

World Crisis and the New International Economic Order

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My intention, at the beginning, is to place the pressure—the agitation—that has recently grown for a New International Economic Order—in the context of the crisis of the great disorders that have overtaken the world economy in the first half of the current decade. I intended to do that for two reasons. I think it might help us to make a somewhat realistic assessment of the prospects for a New International Economic Order, and if we do so, the prospect of making a substantial and significant progress towards re-structuring the existing system of international economic relations and to some extent restoring the balance between developed and developing countries. And this is very important because I think the 4th UNCTAD takes place in a context which is radically different from the context in which the other three conferences took place.

The other three conferences took place at a time when the world economy was still progressing on an uninterrupted path of expansion, of boom, and the conferences were really concerned with how to integrate the backward centres of world economy into this booming industrialised segment—the metropolitan centres.

The 4th Conference takes place in an entirely different atmosphere. We may ask the question whether in fact the crisis that has overtaken the world economy will not stall, will not defeat, the whole pressure towards a New International Economic Order. Whether the developed countries would respond to their own crisis and would resort to inward looking policies to make their own adjustments and perhaps give a few palliatives, a few marginal adjustments here and there, to deal with the clamour of the developing countries?

On the other hand, one would ask whether in fact the kind of crisis that

has overtaken the world economy is not a spur to action? Whether the severity does not cast all the problems of the international system in a different framework and whether there would therefore be an international consensus to review and re-appraise the whole system of relations that govern the international trading and development systems?

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On the other hand, I think that such a re-appraisal is very important for us in the Third World because it will help us decide what is the stand we are going to take at the 4th UNCTAD Conference. As we know, in the past, we have seen what Dr. Lal Jayawardena quoted as “institutionalised mendicants” in our approach to international problems. It has been oscillation between confrontation on the one hand and supplication on the other and it is interesting to see the schizophrenic personalities of the developing countries leaders at the UNCTAD forum on the one hand and at the IMF and the GATT on the other. The UNCTAD is where one made the exposures and where one made pronouncements and declarations or criticisms about the system. It was the forum to make the basic criticisms about the system.

The other fora are where one pleaded for concessions and wanted to get minor adjustments made to relieve the situation in which the developing countries were in. Here, as Fr. Caspersz said, the real problem is one of power, the bargaining strength between the different groups of countries. In the fora where we had to extract concessions, we resorted to bi-lateral negotiations as multi-lateral agreements was left for declarations and denunciations but where one wanted to get a concession,

you were prepared to go it alone in order to get ahead of rival competitors for this charity, for the global concessions that the developed countries were going to make.

This is the setting in which one has to look at the 4th Conference. Have the conditions changed? Is it possible to see at the 4th Conference, a breakthrough? My view is that the conditions which led to the United Nations Declaration in 1974 have in fact created a possibility of a breakthrough in a short term. It is not that we do not know the answers to the problem. Dr. Lal Jayawardena set out the possible answers, ranging from the first supplementary finance proposals to the Stabex scheme, the integrated programme on commodities, all the possible ways in which one can give relief, the burden of external debt, the transfer of technology to change the structure of the developing countries. All these have been set out in different fora.

It is not that the problems have been ignored nor that the answers have not been propounded and offered. It is really the question of how the developing world itself works out the strategy, improves its bargaining strength and sees a way in which they can get their concessions and change the present structure.

Why I thought it would be useful to look at the New International Economic Order in the context of the crisis is to point out the possibility of the international consensus on the kind of solutions that are available. You have three extremes of countries. There is one extreme that says “Let us leave the system as it is and let us compensate for the problem of the developing countries through schemes such as compensatory finance and aid with a little mixture of trade”. There are the other extremes of countries which are seeking for a total restructuring of the system. The Dakar Declaration is an example.

The problem is, what is the realistic target for which the developing countries themselves must organise and mobilise their power. It is true that one can identify the enormous latent power in the position of raw

materials, the trade in raw materials—how this could be done across the differences that separate the developing countries is what is important.

Raw Materials

If you look at the New International Economic Order or the declaration which took place, which was made in 1974 April, one would first say this is as an immediate reaction to the crisis that overtook the economic rise in oil prices. If you remember the French President asked for a U.N. conference on the energy situation and in response to that the Algerian President called for a conference of raw materials and development. While it is true that it was a response to the immediate crisis, the very fact that the perspective, the scope of the U.N. Special Sessions was altered in this way, an attempt was made to focus on the whole system which has given rise to this crisis, that itself indicated that the developing countries were concerned about a structural change in the system.

Food Problems

Just after that one, one moved into the food crisis and that gave the developing countries an entirely new perspective. Here was a situation where the population had increased by 45%, where agricultural output had increased by 75%, but we move into a food scarcity; this condition was present over a large part of the globe. What did the food crisis do? In short it exposed at international level the whole system of the way in which the output during these 20 years had been distributed over the world community. It still left the masses in a backward situation, in a frightening situation.

It also indicated the kind of national strategies of development that were being followed in the developing countries themselves where the backward sectors, which were the peasant traditional sectors, which were producing food had not improved technologically. These sectors were still living at levels which were extremely low. The food crisis in that sense once again brought to light in a very dramatic way the difference of a whole system where trade and aid had not helped to transfer resources or to increase the purchasing power of large masses of the human population.

Monetary Crisis

Then we moved thereafter of course to the whole international monetary crisis. Inflation during the two decades moved at slightly over 1% and then suddenly you got an increase of around 7% in the early seventies (now inflation is running at about 17%) and this meant that even the increase in prices—the fairly substantial, sizeable increase in commodity prices developing countries received in 1973/74—were eroded by a whole inflationary process which sent the prices of manufactured goods up by about 70%. The developing countries were again alerted to the meaninglessness of a system which was all the time moving the terms of trade so adversely against them. Here too one is conscious of the inherent features of a system where you get on the one hand rising standards of living in the developed countries with mechanisms for internal distribution of income in their own countries which provide for a fairly equitable pattern of income distribution with, for instance, organised working classes which can bargain for a better distribution of income and which as a result sends up the costs of manufactured goods of developing countries; and while a better pattern of income distribution emerges in the developed countries themselves there is an increasing and widening gap between the developing and developed countries taking place all the time.

Reversals of Order

It is in this context of course that the energy crisis took place, and this was the first time where by unilateral action raw material producers were able to change the relationship that governed a very vital sector of the world economy. Many things happened thereafter. The whole process of uninterrupted expansion came to a sudden halt. Countries which enjoyed surpluses in their balance of payments were suddenly faced with frightening deficits. The inflation rose and along with that very massive unemployment occurred in the developed countries. Along with that the Third World as a whole—if you put the OPEC countries into the Third World—for the first time became a lender to the developed countries. They acquired surpluses which were so massive that they were not

able to absorb them within their own economies, and these moneys flooded back in to Western countries, placing the Third World—the OPEC countries—in the position of a lender.

Key Questions

In this situation one has to ask what is likely to be the approach to the 4th Conference. I would like in fact to place before you a set of few key questions that will determine the strategy. One of the first questions one has to ask is, what is the nature of the crisis that has overtaken the economy. Is it what the economists call cyclical or is it structural? Is it something which can be solved by minor adjustments amongst the Western nations or is it something which calls for a change of the ground rules, a total re-structuring of the present relations between the developing and the developed nations? Is it something which can be still managed within the rules of the market economy or does it call for inter governmental intervention through certain institutions which will regulate the operation of market forces in the world economy?

Resistance

You will find the hard-core—which is really the dominant Western economies—resisting any approach which is characteristic of the New International Economic Order because what the New Order is asking for is for a change in the ground rules, for new institutions, measures which will lead to inter-governmental intervention. In short, a regulation of the world market economy. Within the Western countries themselves there are progressive groups, including the Scandinavian group, which are pressing for a change in the ground rules, which are saying that the time has come when we must make basic changes in the system of international economic relations.

Compensatory Finance and Aid

Within this, we have two sets of remedies being offered to us. One is the remedy that Fr. Caspersz was referring to; the remedy which depends largely on compensatory finance and aid. In that approach there is an effort for the time being while this transition takes place to support the developing countries through schemes of compensatory finance, through more mas-

sive offers of aid, and you would find that these are the essential features of the Kissinger proposals.

This is a way of deflecting developing countries from their specific target of changing relationships so that they will have higher bargaining power, greater export earning capacity, better bargaining strength in their relations with developed countries. As long as the compensatory finance-transfer of resource approach is dominant in the relations between developed and developing countries, the dealers of power will be in the industrialised nations.

It is, as Fr. Caspersz said, they who will determine how the general system will operate and they who will dictate the terms of trade and the relations between us.

Collective Self Reliance

The other approach is for an approach which calls for a different strategy. How can this be done? Let us look at the next question I would ask. If that were not so, what are the strategies open to the Third World? I think every one of the speakers who preceded me drew attention to what is inevitable. It is the Third World's collective self-reliance which determines collective and joint strategy on all these fronts. How best could this be worked out? It is in fact in this area that we are weakest. The past Conferences that have been held, including the Special Sessions, have been largely given to pronouncing certain general demands, to outlining the broad general features of a new economic order. But they have not really gone down to the specific part of getting the contents of this economic order, of working out really the forms of collaboration between developing countries by way of investments, by way of trade expansion, by way of technological exchange, of technology and know-how between these countries, by way of payment-agreements. All these things are extremely vague. It is upto the developing countries themselves to have institutions which will work out these schemes in much greater detail and give specific content to this whole concept of self-reliance. We have been mouthing this phrase time and again. It has become a watchword among the developing countries. But I have still to see anything like a concrete

plan of action for the Third World or any kind of strategy of development which spells out for the Third World, in some kind of investment, the kind of collaboration at all levels that self-reliance presents.

The next question is supposing there were these structural changes what will be the net effect of all this. It is something we must address our minds to. I can only tell you that really much work is now being done on forecasts of the world economy on several scenarios. There is the Tinbergen Group which has been sitting for the last six months working out different alternatives. There is one in New York and what has come out of it is interesting. For instance, what is likely to be the image of the world economy in 2000 A.D.

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In all this there is another question which is important, I think, for the developing countries. What is the role of the Socialist Bloc in this whole question of the New International Economic Order? In such a situation how is the Socialist world to relate itself to this new perspective that has emerged. In fact, the Socialist world has always allied itself with the developing world in the U.N. forum to fight for changes in the existing system. But the new international economic order poses a different kind of challenge. It is like the challenge posed to a Marxist party in a national complex when the working class begins to undertake collective bargaining with the employer and improve its position *vis-a-vis* employers, and to improve their standard of living and get a better distribution of the total income. It is somewhat analogous. How does the Socialist world view the New International Economic Order? We have still not had very clear positions from these countries. And it is important, I think, for the developing world therefore to work out imaginative relationships and alliances with this group in the international community in formulating their strategies for the 4th Conference.

The last question I wish to ask is: What is the new Third World order we are talking about, because it is not so much a new international economic order; it is within that a new Third World order—a new Third World order where there is much greater trade relationships among developing countries, where there is to some extent a de-linking of the relationship between developed metropolitan and developing countries, a slight shift from the vertical relationship between the periphery and centre to horizontal relationships between the developing world as a whole. What exactly are the elements of this?

I was hoping that the Third World countries would be able to work out a detailed strategy which shows areas of investment which indicate the complementarity between the surplus and investment needs in this part of the world but we have still not had that. I think that has to be done if one were to be working on this. If one were to come with some realistic possibility, you would find that the whole tenor of the 4th Conference will change, just as much as what would happen if what Dr. Lal Jayawardena said were to take place.

The moment they realise that, the developed countries will want to participate and want to take part themselves and similarly, if we were to come up with an imaginative Third World Plan, there would be a new approach to the developing countries because that is the bargaining power that developing countries need, the capacity to realise investment opportunities and development goals by themselves. That strengthens the developing countries' position.

I do think it is a long process. I do not think we can achieve much in this short term it seems to me because of the way in which the world economic order has to be changed. The crises have converged, there is movement towards a consensus that the ground rules of the world economic order have to be changed.

If the Third World countries can take the initiative which has been cast on them, then within the present generation we are likely to see some very substantial progress towards what has been described as the New International Economic Order.