CHAPTER FIVE

CHALLENGES TO NAM PROPOSALS

Two Unequal Systems

As has been pointed out earlier, political independence from foreign domination had not relieved former colonies of their economic constraints. These constraints had been further exacerbated by ecological imbalances and demographic pressures. Besides, economic imbalances and other attendant evils, literacy in the developing countries is considerably lower than in the rich nations and the infant mortality rate is about seven times higher in the former. These structural characteristics reflect the inability of the developing countries to exploit their economic potential, whereas the rich countries are capable of using their economic resources in a way that maximise productivity. In the long run, the developing countries were forced to tolerate the existence of disguised unemployment, of labour and under utilisation of capital.

For many developing countries the structural maladjustments are seemingly disastrous. Long contact with the West intensified by technical aid in the period of neo-colonialism,

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has scarcely disturbed the centuries old socio-economic inertia. Lack of adequate resources with very limited operational capabilities has paralysed the growth prospects of the developing countries. A semblence of development, limited by its lack of social roots, was possible as long as Western economic growth stimulated and sustained it.

The rules and conditionalities of the Bretton Woods Agreement were applicable to the developing nations and the industrialised nations. The developing nations who were largely producers of primary products were far more sensitive to the harsh realities of the market mechanism than the producers of manufactured goods for exports. Continued dependence and vulnerability in the matter of raw materials to developed market economies were inherent in the economic order which prevailed in the capitalistic and non-socialistic economies. The developing countries continued to produce raw materials and primary goods for the benefit of the developed countries, on the assumption

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that a market economy based on trade and comparative advantage would be a more efficient and welfare inducing system to all concerned. But the level of the working of the two systems, one producing primary products and the other processing them for market economy, was lacking complementarity to satisfy the needs of both the sectors. Besides, the market approach had not worked efficiently to take measures to correct inequalities and inefficiencies. The market approach and comparative advantage would work only if the trading parties began from a level of relative equality, with no party dominating the markets; only if full mobility of both inputs and outputs were possible. Concentrating on the production of primary commodities and with no built-in mechanism for the lag to disappear, would increase the gap between the industrial and the non-industrial primary producing countries contrary to the spirit of comparative advantage and perfect freedom of trade.

The developing countries are endowed with abundance of natural resources. It is estimated that the developing countries

6 Ibid, p.251.
have 88 per cent of proven oil deposits of the entire developed
countries in North, 65 per cent of natural gas, 58 per cent of
iron ore, 64 per cent of copper, 58 per cent of bauxite and 85
per cent of manganese ore. But their natural resources are still
inadequately prospected and their actual mineral wealth is far
greater than what has been identified. The sad fact is that the
natural resources are not properly and fully utilised for
developing internal economic conditions of the developing
countries. Consequent on these are low national income, low
propensity to save and low rate of capital formation. These
nations usually depend on out-moded methods and techniques of
production. The developing countries possess approximately 75
per cent of the world's population but had a GNP of less than 20
per cent of the world's total. In relative terms poverty in the
developing countries was more severe than in the past despite
decades of optimistic programmes for economic development.
Perhaps, this was because the world environment has in many ways
become hostile to the Less Developed Countries (LDCs) since the
early 1980's. There has been a fall in the relative prices of
several primary commodities. Also there was shrinkage in the

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export markets due to recession and rising protectionism in developed countries. In the non-oil LDCs, it is relative to their exports.

The disparity between the rich and poor countries was increasing and the resentment of the poor over the unshared affluence had become more serious. The mode of interaction between the poor and rich countries had changed from one of cooperation and partnership for progress in the 1950's to that of adversary bargaining in the 1970's. As the average annual growth rate of GNP per capita since the mid 1960's had been virtually the same for both the developed and the developing countries as a whole, there was clear evidence that the actual distance between the rich and the poor countries had further widened during a period when the world community had implicitly undertaken the responsibility of bringing the economic gap between the nations. How this paradox had taken place? Answer to this question has to be found in the nature and structure of the existing international order. In the existing conditions the

8 Nake A Kamrany, *The Economics of the Less Developed countries = Changing perceptions in the North-South Dialogue*, p.3.

advanced countries had consolidated their economic positions mainly at the expense of the developing countries. In 1978 alone as a result of the improvement in the terms of trade, the industrialised states made a profit of 20 billion dollars. They were seeking again to negotiate with the developing countries from positions of strength and power. The solution they proposed was aimed at perpetuating the prevailing relations of inequality, dependence and exploitation, which run counter to the whole concept of a New International Economic Order.

Although there was full agreement on the ultimate aim of promoting economic and social progress in poor nations, it was to be expected that differences of opinion should emerge as to how this general objective could be realised. Such differences of opinion arise not only between the East and the West, but also among within each group. These differences went a long way to creating regional and international organisations especially during the post-World War II period. The Bretton Woods System certainly served the Western industrial countries extremely well from 1946-1971. This period witnessed an unprecedented economic growth and full employment without inflation. For a quarter of a century international monetary relations were stable providing a
basis for growing international trade, economic growth and political harmony among the developed market economy.

The Bretton Woods institutions, the IMF and the World Bank, practically remained appended to the developed industrial countries as means for the flow of surplus money to developing countries in the form of assistance or aid. The World Bank has penetrated into almost every sector of a borrowing country and wanted to make a detailed study of its socio-political and economic framework to draw up a developing strategy for the country before sanctioning any assistance. It is looked upon naively as an organization acting as a catalyst of development, for it stimulated the flow of private investment and thereby is claiming to have added substantially to the real national income of the developing countries. The flow of resources to the developing countries in the form of aid and assistance would have provided a better standard of living and increased per capita income in the developing countries and their indebtedness would have been reduced marginally. But the experience of the

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developing countries proved otherwise. Contrary to their expectations, they were deeply immersed in foreign debt. By the end of 1987 Third World countries had accumulated over 8.1 trillion in foreign debt. Six nations had piled up obligations that actually exceeded their Gross National Product (GNP). Others were not far behind among the 17 countries identified by the World Bank as highly indebted countries (HICs). Their external debt averaged 61 per cent of the GNP. Staggering though these sums are, they were not a real source of the crisis facing these countries. The crisis is rooted indeed in their inability to service their debt regularly. So aid did not transform the developing countries; it had become a new feature of economic dependence.

The Lusaka declaration of the non-aligned countries proposed the utilisation of the vast store of resources and technical know-how in the countries of the Third World for the rapid economic development of all countries. But no concrete steps have been taken to give effect to this part of the declaration. However, the Colombo Summit visualised the restructuring of world production on the basis of new

international division of labour through improved access to the markets of the developed countries, transfer of appropriate technology on favourable terms and conditions, redeployment of suitable industries from developed countries to the developing countries, ensuring adequate transfer of resources for development on an assured, continuous and practicable basis with respect to the criteria of independence and in a non-discriminatory manner not likely to create division among developing countries.

The Colombo declaration contained really updated versions of earlier documents. The main aim of the Action Programme for Economic Co-operation was to promote co-operation among non-aligned and other developing countries in various areas like raw materials, trade, monetary and financial matters, industrialisation, food and agriculture. The reason for added emphasis on co-operation among non-aligned and other developing countries was the failure to translate into practice the Action Programme proposed in the Algiers Summit. The Algiers Summit hoped that the non-aligned countries which were all developing

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countries in different stages of growth would undertake mutual assistance for industrial and agricultural development, in order, ultimately, to eliminate unhealthy dependence on the developed nations for financial and technical aid.

Transfer of Technology

Technology transfer implies the transfer of technical knowledge from one country to another either through deliberate government policy or by private channels of communications. In a sense the transfer of technology can be had through the government or commercial enterprises, or multinational corporations or even private agencies and international non-profit organisations. Transfer of technology from one country to another takes place, if it subscribes, substantially, to the parties involved in it in the way of profit, reduced cost or increased production or involved better quality products. The so-called transfer of technology really constitutes the process by which the underdeveloped countries rent or purchased the technology, they need, for developing a process of industrialisation that, thus far has actually proved to be
dependent on and divorced on most cases, from their development needs.

Scientific and technological advancement already had modernised the developed countries to make their people affluent. Their advancement had been very little transferred to the developing countries. Technological progress had not percolated to all countries evenly and the prosperity resulting from technological progress has been confined only to a small section of the world population and over two-thirds of the people inhabiting the less developed areas continued to live in conditions of poverty and misery. Economic growth in developing countries too is possible only with the use of techno-scientific knowledge. Modern technology was originally planted and monopolised by the industrial countries and these were practically controlled by Multinational Corporations and their interests were profit, not the needs of poor societies. In other words, developing countries had little access to modern technology but could have it at a heavy price mostly through some

15 UNCTAD II, A Great Leap Forward, IIFT-41-A East Friends Colony, New Delhi, p.4.
agencies like Multinational Corporations. Very often the technology so transferred was not mostly up to date. In addition to this, the owners of modern technology imposed unfair norms and conditions on the recipients, so that the entire management of their technology could be maintained and the recipients would be put under severe constraints.

Most of the technology supplied by the Multinational Corporations (MNCs) was capital intensive, import oriented and obsolete. Sophisticated technology had been completely unsuitable to the needs of the developing world. Once the developing country got foreign technology from the MNCs there developed a vicious circle of technology resulting in a "technological trap". It is well known fact that almost 80 per cent of the technology is marketed by the MNCs to their subsidiaries as a property of the latter and not of the developing countries. In the case of transfer of technology through direct investment it is relatively restricted to a small group of individual enterprises with limited use and these can be easily controlled and managed by owners themselves. This type of

transfer did not contribute much towards the diffusion of technology and scientific knowledge.

The transfer of resource to the developing countries through direct investment, loans and grants constituted the major factor in the development process of the developing countries. It was expected that the collapse of the colonial system would eliminate the economic backwardness of the developing countries. Until recently the extraction and production of industrial and agricultural raw materials in the developing countries were wholly in the hands of the Multinational Corporations. The system of colonial and neo-colonial exploitation had produced a pattern of international division of labour in consequence of which the developing countries had found themselves in the inferior position of raw material suppliers to the developed North. The dependence of the Third World States on the advanced North was a key weakness of these states. Some had been able to develop indigenous capability but this is usually sector specific. Others have proved themselves to be excellent in copying northern technology. Most remain dependent.

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Very often the terms and conditions of technology transfer were arbitrarily settled under highly imperfect market conditions by the technology supplying MNCs. The monopolistic strength of the technology suppliers emanated from the patents protection differentiated products and processes, the integration of the market for technology with the monopolistic market for technology and the weak bargaining power of buyers who had neither access to the information about alternative technologies and their source nor the necessary infra-structure to evaluate the appropriateness. The system devised by the North had perpetuated the economic backwardness of the developing countries while at the same time creating the most favourable conditions for the developed countries to enrich themselves.

The control of multinationals over the Southern strategic raw materials was so overwhelming and many of the developing countries were single commodity exporters. The MNCs controlled oil in the Middle East, Copper in Chile and Zambia and Bauxite in Gamica and Gugana. Although less developed countries, in some

18 Subramaniam K; "Problems of Technology Transfer to the Developing countries" - Paper presented at the international Seminar on Technology Transfer held on 11-13 December, 1972 organised by the council of Scientific and industrial Research New Delhi, in some Deo, Multinational Corporations and Third World, p.47.
cases, had increased control over these raw materials, still the Northern hemisphere firms retain control over vast amounts of Southern hemisphere primary products and investment from the North has grown in this sector. Therefore, the point of annoyance among the LDCs was not only that the imported technology was unadaptable to local conditions but also that the MNCs made the host country continually dependent on imported technology and they liked to command a monopolistic position and to this end, they liked to maintain the secrecy of technology.

Transfer of technology, as part of trade for profit, is something different from its use as a means for economic development and progress. There was sharp contradiction in this respect between the views of Multinational Corporations and those of the developing countries. Developing countries demand for technology transfer had not been properly appreciated in the developed world for lack of understanding. The position of the developing countries has been well stated in the following words:

"We do not just want to sit and ask for transfer of resources and technology from the developed world and wait for it idle though we believe that it is vitally important to begin the process of such a transfer here and now. But we want to develop co-operation among ourselves in a
programme of collective self-reliance. Taken as a whole the developing countries have a rich variety of resources, raw materials and talents; some are abundant in raw materials, some have scientific and technological talent, a few even a surplus of them. Therefore, it is possible to work out programmes of collaboration amongst the developing countries, while at the same time working for the larger objective of overcoming the disparity between the developed and the developing nations".

International Anarchy

An important feature of the present world economic system is that it allows free operations for private capital market not only to trade in goods and non-financial services but also to private capital market. This reminds the days of individualism under which free competition prevailed. Another feature is that the present system allows the free play of government and the central banks to operate in the market. Thus it is fairly free market what is now prevailing since many governments acting in

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their own presumed interests without necessarily taking much account of the interests of other governments.

It has been noted that there is a state of international anarchy prevailing in the monetary and financial sphere of the present state of the world economy, which serves to exacerbate economic and social tensions from which the developing countries strive to escape at the earliest opportunity. The solutions suggested clearly require the co-operation of the developed and the developing countries on a broad basis. Remedial measures for the economic ills included a call for the redistribution of the world's wealth and economic opportunities, a reparation to foreign dominated states and a restructuring of the international economic system and its institutions to guarantee that the interests of developing states are directly taken into account. The new order is to be based on the principles of enquity, sovereign equality, interdependence, common interest and co-operation among all states. It means that the struggle of the people formerly under political oppression must now be waged in

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21 UN General Assembly Resolution, 3362 (S-VII), 16 Sept., 1975.
the economic sphere. This implies that for the developing countries there is a need of an understanding of the basic working of the machinery of exploitation that rendered their development difficult; secondly, the recovery of their natural resources and establish their sovereignty over them, and then adopt an unambiguous position that reflect their legitimate desire to see the practices of exploitation relegated to the past. It implied also a determination on the part of the developing countries to secure their legitimate economic rights in international dealings through the use of collective bargaining power, their preparedness to follow internationally the discipline required for them by the process of economic development with justice and willingness to explore and pursue the immense possibilities of co-operation among themselves in financial, technical, trade, industrial and other fields.

The implementation of the vital aspects of the NIEO programme, therefore, seems to be more relevent to the Non-Aligned Movement as it brightens the development prospects of the developing countries. The objective of the Movement is primarily

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22 B. P. Menon, "Are We Nearer to a New Economic Order," Indian Express 26 June, 1979.
to take initiative in this direction. But the guarantee of success lies, in the first place, in the unity of the non-aligned members in converging the efforts on specific directions. Thus unity can be reinforced by a common stand against poverty and neo-colonialism and against the discriminating trade policies of the developed countries. The guarantee is further cemented by co-operation among the non-aligned member nations themselves and with other developing and the developed countries. Not only that, there should be total commitment by all countries for the solution of the most pressing need of economic development of all peoples. Unless this commitment is made and manifested by specific and concrete actions there could be no progress in international co-operation and in ushering in a new international economic order.

Heavy Indebtedness

The difficulty which the NAM confronted is not the formulation of concepts or principles but the limitations and adversities in implementing those concepts and principles. The difficulties in giving substance to slogans were felt when the sudden price hike in petroleum came to weaken the economies of

24 Statesman (New Delhi) 12 April, 1977.
most of the non-oil producing states. The price of oil was quadrupled during 1973-74 by the Organisation of Petroleum Exporting Countries (OPEC). Almost all the developing nations were pushed into the throes of external indebtedness for want of more money to meet the balance of payments difficulties. Many non-oil developing countries had been heavily borrowing after 1973 especially from commercial banks to finance the balance of payment deficits. By mid 1982 their aggregate external debt was over $600 billion over half of which was on commercial terms.

The development prospects of the developing countries have been seriously impaired by the global disorder created by the oil price hike. Unbearable oil price hike was followed by the recession of 1974-75 which dealt a severe blow to the development prospects of the developing countries. The poorest developing countries were hit hard as these countries depend on earnings from export of raw materials. The lasting consequences of these developments required major changes in the international system without which the developing countries would not achieve even the relatively low UN target of $500 Gross National Products (GNP) per capita by end of the century. It is not surprising that

during 1975-76 many of the non-aligned countries came to view all references to the new economic order as hollow and devoid of any substance but laudable rhetoric. All the declarations and action programmes for economic co-operation adopted by the Non-Aligned Movement at the Algiers Summit were thrown to winds. The world had entered a new phase of hard economic realities in which the NAM had little role to play.

Oil Price Hike and its Impact

The oil price has generated a new form of transfer of resources from the developing countries to the developed. When the price of oil increased the developed countries as a whole made little or no sacrifice; they raised the price of their industrial products and then shifted the burden of the so-called oil crisis back to the Third World. When it comes to the primary products exported by the Third World, the developed countries again determine the prices, because theirs' are the main markets and disagreement on production quotas and other courses inhibit the developing countries from exerting their weight. In the late 1970's the greater part of the large current deficits of

many non-oil developing countries was met by bank loans. To a considerable extent, these countries were financing the rising price of oil, a big element in their deficits—plus high interest charges, through the recycling of the OPEC surplus. The sting came in abundance as petro-dollar loans lavished consortiums, of private banks, the World Bank, the Inter American Development Bank and others in the late 1970's. The first result was the swallowing up by debt service of large proportions of export revenue of the oil importing countries. The second result was that since such loans were subject to commercial criteria or credit worthiness, it was the middle income rather than poor countries which tended to be favoured. This was a new form of transfer of resources from the poor to the rich, for, much of the surplus of OPEC was being invested in the rich countries.

Although OPEC belong to the category of developing countries the unusual price rise of oil hardly spoiled the rest of the developing economies. It was maintained by many that, for the first time a group of countries from the South had sucessfully exerted considerable pressure on the industrial

North. Oil has obviously become critical to the world economy and in the North-South context the OPEC action has been of profound significance. It partially changed the U.S. attitude towards the Non-Aligned Movement. In this connection Henry Kissinger complained about "the alignment of the non-aligned" and he was nevertheless forced by the oil price shock and the Algiers Summit, to recognise the Movement's impact on US and adjust the US policy to take it more fully into account.

The Third World reaction, on the other hand, to the nearly seven fold rise in oil prices and to the foreign exchange difficulties of many of the poorer nations among the Third World, was to thwart the rich nations that sought to mobilize the poor against the OPEC. The developing countries refused to condemn, and indeed, seemed to take great delight in the oil price increases. For the first time a group of countries outside the circle of the industrialised world was able to exert its own powerful pressure on world economics. It belonged to the South and identified itself with the South's aspirations for

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fundamental reforms of the international economic relations. Many developing countries hoped that this might be the big breakthrough for the assertion of commodity power in general, and expected that the member states of OPEC might become the protectionists of the Third World in future.

The OPEC success crystallized the concept of strength through collective action and 'solidarity' rather than 'charity'. The developing countries also seemed to inform the OPEC experience that their commodity exports which had traditionally been viewed as a sign of weakness, could be turned instead to weapons of collective action. Thus, the notion of commodity power emerged and has shaped not merely the politics but also the economics of the demand for the NIEO.

Despite the power yielded by the OPEC on behalf of the South, they were unable to bring about the restructuring of the world economy. This can be partially attributed to their dependence upon the Multinational Corporations and other financial institutions of the North which meant for the

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development of their oil industry. But the multinationals make the highest profit from the developing countries, as much as 25% and above annually on investment. In other words, they recover capital in four years and enjoy profit even after on no investment.

As profit accumulated in the developed countries the debt burden of the developing countries of the South increased heavily. In a period marked by painful economic backsliding in the Third World, poor nations ranging from the Philippines to Peru have been unable to pay back the interest on their borrowed money much less the principal itself. By 1973 and 1980 alone the external debt in the South almost quintupled and reached nearly $4,500,000 million. This unprecedented increase in external debt is closely related to the problem of energy costs. Brazil "the largest debtor country of the world with debt close to $65 billion needed $175 billion in 1982 to remain solvent. Mexico, an oil exporting country, has built up a dismal tally of $60 billion in the form of foreign debt. The Organisation of Economic Co-operation and Development (OECD), a club of 24 rich

33 Brojendra Nath Banarjee, Cancum to New Delhi, p.16.
34 Business India, 2-21 January 1990, p.129.
countries, states in its latest survey, that the developing countries debt to foreign governments and international banks totalled as at the end of 1981 $525 billion as against $457 billion at the end of 1980. Only a decade ago the total external debt was barely $65 billion. Readily available credit from private sources at favourable interest rates for that period has helped induce countries to borrow. The developing nations found that the terms were so attractive; it was almost foolish to refuse a loan. Governments increasingly turned to commercial banks as they were the least sticky source of funds compared to the World Bank or the International Monetary Fund (IMF) whose loans were loaded with restrictions or policy conditions. And steady rising deposits particularly, as oil exporting countries leaked their vastly enlarged oil revenue, had induced creditors, especially commercial banks, to lend more. As a result many non-oil developing countries had delayed in taking sufficient macroeconomic or exchange rate measure to adjust their balance of payment deficit to the higher prices for oil. They have opted to accumulate large external debt rather than to make adjustments that, in the short term, would have reduced their rates of growth.

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The rise in the developing countries' deficits has been mainly due to upward shift in the real price of oil, sustained rise in the international rate of interest and the weakening of their export prices now at the lowest points in the real terms. Nevertheless commercial banks continued to be major providers of funds to the developing countries. The banks were essentially recycling the OPEC surplus to the different countries. At that time the commercial banks and the recipient developing countries thought this by and large a sensible policy. But the proportion of short term borrowing rose rapidly, debt service rations increased sharply and channels for financing trade were converted to channels for deficit and development financing.

Since 1982, the developing countries found their obligations rise by an additional $500 billions. At the end of 1988 they collectively owed more than $1.3 billion, equivalent to half their combined Gross National Product (GNP) and nearly twice their annual export earnings. The annual interest obligations alone on this now run about $1.00 billion. Latin America and the Caribbean have a debt of nearly $500 billion or about three times the region's annual export earnings. Africa's $230 billions debt

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overshadows its export earnings by a similar proportion, and is equivalent to more than three quarters the continents' combined GNP. The strategy adopted by the developing countries for augmenting their production, increasing exports and eliminating poverty has not succeeded in making them self-sufficient.

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<tr>
<td>The percentage of debt of GNP</td>
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<td>22.4</td>
<td>126.3</td>
<td>131.4</td>
<td>33.00</td>
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<td>134.8</td>
<td>121.2</td>
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<td>Ratio of debt service to GNP</td>
<td>3.7</td>
<td>4</td>
<td>4.6</td>
<td>4.5</td>
<td>4.9</td>
<td>5.3</td>
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Debt Trap

When the debtor countries could not pay the interest on their standing debts, the creditor banks, acting as a group extend the maturity of the debt and lent more money. The debtors paid a large fee, at times, hundreds of millions of dollars to get the debt extension and more time. A large part of the proceeds of the new loan is used to pay the bank's fees and the interest on the loan; often the entire proceeds spent this way. The banks recorded the fees and interest payments as current
income, but they receive in payment mainly the money which they and the International Monetary Fund had advanced. That was why the outstanding debt increased and why the creditors were so eager to increase the IMF quota. Without more lending by the Fund the creditor bankers would get back what they advanced in new loans. The advantage of the scheme results from postponing the problems by extending the maturity of the debt, without any permanent solutions. Delay and postponement could help the debtors, if the extended time was used to develop a long term plan to reconstruct the national economy on a sound basis. Nothing of the kind happened to relieve the poor nations; instead the debts became larger. The payments for interest and debt service could help the debtor countries if the banks were willing to extend the maturity of the debt for sufficiently longer period without increasing the rate of interest in response to the fluctuations in the international economy. Each of the rescheduling or refinancing schemes might become unrealistic overnight, depending solely on the trend of interest rates. Given the sizeable value of the external debt, the impact of even minor variations of the rates over future interest payment was enormous. Debt refinancing thus had added enormous interest

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Ibid, p.47.
burden, jeopardizing the credit worthiness of many LDC's. Tied aid carried with it undue rigidities and had forced LDCs to define their development plan in terms of the availability of credit and their restrictive uses specified by the donors rather than their own national interest. Any way, the overwhelming financial burden was seriously threatening the economy of the developing countries (Fig.I and II).

By 1979, the condition of the developing countries began to further deteriorate. The borrowing countries could not follow appropriate domestic policies to rejuvenate their growth prospects. This resulted in stagnation and decline in national income and aggravated by weak demand in the industrial economies for the products from the developing countries. There was sharp slowdown in the growth rate of debtor countries. The growth rate of non-oil developing countries as a whole dropped to 2.5 per cent in 1981 and 1.5 per cent in 1982, the lowest for several decades, and growth in the volume of their exports slowed from an annual average to less than 2 per cent in 1982.

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38 Nake A.Kamrany, The Economics of Less Developed Countries, p.3.
Debt as a percentage of GNP by region 1970-1990


Growing debt

Change in debt by region 1970-1990
1. Latin America & the Caribbean
5.27 to 8.420.2 billions
2. East Asia & the Pacific
5.34 to 8.214.3 billions
3. Africa, South of the Sahara
9.5 to 5.143.7 billions
4. North Africa & West Asia
6.44 to 8.185.8 billions
5. South Asia
8.116 to 8.953.3 billions

Source: World Bank, 1990 projections
The debtor countries within a short period of time have fallen into the deepest economic crisis in their histories. Between 1981 and 1988 real per capita income declined in absolute terms in almost every country in South America. Many countries' living standards had fallen to levels of the 1950's and 1960's. Real wages in Mexico declined by about 50 percent between 1980 and 1988. A decade of development had been wiped out throughout the debtor world. The crisis of confidence had led to collapse of investment which will create a legacy of hardships in the 1990's. Unprecedented inflation is raging in Brazil (934 percent inflation in 1988 in Argentina and Peru. Annual inflation rates in both reached several thousand in spring 1989) and elsewhere. The region became rife with political instability. The explosive situation in Latin America was registered most dramatically in February, 1989, when Venezuelans

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<td>G.D.P</td>
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### Growth of Merchandise Trade. Average Annual Growth Rate (Percentage)

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<td>China and India</td>
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<td>Sub Saharan Africa</td>
<td>6.6</td>
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rioted in Carcas and other major cities, in protest against austerity measures prompted by Venezuela's debt crisis. In a few days an estimated 300 people died.

Reign of Protectionism

In addition to the weakening of the prices of primary commodities from non-oil developing countries and increase in prices of oil and manufactured imports from developed countries, stagnation of world trade and higher rates of unemployment in industrial countries provoked an intensification of protectionist pressures. This exacerbated the export potential of the developing countries, who geared their economies towards the export of manufactured goods. Many developing countries followed suit to the export led economic growth but as a result of the competition with 'cheap' imports in industrialised countries they began to reduce access to their markets by raising trade barriers.

Here the contradictory role played by the two UN institutions IMF and IBRD requires special mention. The IMF was

not exercising pressure upon commercial banks in the matter of re-scheduling of loans and in the process of debt refinancing of the debtor countries. The IMF upheld, the concept of 'free trade' and at the same time remain silent when the rich countries imposed restrictions upon free trade by raising protectionist barriers against exports of the developing countries. The recently emerged External Fund Facility (EFF) which was expected to deal with structural adjustments found relatively short-sighted and seriously underestimated the time required to implement institutional reforms which should follow short term policies related to demand management. As a consequence, the Fund asked too short a period of time. It is interesting to notice that up to now about half of the countries in the EFF programme had to ask for a waiver, then reflecting the difficulties in achieving some of the initial objectives of the

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41 In the 1970's the IMF evolved several facilities to enable the member countries to meet the balance of payments difficulties caused by oil crisis and inflation. Since the oil facilities carried high charges on interest subsidy account, was instituted. But many countries could not, on account of their structural problems, adjust the interest rates with in the short period of the Fund Programmes. Then the IMF established the Extended Fund facility (EFF) and later as the Fund's quota resources were inadequate, the Supplementary Financing Facility (SFF) based partly on the Fund's resources and partly on borrowed resources was set up, and when that money was exhausted the Enlarged Access Policy was developed.
programmes. The difficulties were consequent to the dominant role the industrially developed countries were playing in the international organisations.

IMF and IBRD Impediments

The Articles of Agreement of the IBRD stipulated that before making a loan to a borrower, the Bank had to be satisfied that the concerned party would be unable otherwise to get the loan on conditions considered reasonable by the Bank. This meant that the bank loans were available only when private capital was not available and that too, not on easy terms. The extent to which the borrower could resist the pressure from the Bank mainly depended upon the strength and efficiency of the borrower and the reputation so far created in the Bank circle as to the economic soundness of the borrower. Further, the very working of the two systems the IMF and the World Bank was on dependence-development relationship. The rough voting system adopted in the IMF, one dollar one vote, seriously impaired the legitimate interests of the developing countries. But the developing countries stand for the system of 'one country one vote' which would place the Third World countries in a strong position. To

42
Brijendra Nath Banarjee, *Concun to New Delhi*, p.112.
this day most of the developing countries are economically dependent on the developed countries and their economies have been enchained to the various devices of indebtedness.

Millions of dollars are annually flowing to the North from the South in the form of profit, interests or foreign capital or as service charges (Fig. III). It is estimated that every dollar invested in 1970-80 brought the monopolies in the industrially developed countries $2.4 of the net profit most of which was taken home by these countries in the North. The developed countries have made their 'aid' to the developing countries as a source to increase their income. The aid amounts to about $15000 million annually, and in the figures of the International Development Agency (IDA), 75 per cent of the loan and credits have gone for the purchase, first of all, of weapons and consumer goods from the donor countries. To pay the growing debts and interests the indebted developing countries now earmarked, over $90,000 million annually. In other words they gave back to the developed countries new aid 'aid' plus $75000 million.

Probably, Third World indebtedness is the most pressing problem in the present international scene. An unconscionable

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43 Brojendra Nath Banarjee, Concum to New Delhi, p.112.
Reversing financial flows

Developing Nations: Net transfer of resources 1980-1988

Source: UN World Economic Survey 1989
burden of debt has been foisted upon many developing countries, collectively their liabilities are up-ward, more than trillion dollars. The capacity of developing countries to meet their obligations is undermined by the collapse in commodity prices. It is blocked by protectionism in the industrialised countries. It is thwarted by fluctuations in major international currencies. It evaporates because of inadequate access to liquidity. It is backed by drying up on development assistance. It is compounded by the imposition of measures of financial discipline which endanger the political stability, means which the keepers of the worlds treasures themselves appear loath to accept, in an earlier and wiser time, a crisis of this magnitude would have called forth an international response commonsurate with the magnitude of the problems. Instead we see a separate and doomed effort to cobble together adhoc, piecemeal, bilateral solutions which do not solve the problems, and even tend to aggregate.

In 1988 international environment was favourable for economic growth in developing countries. Some countries, however, continued to suffer from misdirected domestic policies, excessive indebtedness and economic shocks of 1980s. The growth

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rates of many African nations remained near zero. The heavily indebted economies also continued to stagnate. The governments of creditor countries agreed at the Toronto Summit to grant debt relief to the poorest and most heavily indebted countries of Sub-Saharan Africa, and in early 1989 took the first official step to sanction debt relief for middle income countries. But a rise in the disbursement of funds to the highly indebted countries in 1988 and net transfers to these countries continued to be negative.

The condition of African countries has become worse than ever before. The African economic crisis has been the subject matter of inquiry by nearly every international agency. Besides OAU, UN and its agencies the NAM has gone deeply into the Continent's tragedy to save it from the multidimensional crisis. But nothing seems to have worked. More loans and aid would also lead to a dilution of the political and economic freedom of the Continent. The World Bank report for 1989 shows that stagnation and even decline in GDP growth rate continued in many African countries. In the Sub-Saharan African countries even a three percent rate of growth was nullified by a population growth

exceeding that rate. In short, in most of the developing countries external debt and consequent problems play havoc to minimise the meaning of human existence.

North-South Dialogue in Reverse

The North-South dialogue within the framework of the UN Charter and outside of it could not produce favourable response from the developed countries. As years passed the differences between the North and the South sharpened; the attempt to close the gap gradually widened it to engulf in disarray the economy of the developing countries. The hope that was fairly common in 1960s of reducing the gap between the rich and the poor countries had all but disappeared by the 1980s. The world continues to endure vast inequalities of wealth and income. About half of the world population live in what are called low-income countries on about $250 while the Western capitalist countries in 1983 had an average GNP per capita of over $11,000 by 1989, the average GNP per capita income in Japan is over $18,400m. U.S.A. $17,466 and in West Germany $16,939, whereas, low-income countries has $270.

Adverse trading conditions characterised by protectionist barriers imposed by developed countries against the inputs from developing countries caused decline in latters exports. The steady deterioration in the terms of trade of developing countries, in particular, the least developed countries and especially the non-oil exporting countries, was another adverse effect on the growth prospect of the developing countries. There were contraction of commodity markets, the collapse of commodity prices and the organised manipulation of the prices of raw materials. These have seriously injured the developing countries' trade, particularly, of those who are single commodity exporters. The insecurity and insufficiency of food supplies and a variety of other factors, with increasing adverse impact, including the obstacles and limitations imposed by developed countries on their access to technology and the cumulative effect of continuing brain drain, have virtually paralysed the life cycle of the poor under developed countries.

A slowing down of growth and rising unemployment combined with speeded up inflation expressed itself in a major recession
in the industrialised countries. Stagflation was an entirely new experience, because the foundation of the Bretton Woods system was a trade off between unemployment and inflation. The recession had the effect of slowing down growth rates world-wide; the hardest were the oil-importing poor countries. Among the developing countries the category of the less developed countries, numbering 36, in the identification of the United Nations, constitute the most disadvantaged group of nations. They are least developed and live on the per capita income of around $100. The terms of trade of these countries are deteriorating and the OPEC price hike has accentuated their deterioration.

These countries have a particularly weak correlation between foreign trade and the rates of economic growth. The least developed countries constitute the only category of states whose imports have always exceeded their exports. This gap is constantly being filled with external credits and foreign aid. The economic growth of these countries has always been marked by specific problems connected with the narrowness of their export base, the high share of farming produce in their gross domestic product, and greater dependence on weather conditions, the

49 Nake A. Kamranq, The Economies of Less Developed Countries, p.250.
The difficulties and complexities mentioned above have made themselves felt in all developing countries. No wonder, the progress has been slow and a feeling of total dissatisfaction prevailed among these countries. The expectation that the measures taken to aid the economic recovery of the developing countries, in long terms, be beneficial to the world economic order, by acting as the "engine of growth" for the world as a whole was completely frustrated. The NIEO negotiations which evolved around the financing of common fund, the reduction of trade barriers, stabilisation of commodity prices, tighter control of the activities of multinational corporations, improved representation for the poor countries in international agencies like the IMF, IBRD and the GATT, the strengthening of UNCTAD and the adoption of a 0.7 percent target for official development assistance, all have been deeply immersed in obscurity.


51 Hans W. Singer, Javed A. Ansari, Rich and Poor Nations, Consequences of Economic Order, p.10.
Contrary to the expectations about the UN institutions, and negotiations, the countries of the South had to produce more primary products to buy equipments for development purposes or to purchase finished products from the developed countries. As one UN study points out, to buy one tractor it may now take seven tonnes of sugar in the place of two tonnes earlier. The overall terms of trade for primary products are at their lowest values since the "Depression of the Thirties." The aggregate per capita income differences remained 10 to 1 in favour of the developed countries and it still continues to widen further. Against this backdrop, the countries of the South demanded international trade liberalisation through the instrument of the General Agreement of Tariffs and Trade which had been singularly biased in favour of the products from the developed countries and the developing countries had gained little from the six rounds of tariff cutting negotiations that took place between 1947 and 1967.

The volume of foreign aid flowing from the North to the South has been very low to meet the development needs of the developing countries. The members of the Development Assistance Commission (DAC) of the OECD never fulfilled the proposed target.

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52 Frontline, 9-22 December, 1989, p.46.
of transferring 0.7 per cent of their annual GNP to the South in the form of official Development Assistance (ODA). In addition to the increased tying of the aid to purchase of goods within the donor country during the 1960's substantially lowered the real value of most Northern aid transfers. Multinational Corporations in the North practically limited their contribution to the South. Among the most obvious and widespread have been (a) the limitation on liabilities through certain patterns of transfer pricing; (b) the limitation of job creation through the use of capital intensive production methods and artificial limitations on exports; and (c) the extraction of monopoly rents on the corporation's technology and other less generalised forms of corporate behaviour. These companies have many documented occasions to interfere in the internal policies of the host country with or without the support of their host governments. Above all, the slow recovery of the economies of the industrialised countries, the negative effects of the prolonged recession on world trade combine with the second oil price rise in 1979-80 and rising interest rates, created an international environment that was hostile to the concept of mutual co-operation.

Roger A. Hanson, Beyond North South Statement 1980's, p.49.
The global recession that followed the second oil crisis resulted in a further deterioration in the international trade and in the growth of industrial protectionism in industrialised countries. Those developing countries that had borrowed heavily in the mid 1970's were now facing the prospect of economic collapse owing to their inability to service their external debt, and lending institutions in the industrialised countries had to content with the possibility of default on the part of some of their major debtors. Thus the world economy fell into further disarray with the debt crisis of 1982. The developing countries therefore, were forced to defer repayment of loan and creditor countries sought rescheduling or imposition of new conditions and restrictions on them. The North-South dialogue under such conditions seems to be a fruitless exercise even for the most visionaries and the idea of Southern self-reliance appeared with increasing frequency in the UNCTAD meetings and non-aligned summit meetings.

South-South Co-operation

South-South relations assume two different forms; capital flows primarily in the shape of direct foreign investment and trade contracts. But direct foreign investment in connection with the South-South relations means that investment flows usually
from the bigger and the richer countries of the South to the small and poorer countries. The main purpose of promoting South-South co-operation is to reduce vulnerability of the South to external factors and not antagonistic to the North. The two are interrelated and the phase of North-South negotiations must be kept undisturbed. What is needed is to make South-South co-operation a much more decisive factor in international economic relations than it is at present. The South must first stand up by its own and assist in accelerating development, eradicating poverty, and bringing prosperity to all people because the South is a rich reservoir of natural resources, financial wealth, technology, technical skills, abundance of talent, labour and brain power. What is wanting is a greater knowledge of each other and the political will to pool together these resource in the common cause of development in the South.

One of the basic assumptions of the concept of collective self-reliance and the general faith in the positive results of Economic Co-operation among Developing Countries (ECDC) is that

55 Indian Prime Minister, Rejiv Gandhi, Address, Ninth Non-aligned Summit, Belgrade, 6 Sept. 1989.
the South has a common interest based on the fact that their economies share some basic structural features. The economic backwardness is the most conspicuous common factor among the countries of the South. This backwardness caused heavy dependence on the industrial North for many of the modern means of improvement. However, the most distinguishing feature of the South is the demographic factor with generally low life expectancy, large family size and high proportion of dependent young children. In Kenya, for example, 21 per cent of the population in 1988 was under five years of age. A major stumbling block, that attempts to reduce the quality of life gap between rich and poor states is the belief of many of the former that global economic interaction is a zero-sum game in which

56 Jerker Carlson, South-South Relations in a Changing World, p.29.
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<th>Life Expectances at Birth</th>
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<td>High income economies</td>
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Improvement in the well being of the Third World can only be at the expense of some decline in that of the First World. A similar rationale operating at different scale under the efforts of powerful interest groups within the Third World states, is the urban elite and large land owners, who prevent radical change. These observations are based on misguided calculations, and erroneous understandings of the global situations. Here we may recall the opinion of Mahmoud Mestiri, the Tunisian ambassador to the United Nations and the Chairman of the Group of 77 that: "the global economy today is increasingly

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58 Ibid, p.5.
like the human body. It cannot be healthy in parts. If an arm or a leg, even a finger or toe, is infected the body as a whole is in danger of infection and ill health. It reveals the organic nature of the world body with cancerous growth which requires thorough investigation and diagnosis to prescribe necessary medicine and keep the body in sound health.

Both the Group of 77 and the Non-Aligned Movement have their programme of economic and technical co-operation among the countries of the South. The Programmes should be rationalised and mutually harmonised. Growth and diversification are greatly expanding the areas of complementary economies in the countries of the South. In the field of trade there are global systems of trade preferences under which developing countries offer preferential tariff to each other to stimulate South-South trade. However, the basic features of the present international trade sufficiently reveal the precarious situation of the developing countries and the deep inequities of the existing system of international economic relations.

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59 Mahmoud Mestires' Statement quoted in V.P. Menon's Article, "are we nearer a New Economic Order," Indian Express 26 June, 1979.
During the 1960s and 1970s international trade developed some new patterns while retaining the traditional trading links throughout the world. But no tangible shift towards trade among developing countries could be seen during the period. In 1970 the major part of trade still took place between the countries of the North. (80 per cent) and only a small part of 20 per cent involved the South. More pitiable is the condition of trade between South and South. South-South trade showed the lowest growth rates, particularly, with regard to the manufactured goods. Of all South's exports, 79 per cent are marketed in the North and only 30 per cent in the South. This reflects the much greater purchasing power and the width and depth of the markets of the North compared with those of the South.

There are so many barriers to South-South trade. In the first place, the colonial trade pattern placed severe restrictions on South-South trade. Secondly, the role of the MNCs with regard to the transfer of technology and international investment are to be taken into account. South-South trade indicates less progress as the South cannot make innovations of a

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Karl P. Sauvant, "Representing the Collective Economic Interest of the Third World: The group of 77", Satish Kumar, *Year Book on India's Foreign Policy, 1985-68*, p.216.
speedy nature. They also have similar factor cost structures and a general desire to protect their employment opportunities. Consequently, there is no rationale for peripheral countries to sell low cost manufactured products to each other. The logical conclusion therefore, arrived at is that the South countries, with different economic structures, would promote South-South trade to the maximum level. Not only that the innovative activities are concentrated in the North. For this reason there will be deominance of North products. It is obvious that in spite of laud talks about South-South Co-operation almost all countries of the South follow decisions based on considerations of their own national interest. Their trade and monetary policies are very often conducive to support Western capital markets. The oil rich OPEC countries, though belong to the South, constitute a specific class who want to invest their surplus money in the industrial North rather than divert the money to the South as a relief to meet the crippling burden of energy cost.

The countries of the South supported the oil price hike to teach the North a lesson by showing the economic strength of the South and expected relative rise in the price of other commodities, to the advantage of the South countries. But the
impact of oil price rise, instead, aggravated the economic hardships of the South and they experienced a sharp decline in their commodity prices as the North took alternative policy formulations to face the oil price threat. It is widely recognised that in the present day world realities, South-South co-operation is no substitute for North-South co-operation. For one thing the South has much less, and the North has much more of what it takes for the South to develop. Though they are getting diversified the goods and services produced in the South they are still generally competitive with each other rather than complementary to the goods and services and technologies generated in the North. About 30 per cent of the goods and services exported by the developed countries sell in the developing countries while about 70 per cent of the goods exported by the developing countries have their markets in the developed countries. This extensive linkage ensures that the prosperity of the developing countries depends pre-eminently on surge in the incomes and prosperity of the industrialised nations.

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Thus engaged in siphoning the production potential from the developing countries, the industrial West is forging strong integrated structure with developing countries for its own economic growth. Among themselves, they are diversifying production at different locations and assembling the final products under well established trade name so as to secure the best competitive advantages. For example, there is a programme under Ford Motors to get their various parts in different countries where special facilities exist. The final assembly takes place at Halewood in the United Kingdom and Sarlouis in West Germany, but its tyres, tubes, seat pads and brakes are manufactured in Belgium, fan belts in Denmark, glass, and radio in Canada, cylinder head, carburettor, glass, lamps and defroster grills in Italy, underbody relating speedometer gears in Switzerland, while starter, alternator, cone and roller bearing, wind screen and washer pump are manufactured in Japan. In this way the entire car components have been made separate items of production and earmarked to different parts of the globe where best technological and labour support are available. In the case of production units in the South the picture is very pathetic and to that extent perfection is low and production cost

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runs comparatively higher. With regard to South-South trade also the available statistics show that in 1980 South-South trade was $92 thousand million which accounted for 25 per cent of the total exports of developing countries to all destinations. This compare with the figure of $9 thousand million or 18 per cent of all exports by developing countries in 1970. So there is evidence that South-South trade had become increasingly important, both in absolute and in relative terms.

The development of a South-South trading pattern is most likely to be confronted with several problems. First of all, integration with the North is so strong that breaking them up is extremely difficult. The long history of North-South trade has developed communications and transportation networks that effectively limit intra-South trade, particularly inter-regional trade. Therefore, it would be unwise to aspire for a successful South-South co-operation without giving due regard to North-South dialogue. North-South dialogue and South-South co-operation is likely to provide better opportunity for international co-operation leading to the creation of a new international order. What is required, in the first instance, is the serious resolve

of the South to improve its own lot and the action that must follow this resolve. The North should be called upon to cooperate in the creation of an international environment in which developing countries which adopt such serious policies can readily achieve the positive results of their efforts without being hindered by insurmountable external factors. The Brandt Commission Report on International Development issues stated:

"We stick to the thesis that there are growing mutual interests. These require change in the character of cooperation. We are becoming more aware that a quickened pace of development in the South also serves people in the North."

Both blocs will function smoothly only if both blessed with prosperous economies. The need of the South for Northern prosperity is well known and familiar. The South needs its export earnings for debt service and to pay for the importation of non-competitive goods for basic needs and for development purposes. But the North also needs a prosperous South as a

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supplier of raw materials and as a market for manufacture and in a politically-interdepending world as an area of stability.