

Third World Approaches to the New International Economic Order

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The proposal for a New International Economic Order had, so far as I am aware, its main immediate source in the Third World and specifically in the Fourth Conference of Non-Aligned Countries held at Algiers in September 1973. Unmistakable both in the Declaration and in the Programme of Action is the new mood of impatience, even of belligerence, in the Third World, against the injustices of the Old International Economic Order (OIEO) and for the speedy establishment of a New International Economic Order (NIEO).

It is indeed unfortunate—and is in itself an indication of the present disadvantage of Third World countries even in the field of developmental research—that after the official Declaration of the NIEO on 1st May 1974 at the U.N., further Third World response to it and Third World discussion of its actual implications have lagged behind the response of the Other World.

Other World responses have, on the contrary, been forceful and clear as to the extent of change considered to be fair and practicable. This paper will occasionally refer to three such responses, namely, the Wilson proposals (made at the Commonwealth Heads of Government meeting on 1st May 1975 at Kingston), the Kissinger proposals (made on 1st September 1975 at the Seventh Special Session of the U.N. General Assembly), and the Sussex Institute of Development Studies Green-Singer transition proposals (made in an article in *World Development* in June 1975.)

In none of these proposals is there an analysis of the bases of the OIEO, and only Prime Minister Wilson makes the clear admission that the relationship, the balance, between the rich and poor countries of the World is wrong and must be remedied. Kissinger indeed states quite clearly:

'So let us get down to business. Let us put aside the sterile debate over whether a new economic order is required or whether the old economic order is adequate.'

It is my view that no significant effort in favour of a NIEO is possible without this debate.

Let us therefore attempt however briefly an analysis of these bases. They are chiefly two: the power, and the perceptions of power, of the rich countries of the Other World, and the weakness, and the perceptions of weakness, of the poor countries of the Third World. Green-Singer lists the continuing aspects of the power of the rich countries: economic power over crucial commodities, especially food; the power of affluent consumer markets; the power over capital resources; the power to grant or withhold aid or loans; technological power; military power. With the one exception of cultural, research and data analysis power, the list is exhaustive.

The weakness of the Third World was basically a structural one, arising from the metropolitan centre/colonial periphery relationship. Not all the present Third World countries were like India, Sri Lanka, Pakistan, Indonesia, Kenya, Uganda, Tanzania, Algeria directly under western political power. But all came under western economic control which in several cases flowed over into indirect, but real, political control. The relationship was never one of equal partnership to ensure the parallel growth of equal partners. It was intricately structured to the advantage of one group and to the disadvantage of the other, to the exercise of economic superiority and control by one and to the endurance of economic inferiority and subservience by the other.

Is Fair Trade Possible

If this analysis is substantially accepted, the next question that arises is whether a NIEO is possible so long as this contradiction of positions exists between the Third and the Other World. More concretely, in an UNCTAD context, is fair trade

possible between unequal partners? I answer negatively, but add that the situation is not irremediable. For our poor countries have potentialities of power of which we should make ourselves progressively more aware. Third World countries and China account for nearly the whole of the world production of tea, rice, bananas, pepper, coffee, cocoa, jute and kenaf and allied fibres, hard fibres and natural rubber. They can exercise control over the world exports of these commodities as well as over more than half the world exports of sugar, tobacco and cotton.

If this illustrates the power potential of the Third World over certain food and agricultural commodities, the potential in other lines of production is by no means small. India has 21 and Brazil 15 per cent of the world's iron ore resources, and so on. The course of oil in recent years is only the most remarkable example of what can be achieved by the Third World to work the change from the Old to the New International Economic Order.

There is also the tremendous potential of Third World human resources which both by absolute size and rate of growth far outweigh those of the Other World. Indeed, this is recognized by some More Developed Countries (MDC) demographers and is, I am sure, one reason for their intense fervour for population control in the Less Developed Countries (LDCs).

The most important condition for removing the contradiction of power relationships between the Third and the Other World is co-operation among the countries of the Third World. But this is something that is all too easily proclaimed at conferences of Third World countries without significant progress in the hard, patient and unglamorous task of working out the detailed implications of such actions in solidarity.

With a view to UNCTAD IV it would be useful to examine in some depth the implications of the NIEO in the field of the exchange of commodities between the Third and the Other World. Let it be fairly acknowledged that this exchange has consistently—to my knowledge without one exception—been an unequal one. Its history is an old one, and it would

be worthwhile to take one illustration of how unequal exchange became embedded in the structures of international trade. This is the case of tea.

The Case of Tea

Long before India and our own country began to produce tea commercially, China tea was imported into Britain by the East India Company. This tea was grown by subsistence Chinese cultivators and manufactured by them as a domestic industry. Living at a subsistence level, with little communication with the outside world, and no knowledge of the real exchange value of their product, they were prepared to part with their tea for the low prices in money or in goods offered to them by the crafty and experienced Company traders. The unequal exchange of Third World tea against Other World products had begun.

In the early 19th century the East India Company was faced with mounting difficulties in maintaining their trading monopolies in respect of China tea. Following the normal capitalist practice of risk-spreading, British capital therefore moved into India and later into Sri Lanka in order to open new tea gardens and manufacture tea. India and our own country thus gained at the expense of China—an early illustration of the obstacles placed in the way of Third World economic solidarity by the practices of capitalist international trade.

The process, incidentally, continues in our own day when, in the face of growing risks to tea investment in India and Sri Lanka, foreign capital is moving at great speed and in vast quantities—through Brooke Bond, Lipton, Williamson Mager and international banks—to East Africa, most recently even to Nigeria, to Latin America and elsewhere in order to make sure that there will be other tea gardens for metropolitan interests when those of India and Sri Lanka are taken away.

The price of China tea was low because of the low subsistence level of the Chinese growers—an illustration of this theory is now being developed by the French Marxist economist, Arghiri Emmanuel, that it is not prices which determine wages, but wages that determine prices.

Adding their profit margins, the British traders were able to sell tea at prices which consumers in Britain were able to take. When tea gardens were opened in India, tea prices paid to the real producers were set with reference to the low prices of China tea. Indian prices and the low levels of Indian tea workers then set the norms for Sri Lanka.

Wages in all tea-producing countries were thus abysmally low, a falling rate of profit was more than compensated for by rapid increases in turnover and by interlocking oligopolistic control over the forward linkages of tea, and consumers in Europe grew accustomed to regard tea as the cheapest beverage. Before the end of the 19th century the stage was thus firmly set for the perpetuation of unequal exchange between tea and the manufactured products of the rising wage industries of Britain.

A Just and Equitable International Division of Labour

A New International Economic Order cannot countenance unequal exchange. If in the LDCs one hour of socially necessary labour time produces 10 units of X and in the MDCs the same time produces 20 units of Y, then 1 unit of X must exchange for 2 of Y. Any other rate of exchange will be unfair, and will run counter to the principles of the NIEO.

In my view this is a much more important and crucial question than that of the secular and continuing deterioration in the terms of trade which have made and are making the poor countries poorer. Even in 1974 which was a good year for the exports of Third World countries in the sense that their prices generally rose, the rising index of export values, deflated by the rising index of import values, declined for the majority of Third World countries. The figures are available for inspection in the UNCTAD report on "Salient Features of World Trade and Development 1974-1975" of August 1975 which we have and in the GATT report entitled "International Trade in 1974-75" of October 1975 which so far as I know has not yet reached Sri Lanka.

It is against this background of deteriorating terms of trade that countries of the Third World in recent months have been pressing for a scheme of indexing the prices of their exports according to the prices of their imports from the Other World. Yet the Other World was quite explicit in opposing even a study on indexation.

Indexation

The fate of the famous Resolution 3083 at the 28th Session of the U.N. General Assembly on 6th December 1973 is well known. This Resolution merely asked that UNCTAD should prepare a study on indexation. Four leading countries of the Other World—the U.S.A., the U.K., France and the Federal Republic of Germany with Greece voted against it; twenty-six, including the Soviet Union, abstained; while all the developing countries with China, voted for.

In their speeches at the U.N. soon after the Declaration on the Establishment of the NIEO, the delegates of both the U.K. and the U.S.A. expressed opposition to indexation. The Third World, however, continued the pressure and Mr. Wilson at Kingston adopted a rather more flexible attitude. Yet Mr. Kissinger as late as 1st September this year at the 7th Special Session of the U.N. said:

"Many solutions have been put forward to benefit producers of particular products—cartelization, price indexing, commodity agreements and other methods. But reality demonstrates the interdependence of all our economies, and therefore the necessity for approaches that serve global rather than narrow interests".

Does Mr. Kissinger believe that the interests of three quarters of the world's population are narrow interests? At least, let us make it clear at this Seminar that this is not our belief.

Kissinger and Wilson show themselves most ready to consider schemes of compensatory finance when Third World exports fall below a predetermined reference level. This was also as far as the EEC countries were prepared to go when they planned the STABEX scheme at the Lome

Convention of 28th February this year.

A scheme of indexation is a scheme of elementary justice. But it is my view that as I have already indicated we must go further than that. We have to evolve a scheme of export prices for many commodities independently of what prices these commodities have so far secured, for the simple reason that the established prices are prices of unequal exchange which were imposed upon the countries of the Third World but which they can now see are unjust.

The costs of establishing a regime of equal exchange will be short-term, but the benefits will be both short- and long-term. In the less acrimonious and more peaceful political climate that will develop, the benefits will be perceived faster than in the economic area. But as the present LDCs increase their capacity to purchase the exports of the present MDCs, the economic benefits will begin to be reaped by all trading partners. The tremendous potential of rising markets in the vast populations of the Third World is indeed the strongest guarantee that the NIEO will be a better order for everybody.

The objection will certainly be raised that we in the Third World are seeking to go too fast. It may further be argued, as Green-Singer seem to do, that all that is possible in the immediate months ahead is action on certain limited programmes chosen according to the four criteria they propose: practicality, mutual interest, coherence, cumulateness.

The unsatisfactoriness of the Green-Singer transition in my view does not lie in its transitionality—essential and inevitable in any case to any dialectical view of development—but in its lack of expressed clarity about either the OIEO or the NIEO. It would not matter so much if we travelled slow provided we knew where we were coming from and where we are going to. The Green-Singer piece gives no clear evidence that it knows.

Take the measure of equal exchange prices for Third World commodities to be followed by indexation in order to protect these just prices against inflationary rises in import values. Third World developmentalists would argue that these measures eminently

fulfil the criteria of coherence and cumulateness, that they will be of mutual interest and that they are practicable. Others would argue differently. Agreement as to who is right and who is wrong can be attained only by recourse to careful analysis both of the OIEO and of the NIEO.

Exports and Aid

Raul Prebisch, the first Secretary-General of UNCTAD, in the 60's proposed three measures to bridge the trade gap between the affluent North and the underdeveloped South: raise prices of Southern exports, encourage exports of Southern manufactured goods, and aid.

No action was taken on the first of these measures: instead, the prices of these commodities were left to the usual mechanisms of free enterprise capitalistic trade. Neither was action taken on the second. Instead, foreign experts have glibly recommended that Third World countries remain satisfied with small-scale labour-intensive industries on the argument that these alone could solve the unemployment problems of these countries, not seeking to examine why similar recommendations are not made when unemployment becomes a problem in the Other World.

However, there has been much talk on aid. Three reasons may be adduced for this: (i) aid maintains the existing strong/weak, centre/periphery relationship; (ii) aid is much less expensive than paying just prices for Third World exports and, when given in the form of tied aid, loans or commercial investment, is very profitable; (iii) aid avoids and postpones the reform of structures, not least in the recipient countries themselves.

Reforming Structures

The reform of structures which UNCTAD should initiate has several important elements.

One element is wages. The gap in wages between MDCs and LDCs must be progressively reduced. As it is futile to expect that unionized workers in the MDCs would consent to a lowering of wages, action must be taken progressively to raise wages in the LDCs. This is a matter not

only for leaders acting together in the LDCs but also for leaders in the Other World. Among these latter the leaders of the socialist countries should take the lead in unequivocal support for higher wages and hence for higher export prices for Third World products.

A second element would be the introduction or the extension of developmental research in, and not merely for, the LDCs. Research is necessary for the attainment of progress in the spheres of product development, processing of raw materials, marketing and technology. In 1971 the U.N. approved and published a World Plan of Action for the Application of Science and Technology to Development. But almost nothing has been done to promote development research by the Third Worlders for the Third World.

In this connection may we ask for the immediate setting up of a U.N. library in our country where all U.N. and ancillary institute documents and publications will be made available to all serious local researchers with the minimum delay? As matters now stand several of these documents never reach the Third World, or only long after they have been studied in the development institutes of the Other World.

The third element would be equalization in the structures of world production of goods and services. There is no logical reason why the Other World should continue to process the raw materials of the Third World, or why they alone should manufacture goods using vast economies of scale, while the Third World produces the raw materials and only simple manufactures to be sold at low prices to Other World traders.

The fourth element is to devise ways and means of providing access to the views of Third World masses, which are the greatest resources of the Third World. What arrangements are being made to have these views heard at conferences preparatory to UNCTAD IV and at UNCTAD IV itself? To hear these views ourselves, certainly to give expression to them, we may have to leave the precincts of Hotel Taprobane.