CHAPTER - I

THE CASE FOR NEW INTERNATIONAL ECONOMIC ORDER
"The reason why underdeveloped countries need international special consideration is because of the very fact they are underdeveloped, extremely poor, and encounter great difficulties in their attempts to develop"

-- GUNNAR MYRDAL

1.1 INTRODUCTION

There is growing interdependence in the countries of world today. Inspite of this, for the Third World countries dependence on rich countries is, and has always been, a stark fact of their economic lives. It is the principal reason for their growing interest in promoting greater individual and collective self-reliance. The developed countries are also discovering that in an age of increasingly scarce natural and mineral resources they too are growing more economically dependent on certain groups of developing countries. All indications point to the

fact by the beginning of the twenty-first century no nation or region will be able to survive economically in complete isolation from others. The Third World countries have come to realise that their vulnerability in international markets is greater than those of their counterparts in the First World. They have succeeded in pleading for the establishment of a New International Economic Order (NIEO). In this context it is proposed to explore the rationale of NIEO. We start with Todaro's schematic framework.

1.2 INTERNATIONAL DEVELOPMENTAL DEPENDENCE OF THIRD WORLD COUNTRIES

Todaro has developed a schematic framework for analysing the international developmental dependence of Third World countries. His definition of underdevelopment consists of three principal components: low levels of living; low self-esteem, limited freedom from external dominance and limitations of choice (Fig. 1.1). The inner circle of Figure 1.1 represents the forces of underdevelopment in most Third World countries. The outer circle represents aspects of the international social system of which each underdeveloped country is a part, whether willingly or not. This wider system is controlled
UNDERDEVELOPMENT IN A GLOBAL SOCIAL SYSTEM
A SUGGESTED SCHEMATIC FRAMEWORK

1. International social system: Inappropriate technology, trade barriers and resource exploitation. Tied aid-debt burden, inappropriate education & health systems. Colonialism and the creation of dual societies.


3. International social system: Economic dominance of rich countries in (1) trade relations; (2) price setting; (3) technology, R & D; (4) transfer of inappropriate economic models & strategies.
largely by rich country interests and economic policies. At the origin of each arrow is a sample list of the many ways in which rich country institutions and activities can influence levels of living, esteem and freedom in poor countries.  

1.3 ORIGIN OF NIEO

The New International Economic Order (NIEO) emerged at the Sixth Special Session of the United Nations General Assembly in 1974. In particular, the resolution declared that "We, the Members of the United Nations,.. solemnly proclaim our united determination to work urgently for the establishment of a New International Economic Order based on equity, sovereign equality, interdependence, common interest and co-operation among all states, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generation".

3. ibid., p.391.
5. U.N.Resolution 3201 (S-VI), Declaration the Establishment of a New International Economic Order, May 1, 1974.
A number of concepts contained in the 'declaration' were later elaborated in the Charter of Economic Rights and Duties of States (CERDS) in December 1974. The purpose of the 'Programme of Action' was to implement the 'declaration' on the establishment of NIEO. The three documents - the declaration on the establishment of NIEO, the Programme of Action, and CERDS - together formed the basis of the movement for the establishment of the NIEO. A quick glance at the inherited theoretical framework and its approach would be helpful to place the rationale of NIEO in its proper perspective.

1.4 A BIASED THEORETICAL APPROACH

The assumption of stable equilibrium and a number of other assumptions related to that assumption opened the way for the ideological predilections that have been deeply imbedded since classical times in all economic theory but particularly in the theory of international trade. These predilections - harmony of interests, laissez-faire, and free trade - determine, more than economists usually realize, their approach in present writings. Commenting on the assumptions of the Heckscher-Ohlin theory of trade which proposed the factor-price equilisation theorem, Sodersten states.

that they are necessary to state the meaning of comparative advantage in the two-by-two-by-two model, and to prove factor price equilisation theorem. They are quite strong assumptions, and one might think that they are rarely fulfilled in the real world. Biased in this way, the international trade theory developed the thought that trade worked for equilisation of factor prices and incomes. The fact is that, contrary to that theory, international trade and capital movements will generally tend to breed inequality, and will do so more strongly when substantial inequalities are already established.

Unregulated market forces will not work toward reaching any equilibrium which could imply a trend toward an equilisation of incomes. By circular causation with cumulative effects, a country superior in productivity and incomes will tend to become more superior, while a country on an inferior level will tend to be held down on that level or even deteriorate further—as long as matters are left to the free unfolding of the market forces which tend to create powerful backwash effects and weak spread effects perpetuating development and underdevelopment.

10. ibid., pp.271-276.
The literature on existing order which came into being after World War II, may be referred to as Liberal International Economic Order\textsuperscript{11} (LIEO) as it reflects the laissez-faire economic philosophy in a world of widening inequality and poverty.

1.5 THE WORLD DISTRIBUTION OF INCOME

The economies of the world are classified into three groups based on GNP per capita. Low income economies are those with a GNP per capita of $580 or less. Middle-income economies are those with a GNP per capita of more than $580 but less than $6000. High-income economies are those with a GNP per capita of $6000 or more in 1989. Low and middle-income economies are sometimes referred to as developing economies. In addition to classification by income, other analytical groupings are based upon region, and levels of external debt. The non-reporting non-members group includes Albania, Cuba, Democratic People's Republic of Korea and the USSR. Total reporting economies are referred to as the World\textsuperscript{12} Table 1.1


### Table 7.1

**Distribution of World Population and World GNP Among Various Groups of Countries in 1980 and 1989**

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>Per Capita Income</th>
<th>Total GNP ($ Billions)</th>
<th>Per Cent of World GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income economies</td>
<td>2459</td>
<td>59 56</td>
<td>2940</td>
<td>60 37</td>
</tr>
<tr>
<td>Middle income economies</td>
<td>900</td>
<td>21 95</td>
<td>1105</td>
<td>22 62</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>362</td>
<td>8 83</td>
<td>480</td>
<td>9 83</td>
</tr>
<tr>
<td>East Asia</td>
<td>1363</td>
<td>33 24</td>
<td>1152</td>
<td>31 74</td>
</tr>
<tr>
<td>South Asia</td>
<td>922</td>
<td>22 45</td>
<td>1131</td>
<td>23 16</td>
</tr>
<tr>
<td>Europe, Middle East and North Africa</td>
<td>335</td>
<td>8 17</td>
<td>433</td>
<td>0 67</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>348</td>
<td>8 45</td>
<td>421</td>
<td>8 62</td>
</tr>
<tr>
<td>Severely indebted middle income economies</td>
<td>419</td>
<td>10 22</td>
<td>554</td>
<td>11 35</td>
</tr>
<tr>
<td>High income economies</td>
<td>742</td>
<td>18 09</td>
<td>837</td>
<td>17 01</td>
</tr>
<tr>
<td>Reporting countries (Total)</td>
<td>4101</td>
<td>100.00</td>
<td>4833</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Source:** Computed from World Bank figures, "World Development Reports 1950 and 1991."
provides data on the distribution of income and population among various groups of countries in 1980 and 1989. Low-income economies accounted for approximately sixty per cent of world population both in 1980 and 1989 but their share in world income had decreased from 7.6 per cent in 1980 to 5.3 per cent in 1989. Their per capita income exhibited a marginal increase of $10 during 1980s. Middle-income economies also experienced a reduction in their share of world income which dropped from 15.7 per cent in 1980 to 12.2 per cent in 1989. Their share in world population increased marginally. However, the increase in per capita income was faster; it moved from $1762 to $2040. The developing economies accounted for 82 per cent and 83 per cent of world population but their share in world income decreased from 23.3 per cent to 17.5 per cent in 1980 and 1989 respectively. The rest of the world income, namely 76.7 per cent in 1980 and 82.5 per cent in 1989 was appropriated by the high income economies which accounted for 18 and 17 per cent of population in 1980 and 1989. Their per capita income has shown a rapid rise from $10,742 to $18,330.

Sub-Saharan Africa experienced retrogression both in per capita income and in its share of world income. East Asia which accounts for nearly one-third of population
also lost its share of income by 0.6 percentage points. South Asia, Europe, Middle East and North Africa and the severely indebted middle-income countries experienced a fall in their income share in the 1980s. Figure 1.2 illustrates the widening income gap. Thus, the already established inequality in the distribution of world income is not only perpetuated but also aggravated in the 1980s providing additional evidence to Myrdal's principle of circular causation and cumulative effects.

Figures of per capita income are frequently used as an index of development and for making a distinction between developed and developing countries. There are complications in measuring national income in many countries and making intercountry comparisons. However, inspite of its arbitrariness, per capita income figure is widely employed as a single convenient measure of development. Growth rates of GNP per capita are somewhat misleading due to their slender base in the low-income economies.

The average per capita GNP of low-income economies was $330 compared with the average per capita income of $18,330 in high income economies. The difference in per

FIGURE 1.2
WIDENING INCOME GAP: 1980 AND 1989

1980

LOW INCOME 60.0%
MIDDLE INCOME 21.9%
HIGH INCOME 18.1%

POPULATION

1989

LOW INCOME 60.4%
MIDDLE INCOME 22.8%
HIGH INCOME 17.0%

POPULATION
capita incomes of the some of the high income economies and low-income economies is glaring. The per capita income of Switzerland ($29,880) was 374 times greater than that of Mozambique ($80), Japan ($23,810) 132 times greater than that of Bangladesh ($180), the U.S.A ($20,910) 174 times greater than that of Ethiopia ($120), Norway ($22,290) 66 times greater than that of India. The average growth rates of per capita GNP during 1965-69 for Switzerland, Japan, USA and Norway are 4.6, 4.3, 1.6 and 3.4 per cent respectively. The corresponding figures for the low-income economies are: Mozambique (not available), Bangladesh 0.4, Ethiopia -0.1, India 1.8 per cent. There is a vast difference in the growth rates of high-income and low-income economies.

In view of the evidence cited above, the gap between the rich and poor countries is bound to widen because of: a) the difference in rate of growth, and b) the difference in size of the GNP per capita. Even if the rate of growth is the same the gap is bound to widen because of the vast gap between the 'base' of per capita GNP. For instance, 2 per cent growth rate per annum in Switzerland ($29,880) will give, other things being equal, an additional amount of $598; whereas for Mozambique ($80) it will only $1.6. No wonder rich are getting richer and poor are getting poorer.

1.6 THE CHALLENGE OF POVERTY

Insofar as the social indicators of the physical quality of life index (PQLI) are concerned, a gloomier picture emerges for developing countries compared with developed countries. Life expectancy in Sub-Saharan Africa is just 50 years; in Japan it is almost 80. Mortality among children under 5 in South Asia exceeds 170 deaths per 1000; in Sweden it is fewer than 10. More than 110 million children in developing world lack access even to primary education, in the industrial countries anything less than universal enrollment would rightly be regarded as unacceptable. The starkness of these contrasts attests to the continuing toll of human deprivation.\(^\text{15}\)

The challenge of development, therefore, lies in the alleviation of poverty of the Third World and in the provision of basic needs - food, shelter, health, and education. The World Bank's study reveals that more than one billion, i.e., almost one-third of total population of the developing world, are struggling to survive on less than $370 a year.\(^\text{16}\)


\(^{16}\) ibid., p.1.
<table>
<thead>
<tr>
<th>Region</th>
<th>All Developed Countries</th>
<th>All Latin America &amp; Caribbean</th>
<th>N. America &amp; E. Asia Africa</th>
<th>Western Europe</th>
<th>Other</th>
<th>World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>62</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
<tr>
<td>1980</td>
<td>90</td>
<td>1</td>
<td>61</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
<tr>
<td>1989</td>
<td>90</td>
<td>1</td>
<td>61</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
<tr>
<td>1997</td>
<td>12</td>
<td>9</td>
<td>61</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
<tr>
<td>2006</td>
<td>12</td>
<td>9</td>
<td>61</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
<tr>
<td>2009</td>
<td>12</td>
<td>9</td>
<td>61</td>
<td>0</td>
<td>0</td>
<td>62</td>
</tr>
</tbody>
</table>

Table 1.2 shows that the burden of poverty is spread unevenly—among regions of the Third World, among countries within those regions, and among different areas within those countries. Nearly half of the world's poor live in South Asia, a region that accounts for roughly 30 per cent of the world's population. The nexus between poverty and illiteracy and infant mortality is also evident from the data cited in Table 1.2; Figure 1.3 illustrates the uneven incidence of poverty.

Sub-Saharan Africa accounts for a smaller, but still highly disproportionate, share of poverty. Within regions and countries, the poor are often concentrated in certain places with high population densities, such as the Gangetic Plain of India and the Island of Java, Indonesia, or in resource-poor areas such as the Andean highlands and the Sahel.

The weight of poverty falls most heavily on certain disadvantaged groups like women and children; they suffer disproportionately, and their quality of life is compromised by inadequate nutrition, health care, and education. Often the problems of poverty, population, and the environment are intertwined: earlier patterns of development and the pressure of rapidly expanding...
FIGURE 1.3
INCIDENCE OF POVERTY IN DEVELOPING COUNTRIES IN 1985
(NUMBER IN MILLIONS)

LATIN AMERICA & CARIBBEAN 50
MIDDLE EAST & NORTH AFRICA 40
INDIA 260
SOUTH ASIA 300
CHINA 80
EAST ASIA 120
SUB-SAHARAN AFRICA 120

EXTREMELY POOR

POOR
population mean that many of the poor live in areas of acute environmental degradation.\textsuperscript{18}

The collective degradation of hundreds of millions of people which such mass poverty inevitably entails is a shocking commentary on the whole texture of human existence as well as the true content of apparent human values in the South of the globe, or perhaps in the world as a whole.\textsuperscript{19}

Rapid reduction and eventual elimination of poverty may be accorded prime of place in the programme of action of the international community. It is needed because poverty anywhere is a threat to prosperity everywhere. The World Bank's policy recommendation is two-fold: to promote productive use of the poor's most abundant asset-labour and to provide basic social services, with a proper provision of transfers and safety nets, to the poor.

In this regard, Baber B.Conable opines that "the hurdles to be overcome in decreasing poverty throughout the world remain formidable...The main obstacle is not the

\textsuperscript{18} ibid., p.2.  
availability of resources but the willingness of governments in both developing and developed countries to commit themselves to these goals.

1.7 DEVELOPMENT STRATEGY AND INSTITUTIONAL FRAMEWORK

The type of economic system and the institutional framework largely influence the development strategy. Development strategy is a means to achieve the goal of economic development and ultimately community welfare. In the context of international economic system, the existing order—the LIEO—is based on laissez-faire; it reflects the classical, mutual gain approach through the efficacy of 'invisible hand' in reconciling public benefit and private gain. It is assumed that private greed will bring forth public good leading to universal well being.

The less developed countries have resorted to development planning and evolved a sort of mixed economic framework. They are still struggling with acute problems of poverty, low economic growth and dualism.

According to the 'stages of economic growth' model, savings, investment and foreign aid, all in right proportions, are all that is necessary to facilitate the

Third World countries to go along on economic growth path which the developed countries did many years ago. The Harrod-Domar model, in its simple form, maintains that the growth rate of national income will be directly related to savings ratio, i.e., the more a country is able to save — and invest—given the capital output ratio, the greater will be the growth rate of GNP. The slender capital formation was seen as the main obstacle in economic growth of many poor countries. To grow at higher rate, a larger capital formation is required. This can be supplemented through foreign aid or private foreign investment.

With a view to augmenting, among others, their capital formation, many underdeveloped countries have gone in for external aid. The development experience of most of the developing countries, particularly the highly indebted and Sub-Saharan Africa, is disappointing. The aid-assisted countries, with a few exceptions, neither experienced a 'big-push' nor have they had a 'take-off' into self-sustaining growth.

Development does not take place in a vacuum; it occurs within a system - be it capitalist, socialist or mixed. Therefore, the issue is what should be the proper mix of the institutional framework defining the respective roles of the state and market?

Intervention by the state is frequently justified by the pervasiveness of market imperfections. When there are major disparities in income distribution within a country, then the market mechanism fails to function either efficiently or equitably since it is weighted heavily in favour of the purchasing power in the hands of the rich. Therefore, the market mechanism is often distorted by the existing distribution of income and wealth. The market will listen to those who have the purchasing power but not those who are deprived of it. Barbara Ward summarised the case against the workings of the international market mechanism in a situation of gross inequalities in world income:

"To rely solely on the market system (in such a situation) has wider consequences for society in general and for resource use in particular. The capacity to sell, to have responsive buyers, becomes the overriding criterion for producing goods. This raises a number of

---


problems. Production is geared to those who can effectively buy internationally, that means richer countries rather than poorer countries, and nationally it means middle and high-income groups rather than poorer people. Within most developed societies, social mechanism - public ownership, redistributive income tax, welfare schemes, social insurance - try to offset this trend. No such institutions are at work at the world level, nor in a number of developing countries. In such conditions, market mechanisms are linked, by their own logic, to the affluent, making resources available to those who can buy them and not necessarily to those who need them. This fact generates a series of backward linkages. It determines the nature of technology needed to maintain the consumption of the more affluent. It guides the allocation of resources in research and development. This in itself creates a demand for certain types of professional know-how, rather than for others. \(^\text{25}\).

Therefore, the assumption that the social function of allocating and distributing resources and economic activities among different countries is best performed by market mechanism needs to be modified.

---

But the current developments in the USSR and the Eastern Europe indicate that the early faith in the ability of the state to direct development is yielding to a greater reliance on markets. The argument is simple. Markets fail, but so do governments. To justify intervention it is not enough to know that the market is failing; it is also necessary to see that the governments will do better. This is a fundamental issue in economic science, the relationship between state and markets.

There is, therefore, a need for reappraisal of the respective roles for the market and the state with regard to the interaction between the two and not as a question of 'intervention' versus laissez-faire.

The "market-friendly" approach maintains that governments need to do less in those areas where markets work, or can be made to work, reasonably well. At the same time, governments need to do more where markets alone cannot be relied upon. This means investing in education, health, shelter, poverty alleviation, environment protection. When markets and governments have worked in harness, the results have been spectacular, but when they

have worked in opposition, the results have been disastrous. Rethinking on this fundamental issue, in the context of national and international economic system, is necessary.

1.8 PRIMARY EXPORTS AND TERMS OF TRADE

Until recently, the proportion of primary product exports to the GNPs of the Third World countries is sizable. The share of Third World in primary products, be it mineral or agricultural, is substantial. The efforts of the Third World countries to get stable and remunerative prices for their primary exports are in vain. And there is enough evidence to show that the terms of trade are deteriorating. The Third World's access to the markets of developed countries is increasingly getting restricted in view of the protectionist policies of the latter. For many primary products, the higher tariffs are strengthened by a wide array of non-tariff barriers. Let us consider the following case.

28. Ibid., p.2.
31. Ibid., pp.57-75.
Suppose that 70 per cent of the cost of finished product, say leather, is accounted for by the raw hides and other raw material; all countries can purchase it at the same price on world market. A producer, from a developing country, making leather worth $1.00 on the world market earns $0.30, out of which he pays for labour and capital and retains profits. Now consider that a producer from an industrial country is protected by a tariff barrier of 4 per cent. The same leather worth $1.00 now on world markets sells for $1.04 domestically. So he earns $0.34, or 13.3 per cent more than the producer in developing country. That means the producer from a developing country has to be 13.3 per cent more efficient than the producer from an industrial economy if he is to sell in industrial country.

In an extreme case, that of Sweden in 1969-70, effective rates of protection have been as high as 1480 per cent for Soybean oil, 1050 per cent for coconut oil, 165 per cent for corn milling and 102 per cent for flour.\(^{32}\)

In addition to the above, the developed countries also pay subsidies, e.g., over $20 billion in farm subsidies alone in rich countries to protect their agricultural producers.\(^{33}\)

Another disturbing factor lies in the share of the distribution value added in the primary products traded between developing and developed countries. According to Mahbub Ul Haq that out of $200 billion paid by the consumers (excluding oil) for the Third World's major primary exports the producing countries received back only $30 billion and the balance got into the hands of middle men and the international service sector\(^\text{34}\). This is because the processing, shipping, advertising and marketing are in the control of rich nations and the developing countries find it difficult either to break it or to take control of it. Therefore, the developing countries receive - just as the poor people do within the national order - a meagre amount in return as reward.

1.9 CENTRE Vs PERIPHERY

The centre - periphery school of thought attributes the existence and maintenance of underdevelopment primarily to the historical evolution of a highly unequal international capitalist system of rich-poor countries' relationships\(^\text{35}\).

The industrialized countries, with their enormous economic and political power, stood at the centre of this world order. The developing countries stood at the

\(^{34}\) ibid., p.159.

periphery, supplying their raw materials and services to the metropolitan centre and being grateful for whatever little return they could get from the benevolence of the rich. It is not that the rich deliberately exploited the poor. It is merely that this pattern was based on concepts of feudalism, not democracy; on unequal relationships, not equality of opportunity. As such, it was inherently unstable. The first dent came with the movements for political liberation. The second stage - for economic liberation - is being set by the demand for a new international economic order.

The 'centre' continued to exercise their spheres of influence on 'periphery' even after their political liberation in areas of trade, finance, technology and international economic relations. By the time the Bretton Woods institutions were established most of the present day Third World countries were not 'free'. These institutions, therefore, reflect the viewpoints, priorities and interests of the industrialized 'centre' but not the interests of the 'periphery'. Hence, the demand for the "new rules of the game".

The decolonization process has unleashed new forces based on the principles of sovereignty, freedom, democracy, solidarity and co-operation. The

interdependence is recognised and accepted. The terms of it are to be negotiated.

However, some scholars like Samir Amin, Osvaldo Sunkel of leftwing school of thought liked "delinking" rather than increased interdependence. It was warned that "integration into the world economy leads to disintegration of the national economy". They advocate radical changes which would strengthen the spirit of national independence, national and collective self-reliance of the developing countries.

1.10 SOVEREIGN EQUALITY AND COLLECTIVE SELF-RELIANCE

The proponents of the existing 'order' maintain that all countries are sovereign nations and, therefore, have equal effective rights, the capacity to use them and the power to enforce them.

Actual experience is different, the post-World War II economic performance of developing countries - in particular, those of oil importing, highly indebted and Sub-Saharan - makes it abundantly clear. The formal recognition of sovereign equality obscures the reality.

39. Ibid., p.6.
that power is held unevenly\(^{40}\). This reality can be seen in areas like holding of international reserves, quotas and voting rights in International Monetary Fund (IMF), decision making power in international monetary institutions and the power of transnational corporations vis-a-vis the developing countries.

This is because the rich nations control the creation and distribution of international reserves by expanding their own national reserve currencies (mainly dollars and sterling) and through the control over the IMF.

The poor countries, which are in need of credit for their development, find it difficult to gain access to international credit. A poor country in the international order is like a poor man in the national order. They can neither create credit, nor can gain access to it. The 'credit worthiness' as rated by the international lending institutions hinder the prospects of getting enough funds. And the less developed countries don't have unlimited quota either. They stand at the periphery of the international monetary system.

However, the developing countries have shown in recent years a marked determination - to pull themselves up by their own bootstraps, assisted "by such crumbs of aid as the richer countries are willing to spare, and as they themselves are willing to accept."

Another area of uneven power equation is in the quotas in IMF, the voting rights and the decision making in international monetary institutions.

Quotas of the fund play a decisive role since they determine the voting power, members' subscription, access to resources from the Fund and allocation of SDRs.

The USA quota is SDR 17,918 million with 19 per cent of total votes in IMF. At the other end of the scale is the Maldives, with a quota of SDR 2.0 million with a 0.03 per cent of total votes.

The Third World's majority in the U.N General Assembly may not have any real impact in the decision making. At best, it helps as a lobbying. The economic strength of the less developed countries is limited; their advice is hardly solicited when the big ten industrialized nations meet to take key decisions on the future of world economy.


economy. It is, therefore, difficult to maintain that equal treatment is accorded to them at the bargaining tables of the world.\textsuperscript{43}

Yet another area of uneven power equation is the one that is held between transnational corporations (TNCs) and the poor countries. Their contribution to the poor countries' income, savings, technology and upgradation of skills have widely been discussed in the literature.\textsuperscript{44} There are some instances of TNCs interfering in the internal affairs of the host countries. The TNC ITT in Chile is a case in point.\textsuperscript{45}

Collective self-reliance, though an extension of national self-reliance, goes beyond the frontiers of national boundaries. It is a strategy for creating interdependent relationships with similar economies and to improve terms of economic exchange with the industrialized countries. It calls for abolition of unequal economic relations; and it requires the real exercise of national...
sovereignty and the control over resources and productive capacity. The collective self-reliance signifies the "Trade Union" of the Third World, aiming at increasing the bargaining power of countries participating in the international economy through the use of their latent, underutilized or unutilized capacity for joint action in their relations with industrialized countries. 46

1.11 DUAL-GAP ANALYSIS AND FOREIGN BORROWING

In the national income accounting an excess of investment over domestic saving is equivalent to a surplus of imports over exports. If we write:

Income = consumption + imports + saving
Output = consumption + exports + investment
Income = output and then
Investment - savings = imports - exports 47

An import surplus financed by foreign borrowing can supplement domestic savings directly or indirectly by providing foreign exchange to buy imports. The identity between the two gaps, the savings-investment (S-I) gap and the export-import (X-M) gap follows from the nature of accounting procedure. It is a matter of arithmetic that

if a country tries to invest more than it saves, a balance of payment deficit will result. Dual gap analysis synthesises traditional and more modern views concerning aid, trade and development.

The role and need for foreign assistance have been very well established by the three Commissions which are reviewed in the next Chapter and the growth theorists themselves. However, due to mounting external debt, the net flow of financial resources has been negative. This means that for these countries movements of funds do not alleviate, but on the contrary, heighten the pressure to increase exports and, to the extent this is not possible, to decrease imports, reducing development efforts below what have been desirable and also consumption levels, particularly among the masses.

1.12 DEBT OVERHANG

The developments of trade and capital movements have resulted in a good number of low income economies getting caught up in debt overhang. Their total external debt as a percentage of exports of goods and services has moved from 95 in 1980 to 214 in 1989; debt service and interest payments as a percentage of exports of goods and services

49. 1) Pearson Commission, 2) Brandt Commission, and 3) The South Commission.
moved from 9.8 and 4.7 in 1980 to 20.2 and 9.3 in 1989, and severely indebted countries are faced with a critical situation. Their total external debt as a proportion of their GNP had risen from 37.9 per cent in 1980 to 54 per cent in 1989. As a proportion of their exports of goods and services their debt, debt service, and interest payments moved from 195.8, 36.0 and 18.6 in 1980 to 292.7, 28.5 and 16.3 per cent in 1989 respectively. The fall in the ratio of debt service and interest payments is due to a variety of schemes and initiatives by the bilateral and multilateral lending agencies including expansion of debt forgiveness and deepening the concessionality of debt relief measures by official bilateral lenders.

Some rescheduling has been undertaken for several underdeveloped countries, which is, however, nothing else than a more considerate way of managing a bankruptcy. It works on the symptoms and does not solve the fundamental problem.

1.13 TRADE NOT AID

The prevalence of poverty and slow progress in many developing countries are the constant reminders for the

52. ibid., p.9.
poor countries to demand for the establishment of new international economic order. The economic concept of 'commodity power' has emerged from the OPEC's success. No other cartel, private or government, has yet approached the resounding success OPEC has achieved in the world oil market. The group of 77 and the NAM are striving to improve the economic exchange with the North. The collective self-reliance is being used to enhance the bargaining strength of the Third World. The NIEO is seen as a ray of hope for better future with peace, prosperity and development and hence the slogan "Trade not Aid" and therefore the rationale of negotiations under the GATT and UNCTAD.

1.14 EMERGING STRUCTURAL AND TECHNOLOGICAL DEVELOPMENTS

Apart from the continuing impact of protectionist measures, which are increasingly taking the form of non-tariff instruments, the export prospects of developing countries in the coming years are likely to be influenced by a number of structural developments, among them the expected completion of a single European market in 1992, the reforms in East European and the USSR and the growth of trade between Japan and South East Asia. If the

completion of a single market (EC) and the full incorporation of its new members are to have a stronger trade-creating than trade-diverting effect, protectionist pressures that arise within the EC will have to be resisted.

Three distinct factors have been at work in the developed countries retarding the growth of the traditional exports of the developing countries. First, the pattern of demand has shifted to goods with relatively low import content of primary commodities. Second, technological change has led to the development of synthetic substitutes for raw materials. Third, developed countries have pursued protectionist policies which have retarded the growth of their imports of both primary commodities and manufactured goods. The empirical evidence is overwhelming to show that the conflict is very real between maintaining an adequate growth rate and preserving a reasonable balance on international payments. The ultimate solution must lie in improving the balance of payments through trade. The growth rates of individual developing countries since 1950 correlate better with their export performance than with almost any

58. ibid., p.12.
other single economic indicator⁵⁰. Hence, the justification for 'trade not aid' and trade negotiations - bilateral and multilateral - and the persistence of the plea of the developing countries for a regime of trade preferences.

In view of these trading developments, debt overhang, balance of payments problems, foreign exchange shortage, constraints associated with the development of trade between developing countries themselves, "trade not aid" has become a popular aphorism⁶¹ in developing countries in recent years and the call for NIEO may pave the way for a new international trading order (NITO). This is possible through the creation of NIEO.

The review of literature relating to NIEO is presented in Chapter 2.

---

⁵⁰ ibid., p.331.
⁶¹ ibid., p.363.