur the traditional distinction between domestic and international politics. More groups have been

17. This is a key manifestation, proposed to be reflected upon, thought out this study, attempting to evaluate the concept of 'Interdependence'. Not surprising therefore, an entire book sometime is devoted in some such direction. See eg. preface to the book, Power and Interdependence; World Politics in Transition by R.O.Keehane and J.S.Nye (Little, Brown and Co.,Boston 1977): '...In this book we try to understand world politics by developing explanations at the level of the international system. This does not mean that we regard the domestic politics of foreign policy as unimportant. Quite the contrary; Foreign policy and domestic policy as we repeatedly emphasise are becoming increasingly difficult to disentangle'.

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affected and have become directly involved in international policy questions. More issues, once considered domestic, have begun to appear on the inter-state agenda. Moreover, part of the natural political dynamics of rising economic interdependence has been the provocation of protectionist sentiments. With the progress of integration of markets, immobile groups in societies, including large segments of labour, have pressed for governmental protection to redress their relative disadvantage in competition with transnationally mobile competitors. Thus the coherence of national policies has become more difficult to maintain. These political problems generated by rising economic interdependence have taken place against a background of increased diversity of demands placed on governments.

Among the advanced industrial societies (i.e. Atlantic Community), there has been an increase of concern for other values in addition to prosperity. Similarly, among less developed countries, concern over the power of multinational firms and other foreign economic influences has led to demands for greater autonomy in addition to greater prosperity. Further, an increased desire for status by some less developed countries commensurate with their growing prosperity has added to the complexity of their relations with developed countries and with other less developed countries as well. Thus, state goals in international economic institutions have become more diversified to include
such concerns as pollution abatement, protection of endangered natural species, and the conduct of multinational firms.

It would therefore appear that in a world economy composed of regional blocks and centres of power, economic bargaining and competition would predominate. Each centre of world economy would apparently seek to shift the costs and benefits of economic interdependence to its own advantage, through the exercise of economic power and various trade offs. Trade, monetary and investment relations would be the consequence of negotiations as nation states and regional blocs sought to increase the benefits of interdependence and to decrease the costs. This, indeed, has been the direction of the evolution of the international economy, from a liberal to a negotiated system, since the rise and of large and rival economic entities in the latter part of the nineteenth century. Therefore, debate on policy planning today should not focus, remarks an analyst,18 on economic independence or dependence but on the nature and consequences of economic interdependence. Economic interdependence may take many forms; it may affect the welfare of nations in very different ways. Some will

emphasize security; others efficiency, low rates of inflation, or full employment. The question of how these benefits and costs will be distributed is at the heart of the increasingly mercantilist policies of nation states contemporarily.

ECC-India Relationship

The evolution of the Indo-ECC cooperation can be formally said to have begun in the year 1962, when India established diplomatic relations with the European Community at Brussels. By the time the Indian Mission was established, the six-nation community had begun to examine the United Kingdom's application for adhesion to the Community. While the main task of the Mission was to strengthen India's commercial relations with the Community and its member states, it was also assigned the responsibility to secure that the terms of United Kingdom's adhesion to the Community made adequate provision for the protection of India's commercial interest in the United Kingdom. By 1963, the negotiations on Britain's entry had failed but the problem of "securing improved access for India products to the Community market" remained.
The UNCTAD Resolution on GSP had provided an instrument for limited protection of India's commercial interests in the United Kingdom. In pursuance of this Resolution, the European Community decided in 1971 to introduce its own generalised system of preference. Through the Joint Declaration of Intent (JDI annexed

19. The principle of generalised tariff preference was formally accepted in Resolution 21 (II) at UNCTAD-II (1968), New Delhi. This resolution also established the Special Committee on Preferences to negotiate the implementation of the Generalised System of Preferences (GSP). The developed countries of the O.E.C.D. (Organisation for Economic Cooperation and Development) submitted on 14 November 1969 their preference offers to the developing countries through the Secretary-General of UNCTAD. These offers were revised and refined during further negotiations. Finally, it was the EEC of six member states which, on 1 July, 1971, implemented the first preferential tariff scheme (EEC's-GSP).

20. Britain's entry into the Common Market and the enlargement of the EEC to nine members served to reinforce developments which had been going for about a decade. U.K. and the EEC are credited for a Joint Declaration of Intent (JDI) which purports to give a special kind of undertaking on the development of Trade relations with the developing independent Commonwealth countries in Asia (India, Pakistan, Sri Lanka, Malaysia and Singapore). For JDI-spirit etc. see S.S. Saxena, 'Why the Trade Centre?' in India and European Community, vol. 5, no.2 (Delhi, 1979-80) pp. 15-19.
to the Act of Accession (22 January 1972) the enlarged Community had declared itself ready "to examine with... (Indo) such problems as might arise in the field of trade with a view to seeking appropriate solutions". In pursuance of this Declaration, a five year Commercial Cooperation Agreement (CCA) was entered into in December 1973.

The distinguishing feature of the CCA was the emphasis given to the potential complementarity\(^{21}\) of the Indian and EEC economies. The CCA has been a departure from the classical type of trade agreements, which normally provide for most favoured nation treatment in trade matters between the signatories. The agreement expresses determination of the two sides to develop commercial exchanges on the basis of comparative advantages and mutual benefits so as to contribute to their economic and social progress and to the improvement of balanced mutual trade at a level as high as possible. EEC is now India's largest trading partner. Trade with EEC accounts for nearly a quarter of India's world trade. However, India's share in EEC's imports is still very small.

\(^{21}\) A Joint Project Planning exercise (Popularly called 'Smallman Report', after the consultant's name) was put through in pursuance of the conclusion reached at the fourth session of the Indo-EEC Joint Commission (1976). The objective has had been to identify sectors in which complementarity exists or is likely to develop and in which there is consequently a potential for trade-oriented cooperation between economic operators in the Community and India on mutually advantageous terms, which would further the objectives of the CCA, etc.
The EEC-India relationship does not conform to any well-known model, bilateral or multilateral. This is so because first, the EEC functions as a collectivity representing nine (now ten, w.e.f. 1 January 1981) highly industrialised States of Western Europe, in strictly limited areas; second, even within the area of Community responsibility member states continue to maintain direct contacts with the outside world; third, collective conclusions continue to be the product of interaction, at times even horse-trading, between diverging or competitive national interests.

Therefore, in order to be able to study the EEC-India development cooperation in proper depth, one would be required to scan through the wider canvas of global economic relations and interdependence; EEC and India, typically being significant entities in the North-South configuration. Some have characterised the world economy as constituted into three imperfectly integrated parts: the countries of the North whose mutual relations are characterised by interdependence, relations between the North and South, which display the feature of dependence, and the relations between the market economy developed countries and

the socialist countries which, broadly speaking, have been marked by an independence of policy making and a relative isolation. There is a view that meaningful negotiations are facilitated when they occur between countries with a marked interdependence of their economies and approximately similar bargaining power at least in specific sector. And hence the greater results up to date from North-North negotiations rather than West-East and North-South discussions.

It would thus appear that though the economic interdependence of the industrialised economies has come to be generally appreciated, the interdependence of developed and developing countries has not been firmly established, although it is asserted in many official statements. And there is consequently a growing feeling if not exactly a fear, that unless the developed countries are convinced that their interests are dependent on the Third World, as a whole or only in part, it is unlikely that they will be prepared to make meaningful 'concessions' to developing countries in negotiations on the reform of the international system of trade, money, investment, financial and technical flows.

The key role of trade in the process of economic development is widely accepted today. The new focus on export expansion is reflected in the current debate on a wide range of issues, a debate centering not only at the GATT and UNCTAD, but also involving other international organisations including the I.M.F., IBRD and the
regional economic commissions of the United Nations. The issues under active discussion include market access and preferences, regional economic arrangements, expert diversification, buffer-funds, commodity agreements, ECDC (Economic Cooperation among developing countries), Non-tariff barriers, monetary reform and supplementary finance to offset unexpected shortfalls that threaten to disrupt development programmes, debt servicing etc. In the trade field, during the past decade and a half, addition to Part IV to GATT (in 1965) which permitted special dispensation in favour of developing countries, and the adoption of GSP, have been the most significant example of the progressive moves by the developed countries in general and EEC in particular. The recently concluded Tokyo Round of Multilateral Trade Negotiations (launched in 1973) enunciated some new principles to secure additional benefit for the international trade of the developing countries so as to achieve a substantial increase in their foreign exchange earnings.

In the last, over a couple of years, however, there has been a deterioration in the international economic environment with the intensification of protectionist tendencies practised by the developed countries (e.g. France) in favour of an 'Organised international trade'.

which is synonymous with an increase in the quantitative and other restrictions on international trade, has been a most disquieting development. A wave of protectionism thus seems to be currently sweeping through the EEC - a Community ironically enough established on the premise of attaining prosperity through free trade!

The EEC considers itself to be in a unique position to bridge the differences between the North and the South. It's members do include former colonial powers, but as Sir Christopher Seames once pointed out, the Community - as a new collective entity has no colonial past. On political and historical grounds, the Community claims to appreciate better than other developed countries the problems and aspirations of the developing countries. The Community also has acknowledged its dependence on the developing countries for its economic advancement. Deriving nearly 40 per cent of its income from trade, the Community needs dependable source of energy and raw material as also outlets for its manufactured products. Economic complementarity is thus the corner stone (so claims the EEC) of the Community's Development Cooperation Policy. Mr. Roy Jenkins, in his address to the European Parliament (on 14th February, 1978).

24. 'New terminologies are making an appearance ...' observes Ambassador P.K.Dave (India's ex-Ambassador to EEC and India's permanent Representative to GATT and UNCTAD and Special Economic Engey to West Europe) - P.K.Dave, '16 years of Indo-EEC Cooperation' in India and European Community (Delhi), Vol. III, No.4 (Feb-April, 1978), pp.
remarked:

"We need a just international division of labour and resources because there is a close interdependence between prosperity of the economies of the industrialised world and the rest. We need to ask ourselves how our economic relations should be adapted to growing industrial development in third countries at a time when the problems of inflation and unemployment in the industrialised nations hamper our ability to stimulate renewed growth. The impulse of the Third World has, in my view, a major part to play in improving the position."

In actual practice, however, be it an account of internal economic difficulties or due to lack of political will, there is a visible hardening of the Community's attitudes towards the developing countries such as India. This is reflected in growing protectionism, lack of progress in development cooperation and continued preferential approaches to groups of developing countries on the basis of self-interest. In overall terms thus, it would appear that the EEC has no global development policy towards "the third world" but only different layers, depending upon a descending scale of political and economic interests. (Lome countries, Associated Status, non-associates etc. etc.)

The point emerges therefore, that without a deeper appreciation on the part of EEC (Western Europe) of the value of close cooperation with India for the attainment of its goals at the global level, the need to more purposeful initiatives is perhaps unlikely to be felt. Two propositions with political/economic slants could be considered in this context.

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connection. First, during the past more than three decades of India's independence, Western Europe has not given due consideration to the fact that India is not only the largest functioning political democracy in the world, but it is the only one in the Third World, which has survived despite tremendous jerks and jolts, both in the internal and external domains. Should India fail to succeed in its prime task of national economic and social development through its democratic framework, any systemic change that may ensue in consequence could run counter to Western interests in this strategically important part of the world. Secondly, it is understood adequately in Western Europe that India is not only the tenth largest industrial power but that it is also a big reservoir of trained personnel and technological skills. But what has not engaged its attention is that these skills could be put to greater use jointly in the cause of development in the third countries. Closer cooperation between India and the Community in the execution of development programmes and projects could add to the effectiveness of the Community's development cooperation policies. Thus, three questions basically arise here: First, when will the Community consider it urgent in its long term interest to evolve a coherent development cooperation policy with the Third World (India)? Second, how and when does the Community propose to take initiatives to break the deadlock in global negotiations? Third, has India a role in helping the Community to answer the foregoing questions?
Venturing to look ahead, a new Commercial and Economic Cooperation Agreement between EEC and India has been on the anvil; it is expected to be essentially evolutive in nature - no area of economic cooperation could be ruled out in advance. This would potentially engender closer and deeper consultations, and hence the urgency of intensive studies, on topical questions like 'structural adjustment', which an EEC official recently has chosen to describe as 'comparison of mutual prospects with regard to markets and potential production'. Rather than remaining tied to a historic kind of EEC-India framework (CCA) agreement, devoid of much tooth and content, it would be useful to make indepth study, as the new-CCA rolls along, drawing insights from the pragmatic, implementation of at least two other EEC Agreements, significantly one with Canada and the other with Yugoslavia. This, coincidentally, goes to peg the

26. It has been since finalised (June 1981) and signed by the Council of the European Communities, on one part and the Government of India on the other part

27. Dr. Luigi Boselli (Chief of the Asian Relations Division, D.G.I., Brussels, EEC Contribution to Development in South Asia, a paper read at the MNU-EEC Joint Seminar on EEC and India (New Delhi, 17-19 November 1980)
four corners (North, South, West, East, viz. EEC, India, Canada, Yugoslavia) of the larger question - is the concept of 'Interdependence' globally understood and accepted or is there an obvious strident difference between the example and the precept? Is there something inherently wrong in the role of EEC(North) at the international fora especially the GATT, IMF and UNCTAD and whether all the brave debate in the context of N.I.E.O. is leading towards a 'vacuous chatter' - North-South interdependence getting grossly undermined? Some might choose to hypothesise perhaps a kind of a 'Theory of Convergence' between EEC and India while others may not budge an inch from an, ab initio, 'Asymmetric' Model, but one strand of thought certainly deserves a closer analysis and a detailed study namely, 'Static bilateral complementarities between India and EEC might potentially remain just theoretical, unless consciously triggered on a pragmatic plane, as a 'Common-enterprise', in the light of conceptually dynamic framework, which the

28. For e.g. Dr. K.B.Lall concludes 'The Third World, the EEC and the NIEO', in The EEC and the Third World, (eds) K.B.Lall and H.S.Chopra(Delhi, Radiant, 1981), pp.18-19; thus India and the Community have untapped possibilities for helping to resolve some of the more intractable problems that currently face the international community. There is need for more intensive contact between them at the intellectual level, and also at the level of economic operators, if the full extent of their possibilities is to be realised.
facts of global interdependence rationally dictate. This introductory study sets the stage now, for a detailed examination of the concepts, convictions and courses that the evolving EEC/India relationship is coming across; it is proposed to analyse them systematically under chapters that follow.

CHAPTER II

CONCEPT OF INTERDEPENDENCE

Interdependence - a part of life.

The International System - Hierarchic

The Centre - Periphery Mechanism.

Economic Integration and Interdependence Rhetoric.

Interdependence rhetoric and National Security - Understanding 'NATIONAL INTEREST'.

Whither Interdependence?

Defining Interdependence;

Approaches to Interdependence.

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