

Standing up to the World: The New Mood in the less Developed Countries

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Relations between the Western and Third World countries have depended upon a tacit acceptance of a dependent role by the Third World. This schema has been increasingly questioned in the light of limited results and the climate of growing economic instability. It is in this context that we reproduce here a paper by Professor G.K. Helleiner read at a conference last year in Sweden on the new changes in the international order and the Third World. G. K. Helleiner is Professor of Economics at the Department of Political Economy, University of Toronto, Canada. He has written and edited many books and articles on international trade and development and related issues.

Relationships between rich nations and poor have entered a distinctly new phase during the 1970's. For all but the poorest of the poor countries, the era in which 'foreign aid' was perceived as the fulcrum for these North-South relationships has ended. Aid never did deserve the relative emphasis it received. The effects upon the less developed countries of the North's activities in the fields of trade, investment, technology and monetary affairs have always been slighted by the 'donor' nations, for whom it was simpler to focus upon the 'soft option.' But the recent stagnation and even decline in the real value of official development assistance and the very limited results achieved in the international community through humanitarian appeals, together with the growing experience, sophistication and expertise of Third World planners and policy-makers have generated a new mood in the less developed countries—a consensus that further gains can and must be extracted from international economic relationships through the use of new instruments. The OPEC experience has not been without influence—less in terms of the potential for similar action in other commodity markets than as a de-

monstration that the shrewd and determined use of new policy instruments and levers of power can be made to work.

There has been no abandonment of 'traditional' demands from the less developed world—for better prices for primary products and market access for manufactures, for the introduction of the aid-SDR link, for the many other reformist 'gimmicks' which have been suggested over the years. Nor has the general rhetoric on the subject of international economic injustice abated at all, as the United Nations special session in April 1974 should have made quite clear. Rather, there has emerged a new determination carefully to analyse and agree upon Third World objectives and priorities and to bargain with sophistication and skill in their pursuit, rather than continuing to plead and advocate on the basis of a 'Wouldn't it be nice if . . .' mentality. This new self-reliant and pragmatic mood in the less developed world happens to have emerged during a period of considerable economic disarray in the developed world. The developed countries seem to be viewing these developments with rather more anxiety than they otherwise might have,

in the light of their general nervousness about monetary order, the prospect of a severe recession and the possible breakdown of the post-war consensus on international economic organisation and behaviour.

A 'new mood' can be no more than a beginning, for there are never easy answers to complex questions even when there are new reserves in the form of determination and stiffened backbone upon which to draw. In the belief, however, that the emergence of this new mood constitutes a watershed in the development of economic and political relationships between the world's North and South, and that it creates both new opportunities and new risks, the seminar participants met to discuss them. In a series of discussions on commodity markets and cartels, transnational enterprises, international financial markets, debt relief and international institutions, they sought to analyse—in the words of one participant—'imaginative visions of alternative possibilities' for the transfer of resources from the world's rich to the world's poor 'with close and precise attention to detail.' Political complexities, interdependencies and the absence of detailed information limit all such efforts to agree on more productive strategy and tactics for the Third World as a whole.

Some of my own views on certain of the issues discussed are outlined below.

Trade Initiatives

Great hopes have been aroused in the Third World by the experience of the petroleum-producing countries, which seem successfully to have extracted larger revenues from the rich consuming nations. Cannot the OPEC 'model' be duplicated, it is asked, in other commodity markets? On closer examina-

tion, demand conditions, the nature of the established oil cartel and other factors do seem to make the petroleum case a very special one. Producer government attempts to manage supplies more rationally, independently of agreements with consuming countries, will nevertheless undoubtedly continue and probably be intensified in such commodities as bauxite (which many rate as the most likely to succeed), copper, tin, iron ore, bananas, coffee, tea and cocoa. Joint action by governments in producing nations may instead take the form of unification of fiscal and other policies, where supply management is not pursued. Some developed countries like Australia and Canada may well co-operate as producers in some of these arrangements. Success in raising and maintaining the less developed countries' 'take' from these commodities is most likely in those cases where demand prospects are buoyant and where there are reasons for believing that the intergovernmental cartel or other agreement can hold together. Unfortunately, it is difficult to be very precise about the factors that influence the latter prospect which, in any event, can be expected to vary from case to case.

In the longer run, there are risks that transnational enterprises facing increasingly hardnosed and co-ordinated suppliers in the less developed countries will respond by developing alternative sources, not the least important of which is, in some cases, the sea-bed (the importance to the Third World of which is therefore greater than might at first be apparent). There may also be retaliatory or countervailing measures taken or pressures exerted by the relevant firms or countries. All things considered, and the 'scares' about world resources scarcity notwithstanding, the medium-term prospects for the terms of trade of nearly all the primary-exporting less developed countries are generally assumed to look quite bleak.

The distribution, as among less developed countries, of the extra income from successes in the field of commodity policy is self-evidently not very equitable. (The catastrophic effect of petroleum and related price increases upon the poorest countries are a lesson not to be

forgotten.) Whether the extra income within the gaining countries trickles down to the poor is also an open question and depends upon a variety of other country-specific circumstances. Such international 'successes' are necessary but not sufficient for effectively transferring resources from rich to poor.

An important and relatively unexplored area of commodity policy in which the less developed countries might be able to act more effectively is in wresting control or at least a more equitable share of earnings in processing, marketing and distribution from the hands of transnational enterprises. A very high share of Third World primary-product exports is actually intra-firm trade in which the produce is transferred between establishments which, though in different countries, are controlled by the same transnational enterprise. This creates obvious problems for fiscal control and supply management. The development of local processing and alternative marketing channels can be undertaken at the national level, but any such measures will presumably be still more effective if pursued jointly with other producing countries.

Existing financial institutions, freight rates and infrastructure are biased against South-South trade and favour expansion of trade along North-South lines. There is great scope for Third World production and exchange of less luxurious and more 'appropriate' products, particularly if demand expands. Some argue that the expansion of South-South production and trade requires the imposition of restrictions on North-South trade but it is not evident that such restrictions would necessarily generate the desired effects and they might well produce some undesirable ones. There is general agreement that much can and should be done to remove existing biases in the services which support trade and to stimulate more trade among the less developed countries themselves.

Bargaining with Transnational Enterprises

Just as one may say that the era in which North-South relationships were seen primarily in terms of aid

had ended, one can say that the era in which the activities of transnational enterprises in the less developed countries are seen primarily in terms of direct investment is drawing to a close. The old debates as to the benefits and costs of direct foreign investment are being rendered obsolete by the less developed countries' increasing insistence upon decomposing its 'package' of capital, various types of technology, management and marketing into constituent components that can then become the object of independent purchasing decisions and be obtained from a variety of sources. Direct investment, like aid, will continue to flow but only when its advantages have been compared by the recipient country with the available alternative sources of the inputs thereby acquired. More strenuous Third World bargaining with each supplier can certainly safely be predicted.

The less developed countries' capacity to 'shop around' in world input markets depends upon their development of relevant skills, the acquisition of the necessary information and the regularization of channels for the acquisition of recurrent requirements. Their greatly increased resort to borrowing on Eurocurrency markets (see below) in the past few years indicates that one major alternative source of the capital component has effectively been developed. The purchase of technology and management skills frequently involves greater difficulties, however, since the sellers of these inputs typically are monopolists or oligopolists. Access to restricted foreign markets is also likely to be a matter of especially difficult bargaining. Most less developed countries do now seem to recognise, however, that bargaining power is of the essence in relationships of whatever type with transnational enterprises. Exchanges of information and unified policies among host countries, such as are practised by the members of the Andean Pact, clearly raise their bargaining strength and therefore are likely to improve the terms of whatever deals are struck with foreign enterprises. The experiences of the Andean Pact can and should be transmitted to other parts of the less developed world both through

direct exchanges and through the further elaboration of 'codes of conduct' for foreign investors and technology suppliers which, though based on one region's problems, can be applied, at least for preliminary purposes, in another.

It is easy to make mistakes or to be misled by superficial appearances in this area of policy. Nationalisation of foreign enterprises for the sake of acquiring greater national earnings and control can leave the nationalizer with neither, if his expertise and bargaining power are insufficient to prevent the granting of major concessions on management and technology contracts. Bargaining with foreign enterprises is extremely complex and difficult, and one must be totally clear as to one's true objectives. For example, the acquisition of 51 per cent of a firm's equity makes very little economic sense if the object is to secure control of its activities. One can normally gain the necessary information for effective control at considerably smaller cost. On the other hand, if there are cogent economic grounds for nationalization—usually in resource-exporting sectors or on 'the commanding heights'—it may well make more sense to acquire 100 per cent ownership in the relevant firms.

Similarly, requirements for local private participation in the ownership of foreign enterprises may actually increase the long-run strength of the transnational enterprises in the relevant country vis-à-vis the government and the entire society by creating a powerful set of allies or, more broadly, a dependent rentier class. Real national bargaining power may thus be reduced by measures undertaken under the banner of economic nationalism. Less dramatic and lower-profile measures which are implemented on an ongoing daily basis may be more effective in regulating the activities of the transnational enterprises.

More from the International Financial System

The less developed countries have expressed themselves vigorously and in a unified fashion on the subject of international monetary reform since they formed themselves into

the Group of 24 (eight central bankers from each of the relevant continents). Their preferences for an SDR aid link taking the form of an altered distribution formula governing future SDR allocations, and for fixed exchange rates among the currencies of the major powers, are soundly based. While these preferences may not be obviously reflected in the eventual reform of the IMF they are certainly being employed as bargaining counters in the continuing debates, for the less developed countries as a group possess enough votes to exert a formal veto against an 'unsatisfactory' IMF reform. If the status of the new SDR can be preserved and built up as the basic reserve asset in the international monetary system, there will be significant advantages for the Third World in terms of easier reserve management and relief from pressure to join the currency area of one of the major powers. It need hardly be added that any means by which the newly acquired Arab balances could be lent, preferably at subsidised interest rates, could be of enormous significance to the non-oil-producing poor countries.

In the meantime, although the data are by no means comprehensive, it is clear that the less developed countries are relying, to an unprecedented extent, upon borrowing on Eurocurrency markets. Whereas national capital markets, particularly in Europe, contain all manner of restrictions which limit the potential for borrowing by less developed countries, the unregulated Eurocurrency markets have emerged as an important source of commercial capital, either competitive with or complementary to suppliers' credits, transnational enterprises and official development agencies. While effective interest rates for the less developed country borrowers are still very high on these markets, this alternative source of capital increases the degrees of freedom available to a great many poor countries as they shop for capital and other inputs.

For the poorest countries—those for whom Eurocurrency interest rates are prohibitively high—grant assistance is really the only reasonable means of acquiring adequate capital from abroad, as it should

have been from the beginning of the aid era. For the majority, however, provided that capacity to service the debt rises at an adequate rate, there is no reason not to continue to expand foreign borrowing even in cases where the accumulated debt already appears quite heavy. The rapid inflation of recent years has provided less developed borrowers with a significant windfall gain by reducing the real burden of their international debt.

There remains, however, a considerable debt 'mess' left over from the mistakes of the past two decades, which overhangs the international financial scene. It would be in the general international interest, as well as that of the relevant debtor countries, if a way could be found for writing this 'bad debt' off and beginning again. Now that portfolio capital is again flowing in large amounts into the less developed countries, a rash of unilateral defaults could be very harmful in their effects for future borrowing potential. It might be possible, however, to construct a set of principles or a 'code' outlining the circumstances in which default could 'honourably' be undertaken without fear of penalty, just as bankruptcy can, in some circumstances, be declared in the private sector. Such a 'code' would involve the international lenders' participation in developing risks for the first time. There exists an obvious rationale, for example, for writing off loans which should have been grants and were clearly for consumption purposes—food and disaster relief loans that were offered for projects which subsequently turned sour and that portion of loans' principal which was absorbed in what is now universally recognized as having been the excess costs of tying. Those less developed countries for whom debt relief would be most important might well devote some energies to the development of a 'default code' for collective introduction. In putting forward these proposals for debt relief (rather than rescheduling, which merely postpones the day of judgement), one must bear in mind the likelihood that any resulting gains to debtor countries will take the form of better-quality resource flows rather than increased

quantity since debt relief will be subtracted from unchanged total development assistance budgets.

New Institutions

In virtually every field one examines it is clear that the less developed countries stand to gain through close co-operation and joint bargaining. It is difficult to generalize about what it is that enables groups of countries to stand together for different occasions. How, for instance, did the African and Caribbean associates and associates manage, against all odds, to present such a coherent and coordinated position to the divided EEC? What is it that provided that extra

element of co-operation in OPEC and the Andean Pact?

On the other hand, it is also clear that, other things being equal, Third World joint initiatives are most successful when they are relatively narrowly focussed. The UN agencies no doubt have roles to perform in the elaboration of the psychology and politics of the 'new mood,' and the provision of opportunities for general discussion and research support, but they are too comprehensive in membership and aspiration for very effective action of the type now under discussion. The institutional instruments of real change are more likely to be functionally or geographically restricted, and therefore

much smaller, less given to rhetoric and posturing, and much better at giving 'close and precise attention to detail.' Whether the 'new mood' can be translated into significant new power for Third World countries will depend, above all, upon the successes of these newer and smaller multinational institutions. Upon them, and more accurately, upon their member governments, will rest the major responsibility for ensuring that the 'new mood' results in such more than a mere renegotiation in the terms of their peoples' poverty and dependence.

(By Courtesy of Dag Hammarskjöld Centre's Development Dialogue)

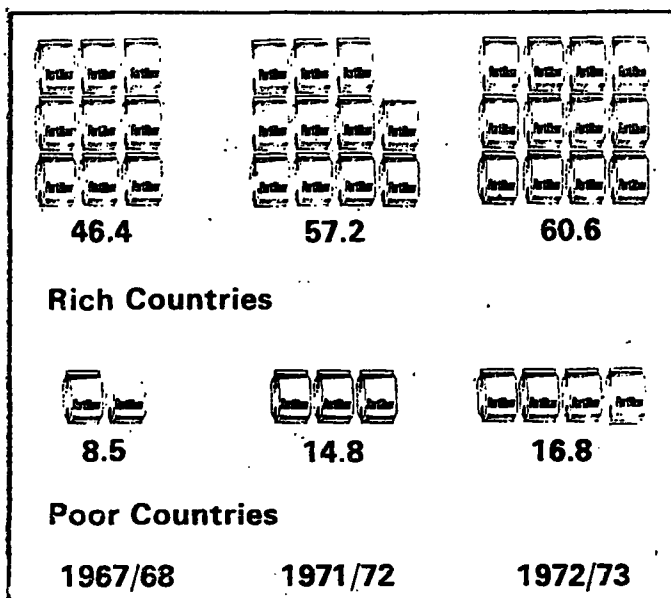
THE GAPS BETWEEN RICH AND POOR

GNP per capita in U.S. dollars		
	1950	1975 estimate
United States	2,300	3,550
France	750	1,750
West Germany	600	2,900
Soviet Union	400	1,625
China	50	190
Thailand	85	135
Pakistan	70	75
India	70	85

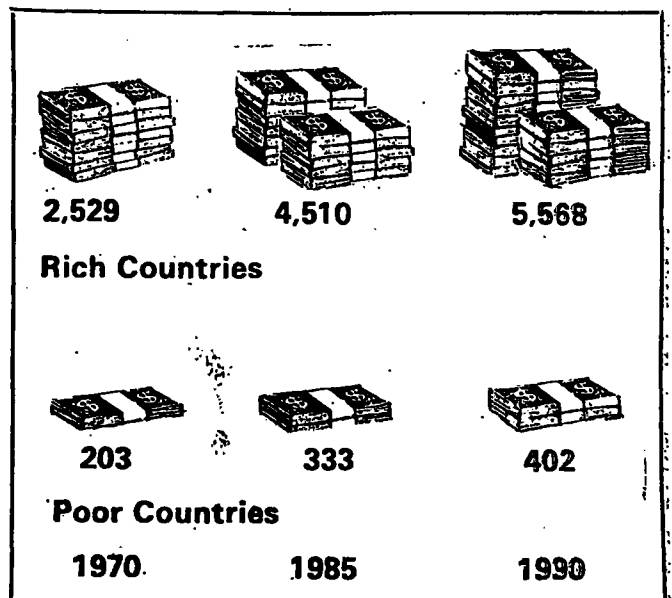
Estimates of the World Bank for Sri Lanka GNP per capita in 1969 is \$ 190

Different Nations' share of the World's GNP in 1975 (estimated)	
United States	33
Soviet Union	18
West Germany	7
China	7
Thailand	0.2%
Chile	0.2%

(Source: Russer and Alker)



Fertilizer consumption (in million tons per year)



Estimated difference in average wealth in dollars.