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The new international economic order

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THE NEW ECONOMIC ORDER

In 1964 the Secretary-General of the United Nations Conference on Trade and Development, Mr Rául PREBISCH, submitted a report at the first meeting of that Conference proposing the establishment of a new international order which would take greater account than hitherto of the requirements of the developing countries and the demands which could be made on their development. The ideas contained in that report have gradually found acceptance among those responsible for finding solutions to the problems of the developing countries. In the 50s and 60s the structure of world trade was such that the industrialized countries encountered little resistance and the call for structural changes therefore came mainly from the developing countries. They expressed their demands primarily within the framework of UNCTAD, which was a more suitable forum for the expression of their demands than GATT, for example. The developing countries, meeting notably in Algiers, formed a homogeneous bloc known as the Group of 77. Despite the wide divergences between their interests and respective stages of development, the developing countries thus succeeded in preserving their unity and giving collective expression to their demands. These demands were directed chiefly at the industrialized countries, which were then enjoying a period of economic prosperity. In the meantime, the socialist Eastern bloc countries were attempting to achieve a degree of economic self-sufficiency and had cut themselves off, economically speaking from the rest of the world.

The structure of world trade was the outcome of a situation stemming mainly from the 19th century, when a relatively small number of countries dominated world trade. The international monetary system introduced after the Second World War was based on fixed rates of exchange and on the possibility of exchange currencies for gold. This system has since proved unable to contribute effectively to economic development; this has given rise to unstable exchange rates and constant capital movements which are responsible for an almost permanent lack of equilibrium.

At the same time the oil-producing countries became conscious of their power and, by setting up a cartel, were able to impose a substantial increase in the price of oil. The industrialized states, the EEC countries in particular, then became painfully aware of the fact that their prosperity was largely dependent on imports of cheap energy. The industrialized countries also began to realize that economic and commercial structures being what they were, their prosperity was to a considerable extent dependent on the processing of primary commodities which they imported cheaply from developing countries. Moreover, ever worsening inflation in the industrialized countries resulted in sharp increases in the prices of the finished and semi-finished products manufactured by them, and this has a particularly detrimental effect on developing countries. These countries became increasingly aware of the fact that the prices they obtained for their raw materials were entirely dependent on price movements over which they had no control whatsoever. Since the developing countries had absolutely no means of forecasting what earnings they would derive from the export of their principal raw materials it was also impossible for them to draw up medium-term plans for their development.

As a result of the energy crisis the world also became aware of the scarcity of most other raw materials and the dissipation (especially by the industrialized world) of natural resources which threatened to lead to shortages in the very near future.

On 1 May 1974 the General Assembly of the United Nations adopted a declaration and a programme of action on the establishment of a new international economic order[1]. A few months later the Charter of the Economic Rights and Duties of States was adopted[2]. These resolutions were adopted by the United Nations thanks to the determination of the developing countries, which have consistently grown in numbers each year since the war and have now achieved an absolute majority in the United Nations.

In view of the fact that success in these matters is largely dependent on the industrialized countries, it is clear that there can be no question of establishing a new international economic order without the cooperation of those countries. Although the need for change is now generally realized, the necessity of introducing a new international economic order has by no means been accepted as yet by all of the industrialized countries. It is a still too commonly held belief that the increasingly more adamant demands of the developing countries can be met by a few vague conciliatory noises. Yet the need to change existing structures is urgent, not least for the industrialized countries, for the following reasons:

- the continued prosperity of these countries is dependent on imports of energy and other basic raw materials

- the disorder prevailing in the economic and monetary sphere is threatening to cause chronic inflation, hampers trade and represents a constant threat to the industrialized countries which, in the absence of stability, are unable to plan their economies.

- the protection of the environment presupposes a careful husbanding of natural resources.

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1 Resolution 3201 (S-VI) and 3202 (S-VI) of 1 May 1974

2 Resolution 3281 (XXIX) of 12 December 1974

As far as the developing countries are concerned, the need for a change in present structures is obvious from the figures. While the economies of the industrialized countries have been characterized by a steady upward trend in the post-war years (the gross national income of those countries rose from $1,250,000 million to about $3,070,000 million[1] between 1952 and 1972), the income of the developing countries increased much more slowly, with the result that the gap between developing and industrialized countries grew steadily wider. Between 1952 and 1972 the real per capita income of people living in developed countries with a free market economy rose from $2,000 to $4,000, but from $125 to only $300 in the developing countries. The growth in world trade therefore chiefly benefited the inhabitants of the industrialized countries. The weak structure of world trade contributes to ever greater wealth disparities in the world. The causes of this can be found in three major areas, namely trade in raw materials and in finished and semi-finished goods, the transfer of technology and the transfer of financial aid.

As regards the first of these, world trade in raw materials (except oil products) rose by about 5% per annum from 1955 until the early 1970s, whereas the annual increase in the total volume of world trade was 8.5 %. This difference can be explained by, inter alia, the low demand for foodstuffs and by the fact that the developing countries, being poorly organized, are denied a position of strength in the free play of supply and demand. Other causes are present tariff barriers and also non-tariff barriers to trade.

As regards the second area, the developing countries are compelled to spend increasingly greater sums in order to keep up in the technological sphere. At the same time a brain drain is taking place, for people from the developing countries who receive training in the industrialized world are tending to look for work in the industrialized countries, partly because they are attracted by the higher salaries and better living conditions but also because their training is often not relevant to the needs of the developing countries.

Finally, increasing prosperity in the countries with a free market economy has not been accompanied by increasing investment in developing countries. Moreover, in real terms, development aid from public funds dropped by 3% between 1964 and 1974. This lack of public aid compels developing countries to borrow funds and their debt burden thus increased from 9,000 million in 1956 to 90,000 million at the end of 1972 (disregarding oil-producing countries).

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[1] Calculated in 1973 prices

During the same period international liquid resources increased, but while official currency reserves rose by $108,000 million between 1952 and and 1972 two-thirds of this amount was held by the industrialized countries.

Against this background a Programme of Action was adopted by the United Nations on the establishment of a new international economic order. A fundamental assumption of this programme is that the developing countries need to exert a greater influence than hitherto on their own destiny and should have a greater say in the taking of decisions affecting them. The main points of the new international order are as follows:

1. A new structure is needed for trade in raw materials with the developing countries. Changes are necessary in order to abolish low prices and to improve t[illegible]ing arrangements, distribution, processing and transport of raw materials.

2. A new structure is needed to promote the industrialization of the developing countries. Although agriculture and the export of commodities will for the time being continue to be the developing countries' main source of income, these countries are rightly demanding a broader basis for their development including, in particular, the industrial processing of their own raw materials.

3. There is a need for a new international monetary system making better provision than hitherto for the monetary needs of the developing countries, in particular by the creation of reserves. The developing countries should be allowed to play a part in the decision-making process in this area.

4. Cooperation between the developing countries themselves should be improved. This is necessary in order to provide them with a better negotiating position but also to enhance the economic independence of the developing countries as a group.

5. The socialist states of Eastern Europe will have to be prepared to accept their share of responsibility with the other industrialized countries towards the developing countries. Their present attitude, which is characterised by refusal to accept specific responsibility towards the Third World, is economically untenable and, politically speaking, shows a lack of psychological insight into the powers of discernment of the Third World countries.

The European Community has already taken steps with a view to the introduction of a new international economic order. Firstly, the Convention of Lomé, which the EEC signed with 49 (shortly to become 52) developing countries, can be regarded as a testing-out of ideas which may subsequently be put into practice at world level. Secondly, the European Community was the first, in 1971, to introduce a generalized system of preferences for the export of finished and semi-finished goods from the developing countries to the EEC. This system has been improved annually and, in 1977, the developing countries could export to the Community, without payment of duty, goods worth up to 6,470m u.a. The Community has also contributed to the enlargement of trade with developing countries by the offer it made in respect of tropical products (coffee, tea, spices and cocoa) during the Tokyo Round negotiations.

Finally, the Community played a leading role in the decision to set up a common fund as part of an integrated programme on raw materials.

In October '76 the European Parliament requested the Council of the European Communities and the Member States to adopt the principle of the establishment of a 'new world'economic order' based on rights and obligations of the developing countries and the industrialized countries, taking into account the growing interdependence of the various factors that shape the world economy.

The European Parliament also recommended that an urgent study be undertaken, case by case, of the developing countries' debt burden, and that an operation be set up and criteria determined for the poorest countries within an appropriate international context. A general moratorium on payment of debts is not considered to be in the interests of developing countries, since it is feared that it might then be practically impossible for these countries to obtain further credit.

The European Parliament requested the EEC and its Member States to cooperate actively in drawing up an international code of conduct for the transfer of technology designed to meet the specific needs of the developing countries.

Your rapporteur takes the view that the European Community must push ahead with its efforts to achieve a better organization of trade in primary commodities,basing itself in particular on the integrated programme for raw materials as decided at the fourth UNCTAD Conference in Nairobi in May 1976.

Further, your rapporteur believes that in certain cases buffer stocks will have to be established which should be financed by both producer and consumer countries.

The system set up under the Convention of Lomé with a view to stabilizing the earnings which developing countries derive from the export of certain commodities of particular importance for them (STABEX) cannot replace a common fund but is proving to be a useful instrument in counteracting fluctuations in the earnings of developing countries. Your rapporteur therefore feels that a study should be undertaken in an international context in order to establish the desirability of setting-up a STABEX system at world level.