THE ECONOMIC CRISIS THIRD WORLD AND NIEO

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INTRODUCTION

The world economy has been for the last decade in recession, subject to repeated crises. This recession has been the longest and deepest since the 1930's. Though some economists in the developed countries have seen the glimmer of a recovery, most expect that the rates of growth will remain below the levels of the 1960's for a considerable period of time. This recession has also had the most marked impact on the developing countries. As the 1983 UN World Economic Survey says : " the outlook for most developing countries is bleak."

This booklet, prepared for publication by the Workers and Peasants Institute, Kandy, is aimed at discussign, in clear and non-economic language the characteristics of the persent crisis and its impact on developing countries. It deals broadly with the economic aspects of this crisis and, only in passing, with its social and political dimensions. It does not presume to grapple with theoretical problems of accumulation and crisis, but only to present to an intelligent lay reader, the most significant aspects of the crisis and of its impact. In view of the constraints of length, most such aspects are dealt with only briefly, but we hope, adequately.

We have also dealt with various attempts made by deveoping countries to overcome or mitigate the effects of the crisis on their economies and societies, although these have so far met with general failure.

The Workers and Peasants Institute is an organisation dedicated to the propagation of knowledge of their society among the working people of Sri Lanka. It is in accordance with that aim that we write this book — to broaden and deepen their understanding of their own economy in relation to what is happening to the world economy.

CHAPTER I

THE ECONOMIC SITUATION IN THE WEST

The three decades following the end of the Second World War was a period of unprecedented expansion for the world economy. The period was not without disruptions, with recessions occuring from time to time, but it was on the whole characterised by continued growth. There was investment in new and improved plant and equipment ; there was full utilisation of productive capacity and a rapidly expanding demand for labour power. There was also some relocation of primary industries in the peripheral countries of the Third World where there were comparative advantages in the cost of labour, leading to a view that hitherto underdeveloped countries could share in the expanded market through a programme of export-oriented industrialisation.

The basis for this long period of growth in the developed market economies lay in a number of inter-related factors. First, was a direct result of the war, which had ravaged and destroyed the economies of a large number of countries in Europe and in Japan. Production facilities as well as the infra-structure — transport, communications etc., had been in some countries almost totally destroyed. All these had to be replaced ; this ensured a boom-time for capital goods manufactures.

Another factor lay in the new global relations that had emerged at the end of the war. The United States came out of the war as the strongest power among capitalist countries; On the other side the Soviet Union emerged from the war greatly strengthened and as the leader of a number of countries which had joined the socialist path of development. With subsequent expansion, the socialist group evolved into a world system comparable in economic strength with the capitalist system, even extending into the western hemisphere with the success of the socialist revolution in Cuba.

The emergence of the socialist system and its successful development of industry and technology had a very important impact. It signified the collapse of one of imperialism's key monopolies — its monopoly on financial means, capital equipment, technical know-how, modern technologies etc., and opened to the newly independent developing countries a new option ; rapid development of their economies through mutually beneficial economic and technical cooperation with countries of the socialist system. This was an option which many countries adopted in consolidating their political independence and achieving a measure of economic emancipation. The emergence of the US as the dominant capitalist power and its struggle to achieve and sustain its position of dominance was one of the key factors that led to a situation of tension between the two systems. There thus ensued a prolonged period of Cold War, marked by ideological warfare on a global scale, by actual conflict in Korea and Vietnam and by the continuance of a state of armed strength. This continuing state of tension kept alive and led to massive increases of production in all war - related industries. The Korean war was primarily responsible for the process of recovery and accumulation in Japan, while American rearmament and the Korean and Vietnamese wars fuelled expansion and accumulation in the US and Europe.

Another factor that contributed to a change in global economic relations was the process of de-colonisation following on the end of the war. Old ties between the colonies and their metropolitan centres were sundered. New economic relationships were forged, sometimes on a new basis with the old colonial masters; however, new relations were also forged with the US and the Soviet Union, in the latter case mostly by those countries which had been forced to engage in national liberation wars against colonial powers reluctant to relinquish their stranglehold.

The needs of combat during the war saw the development of new technologies — electronics, jet-transport, atomic fusion, etc., The application of these new technologies to civil uses led to investment in new industries with heavy market demands. Though not a new technology the spread of automobiles throughout the world after the Second World War had important spread effects in a number of other industries like rubber, glass and in infrastructure such as roads.

The adoption of these new technologies to peace time uses also triggered off a revolution in automation and communications which has still not come to an end. Electronics and computer technology not only created enormous markets for new products ; they also made feasible another factor which we shall later note, the spread of multi-national investment, in that instant communication and control on a global basis became, for the first time, a reality.

The process of continued expansion in production was provided with an institutional base by the emergence of the United States as the dominant power in the developed capitalist world, the consequent adoption of the dollar as the unit of international exchange by the Bratton Woods Agreement and by the emergence and development of new international agencies. Of these the most important were the two financial agencies established under the aegis of the United Nations — The International Bank for Reconstruction and Development (IBRD), called generally the World Bank and the International Monetary Fund (IMF) ; the latter became quickly the regulatory agency in the field of international exchange. Both these agencies were to a large extent dominated by the United States and served to confirm the hegemony of the United States over the world capitalist system. In the period between the two wars, the system had, as a result of the depression of the 1930's broken up into a number of trading and currency-blocs ; now it was re-united under US hegemony.

In looking at the picture of world capitalism since the war and today as well, it should be understood that United States hegemony of the system was not an accidental or fortuitous occurence. It was deliberately planned for by the US ruling class even during the war itself. According to Gabriel Kolko in *The*

Politics of War : The World and United States Foreign Policy 1943—1945 :—

" In May 1941, Cordell Hull publicly enunciated the " fair and simple " main principles of American economic policy. Extreme nationalism could not be expressed in excessive trade restrictions after the war. " Non-discrimination in international commercial relations must be the rule." And " raw materials must be available to all nations without discrimination "............" The institutions and arrange ments of international finance must be so set up that they lend aid to the essential enterprises and the continuous development of all countries and permit payment through processes of trade..........."

The necessity for US hegemony was expressed by Hull in July, 1942 ; " Through international investment, capital must be made available for the sound development of latent natural resources and productive capacity in relatively undeveloped areas...........Leadership toward a new system of international relationships in trade and other economic affairs will devolve largely on the United States because of our great economic strength. We should assume this leadership and the responsibility that goes with it primarily for reasons of pure national self-interest." This hegemony provided a base for the increasing international spread of multinational corporations throughout the world ; it enabled them to maximise their capital resources, spreading their productive facilities wherever it was most advantageous to them. The new system made possible massive movements of capital throughout the capitalist world.

The development of new productive facilities created conditions of almost full employment in the advanced industrialised countries ; this fuelled a consumer boom covering almost all sectors and making possible the fullest utilisation of production capacities. The continued expansion also enabled the creation of the " social-welfare-state" in many industrialised countries, because continuing high rates of profit enabled the division of resources into these fields."

These were the most important factors in the long and continuous expansion in the world economy from the end of the World War. Though these factors were dynamically powerful and led to a period of high capital accumulation and investment, they were also by their very nature limited and the stimulus they provided was bound to diminish. These expansionist forces began to weaken in the early '70's, the upswing in the economy coming to a virtual end in 1973. The world capitalist economy then entered into a period of crisis characterized by a retarded rate of capital accumulation and investment, implying relatively low rates of profit, stagnation in growth and idle capacities, steadily rising rates of unemployment and by inflation markedly higher than those in previous periods.

Within this downward swing which started in 1973 and still continues, there have been two major periods of recession, followed by mild but not continuous recoveries. The first was in 1974 to 1975. GDP growth in the industrialised countries in 1973 was 6.1 per cent, only 0.8 per cent in 1974 ; then it fell by 0.4 per cent in 1975. The second recession began in 1980. GDP growth in the industrialised countries was 3.3 per cent in 1979, 1.3 per cent in 1980, and 1981, registering a fall of 0.5 per cent in 1982.

Growth rates were similarly affected in the developing countries. In the first recession, their average rates of growth were 7.4 per cent in 1973, 5.9 per cent in 1974 and 4 per cent in 1975. They fared worse in the second recession. Their GDP grew only by 2.5 per cent in 1980, 2.4 per cent in 1981, 1.9 per cent in 1982 and by some estimates 1 per cent in 1983.

SEE TABLE—I

The tendencies are even more vividly illustrated when we consider output growth in the industrialised countries. Growth of output in 1980 was barely a third of the annual averages achieved during the previous three years. Compared to the 1970's as a whole, when performance had been generally subdued, the figure for 1980 was nearly a 1.3per cent growth in output,dropping to 1.1 per cent in 1981 and 0.8 per cent in 1982. These are general averages for all the industrialised countries, with the experiences of individual countries or blocs showing some variations, as indicated in Table—II. Japan, for example managed to maintain fairly steady rates of growth, more than double the average rate for all industrialised countries, while Europe as a whole slipped into negative growth.

SEE TABLE—II

Decline in output meant idle capacity. By October 1982, capacity utilisation in the United States, for example, had fallen to 68 per cent of installed capacity. Returns on capital employed fellland in turn, inhibited investment in new or improved productive equipment. This meant in turn declines of outputs in the capital goods sector. The end of the cyclical process of decline which was thus set in motion does not yet appear in sight.

The extent of the fall in real rates of return on capital are demonstrated in Table III, the same trends continuing in the post 1976 revival.

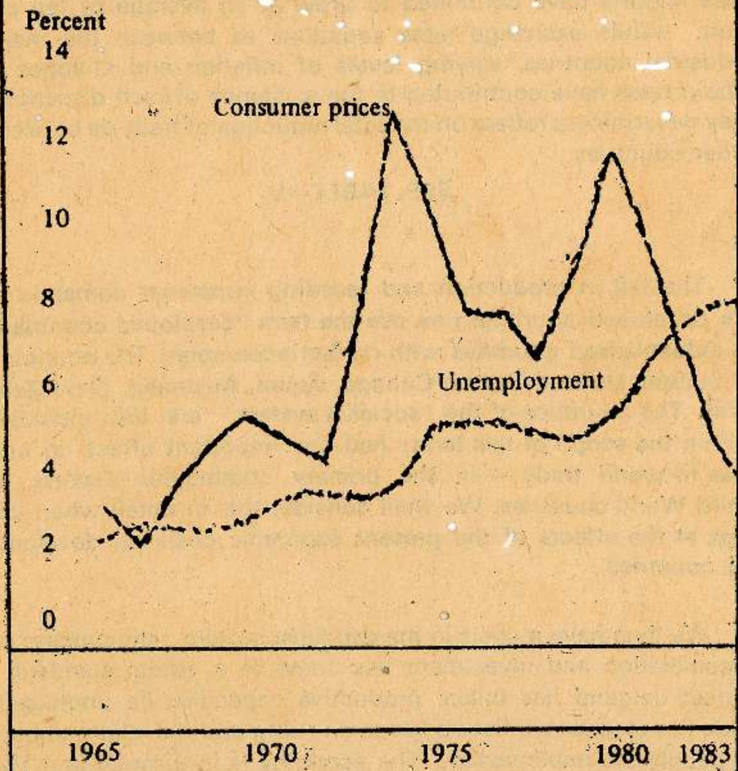
SEE TABLE—III

Another factor that contributed to a fall in the rates of profit was decreasing labour producitvity. Failure to improve capital stock and the success of labour unions in generally ensuring no falls in their real wages in the face of inflation both led to significant decreases in productivity in the industrialised nations.

SEE TABLE—IV

One of the important ways in which the fall in the growth of output manifested itself was in rising levels of unemployment. With Japan as a major exception, most industrial countries have suffered from substantive levels of unemployment, surpassing in most cases 10 per cent of the labour force in 1982. These are levels higher than any experienced since before the Second World War. The graph indicatsd the steady growth of unemployment in seven major industrial countries. (See Page-07)

Inflation, and unemployment in seven major industrial countries, 1966 – 83



Countries include Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

a. Estimated

Source : OECE 1983

World trade is one of the areas in which the present crisis has made itself manifest. Growth in world trade has vrirtually ceased ; it rose by a meagre 1.5 per cent in 1980 and stagnated in the succeeding years. — (*See* Table V). As has been pointed out earlier, not all countries are similarly affected ; Japanese imports have continued to grow at an average of ten per cent. While exchange rates variations as between the major industrial countries, varying levels of inflation and changes in labour rates have contributed to the existence of such disparities, they nevertheless reflect on the total reduction of trade as between other countries.

SEE TABLE—V

The fall in production and receding consumer demands in the developed countries [we use the term "developed countries" to industrialised countries with market economies. The countries of Europe, Undited States, Canada, Japan, Austriaiia, New Zealand. The countries of the "socialist system" are not included within the scope of this term] had an important effect in one area fo world trade — in the primary commodity exports of Third World countries. We shall consider this in detail when we look at the effects of the present economic crisis on developing countries.

We thus have a crisis in the capitalist system ; the process of accumulation and investment has come to a virtual standstill ; market demand has fallen, productive capacities lie unutilised, trade lies stagnant, inflation keeps on rising and the vast numbers of people are unemployed. The economy is in disarray and the forces of social cohesion have given way to substantial rents in the social fabric. A growing disenchantment with the system as it exists leads either to a cry for its transformation or to a reassertion of the values of the private enterprise system in its earlier eras.

The next question to be discussed is the way in which developed countries have perceived this crisis and have tried to over come it.The first thing to be noted in this context is that politicians and technocrats in these countries and that includes economists, appear to be unsure of the reasons for and the nature of the present crisis and are therefore uncertain in devising ways and means of restoring economic growth, economic balance and some measure of social stability. This uncertainty also accounts in large measure for the differing policies and strategies being followed in such countries as the United States, Britain or France

This general theoretical and analytical uncertainty is also reflected in the lack of any agreement on what needs to be done on the North-South front, given that weakening development in much of the Third World is linked to the stagnation of the industrial economies.

However, it is not only the North-South dialogue or the quest of the Third World for a New International Economic Order that are in a state of disarray. Even earlier established international agencies like GATT (the General Agreement on Trade and Tariffs) are being eroded of their authority as various products are being removed from the orbit of their operations. At the international level, there is today no consensus on the goals to be pursued as there was in the 1960's. Let alone a commitment to the satisfaction of basic needs on a global basis, there is no commitment today even to such goals as full employment (in the 1960's an unemployment rate of 3 per cent was regarded as a trigger for social instability), basic welfare services, or economic reform at national and international levels. These goals are no longer the accepted currency of international economic discourse ; they are instead viewed as signs of incipient Utopianism. Those who used to argue on principles of equity for assistance to the poor are now on the defensive ; these economists who argue that the only way of overcoming a crisis characterised by under utilisation of capacity, lowered production and rising unemployment was by re-employment and full utilisation of capacity are no longer heeded. Having given up visions of global equity, politicians and technocrats of the developed countries are looking only at ways and means of shoring up their individual country economies. This has contributed to a sharpening of the contradictions in the capitalist system. The United States, the EEC and Japan follow policies which are not always mutually sustaining. Thus the present crisis has also had the result of weakening US hegemony.

The abandonment of any global and the concern with patching up their own sorely beset economies, has led, particularly in the United States and Britain, to the adoption of reductionist dogmas as national economic strategies. The adoption of supply-side economic theories have seen, in the United States, massive tax-cuts in the hope that the funneling of immense extra resources into the hands of investors and corporations would be likely to generate new investment and production and would generate in turn increasing tax revenues. Increases in military spending together with tax cuts have created burgeoning deficits, which cuts in social services have not been able to reduce. While these policies may have reduced the levels of inflation and restored some degree of external balance, they have not been able to generate reasonable growth and employment levels.

What these policies have been successful is in generating a debt-explosion — both private and government. As *Business Week*, the leading US business journal has stated : " Since late 1975 the US has created a new debt economy, a credit explosion so wild and so eccentric that it dwarfs even the borrowing binge of the early 1970's." As a result, interest rates in the US have been increasing sharply ; the implications of this for the Third World will be discussed later.

The adoption of similar policies in the UK have been even more disastrous. A situation of external balance together with reduced levels of inflation has been achieved ; but this has been at the expense of massive unemployment, cuts in services provided by the state and rapid de-industrialisation.

Given the present internationalisation of economic life and the interdependence of national economies, the pursuit of policies aimed at shoring up its own economy by the United States, the hegemonic capitalist power, has created numerous contradictions within the capitalist system. The movement of interest rates in the US in response to its fiscal policies and its impact on the monetary sphere in other countries is one example of this phenomenon.

The sharp increase in the discount rate of the US Federal Reserve System. and the interest rates on credits introduced by commercial banks in the early 1980's entailed an influx to the USA of huge amounts of short-term capital from other countries.

To offset that, the central banks of West European and other states were obliged to increase considerably their own interest rates. That created additional difficulties for these countries in overcoming the crisis state of their economies. So, the USA in effect became an exporter of crisis phenomena, primarily unemployment and under utilisation of productive capacities, to other Western states.

The drain of short-term capital from other countries, especially from Western Europe, by means of inflated interest rates led to a temporary improvement in the US balance of payments and a marked increase in the dollar's exchange rate. From August 1980 to November 1982 the dollar's weighted exchange rate went up by 35 per cent, and in relation to some currencies, West European currencies in particular, the rise was even more significant. Thus, in that period the dollar rose by 42.7 per cent against the West German mark, by 45.1 per cent against the British pound, by 73.4 per cent against the Italian lira, and by 73.8 per cent against the French franc.

The strategic line aimed at maintaining inflated interest rates turned the US's partners into involuntary " donors" of short-term funds, which were then used by the United States as an additional source of financing the government debt. This credit aggression has long ceased to be a purely economic phenomenon, but has turned into as erious political problem with far-reaching consequences for the US's relations with its partners. The US economist Walter Heller has admitted that " the international costs and consequences of our interest rates are really incalculable." When in April 1983 the dollar soared to a record high against a number of West European curencies, the French Minister for the Economy and Finance, Jacques Delors, called it yet " another demonstration of how little importance the Americans make of the financial and economic situation of their allies."

Another exmple of the contradictions encountered by the Pursuit of national economic goals by the US is in the matter of balances of trade.

The US believes that the way to solve its trade balance problem is to compensate for the decline in the competitiveness of US industries primarily by pressurising its competitors into " voluntary " restrictions on the export of some of their goods into the USA, resorting to both tariff and non-tariff protection. Thus, in late 1982, the USA high-pressured the Common Market, urging it to make yet another " voluntary "cutback in steel exports. The West European quota on the US steel market was reduced from 6.4 to 5.75 per cent. After the meeting in Williamsburg, where the United States promised to take its partners' interests into account, President Reagan signed an order imposing tough restrictions on the import of special steels to the USA for the next four years. In Western Europe and Japan, these moves were seen as an outrage which totally invalidated Washington professed " adherence to the principles of free trade."

Trade in farm produce has been and remains one of the mos serious problems in the economic relations between the USA and the EEC. The USA does not confine itself to demands for concessions on the part of the EEC, especially in the matter of subsidising agricultural exports, but has been taking " retaliatory measures." Thus, the US Administration decided to allocate a certain sum to subsidize the sale of a sizeable shipment of grain to Egypt, which for a long time had been a major importer of grain from France. In Common Market circles, the US move was qualified as a breach of the rules and principles of GATT.

Protectionist tendencies in the capitalist world markedly intensified after the virtual failure of GATT's 38th annual session in late 1982 where the contradictions among the USA, the EEC and Japan stood out in bold relief. As the US magazine Business Week put it " more than anything, the meeting confirmed that the most dangerous threat to world trade is rampany nationalism." The US delegation, which was profuse in its free-trade rhetoric, at the same time openly threatened to applt protectionist measures against its partners. Tense trade relations of the USA with its rivals were not mitigated at the 39th GATT session held late last year.

The " common destiny " being proclaimed by the ruling classes in the US and in Japan do not in the least tone down the trade and economic contradictions between the two powers. The United States makes no concessions to its Pacific partner in the area of vital importance for the latter; expansion of exports.

Far from agreeing to reduce anti-Japanese protectionist measures, the USA has been even more insistently demanding greater access for its own goods to the Japanese market. Roughly 40 per cent of all Japanese exports to the USA are subject to various restrictions, including " voluntary " quotas imposed on Japan through direct pressure. Thus, the Japanese have not been able to induce the USA to lift the restrictions on the export of Japanese cars to the United States. At the same time, the USA would like to re-orient Japanese exports towards Western Europe, although the Common Market is already finding it quite difficult to contain the Japanese export drive. According to preliminary estimates, the EEC's deficit in its trade with Japan, in 1983 amounted to dollars 12,000 million. All that shows that the knots of trade and economic contradictions within the " big triangle " have been tightening.

In effect, the policies adopted by the industrialised countries are not aimed at growth at the level of the international capitalist system. The consequences of these policies for their own people have been disastrous. Unemployment and reductions in welfare services have eroded their living standards. Even facilities such as health and education, considered at one time the corner-stones of the welfare state are being increasingly privatised and made subject not to social need but to the market place.

The nature of the present and continuing crisis of the capitalist world economy is now clear. Unused capacity, high interest rates and low rates of profits have combined to discourage and reduce investment ; growth is minimal ; world trade is stagnant and promises to remain so in the context of increasing protectionism ; inflation continues to be higher than normal ; government expenditures lead to unmanageable deficits ; unemployment and severely reduced levels of social welfare erode the living conditions of the masses ; poverty and wealth become more accentuated. This is the dismal picture of the present econonmic crisis ; there is little comfort to be derived either from its present situation or from the prospects that conditions will change soon and there is a new era of expansion.

Before we look at the implications of this crisis for the developing countries, we should consider at least briefly the basis of this crisis. Most bourgeois economists seek to explain the crisis in terms of government monetary and fiscal policies. Some believe that appropriate monetary policies could have avoided the crisis ; Others say the same thing of fiscal policies. Others, studying the history of the growth of the capitalist system speak in terms of long cycles ; they quote Kondratieff who argued that capitalist history has been characterised by long cycles of fifty years duration.

However, none of these arguments are capable of explaining why capitalism behaves in this fashion. The answer has to be sought in the nature of capital itself.

Capital is not only a thing or social relation. It is also a self-expanding value. Capitalists must always seek to expand capital by maximising the surplus value they grind out of their workers and by investing the surplus value thus appropriated in additional production. This has two contradictory results—increasing the economy's power to produce and at the same time restraining its ability to consume. Unlimited production and restricted consumption is a profound contradiction.

Capitalism's drive to unlimited expansion can operate in certain contexts. The period after the Second World War, for the reasons that we have cited was one such period. The restoration of war-damage and the new relationships that were its product allowed a long period of organisation and growth. But this momentum cannot continue : a time comes when the economy, particularly its capital goods sector, develops to the point when further expansion is not sustainable. That is the point of crisis, the present crisis of accumulation. Whether this crisis can be overcome, permitting capitalism to embark on another upswing such as that which took place after 1945 depends on the ability of capitalism to reorganise its economy and policy through a new international division of labour based on new technologies. Capitalism can only do so if such a process is profitable and if the balance of class forces permits to do so. Ultimately the solution of the crisis in one way or another will depend on the nature and intensity of the class struggle both in the advanced capitalist countries and in the Third World.

CHAPTER II

THE IMPACT ON THE THIRD WORLD

we shall consider various aspects of the impact of the economic crisis that we earlier discussed on countries of the Third World. We shall in some instances speak of the impact in generalised terms, i.e. — over all those countries that are not part of the developed industrialised world, because the slow-down in industrial country growth hurt all developing countries. However, the effect was not the same for all. Therefore, we should also be mindful, of the profound differences or levels of development among the developing countries, from sub-imperialism's like Brazil, oil-rich developing countries, newly industrialising countries like South Korea, Taiwan, Singapore, etc, to low income economies in which group many countries of Asia and Africa find themselves.

Growth was the starting point of our discussion of the world capitalist economy. (See Table 1). A perusal of the Tables would show that the recessions of 1974—1975 and of 1980—1983 both affected developing countries seriously. Their average rate of growth was 7.4 per cent in 1973, 5.9 per cent in 1974 and 4 per cent in 1975. The drops were less serious than in the industrialised countries, but nevertheless their effect was marked. The effect of the second recession on the developing countries was more severe: GDP growth rate in 1980 was 2.5 per cent; it fell to 2.4 per cent in 1981, to 1.9 per cent in 1982 and to 1 per cent in 1983. These rates of growth were far below their population increases and therefore indicated a general lowering of living standards.

The Debt Crisis.

We shall discuss, against this background, various aspects of the impact of the economic crisis, beginning with the financial crisis, which has engulfed most developing countries because, as Dragoslav Avramovic, Special Adviser to the United Nations Conference on Trade and Development (UNCTAD) says, it is" a reflection of the deep-seated problems of the world economy-whether in trade, commodities or other sectors — especially as they affect the developing countries. Ultimately, all crises, whether cyclical or structural, end up as financial crises and as liquidity problems".

The financial crisis faced by most developing countries — the result of worsening terms of trade, lack of liquidity and foreign exchange reserves, the necessity of essential investment to meet growing aspirations — has forced many of them into huge budget deficits, which have been financed largely from borrowings from the capital-rich banks of the developed countries. Table VI indicates the enormous magnitude of the deficit and of the borrowings.

Thus the problem of debt has emerged as the most overt manifestation of the financial crisis of the developing countries, as is evident from the debt indicators reproduced:

The immense magnitude of the debt problem can be grasped by looking at its scope : {SEE TABLE VII}

— The total debt of developing countries at the end of 1983 was in the order of approximately 800 billion US dollars, comprising both long-term and short-term debts. The non-oil developing countries was the worst affected, their debts increasing by 83 per cent between 1978 and 1982. (See Table VII).

— About half of all long-term debt is owed to private banks as compared to one quarter a decade ago.

— About 40 per cent of this debt is at variable interest rates. As the rates go up in the developed countries, so does the interest on these loans: a one percentage point rise in the rate of interest is estimated to cost the developing countries approximately 3 billion dollars per year in increased interest payments.

— Interest payments on external debt by the non-oil developing countries reached a level of $60 billion by 1982—83. Interest payments absorbed between 13 and 14 per cent of their export earnings. In the period between 1980 and 1983, their export earnings growth was sufficient only to keep pace with the increases in their interest payments. (See Table VIII)

— In the case of low-income countries, their debt-service payments absorbed, in 1983, more than a fifth of their export earnings. [SEE TABLE IX]

Two of the immediate consequences of the debt problem, as far as the developing countries were concerned, were extremely serious. Developing countries experienced in 1983 an actual negative net inflow of funds of $11 billion. Their resources were being drained away into the developed countries. Secondly the lack of resources compelled them to cut down drastically on imports; between 1981 and 1983, their imports went down by $60 billion, of which $ 40 billion was in relation to industrialised countries. This meant, in actual terms, a reduction of imports of capital and intermediate goods, leading directly to lowered rates of growth.

The origins of the debt problem are located in a particular set of historical circumstances. Until 1974, developing countries generally obtained their foreign capital from governments and international public institutions. These sources broadly accepted the proposition that loans should be provided on terms which recognised the special economic and political problems of the debtor countries; this was based on the understanding that many of them would be unable to meet interest or capital repayments on a commercial scale. The increase of oil prices in

1973—74 produced an urgent need for extra resources. By this time, the commercial banks, which had large deposits arising from the surpluses of the OPEC countries, were anxious to find opportunities for using these surpluses profitably. They were therefore prepared to meet the demands of the developing countries for extra resources. The governments of the developing countries were more than happy with these arrangements; their commercial banks were reaping high profits and they themselves would not have to meet additional budgetary obligations.

It was generally assumed by governments, banks and borrowers that the debts could be serviced indefinitely through expanded borrowing on the capital markets. But the lenders were private commercial banks with limited resources who were trying to maximise their profits; they could not make appropriate decisions on the amounts to be lent, either in the aggregate or on its apportionment between the developing countries. It thus came to pass that three of the biggest debtors — Mexico, Brazil and Argentina - came to owe $ 200 billion — nearly half the increase in total debt since 1973.

The borrowing countries continued to increase their borrowings in the period since 1974, often bridging the period between borrowing and the servicing of debt by further commercial borrowing. This could go on as long as debt servicing appeared, in real terms, as a possibility. However, by 1980, this prospect was no longer reassuring. The second oil-price increase, the prolonged recession and high interest rates contributed to the realisation that many debtor countries were no longer capable of servicing their debts. As a consequence, commercial bank lending to developing countries has virtually ceased over the last two years and debtors are in serious difficulties over meeting their debt interest payments.

As a consequence of the lack of finances to service their debts, developing countries have been compelled to achieve surpluses on trade in goods and services. Deflation has generally been the chosen instrument. Imports by developing countries have fallen, between 1981 and 1983, by approximately $ 60 billion. The measure of deflation necessary to achieve contraction of imports of this magnitude has led not merely to lower growth but also to cuts in per capita income.

In 1983, there was in Latin America a decline in real per capital incomes of 5.6 per cent, the third successive year of decline. As for the generality of developing countries, the IMF has stated: "In 1982 and 1983 the entire GDP growth of 1 1/2 per cent in the non-oil developing countries was needed to improve the foreign balance. Thus real domestic demand in these countries in 1982 and 1983 was at best stagnant in aggregate terms and declined by a wide margin in per capita terms."

In other words, developing countries attempting to meet their debt servicing obligations have been compelled to grind down the living standards of their people. Not only this, they have also been compelled to cut down on investment, thus putting in peril prospects of future growth. It has also to be remembered that these measures have resulted in great political instability in many developing countries. In this context and in the face of growing protectionism in the developed countries, it is highly unlikely that developing countries will be able to generate export incomes sufficient to service their debts.

The debt crisis also threatens the stability of the banking system of the industrial countries. However, the governments of these countries as well as the international financial institutions have tended to take a short-term view of the crisis. They appear to believe that, if the present tentative recovery in the industrialised countries could be sustained and if the debtor countries follow what they call "sound adjustment policies", as dictated to them by the IMF, then the debtor countries could generate sufficient surpluses to service at least a major portion of their obligations. If the viability of the debtor countries could thus be established, then commercial banks would resume their lending. But, as was pointed out earlier, such surpluses could be generated only at the cost of abandoning investment for future growth and by depressing the already low living standards of their peoples.

In the light of this thinking, attempts are being made to overcome the current crisis by debt renegotiation on a country-by-country basis, with no over-riding or general guidelines derived from a global view of the problem. The process of renegotiation generally includes the re-scheduling of existing loans, adjustments in the debtor country within an IMF programme and new and bridging finance from the IMF and the Banks.

Thirty countries, accounting for half the total debt of the developing countries have, upto the end of 1983, rescheduled their debts. But that this is not a real solution is evident, as the example of Mexico, given below shows :

Mexican public debt repayments schedule (US$ billion)

Note—These figures are approximate. They take into account the new commercial loan, but not the IMF loan nor the additional private or official loans which may be granted.

Period Due	Before Rescheduling	After Rescheduling
1983	24 4	1 5
1984	4 5	1 3
1985	9 7	9 7
1986	5 1	6 8
1987	7 5	16 0
1986	4 7	13 1
Thereafter	7 6	21 0
—Total	64 6	69 4

An analysis of the second column shows that the rescheduling under discussion pushes towards a biggest problem in 1985—1986

The Rescheduling only means a ltmporary postponement; it prves the way for even bigger problem later. Sri Lanka was not a traditional commercial borrower, but in the recent past has been incurring large debts to finance its deficits. Reluctant to prune down an ambitious investment programme or curtail impo..ts. the government has chosen, like many other developing countries, to borrow commercially to cover its deficits. The total foreign debt outstanding by 19 per cent in 1982 and again by 33 per cent in 1983., as a result the debt service ratio — i. e. interest payments as a percentage of receipts from merchandise exports, services and private transfers — has risen from 8.3 in 1979 to 13.2 in 1983. The magnitudes in comparison with large debtor countries are undoubtedly small, but the alarming increase in the debt ratio is an example of the plight of many developing countries faced with financial difficulties.

Based on this understanding, various proposals have been made towards a settlement of the debt problem. They range from a generalised re-scheduling open to all developing countries and the conversion of short and medium term debt into long-term debt to the partial cancellation of debts. There are also suggestions to insulate these debts from interest rate increases. However, none of these address the central question : Can a system of large-scale purely commercial lending by the private banks to poor countries be sustained? And this must also lead to a questioning of the international financial system which has evolved over the recent years. These are questions which neither the developed countries, particularly the US or the international institutions they dominate are able to raise or answer.

Meanwhile, the debt crisis remains an explosive issue.

Trade

One of the features of the current crisis has been a stagnation in world trade. As was pointed out, world trade stagnated in 1981 and acutely fell by 3.6 per cent in 1982. One of the reasons for this drop was a reduction in the volume of trade in fuels. Protectionism also played a part but in general, lowered levels of international trade were merely the reflection of lower levels of international production.

Before looking at the effects of this factor on developing countries, consider some characteristics of world trade. First, international trade is dominated by the developed countries; the developed capitalist countries account for over 60 per cent of world trade, with the developing countries contributing only 29 per cent. The share of developing countries has been increasing only very slowly; however the share of non-oil developing countries has fallen drastically — this being a feature of the situation even before the current crisis. Secondly a major portion of international trade is between the developed countries themselves — currently about 70 per cent of inter national trade; while their share of trade with the developing countries is small, the developing countries trade more with the developed countries than among themselves. Only about 25 per cent of trade is conducted between the developing countries. However, inspite of such inequities and imbalances, world trade is very significant for the developing world because of the way in which expansion of trade articulates with growth of production and with development.

There is, however, one other characteristic of international trade that is significant in the present crisis. Developing countries chiefly trade in primary commodities; the development of manufactures in a relatively small number of developing countries has not altered this picture substantially. Reduced production in the industrialised countries has tended to reduce, both in volume and price, the exports of primary commodities. These changes have been particularly drastic since 1980, as Table X indicates :

SEE TABLE–X

While lowered production demand in the industrialised countries was the key factor in depressing prices of industrial raw materials, high interest rates also deterred storage. Bumper harvests of food crops in the developed world also tended to depress the price of foodstuffs. But prices of manufactured goods continued to rise and caused drastic reductions in the terms of trade experienced by the developing countries, as indicated in Table XI :

SEE TABLE-XI

The prices of primary products in relation to manufactures reached in 1982 a low that had not been seen since 1945. Eventhough some prices began to rise slightly in 1983 in response to the slow turn-around in the developed countries, the terms of trade continued to be adverse. An improvement in the terms of trade would indicate that a greater quantity of imports can be obtained for a given volume of exports on the basis of price retationships alone. This will result in a gain in real incomes. A deterioration in the terms of trade used, will on the same basis, result in a reduction. What this means in general terms for the developing countries is lower income for exports and higher outflows for imports. The consequences of this conditions were graphically underline by the Director General of the UN Food and Agriculture Organisation (FAO) in 1981 : "At the end of the past deaide the profits from exporting one ton of bananas could purchase only half the steel it could buy ten years before. The case of wheat is even worse In 1976, 16 tons of wheat could be bought for a ton of cocoa beans. Current prices allow for the purchase of 9 tons of wheat for a ton of cocoa-beans".

Sri Lanka is a good example of a country dependent on exports of primary agricultural products. Over the years, despite temporary upswings, the price levels for its export commodities like tea, rubber and coconut have been falling ; its terms of trade has been gradually deteriorating. The deterioration since 1978 has been specially marked : if one takes the terms of trade in 1978 as 100, it deteriorated to 72 in 1979, 58 in 1980, 46 in 1981 and 38 in 1982. (See Peoples' Bank Journal *Economic Review - May') 1983* This means that the country's ability to import was grossly reduced. In the face of an inability to reduce imports, this meant budget deficits and borrowings.

The case of other commodities is graphically illustrated in the accompanying chart.

See **Chart**

This table shows the changes in the purchasing power of commodity exports. Commodity purchising power is measured in the following terms:

1975	A
June 1983	B
May 1983	C

1, how much oil one tonne of each commodity can buy;

2. the volume of debt service payments one tonne of each commodity can cover in US dollars.

	Oil (barrels) bought by 1 tonne of commodity		*US $ debt interest covered by 1 tonne of commodity*	
Copper	115.40	A	17800	A
	58.73	B	17522	B
	61.03	C	19796	C
Lead	38.47	A	5934	A
	14.07	B	4199	B
	14.97	C	1855	C
Tin	640.91	A	98857	A
	461.57	B	137711	B
	466.33	C	151270	C
Zinc	69.56	A	10730	A
	24.80	B	7398	B
	25.37	C	8230	C
Cocoa	147.70	A	23104	A
	80.90	B	24137	B
	7076	C	22952	C
Coffee	283	A	44561	A
	94.25	B	28120	B
	95.24	C	30894	C
Cotton	119	A	18392	A
	58,69	B	17509	B
	53.32	C	17297	C

(Continued on page 130)

This is the situation which compelled most developing countries to cover their deficits by recourse to external borrowings. The evil consequences of that step we have discussed earlier.

Another factor that has led to the deteriorating financial situation of the developing countries is inflation in the developed world. Inflation sharply increased the prices of imports and contributed to the phenomenal rise in interest rates. It has been estimated that the prices of manufactured goods and foods imported by the developing countries increased between 1970 and 1981 by as much as 2.7 It is partly as a result of such inflation that the deficit in the balance of payments in the developing countries rose from 1.2 billion dollars in 1973 to 8.5 billion dollars.

It is quite obvious that the reason for the deterioration in the terms of trade experienced by the developing countries is the fall in the values of primary commodities. The prices of these commodities have always been subject to the vagaries of the market in the short run; however, despite the booms in commodity prices induced by the needs of war such as the Korean War, the general tendency has been, in the long run, for prices to fall.

The advanced industrial countries are dependent on the Third World for a large share of their needs of most primary raw materials. The degree of dependence of the European Community, Japan and the United States on imported raw materials is indicated in Table XII:

SEE TABLE-XII

Most of the countries from which such imports are derived are Third World countries. If the terms of trade for raw material exports decline relative to the processed products, then the beneficiaries of such a process are the developed countries; the exporters of raw materials will be gradually impoverished.

We have indicated the reliance of the industrial countries on imported raw materials as of 1973 because we wish to trace now the effects of the raw material exporting Third World countries to stabilise the prices of their commodities and the way in which the developed world has been thwarting such efforts.

UNCTAD

The UN Conference on Trade and Development had been set up in 1964, at the insistence of the developing countries supported by the socialist countries, and reluctantly agreed to by the developed, as a means of reorganising trade patterns so as to support economic development on a global scale. The question of stabilising commodity prices was a prime concern of the agenda put forward by the Third World through UNCTAD. At the IVth UNCTAD Conference in Nairobi, the Third World, as represented by the Group of 77, presented a comprehensive action proposal to cover this problem. Turning away from the concapt of "solidarity funds" to underwrite the activities of producers associations on the model of OPEC, the group suggested a consumer-producer Common Fund of 6 billion dollars which would deal with the problems of supplies, prices and producers' incomes over a range of 17 major mineral and agricultural commodities. Of these seventeen, ten were core commodities-jute, sisal and tea were three of them; 80 per cent of their production were from Third World countries and 84 per cent of that figure came from countries with a par capita income of less than $ 900 per year.

The Common Fund was expected to provide a relatively simp international framework within which the prices of these seventeen commodities which were normally subject to wild short-term fluctuations could be stabilised. This was to be done by making the Common Fund available for financing the maintenance of buffer stocks which were essential to enable individual commodity agreements to maintain price-levels. By absorbing excess supplies during periods when prices were falling and by selling from the stockpile when rising prices threaten to reduce consumption and thereby upset stable production conditions, the buffer stock could curtail the damage done by short-term price fluctuations. It was argued that historically, individual Commodity agreements had generally failed to ensure price stability;

the Common Fund would ensure an organised framework and adequate financial resources to make a success of commodity agreements. While it was generally agreed that the Common Fund would be unable to iron-out entirely price fluctuations, the bargaining Power of producers in individual agreements supplied by the Fund would be strengthened. If the Common Fund would succeed in stabilising prices at levels "just and remunerative to producers and equitable to consumers", then Third World producers could move onto the next step in restructuring the existing division of labour-increasing the producing countries' share in the final product prices of the commodities they export. For, as Mahabub-ul-Haq has estimated — "the final consumers pay over-200$ billion (excluding taxes) for the major primary exports (excluding oil) of the developing countries (in a more processed, packaged and advertised form) but these countries receive back only-30 billion dollers with the middle-men and the international service sector, mostly in the hands of the rich nations, enjoying the rest." With prices stabilised and income secured, the primary commodity exporters could plan expansion into processihg and distribution.

The industrial countries of the West were totally opposed to the concept of a Common Fund. The US proposed instead the establishment of an International Resources Bank which would have been under the control of private investors and would have ensured their primacy.

The argument over the establishment of the Common Fund has proceded against the indifference and hositility of the developed world. After years of negotiation, it was agreed that the Common Fund be set up; but, from an initial figure of-6 billion dollers it was emasculated down to650 million dollers of which only-400million would be available for price stabilisation. The insignificance of the present funding is revealed when one consider that an estimated —2 billion dollars are necessary to stabilise copper prices alone. However, Third World countries accepted the reduction in intitial funding because they believed that industrial countries would respond more readily to individual commodity agreements than to a common fund with broad objectives. It was then expected that the Common Fund would be swelled by contributions from individual agreements. The Common Fund was thus transformed from an institution that would encourage and finance individual agreements into one that would actually draw its sustenance from individual agreements. Not one new commodity agreement has been signed since the emasculated Common Fund was estblished.

The reluctance of the industrial world to enter into any agreement that would deny them the power to manipulate raw material prices has been even more evident in the context of the present crisis. Indeed the reduction of raw material prices to absolutely minimum levels has been seen as an instrument in keeping down their own levels of inflation and of enhancing the accumulation levels of their TNCs. That much of the Third World is being impoverished and many of its inhabitants reduced to below subsistence levels means nothing to them in comparison with efforts to maintain their own comparatively very high levels of consumption.

INDUSTRIALISATION

We shall now consider the effects of the present crisis on the efforts of the developing countries to develop their productive forces through a programme of industraialisation. In effect, the crisis of the capitalist system is affecting the international division of labour in various ways.

Subsequent to the war and the whole process of decolonisation, developing countries had turned to industrialisation as a means of achieving integrated, self-reliant and self-sustaining economic development, as one of the means of working their way out of underdevelopment. It would be the key to a higher standard of living and an improved quality of life; it would radically transform all sectors of society and would serve as a means of modernisation. It was no doubt the belief of the elites of the Third World that they could follow virtually the same path that had taken the developed countries to dominance-industrial growth.

However, the process of industrialisation has been very slow; the processes of capital accumulation and investment have not taken place as desired precisely because the capitalist classes of he third world tied to the world system hav not seen indigeneous industrialisation as an attractive area for investment. Between the years of 1975 and 1983, the share of developing countries in total world manufacturing output had risen from 10 per cent to only 11.9 per cent. On a projection of existing trends the share in the year 2000 would not have exceeded 15 per cent. It was against this background that the UN Industrial Development Organisation conference held at Lima in 1975 set a target of 25 per cent for the year 2000 and recommended special measures for its achievement. Reassenssing this target in Delhi in 1980, UNIDO came to the dismal conclusion that the target was virtually unattainable. The world economic crisis had intervened to make the target a utopian dream.

Earlier, incorporation in the world market as suppliers of mineral or agricultural raw materials had been more or less uniform all over the Third World. The process of industrialisation and the different ways in which insertion into the world market has been affected has resulted in a qualitative differentiation among Third world countries.

It is not proposed to go into this differentiation proces individualy here,but it may be necessary to mention that there are countries which have undergone a certain kind of industrial development based originally on import substitution during the immediate poast-war era; these countries, of which Brazil and India are prime examples, already participate in the international division of labour; they export, not so much raw materials, or simple manufactures, but goods from heavy engineering industries; some of them are even in the armaments business. Another category of countries like Nigeria, Algeria, Venezuela are attempting to reach this status by using their oil revenues to establish industries for the world market.

Another significant group, emerging in the 1960s, has used its cheap labour resources to win a place in the international division of labour by specialising in the manufacture of consumer goods for the world market. South Korea and Taiwan were the earliest examples of this trend, owing their position, no doubt, to political considerations deriving from their strategic imporance. They were quickly followed by Mexico, Hongknng, Singapore, Malaysia; this trend has now spread to Sri Lanka and to a number of other countries like Morocco, Tunisia, Haiti, etc., The Free Trade Zone is a distinguishing characteristic of these countries, investment in them coming from the developed countries, sometime in association with domestic capital. This category is now important enough for the designation Newly Industrialising Countries (NICs).

Whatever the levels of industrialisation or the mode of incorporation in the world market may be, what is significant is the relocation of labour-intensive industries from the industrial countries into some developing countries. The industries so relocated have ranged from textiles, made-up garments, electronic components etc. in the newly industrialising countries to ship-building, steel etc. in some of the older-established countries like Brazil. International Capital has been able to invest in such relocation through linkages establishes with the states and the ruling elites of the developing countries, who find such linkages mutually advantageous and profitable, and also do it profitably because of the lower levels of wages. What the developing countries are really doing is helping international capital recover its profitability, through a reduction of labour costs which it cannot do in its own economies because of the power of the organised trade unions. The recovery of profitability should enable international capital to invest in the so-called "high-tech" industries in the developed countries. In other words, capital is moving out of garments, textiles, basic chemicals and steel etc. and into new technology; the Third World has in effect served as a bridge to facilitiate this transfer Whether the involvement of the Third World in a new international division of labour on such a basis will be sufficient to overcome the present crisis of capital accumulation is debatable.

However that may be, this process has led to a certain level of industrialisation in the developing countries. If one peruses the table given of industrial growth in selected Asian countries, it will be seen that these countries that hare incorporated themselves into this new division of labour have recorded growth rates significantly higher than others.

SEE TABLE—XIII

PROTECTIONISM

However, even this limited and dependent industrialisation has been severely affected by the present crisis. The recession and the slowing down of demand in the developed world has naturally caused a shrinkage of the market, but even more seriously, slow growth in the industrial countries has triggered off a significant increase in protection against developing countries. This is yet another instance of the paradoxical and contradictory behaviour of capital. It invests in facilities in the Third World so as to benefit from their lower wages; yet it must compromise with domestic capital and the strength of organised labour who attempt to maintain local industries and employment.

The case of textiles and clothing illustrate this phenomenon very vividly. These industries have been one of the essential steps on the ladder of industrialisation for many countries — for Britain in the 19th Century, for Japan in the early 20th century and for a host of smaller countries in the 1960s and 1970s. They now constitute 30 per cent of the manufactured exports of the developing countries. Working under the shadow of the Multifibre Agreement many industirial countries have now introduced many restraints and barriers to imports of textiles and clothing items from developing countries; they argue that these barriers, ranging from voluntary constraints to tariffs and quotas, are necessary to save the jobs of their own workers. Such barriers have retarded development in many countries, and are, in the World Bank's Development Report for 1984, "a disaster for countries like Sri Lanka and Mauritius that are starting to enter the market, only to find the route barred."

One of the most disturbing aspects of the impact of the present crisis has been the device of "voluntary" agreements, of which the Mutifibre Agreement is a prime exampel. Though euphemistically described as "voluntary", these agreements are reached under duress with developing countries, which, being weaker parties, have no alternative but to accept such restrictive arrangements. The MFA, concerned with all textiles, covered one-third of all exports from developing countries; itis of concern not only in its immediate impact — curbing trade in textiles which, as pointed out earlier, is an important step in the early stages of industrialisation — but also as foreshadowing the proliferation of such arrangements in other commodities.

We quoted a comment earlier that these restrictions are disastrous for countries like Sri Lanka that are just entering the market. This is borne out by the facts. The United States is a prime marke for made-up garments from Sri Lanka. The number of items for which quotas are applicable have been increased from year to year; products from artificial fibres have also been brought under quotas now. The Table showing the quotas and performance in the main items illustrate how performance is being held back by quotas. (See Table-XIV)

The present situation is even more disastrous in that quotas for 84/85 in respect of many items have been reduced by an average 2.2 per cent.

Sri Lanka's exports to the European Economic Community fare no better. The quotas fixed by the EEC allows only a maximum growth of 4 per cent on many items, the rate for others falling to 2 per cent. In the context of such restrictions from the developed countries, Sri Lanka's hopes of increasing its exports of apparel at an annual rate of 26 per cent seem doomed to failure.

The paradox of protectionism becomes apparent when one considers the cost of saving the jobs of workers in the developed countries. The World Bank's Development Report for 1984 states that the cost of saving 116,000 jobs in the US textile and clothing industries was calculated to be over—10 billion$. "Thus the cost of permanent protection per job saved would be about—80,000 $ while the private benefit to the individual worker would be — 5,600, a ratio of 14 to 1. In other words, a permanent policy of tariff protection would cost the United States one dollar for every 7 cents gained by workers whose jobs were saved." Studies made of the costs of tariff protection in other countries confirm this situation.

However, the governments of these countries have been unable to withstand the demands for saving their jobs, particularly in the context of growing unemployment resulting from the recessions and have been forced to introduce protectionist measures. Such barriers cover not only textile and clothing but also other items. As a consequence, one opportunity open to the developing countries to diversify their exports by entering the production of simple manufactured goods is closed.

FOREIGN AID

In discussing the burgeoning debt problem of the developing countries, it was pointed out that before 1947, they had been accustomed to draw upon aid, grants and loans from the developed countries for their needs. This practice of the wealthy developed countries giving aid to the poorer countries began after the end of the Second World War for a number of reasons.

Aid in the western world began its existence under the Marshall Plan when US funds were allocated to the war-ravaged countries of Europe in order to build up their economies. It was in part a response to the need to build up the western economies to face upto the Soviet Union, a part of the hysteria in the west that caused the Cold War. The practise continued thereafter with the richer countries considering it their duty to assist in the economic growth of the poorer countries. The practise was often clothed in altruistic rhetoric and seemed to have a moral and humanitarian legitimisation. But, in cold reality, it was a recognition of the interdependence of the world economy, of the fear that undiminished poverty in a great part of the world will have a de-stabilising effect on the world-economy as a whole.

There was another aspect to aid. Funds given for military, expenditures, for economically viable production projects for infra-structure, for social needs, were all lumped together as "aid". In this sense, "aid" became a means of ensuring some degree of subservience to the policies of the aid-givers, and ultimately a means of political control.

The developing countries themselves welcomed aid; to them it was in some sense, a restitution of the plunder of the colonial period. However, the overtones of control and influence inherent in bilateral aid led to the creations of the multilateral agencies to disburse organisations within the UN framework like the IBRD, IMF, WHO, FAO, etc., regional banks like the Asian Development Bank and others like the Colombo Plan; but even within these, the domination of the developed countries was evident.

Against this background, we shall consider the position of aid as it has been influenced by the current crisis, concentrating mainly on two aspects — reduction of aid and the tying of aid to so sources in the donor countries.

In deciding strategies for the Second United Nations Development Decade, it was agreed that the economically advanced countries would provide resource transfers to the developing countries of at least 1 per cent of their GNP annually. Within this figure which was to include private transfers, the proportion of Official Development Assistance (ODA), i.e. funds from government sources were set at 0.7 per cent. This target has not been achieved. As a matter of fact, due to the recession and the increasing difficulty of justifying foreign aid to their own constituencies, the amount of funds disbursed as aid to developing countries has actually fallen. The Table indicates this; the aid donors, collectively described as "development assistance countries" (DAC), comprise the 18 countries banded together in the Organisation for Economic Co-operation and Development (OECD).

DAC aid

	DAC aid billion	*% of GNP*
1970	6.9	0.34
1975	13.8	0.36
1980	27.3	0.38
1981	25.6	0.35

Aid from the OPEC countries has also reduced — 6.2 billion dollars in 1975, 9.1 billon in 1980 and 7.7 in 1981.

However, Official Development Assistance remains a major source of foreign resources to the developing countries, estimated to constitute about 29% of such resources. In the Asian region, ODA is estimated to constitute about 45 per cent of resource flows into the region. It should also be noted that the countries who are most reliant on foreign aid are the poorest and the least-developed countries, whose chances of borrowing on the commercial banks are also the poorest. In this context, the fall in the quantum and value of aid can be quite damaging to some countries. Between 1977 and 1981, the nominal value of aid flows to the least developed countries of Asia increased by about 35 per cent, but during the same period, the value index of manufactured goods increased by 45 per cent. If that index is applied as a deflator, then there was a fall in real terms of ODA flows. As pointed out earlier, such reductions of ODA have serious implications for the growth of the poorest countries.

The second aspect is the tying of aid to sources in the donor countries themselves. In these circumstances, the aid receiving country is committed to the purchase of foreign goods and services from the donor-country. Foreign aid then becomes a means of creating production and employment in the under-utilised capacities of the donor-country; in some instances, 90% of the aid may be actually utilised in the country of the donor. Assistance to the developing world merely becomes assistance to its own depressed industries; once again the Third World becomes merely a bridge in the process of overcoming the present recession, this time with the added moral value of seeming to help the conomic growth of the developing countries.

The Mahaweli Development Project in Sri Lanka — a multi-purpose river basin development scheme for irrigation, power generation and flood-control — is a prime example of this kind of aid. The project as it is being implemented now consists of four major dams and associated downstream development. The four dams are an illustration of this type of aid. The details of the four schemes are as follows, showing the items of work, the funds and the donors :

Victoria Project — (£mn)			
a.—Technical Assistance (Feasibility Study)	75	UK	Grant, 1978
b.—Project Headworks	100.00	UK	Grant, 78/84
c.—Electromechanical Equipment	20.0	Hanover Trust	Commercial Loan
Maduru Pya Oroject — (Can. Smn)			
a.—Technical Assistance (Feasibility Study)	7.0	Canada	Grant, 1978
b.—Project Hardworks	76.0	CIDA	Soft Loan (50 years re-payment)
Kotmale Project — (Sw. Kroners mn)			
a.—Project Headworks	307.5	Sweden	Swedish Import support, 1978.
	1088.0	Sweden	Grant Asst. 1982/88
b.—Electromechanical Equipment	214.0	Skandinaviska Enskilda Banken	Commercial Loan
Randenigala Project — (DM mn)			
a.—Technical Assistance (Feasability Study)	8.0	Federal Republic of Germany	
b.—Dam & Power Station	400.00	FRG	Soft Loan, 1982

In the Victoria Project, Sri Lanka had to employ British consultants to prepare the feasibility studies and project reports, to prepare tender documents etc., British construction firms to handle all construction work and to purchase construction material and machinery, equipment for the dam and power p.lant from British sources. In effect, the entire foreign component of the project was spent in the UK. The aid thus became assistance to British firms and factorries.

The same situation applies to the Maduru-Oya project financed by Canada, the Kotmale project financed by Sweden and the Randenigala project financed by Western Germany.

The tying of project aid, as well as commodity loans, to sources in the donor-country is an increasingly world-wide phenomenon. While it is true that the developing countries are the recipients of some funds, they are still deprived of the right of getting the best value for the money. In that competitive bidding on an international scale is precluded.

This chapter has examined some of the specific ways in which the present crisis has affected the developing countries, particularly the disorders of the 1980s. Though there had been sharp rises in the price of oil and food grains and genuinely high rates of inflation the 1970s, overall rates of growth of output had been maintained; but this picture has changed drastically in this decade. Rates of growth of output have become negative in most developed and developing countries; the terms of trade have moved sharply against the developing countries, particularly those dependent on exports of primary commodities; most countries are burdened with debt and are faced with increasingly unbearable debt obligations; they have also been forced into reducing the possibilities of future growth by the protectionist policies of the developed countries as well as the policies impposed on them by the IMF. The developing countries and indeed the world economy is enmeshed in a crisis of very serious proportions.

The crisis is of different magnitudes for different groups of countries as the Table of annual rates of growth in the different regions would indicate : (SEE TABLE-XV)

It will be observed that declines in the rates of growth in developing countries are much sharper; even though some countries and regions may show a better performance than others for various specific reasons. The rates of growth for South and East Asia, for example, obviously reflect the growth of countries like China and India, as well as of the newly industrialising countries which have been reasonably successful in carving out a specialised niche for themselves in the international division of labour.

It has been estimated that the number of developing countries in which GDP output fell from one year to the next numbered 15 in 1979, 30 in 1980, 42 in 1981 and 51 in 1982, showing the rapid spread of the effects of the present crisis. These countries also belong generally to the low-income group where the effects have been the most devastating.

The momentum of development in the capitalist world, and in particular the developing countries, has been so seriously affected that the end of the present crisis is nowhere in sight.

CHAPTER III

THE ROLE OF THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND

The major capitalist nations of the western alliance met at Bretton Woods in the USA in july 1944 in order to work out the organisational arrangements for restructuring international economic and financial relations and to handle the tasks of post-war reconstruction. This conference was dominated by the US which had emerged as the strongest capitalist power, with Great Britain as the next main influence. Three objectives were foremost in US planning for this conference: free and open trade on a non-discriminatory basis to assure markets for US production; a favourable climate for US investments in other economies; assured access to raw materials and minerals. These basic objectives were by and large achieved in the formation of the International Bank for Reconstruction and Development (IBRD or World Bank) and the International Monetary Fund (IMF).

The IBRD was set up in December 1945. It is restricted by its Charter to lend only to member countries, membership being open only to those that are already members of the IMF; the two organisations are thus linked closely. 28 countries signed the original agreement; there are now 132 member countries. Each country is required to contribute to the bank's resources according to a quota set when it joins. Voting on all policy decisions is proportional to the quota. Since the richer countries have higher quotas, they naturally dominate the bank; the US has 24% of the voting power and the industraialised countries of the OECD bloc nearly 60%.

During the Bretton Woods Conference discussions, as a World Bank publication says," the emphasis from the beginning was not so much on what the Bank could lend out of its paid-in capital as on the concept of the Bank as a safe bridge over which private capital could move into the international field." Henry Morgenthau made this quite explicit : "The chief purpose of IBRD is to guarantee private loans made through the usual investment channels". These objectives were written into the Charter of the IBRD "to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes; to promote private foreign investment when private capital is not readily available on reasonable terms; to supplement private investment by providing loans for productive purposes out of its own capital funds; and to promote the balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of productive resources of the Bank's members". The emphasis on private capital as the instrument of growth is explicit; this emphasis has been also evident in the Bank's actual performance.

The World Bank initially began by funding reconstruction in war ravaged Western Europe but from the mid-1950s, it has directed most of its lending to development projects in the developing countries.

One main feature of the Bank's lending has been its emphasis on infrastructure development-particularly large scale projects like electric power, railways, ports, roads and highways, telecommunications and urban and rural settlements. Of the $ 14.3 billion dollars that the Bank had lent upto 1970, over $ 9 billion dollars had been in the areas of transportation and electric power generation. This emphasis flows naturally from the view that its primary role is the encouragement of private investment. One of the impediments to profitable private investment in the developing countries has been the lack of infrastructure; private investment will not go into such projects because they are not generally profitable; however, once the necessary pre requisites of the infra-structure are provided, then, other things being satisfactory, investment can move into the more productive and profitable areas.

However, direct IBRD promotion of foreign corporate investment in developing countries has been limited; a statutory provision requires that such loans to private companies must be guaranteed by the government of the recipient country and governments of developing countries have been generally reluctant to provide such guarantees.

It was to overcome this difficulty that the Bank established an affiliate-the International Finance Corporation (IFC). The IFC can lend to private enterprises in developing countries without government guarantees and often with equity investment characteristics. The IFC has, as its main purpose, the furtherance of "economic development by encouraging the growth of productive private enterprise in its member countries, particularly in the less developed areas."

Another way in which private capital has been brought in is through co-financing of projects by the Bank and private lenders. In 1984, for example, 42% of the Bank's lending projects were co-financed with commercial banks.

In 1973 the Bank, through its President, Robert McNamara announced a shift in policy; it said it was changing its lending patterns with the intention of benefitting primarily the poor and enabling a transfer of resources to the most needy of the developing countries. This is the famous "basic needs" approach, which sought to ensure to everyone basic needs in housing, health, nutrition, and education. There has been however a great deal of criticism of the ideological implications of this approach; it does not attack the cause of poverty, assuming that the problem of poverty is capable of solution within the existing economic and social relationships. But except for involvement in rural development projects, the new approach has hardly created a significant change in the Bank's lending policies.

The Bank has responded to the present crisis in two ways- both of which continue the Bank's role in incorporating the developing countries within the capitalist framework. The first was the creation in 1980 of the International Development Association (IDA) "to promote economic development, increase productivity and thus raise standards of living in the less developed areas of the world, included within its membership, by providing finance to meet thier important development requirements on terms which a e more flexible and bear less heavily on the balance of payments than conventional loans such as those of the IBRD and the IFC". This was the Bank's response to the increasing difficulties of the developing countries faced with mounting deficits as a result of the present crisis. However, this aspect of the Bank's lending is in some disarray now, as the US government, in its pursuit of purely private enterprise goals, has refused to contribute its share to the increase of the IDA's resources. In 1984, the IDA lent — 3.6 billion dollars; the proposal to the Bank to replenish IDA's resources by $ 16 billion does not seem likely to succeed.

The other new aspects of the Bank's lending are the Structural Adjustment Loans (SALS). These are loans to countries to cover deficits arising from the imaort of the current crisis. Such loans, which now exceed one billion dollars, are expected to comprise over 20% of the Bank's lending in 1985. What is significant about the Structural Adjustment Loans is that they are co-ordinated with the IMF and permit the Bank to intervene in the country's domestic policies. The Bank advises, and if the country is in desperate need of the loan as most developing countries are, it accepts the advice. The nature of these policy interventions will be discussed in considering the IMF policy packages that are imposed on countries that seek assistance of the IMF and World Bank.

But we might consider briefly the case of Thailand which has obtained two Structural Adjustment Loans in 1982 and 1983 for $ 150 million and $ 175 million and is now negotiating for a third. Under the guidelines agreed to with the World Bank, Thailand undertook to institute policy changes in four areas- rural and agricultural development, industry, energy use and fiscal policies. Thailand was successful in implementing some policies in the areas of fiscal policy particularly increasing government revenue through more efficient tax collection, but totally failed in another area — that of price increases in the case of goods and services supplied by state enterprises. The government has in effect approved price increases in bus fares, water rates, power dues etc. but has failed to implement them for fear of political repercussions. The World Bank is currently reviewing the situation prior to a consideralition of the grant of the Third Structural Adjustment Loan.

Another recent aspect of the Bank's activities is its attempts to gain a degree of control over aid disbursements from other sources. This it does through the organisation of the main aid-givers to a given country as a group. The Aid-Group that v covers Sri Lanka is a good example. The country's requirements of assistance for a given period - a year, say - are analysed and prepared by the Bank, which also prepares a report on the country, ite economic performance, its prospects, etc. The group's responses on them are often determined by the Bank's perceptions. While the arrangement may have some techno-cratic or administrative advantage, it also places the Bank in the role of organiser of foreign aid. It thus brings within its ambit the totality of aid given to a country by a number of disparate sources.

The power of the Bank is now being used to compel borrowers to adjust their internal policies to suit the perceived advantages of the developed western economies in the period of crisis.

The International Monetary Fund is the agency set up after the Bretton Woods Agreements to regulate the international monetary system. Its objectives were "to promote international monetary co-operation and the expansion of international trade; to promote exchang stabi ity, maintain order y exchange arang ments and avoid competitive exchange depreciations; and to assist in the establishment of a multi-lateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper trade". It is in the pursuit of these objectives within a specific et of economic and ideological parametres that the IMF has been constantly accused of being dictatorial towards developing countries.

The IMF now has 141 members - 23 OECD countries and 114 third world countries. Quotas in the Fund are allocated in Special Drawing Rights (SDRs.) which are the unit of accoun used by tne IMF, each member country being allocated a quota which relates to both borrowing and voting. Present quotas total about 40,000 million SDRs, with the industrialised capitalist countries holding half. Since each country has 250 basic votes plus one vote each for 0.1 million SDR of its quota, the voting structure reflects directly the distribution of quotas. In its intricate voting system, the US and the industrialised capitalist countries can have their way either positively or negatively by blocking any proposals that do not meet with their acceptance.

The resources of the IMF come from members subscriptions, sale of SDRs to members, gold sales and borrowings on the market. These resources are made available to members for borrowing on specific terms. The borrowing methods need to be mentioned briefly. The first medium for borrowing is the Reserve Tranches; a member can borrow upto 25 per cent of its quota if it is in need of blaance of payments adjustments, with no conditions attached. The First Credit Tranche gives access to a further 25 per cent of the quota, but on condition that the Fund is satisfied that it is making "reasonable efforts" to overcome its problems. The Upper Credit Tranche makes a further 25 per cent available but on terms of strict conditionality; the member must agree to a Stabilisation programme, relating to policy on matters such as prices, incomes, import control, public spending, exchange rates, etc. A membr in dire need of money is often forced to agree to IMF demands in these aspects. Borrowing on this tranche is also in instalments, the payments being subject to the Fund bing satisfied at each stage that the stabilisation programme is being effectively implemented.

Borrowing outside these tranches, through, for example, the Extended Fund Facility is subject to even more strict conditionality. The power of the IMF does not inhere in its resource alone, but derives from its function as an international credit agency. All the major sources of credit in the capitalist world — private banks, govts, the World Bank, regional banks like the ADB — will refuse credit to a country that persists in defying IMF advice and will not come to an agreement with it. The real power of the IMF lies in the authority that has been given to it by the capitalist money markets. Its power over the developing countries derives from their almost chronic foreign exchange difficulties, which have been enormously exacerbated by the present crisis. The IMF can ease a country's deficit problems if it undertakes to implement a Stabilisation programme. Specific policy measures may vary from case to case but a stabilisation programme contains, in the worls of Cheryl Payer (In the Trojan Horse. A Radical Look at Forign Aid) three main elements :

1. Domestic anti-inflationary policies indicating the reduction of government spending and the contraction of bank credit. This implies the curtailment of public expenditures for welfare and of government investments in development projects; economic recession.

2. Devaluation of the currency in terms of the dollar and the elimination of as many direct controls on foreign exchange expenditures as possible.

3. Encouragement of foreign investment through policies which range from anti-strike legislation, through tax benefits to guarantees of profit remittance."

The specific policy measures have often been a currency devaluation, import-export liberalisation, multilateral foreign trade, restrictive monetary and fiscal management, restraint in wage increases, deregulation and promotion of market mechanisms and the promotion of foreign and domestic private capital. The IMF, seeing inflation as the primary cause of balance of payments deficits, claims that this package will result in long term balance of payments stability but it will be observed that it is located firmly within a free market, private eneterprise faramework, and that its actual effect will be to reinforce dependence on exports, which was, unfortunately, the cause of instability to begin with. To quote Cheryl Payer again, "Nominally independent countries find that their debts and their continuing inability to finance current imports, keep them tied by a tight leash to their creditors. The IMF orders them, in effect, to continue labouring on the plantation while it refuses to finance their efforts to set up in business for themselves. For these reasons, 'intenational debt slavery" is a perfectly accurate one to describe the reality of their situations".

The present crisis has made the application of this package even more invidious and full of political implications. The case of Jamaica is a recaling example of its working, of the way in which it forecloses options and forces a country to remain in the capitalist system.

Prior to 1972, Jamaica was a classic case of dependent development. It relied for development mainly on bauxite exports and on tourism; there had been some economic expansion based on foreign investment, primarily in bauxite but at the expense of growing inequalities and unemployment. A new government under Michael Manley was elected in 1972 and instituted programmes and policies designed to secure greater national control over the economy and a redistribution of income and economic power; some policies such as minimum wage legislation, rigid price control, the nationalisation of some public utilities and export agricultural projects were implemented. Production levies were imposed on the TNC controlled bauxite industry and proposals were underway to secure for the state 57 per cent of the equity of the bauxite companies. The power of the state was being used to shift the balance of power from the private sector and from capital to labour. Unfortunately internaional economic conditions did not favour the success of these economic reforms. Jamaica imports 90% of its energy requirements and the increase in oil prices forced the government to seek assistance from the IMF's oil facility; the quid pro quo was a promise to reduce wages and public spending. A further difficulty was the recession in 1973, forced the bauxite companies to cut back productoin by more than a third and revenues fell. Local and foreign investment dried up. The tourist industry came to a virtual halt.

The value of Jamaican currency fell drastically and by mid 1976 all sources of foreign credit had been exhausted. IMF loans, seemed the only source of foreign exchange.

The IMF claimed that the crisis in Jamaica was brought on by excessive real wage levels, an over-valued exchange rate, excessive aggregate demand caused by monetary expansion and excessive govt intervention in the economy in the form of restrictions on trade and payments, price controls, government take-overs etc, leading to a lack of confidence on the part of private capital. IMF assistance was therefore dependent on drastic cuts in real wages, severe contraction of demand and reductions in government spending which meant retrenchments in the public sector. The government was reluctant to meet these requirements since they would be a virtual negation of its economic and political policies, but its hands were strengthened by an electoral victory at the end of 1976. But a collapse of the economy in 1977 enforced submission.

The IMF dropped its advice on devaluation and wages policy but set "performance tests" on the balance of payments and the money supply. The government failed to meet the performance targets. IMF loans were frozen and there was no help but to agree to all IMF conditions. A 10 per cent devaluation was demanded as the price of re-opening negotiations. The IMF's standard package was totally applied.

The effect was drastic. Real wages fell in 1978 by 35 per cent and average real per capita consumption fell by 13 per cent. There was a sharp decline in living standards and state services such as health and education showed signs of marked deteriora tion. But the measures did not meet with the anticipated success. The balance of payments deficits continued to grow after some temporary upswings, export volumes recovered slowly and imports had to be kept in check by rigid controls. Private investment did not materialise. The situation became much worse with the recession which began in 1980. Oil price increases in 1979 and high interste rates in 1980 pushed the deficits higher The result, largely caused by external factors over which the country had no control was held by the IMF to be the result of financial mismanagement. There were constant devaluations, large price increases, shortages in basic commodities and growing unemployment.

The Manley government had tried to implement a set of alternative economic policies based on concepts of national economic sovereignty and egalitarian principles. The world crisis caught it and the IMF remedies only made the situation worse. In the result, the Manley government was thrown out, to be succeeded by a government that was openly for a capitalist solution to the crisis.

Political implications aside, the IMF recipe had failed to bring a country out of an economic crisis,caused in turn by the crisis in the world capitalist system.

Egypt and Sudan are two other countries which have suffered from IMF "recommendations". Both countries had run up deficits in their payments; in an attempt to counter inflation in food prices, both governments had intervened to subsidise basic commodities and maintain price levels. The IMF demanded that these subsidies be terminated, and that the pricing of locally produced food items should reflect the market for "local goods should be priced on an economic basis, not on a social basis .... it ought to be subject to the cost and should fluctuate correspondingly and not according to social needs." The IMF approach of dealing with economic problems from a monetary point of view resulted in street riots in Cario and Khartoum — but both countries still follow the same recipee, inspite of its effects on the already low living conditions of their peoples.

The case of Jamaica and other third world countries caught in an IMF crunch attracted considerable attention and led to demands for changes in IMF - World Bank policies. Developing countries which met in Arusha in 1980 called for a new UN Conference on money and finance which would resphape the IMF

That the IMF Stabilisation package very often does not succeed is apparently acknowledged by the Fund itself. An unpublished staff assessment, quoted by the Journal, SOUTH (May 1984) says: "The Fund cannot be complacent about a situation in which almost half of the cases have not shown any progress towards balance of payments viability." There is increasing criticism of IMF policies even from western sources. A study sponsored by the UK's Overseas Development Institute argues strongly against the Fund's insistence on Stabiliisation policies involving reductions in demand and consumption. Instead, they favour strategies that would encourage "adjustment with growth", which would shift emphasis from limiting demands to encouraging exports and import substitutes. Their emphasis would give greater weight to growth, employment and income distribution There are however no signs that the IMF is willing to amend or change its policies. The developing countries have demanded changes in the IMF's voting structures in which the US now has hegemonic power to give the developing countries at least 45 per cent of voting power and an effective voice in policy-making. They also demanded changes in the conditionalities demanded by the IMF, conditionalities which continue to throw the burdens of adjustment on the weak deficit countries alone. These demands of the developing countries have been discussed at numerous meetings but have been steadfastly rejected by the developed countries, who have, at most, agreed "to study" these proposals. It is quite obvious that the committment of the developed countries to their own national interests, to monetarist policies as a means of overcoming their crisis, to push the burdens of adjustment on to the developing world have barred them from any effective action on these points. The developed countries will use their instrument, the IMF, to coerce developing countries to accept far more than an appropriate share of the burdens of the present crisis.

We may conclude with some comments made at a IMF/World Bank meeting recently by Amir Jamal, Tanzania's Finance Minister :

"The IMF has historically been geared to dealing with short-term deficits which are basically cyclical....the whole concept is rooted in the operation of the economic structures of industrial societies which developed while others remained funded or were colonised. The IMF was never geared to taking care of the slow painful start of the developing countries on the road to economic development through a process of structural adjustment .... the

IMF has not been endowed with either the philosophy or the resources to deal with major external shocks such as dorught, food grain prices, costs of energy and rampant inflation in the industrialised countries continued with worsening terms of trade for the peripheral economies."

CHAPTER IV

THE ROLE OF THE TRANSNATIONALS AND FOREIGN INVESTMENT

Investments from the metropolitan countries and the presence of international companies like the East India Company and the United Africa Company are not new to the Third World; yet the characteristics and nature of the present thrust of international capital into the developing world show significantly new features.

Capitalist development always means increasing concentration; this has historically led to the creation of ever larger units, at the level of production as well as of control and management. The need for continued expansion and accumulation drives the enterprise to investment in new facilities, and, in combination with new technologies that demand production on a large scale, to bigger and bigger units. This drive has not only physical or technical aspects, but also financial implications. Production units of enormous magnitude require the mobilisation of financial resources and capital of the same magnitude. Enterprises also seek to carve out monopolistic situations: this they do through vertical integration or through the use of technology to ensure product differentiation that will in turn cut out competition.

This process has led to the formation of large enterprises with enormous financial resources. Modern methods of communication and control have permitted these enterprises to scatter their production and manufacturing units throughout the world, wherever profits can be maximised. Those enterprises, the transnational corporations (TNCs) are the means today of the expansion of capital on a global scale. The expansion has been particularly spectacular during the last decade. Estimates made by the UN Centre on Tránsasnational Corporations reveal that their were 10,000 firms with overseas investment controlling 30,000 subsidiaries abroad at the beginning of the 1970s; by the end of that decade these 10,000 firms with overseas investment and the number of subsidiaries controlled by them had risen to 82,000. It has been estimated that direct foreign investment they made involved a sum of $ 450 billion in 1980.

However, these aggregalesdisguise many important aspects of overseas investment. First is the source of investment funds. More than 95% of foreign direct investment originates from the 21 countries banded together in the OECD. There is further concentration with this percentage too. Five major investors, the US, the UK, Japan, Germany and France account for more than four-fifths of this investment. As shown in the Table below, of a total of estimated stock of direct investments in developing countries of $ 131,252 billion in 1981, stock worth $ 109,117 billion were held by these countries.

SEE TABLE-XVI

The second characteristic is that 75% of direct foreign investment is internal to the developed countries themselves; it goes to each other, from the US to western Europe and Japan, from western Europe to the US etc. Japan is the only major industraialised country to direct more than half its direct foreign investment into developing countries. The third characteristic to be noted is that, just as there is a concentration of investor countries, there is also a concentration of receiving countries. About 50 per cent of investment going from the developed countries to the developing countries is directed towards a small group of countries - to those countries described as newly industrialising such as Brazil, Mexico, South Korea, Singapore, Hongkong etc; another 30 per cent is invested in the OPEC countries, chiefly in oil and gas industries. Another 15 per cent went to tax havens and off-shore banking centres like the Bahamas and Cayman Island, from where it was presumably directed towards unknown or hidden destinations. Thus only less than 5 per cent of all direct investment was left to the more than 60 low-income developing countries. Actually the total amount of dire foreign investment that went to them during the period 1978—80 was only half of the 1.3 billion dollars that was invested in Brazil alone.

The direction of foreign investment is influenced by historical ties, trade relations etc, but more importantly by expectations of profit and by what the investors determined as a favourable investment climate in the country. This largely boils down to political stability and an assurance that the governments of these countries will be successful in keeping down wages, which is what makes the investment profitable in the first place. Thus Latin America accounts for about 70% of all US foreign investment abroad and Asia receives more than 60% of all Japanese investment abroad. Out of a total cumulative investment of — 19.8 billion by Japan, — 9.8 billion is invested in Asia.

Foreign investment grew fairly strong during the '70s, wising at an average annual rate of 14%. Between 1971 and 1981, the annual nett outlow increase 4-fold to amount to — 14.6 billion. Yet, in spite of this growth, foreign investment remains a small component of total capital flows from developed countries, when one takes into account other forms of finance like direct aid, bank loans etc. It accounted for 23% of all capital flows in 1971 and fell to 17% in 1981. However, the current crisis may well have the effect of both increasing flows of investment as well as of altering their directions. As was noted earlier, the nature and the extent of the crisis have created some contradictions amongst the main capitalist blocs such as the US, the European Economic Community and Japan. The increasingly fierce economic competition between these blocs may encourage each of them toinvest so as to ensure raw material supplies as well as markets for its manufactured products. This may well lead to regional upswings in investment flows to the developing countries.

Even though investment from the TNC's may thus not amount to much yet, particularly in the economies of the low-income group of developing countries, one must take note of certain adverse consequences that arise from such investment. This is particularly necessary in the current climate when the advantages to be gained from TNC investments are being loudly proclaimed not only by countries like the US, where President Reagan regards private capital as the prime mover in the economic development of the world. The supporters of TNC investment point out many advantages; they provide scarce capital: they provide access to modern technologies and know-how that can mass produce commodities at lower prices for more people: they provide access to markets, an access which the developing countries by themselves may be unable to gain; they contribute to the economic development of the host countries by developing their production sources, by contributing to state revenue through taxes and create employment. The notion of such advantages is so widely accepted by the ruling classes of the developing countries that they are now in actual competition with each other to entice TNC investment. Tax holidays of increasing magnitude, provision of infra-structure and free trade zones, promises of unlimited repatriation of profits, more or less total control by the TNC, promises of low wages and more than all, the promise of continued political stability ensuring a climate of welcome for their investments — these are the baits which a large number of developing countries from South Korea and Taiwan, through Malaysia, Taiwan, India and Sri Lanka to Morocco and Hait are offering to the TNCs. Countries like Sri Lanka are even prepared to turn back the clock on progressive labour legislation to enable the TNCs to reduce their labour costs.

The presumed advantage of capital flows need to be examined first. There is in fact a captal flow but this is much less than may appear from a consideration of the assets owned by the TNCs. They generally bring in only a portion of the capital needed for a project; the balance capital is sometimes obtained in a joint venture with local capital but even more generally through the banking system of the host country which generally regards TNCs as extremely credit worthy: They also keep on adding t their stock of assets by using the profits generated in the local market. According to a statement made by Donner, Board Chairman of General Motors — "at the end of 1950 the value of General Motors nett working capital and fixed assets overseas was about $ 180 million. By the close of 1965, this investment had increased to about $ 1.1 billion. This expansion was accomplished almost entirely from financial resources generated through GM operations overseas and through local borrowings which would be repaid out of local earnings." To take an example from Sri Lanka, the Ceylon Tobacco Co. a subsidiary of the Tobacco TNC, British-American Tobacco, has today a capitalisation of 102 million rpupees ; all the foreign capital that was brought in was a sum of 13 million rupees in 1932. This increased capitalisation has been accomplished while repatriating over a 100 million rupees to the parent company by way of profit.

The flow of capital is also affected by another factor. This is the proliferation of joint ventures by TNCs with the states of developing countries. In such cases, state capital forms a substantial part of the required equity but ensures to the TNC total control over operations and marketing. The case of the new sugar companies in Sri Lanka are a case in point ; the state contributes to the capital of these companies, makes land available to them at very favourable rates and allows their TNC partners control over all aspects of the operation.

In considering the advantages of TNC investment, it is necessary to remember that equity investment is the worst form of capital flow since the claims on earnings are essentially unlimited both in terms of duration and of magnitude. The repatriation of profits without any ceilings are generally guaranteed by states competing for TNC capital. This is an open ended commitment. Heavy reliance on foreign equity can generate increasing claims on resources which have then to be met by generating more foreign exchange in-flows. The table below indicates levels of investment and profit flows that have resulted from such commitments.

SEE TABLE—XVII

Further, the outflow of resources is probably much graater than is suggested in published profit statements. Payments by way of royalty and wages and salaries to expatriate staff do not figure in such statements. But more significant than these is the element of transfer-pricing. Since TNCs are integrated international operations and since there is a great deal of trade within the various units of a specific TNC, it is possible to price goods and services traded between such units in order to shift "profits" to that unit is considered most advantageous to the TNC. For example, through overpricing inputs and purchases and under-pricing sales, a subsidiary can be so manipulated as to show little or no profit. Thus the outflow of resources is likly to exceed by a considerable margin declared repatriations. This needs to be considered carefully in evaluating the benefits of TNC investment. The propensity of TNCs to juggle around with their profits is increased when they are faced with declining rates of profits in their home markets.

It is not proposed to discuss the questions of technology transfers in detail here. Sufficient studies have shown that what is transferred are bits and pieces of technology which are not useful to the developing countries. As a matter of fact, such transfers are more likely to inhibit the genuine and organic growth of technology in the developing countries rather than deepen or extend their technological base.

However the question of access to markets needs to be discussed It is true that TNC s are sometimes essential agents in gaining access to international markets. While particular economies may thus need their services, this can hardly be considered a benefit derived from the TNCs' since it is the control of the markets that make their agency indispensable in the first place; this is a vicious circle of the first order.

Here it would be appropriate to consider the strangle hold that TNC s have already established over trade in the primary commodities generally produced by the developing countries. Table XVIII. illustrates this situation.

UNDERDEVELOPED COUNTRIES' EXPORTS BY TRANS-NATIONAL CORPORATIONS 1976

	Total exports (millions of dollars)	Percentage marketed by transnationals
Foodstuffs		
Cocoa beans	1 737	85
Bananas	793	70—75
Tobacco	1 079	85—90
Tea	827	85
Coffee	7 831	85—90
Sugar	4 881	60
Rice	1 102	70
Wheat	449	85—90
Agricultural raw materials		
Hides and skins	29	2
Natural rubber	2 202	70—75
Cotton	2 692	85—90
Jute	172	85—90
Forestry products	4 169	90
Minerals and metals		
Crude oil	29 14	7
Copper	3 03	85—90
Iron ore	1 25	90—95
Bauxite	518	90—95
Tin	60	75
Phosphates	850	50—60

Note : The oil, copper, iron ore, tin, hides and skins data correspond to 1973.

Source : Based on UNCTAD. Dimenstunes del poder de las empresas transanacionales. p. 61.

The extent of this control can be further demonstrated ;a recent survey by UNCTAD says: "At present 15 large trading corporations control 85—90 percent of world trade in cotton. They exert similar control over the markets of many other primary commodities, such as the lellaf tobacco market, where 85-90 per cent of international trade is directly controlled by 6 trans nationals; the banana market 70—75 per cent controlled by three corporations; and cocoa beans where five corporation control more than 75% of world trade, just to mention few of the major commodities." Such vast control over the markets mean in effect that they are actually in control of the price structures and therefore by no means without some responsibility for price fluctuations. Various studies carried out by UNCTAD also reveal that the primary producer receives only a small share of the final price paid by the consumer.

TNCs thus control a large share of the extraction industries in the Third World countries oil and minerals. They control, through the mechanism of trad,e a large share of the primary agricultural commodities. They are, however, attempting to move further into the agricultural sector — through newly formed agribusiness ventures. Sugar-cane, vegetables and fruits in Sri Lanka can be cited as an example of this trend. The Philippines and Thailand in Asia, many countries of East and West Africa can also be cited as examples of this trend. And what the developing countries, now affected by a crisis of foreign exchange and resource inflows are asking the TNCs to do is to move into the field of manufacturing industries in the Third World and thereby extend their control over the economies of developing countries. This is not too surprising when one considers the similarity or the symbiosis of interests between TNCs and the ruling classes of developing countries. These interests do over-lap at least in the short term. It is the TNCs who are able to provide governments of developing countries with the equipment and resources necessary to give the masses the illusion of development and sometimes the military means necessary to maintain them in power. But then there is a quid proquo. The state must be able to provide the right kind of welcoming climate for TNC capital, provide the necessary fiscal incentives and maintain a "law and order" regime.

Another aspect of TNC operations, as they are affected by the present crisis, needs to be mentioned. TNCs are not free-floating, disembodied; they have a national base and are dependent on the economic-political and military support of their home governments. This fact has enormous consequences for the developing countries in which they invest. With the thus far unchallenged dominance of the US being affected by the present crisis and giving way to fierce competition between different blocs, TNCs may be more than ever subject to the political or military exigencies of their home governments.

We have seen earlier that the strategy of the developed capitalist countries to move out of the present crisis is predicated upon drawing in the entire third world deeper into the international division of labour dominated by them. This is an attempt by the developed countries to ride out of the crisis on the backs of the poor developing countries. The chief agents of the developed countries in this process of closer economic intergration are the TNCs, who seize upon the almost unlimited opportunities for investment and profit in the Third World Countries.

The ruling classes of the developing countries themselves become partners in this process and, forgetting their common intents, they compete most with each other for TNC investment. The TNCs use this to their advantage — to get greater concessions, to compel the governments of developing countries to provide infrastructure and capital, to keep down costs of labour. The fact that TNCs can trnsfer their plants from one country to another, ignoring national boundaries and acting as if the world was one totally unified or economically integrated unit, increases their leverage over the governments of developing countries. These states now become involved with TNCs in ever more complex ways. They often create public enterprises for activities which are necessary but not profitable. In many developing countries, public sector steel mills are working in order to supply basic steel to TNCs, because the price of steel does not allow for a sufficiently high rate of profit. Developing countries also get involved in multi-country projects to TNCs. Iron ore from a public sector mining enterprise in one country is converted into pellets n a public sector mining enterprise in a second country and then into steel in another public enterprise in a third country; the steel finally finds its way into the operations of the TNC. In this manner, TNCs use all the resouces of developing countries to maximise their profits which in turn go into blostering up the economies of their base countries.

The TNCs have up to now been able generally to exercise their will over the governments of developing countries in the economic sphere. They have been able to shift operations and profits over natural boundaries and generally make a mockery of state laws. They hve so far successfully resisted all efforts by the developing countries to establish internationally accepted codes of conduct for their operations or for the transfer of technologies they control. They have been seen in numerous instances to intervene in the domestic affairs of their host countries. They are temporarily able to use their powers to mitigate the crisis in their home countries by passing on an unequal share of the problems of adjustment to the developing countries. In the coming years they may become more and more the agents of their home governments in exercising control over the economies and politics of developing countries. The threat from the TNCs to the sovereignty of developing nations is growing ever greater.

Population, GDP, and GDP per capita in 1980, and growth rates, 1960—83. **TABLE I**

COUNTRY GROUP	1980 GDP (billions of dollars)	1980 population (millions)	1980 GDP per capita (dollars)	GDP growth rates (average annual percentage change) 1960-73	1973-79	1980	1981	1982	1983
Developing countries	2,118	3,280	650	6.3	5.2	2.5	2.4	1.9	1.0
Low-incone	549	2,175	250	5.6	4.8	5.9	4.8	5.2	4.7
Asia	497	1,971	250	5.9	5.2	6.3	5.2	5.6	5.1
China	284	980	290	8.5	5.7	6.1	4.8	7.3	5.1
India	162	675	240	3.6	4.3	6.9	5.7	2.9	5.4
Africa	52	204	250	3.5	2.1	1.3	1.2	0.5	0.1
Middle-income oil importers	915	611	1,500	6.3	5.6	4.3	0.9	0.7	0.3
East Asia and Pacific	204	183	1,110	8.2	8.6	3.6	6.7	4.2	6.4
Middle East and North Africa	28	35	800	5.2	3.0	4.2	2.4	5.5	2.0
Sub-Saharcn Africa	37	60	610	5.6	3.7	5.5	3.9	1.1	0.3
Southern Europe	201	91	2,210	6.7	5.0	1.5	2.3	0.7	0.9
Latin America and Caribbean	445	241	1,840	5.6	5.0	5.8	2.3	0.4	2.2
Middle-income oil exporters	654	494	1,320	6.9	4.9	2.4	2.4	0.9	1.7
High-income oil exporters	228	16	14,250	0.7	7.7	7.4	0.0	—	—
Industrial market economies	7.463	715	10,440	4.9	2.8	1.3	1.3	0.5	2.3

.. Not available
a. Estimated.
b. Date for 1982 and 1983 are based on a sample of ninety developing countries.
c. Does not include South Africa.
d. The estimated 1983 date exclude Angola, the Islamic Republic of Iran, and Iraq.

TABLE II.

Industrial countries, Changes in output 1976—1982. (Precentages)

	1976	1977	1978	1979	1980	1981	1982
U S A	5.4	5.5	4.8	3.2	-0.2	2.0	-1.0
Japan	5.0	5.3	5.1	5.2	4.2	2.9	3.5
Canada	5.5	2.1	3.6	2.9	0.5	3.1	-0.5
France	5.2	3.1	3.8	3.3	1.4	0.4	2.1
Germany, Fed. Rep. of	5.3	2.8	3.6	4.4	1.8	-0.3	1.0
Italy	5.9	1.9	2.7	4.9	3.9	-0.2	2.3
U K	2.8	2.2	3.7	1.9	-2.1	-2.2	0.8
Other industrial countries	3.7	2.4	2.1	2.8	2.1	-0.1	1.6
All industrial countries	4.9	4.0	4.0	3.6	1.3	1.1	0.8

Source: Economic and Social Survey of Asia and the Pacific 1982 — ESCAP.

TABLE III.

Real rates of return on corporate capital, by country, 1962 — 76.

PERIOD	*Canada*	*France*	*Germany Fe. Re.*	*Italy*	*Japan*	*United K:dom*	*United States*
Average							
1962—64	7.9	9.7	19.3	10.4	28.2	11.9	12.0
1965—69	9.6	10.0	19.5	11.4	27.9	10.6	12.2
1970—73	9.0	11.6	15.0	10.3	21.9	8.3	8.6
1974—76	9.2	8.0	11.4	..	13.5	3.7	7.1

.. Not available.
Source: Sachs, 1979.

TABLE IV.

Rates of growth in the real product wage and in labor productivity for the manufacturing sector and the aggregate economy, by country, 1962 — 78.

(*average annual percentage charge*)

Sector, measure and period	*Canada*	*France*	*Germany Fe Re*	*Italy*	*Japan*	*United K dom*	*United States*
Manufacturing							
Real product wage							
1962—69	5.0	4.8	5.6	7.4	10.8	4.6	3.4
1969—73	3.6	7.0	7.5	9.7	12.6	5.6	3.6
1973—75	0.1	6.2	6.8	4.4	0.6	4.6	0.1
1975—78	..	4.8	5.4	2.0	8.9	-1.4	3.0
Labour productivity							
1962—69	4.5	6.3	5.9	6.8	11.2	4.5	3.1
1969—73	4.4	5.4	4.8	6.9	8.7	4.1	3.2
1973—75	0.4	2.8	5.2	0.4	1.8	-1.3	0.3
1975—78	4.5	6.1	5.0	4.1	7.3	1.2	-0.3
Aggregate economy							
Real product wage							
1962—69	3.6	5.1	5.0	7.8	8.5	3.2	3.1
1969—73	2.0	5.5	6.3	7.9	12.2	3.7	2.6
1973—75	1.5	5.1	4.8	6.0	8.6	4.9	0.2
1975—78	1.8	5.2	2.7	1.2	2.7	1.5	2.3
Labour productivity							
1962—69	3.3	5.2	5.3	7.4	9.9	3.1	2.7
1969—73	3.2	5.7	5.2	6.6	9.1	3.9	2.6
1973—75	0.7	2.6	4.0	3.0	3.9	0.7	0.3
1975—78	2.0	5.0	4.5	1.3	4.1	2.0	2.1

Note: Realroduct wages is defined as the ratio of the nominal wage to the price of commodities produced.

.. Not available.

Source: Sachs, 1979.

TABLE V.

World trade, Changes in volume and prices, 1976—1982.
(*Percentages*)

	1976-79	1978	1979	1980	1981	1982
Exports			Volume			
World	6.6	4.9	6.1	1.5		—1 1/2
Developed market economies	7.1	6.5	6.2	3.8	2	2 1/2
Developing countries	5.0	0.1	6.2	-5.8	-4 1/2	-2 1/2
Capital surplus countries	2.4	-6.1	2.2	-18.4	-17	-20
Other net energy exporters	5.2	2.2	10.3	-9.5	-5	2
Net energy importers	7.6	5.6	7.8	7.6	4	5
Centrally planned economies	6.8	5.5	4.8	2.2	-3	1/2
Imports						
World	6.7	5.5	5.2	1.0	—	1 1/2
Developed market economies	7.4	5.3	7.5	-1.4	-3	1
Developing countries	5.2	5.0	-0.5	8.5	8 1/2	2
Capital surplus countries	10.6	0.6	-4.4	18.1	20	5
Other net energy exporters	3.3	4.6	-10.8	16.5	15	—
Net energy importers	4.6	6.6	5.5	2.6	2	2
Centrally planned economies	5.1	8.3	1.7	2.7	—	1 1/2

Source: World Economic Survey 1981—1982 (United Nations) p. 56, table III-I.

Notes: a Preliminary estimates, b Forecasts

TABLE VI

Current account balance and its financing 1970—1983

—(*billions of current dollars*)

Country group and item	1970	1980	1981	1982	1983
Developing countries					
Net exports of goods and non-factor services	-9.8	-55.2	-80.5	-57.1	-10.9
Net factor income	-3.6	-16.4	-30.0	-43.2	-48.3
Interest payments on medium and long-term loans	-2.7	-32.7	-41.2	-48.4	-49.0
Current account (excludes officiai transfers)	-12.7	-69.6	-107.8	-97.6	-56.2
Financing					
Official transfers	-2.4	-11.6	-11.7	-10.8	11.1
Medium and long-term loans					
Official	3.7	21.5	21,2	21.4	17.6
Private	4.6	35.7	49.6	33.5	39.9
Oil importers					
Net exports of goods and non-factor services	-8.9	-69.3	-70,5	-4.69	-26.0
Net factor income	-1.5	-4.3	-14,4	-21.8	-23.0
Interest payments on medium and long-term loans	-2.0	-21.3	-26.7	-31.7	-32.3
Current account (excludes official transfers)	-9.8	-70.3	-81.8	-65.6	-46.1
Financing					
Official transfers	1.8	9.6	9.4	9.0	8.9
Medium and long-term loans					
Official	2.9	16.9	16.5	15.9	13.9
Private	3,7	24.6	30.8	22.0	11.1

(Continue on page-66)

(Continue from page-65)

Oil exporters					
Net exports of goods and non-factor services	—0.9	14.2	—10.0	—10.1	15.1
Net factor income	—2.1	—12.1	—15.6	—21.4	—25.3
Interest payments on medium and long-term loans	—0.7	—11.5	—14.5	—16.7	—16.7
Current account (excludes official transfers)	—2.9	1.7	—26.1	—32.1	—10.0
Financing					
Official transfers	0.6	2.2	2.3	1.8	2.2
Medium and long-term loans					
Official	0.8	4.6	4.7	5.5	3.6
Private	0.9	11.1	18.8	11.6	28.9

Note : Calculations are based on a sample of ninety developing countries.

a.—Estimated

b.—Current account does not equal net exports plus net factor income due to omission of private transfers. Financing does not equal current account because of omission of direct foreign investment, other capital, and changes in reserves

TABLE VII

Debt indicators for developing countries, 1970—1983—(*percent*)

—*Indicators*	1970	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983a
Ratio of debt to GNP	13.3	14.0	15.4	16.6	18.1	19.3	19.5	19.2	21.9	24.9	26.7
Ratio of debt to exports	99.4	63.7	76.4	79.6	84.7	92.9	83.7	76.1	90.8	108.7	121.4
Debt service ratio	13.5	9.5	11.1	10.9	12.1	15.4	15.0	13.6	16.6	19.9	20.7
Ratio of interest service to GNP	0.5	0.7	0.8	0,8	9	1.0	1.3	1.5	1.9	2.2	2.2
Total debt outstanding & disbursed (billions of dollars)	68.4	141.0	168.6	203.8	249.8	311.7	368.8	424.8	482.6	538.0	595.8
Official	33.5	61.2	71.6	83.5	99.8	120.1	136.0	157.5	172.3	190.9	208.5
Private	34.9	79.8	96.9	120.3	150.0	191.6	232.8	267.3	310.3	347.1	387.3

Note: Calculations are based on a sample of ninety developing countries.
a.—Estimated.
b.—Ratio of intere t payments plus amortization to exports.

TABLE VIII

Non-oil developing countries—Long-term external debt, 1978—1982 (*SUS billion*)

	1978	1979	1980	1981	1982	Percentage Increase 1978 1982
Total outstanding debt of non-developing countries	276.4	324.4	375.4	439.9	505.2	82.8
By type of creditor						
Official creditors	117.4	133.3	155.5	175.6	199.5	69.9
Governments	79.6	88.9	102.1	114.3	128.1	60.9
International institutions	37.8	44.5	53.4	61.4	71.4	88.9
Private creditors	159.0	191.1	220.0	261.4	305.7	92.3
Unguaranteed debt	52.4	58.6	68.8	84.8	101.5	93.7
Guaranteed debt	106.6	132.5	151.2	176.5	204.2	91.6
Financial institutions	75.4	101.9	117.4	138.8	162.6	115.6
Other private creditors	31.2	30.6	33.8	37.7	41.6	33.3
By analytical group						
Net oil exporters	61.4	68.9	78.0	90.6	107.0	60.8
Net oil importers	214.9	255.6	297.4	346.3	398.2	85.3
Major exporters of manufactures	108.4	128.3	143.4	169.1	194.1	107.3
Low-income countries	47.3	53.4	62.3	70.6	79.7	46.8
Other not oil importers	59.2	73.8	91.7	106.6	124.3	110.0

Source : International Monetary Fund, World Economic Outlook., op. cit., table XXX.
Note : Estimated.

CHAPTER V

ASPECTS OF A NEW INTERNATIONAL ECONOMIC ORDER

In discussing the current crisis in the advanced capitalist countries and its impact on developing countries,it was clear that the various means adopted by the developed countries to over come the crisis involved the closer integration of the Third World into the capitalist system ; this integration was to be achieved on the basis of an unequal relationship which meant that the major problems of adjustment were thrust onto the developing countries. It is against this background that we propose to discuss the alternative way out of the crisis proposed by the developing countries — the New International Economic Order (NIEO).

The set of ideas comprising the NIEO have grown up over the last 25 years and are the result of the newly independent countries' realisation that political independence did not automatically mean the end of imperialist control. Making common cause with the older politically independent countries of the preiphery, these countries have tried to unite together and work towards removing what were seen as barriers to their economic growth. It is of great significance that the control of economic relations by the once imperialist developed countries was seen as the cause of their lack of growth ; this recognition of a conflict of interests between the developed and developing countries led them to ask for restructuring of international economic relations.

The first move in this direction came when 29 countries of Asia and Africa met together in Bandung in Indonesia in 1955. Though the emphasis at this meeting was political and directed towards the emergence of the non-aligned movement, it also took note of the economic situation of the newly-independent nations of Asia and Africa and of their desperate need for economic growth. One of the main demands of the conference was for measures that would eliminate the wide fluctuation of the prices of commodities on which most of them were so dependent This conference was therefore of great significance in two aspects ; it recognised the need for a change in international economic relations and the unity of interests of the third world countries, in opposition to the interests of the developed countries. It was the prelude to a long history of efforts to establish a political and economic power base that would act independently of the developed metropolitan countries.

This initiative was carried further at the various meetings of the Non-Aligned Movement starting with the Summit Conference at Belgrade in 1961. This meeting was strongly critical of colonial economic relations and asked for basic changes in international economic structures which would ensure equitable terms of trade for the developing countries. The need to harness modern scientific knowledge to the processes of economic developement and the removal of the barriers to the transfers of such knowledge were also emphasised at this meeting. Following from this, the restrictive practices of the developed countries and their corporations, to manufactures from the Third World also received attention.

The Belgrade Conference was also notwrorthy for establishing an ideological basis for the demand for restructuring the world economy. It was argued that the development of the industrialised West had been based on the systematic exploitation of the colonies and that economic assistance was only a partial means of remission for the plunders of the past.

Following on these discussions, the declaration of the Belgrade Summit called for the convening of a broad-based international conference on economic problems. The United

Nations Conference on Trade and Development which was specifically mandated with the task of gearing world trade to the processes of development was largely the outcome of this declaration.

The ideas and concepts for restructuring international economic relations became crystallized in the form that is known today as the New International Economic Order at the Cairo Conference of the Non-aligned movement in October '64. The Cairo meeting emphasised the desire of all participating countries for the speedy establishment of a new and equitable economic order and demanded a new international division of labour. Acceleration of economic growth was seen as indispensable for the achievement of economic independence by the developing countries. The conference also decided that extens-sive and deeper relations among the developing countries themselves would contribute to this process.

Inspite of growing agitation from Third World countries the developed countries were not prepared to grant any meaningful concessions. They were virtually deaf to all the demands from the periphery. However two factors forced them to pay at least lip-service to the need for reforms. The first was the change in the composition of the United Nations Organisation. By 1970, there were 110 Third World members in the Organisation. Though they had very little effective voice in political and security matters, the Third World countries, (supported in their demands by the USSR and other socialist countries, China, and in some instances by the Scandinavian countries) could constitute a majority on most economic issues. The second factor was the organisation of OPEC and its success in achieving increases in oil-prices in 1973. It was under these pressures that the Sixth Special Session of the UN General Assembly adopted in 1974 a Declaration and Programme of Action on the Establishment Of A New Economic Order. (See Appendix 1). In the words of the Declaration, the programme of action was designed to "work urgently for the establishment of a new international economic order. . . . . which shall correct inequalities redress existing in hustices, and make it possible to eliminate the widening gap between the developed and developing countries." The adoption of this Declaration was followed by the acceptance of a Charter of Economic Rights and Duties of States (See Appendix II).

The Declarations adopted by the United Nations called for a vigorous programme of action. But there was actually very little progress. There were numerous conferences and enormous controversy on how to put the resolutions into practice ; there was, however, no agreement on the concrete steps to be taken to reform international economic relations. The frustration of developing countries was made more acute by the crisis of 1973-75 and their deteriorating economic conditions. When the Non-Aligned Movement next met in Colombo in 1976, the leaders expressed themselves forcefully. They said they were "deeply perturbed by the glaring inequalities and imbalances in the international economic structure and the everwidening gap between the developed and developing countries. Numerous resolutions were adopted at various international fora concerning the establishment of the New International Economic Order. However no indication of this implementation is apparent. Despite the growing acceptance of the principles of the New International Economic Order, there has been minimal progress towards their implementation."

After discussing the damaging effects of the crisis on their economies, they "noted with deep concern that there is still strong resistance from certain developed countries to the implementation of the Declaration and Programme of Action adopted at the Sixth and Seventh Special sessions of the UN General Assembly regarding the establishment of a New International aconomic Order. . . . . and a continued insistence on solutions aimed at preserving the existing relations of inequality, dependence End exploitation. The resistance to the New International Economic Order by some developed countries has been even intensified."

Even against this background of intensified hostility, the leaders of the third world declared that "nothing short of a complete restructuring of the existing international economic relations will provide an enduring solution to the world economic problems, particularly those of the developing countries. The inadequacy and the recurring failure of the prevailing economic order have been demonstrated in the recent series of crises in the market economy countries including, inter alia, the collapse of the post-war monetary system, emergence of restrictive and protectionist policies in world market trade, spiralling inflation recession, mounting unemployment and steadily deteriorating levels of real income from exports of primary produce of developing countries and food crises. These crises have also dramatized the basically interdependent character of the constituent elements of the world economy and provide the necessary impetus for the world community to conceive of a New International Economic Order based on equity, sovereign equality, interdependence, common interest and cooperation among all states."

However, even in the face of repeated demands from the developing countries, the developed nations have only paid lip service to the ideas of the New International Economic Order and have not shown the slightest interest in concretely changing the existing patterns of economic relations. This is obvious in the failure of commodity negotiations at UNCTAD, the discussions on protectionism at the General Agreement on Trade and Tariffs, the failure of the summit economic conference at Cancun and the failure of the Brandt Commission to inaugurate a meaningful North-South dialogue. But before examining the reasons behind this failure, the attitude of the Socialist Bloc to the concept of the New International Economic Order needs to be discussed.

The participation of socialist countries in the struggle to democratise economic relations dates back to the early years of the socialist system. The idea of re-organising "the world economy" to build the whole world on a rational economic foundation", to turn international ties into a supportive factor for the comprehensive development of national economies, had been put forward by Lenin very soon after the Soviets were established. Ever since then the Soviet Bloc has attempted to guide its economic relations on the principles of mutual benefit and respect for national sovereignty.

The Socialist Bloc has supported the initiatives of the Third World countries for the NIEO in all the international fora and has assiduously campaigned for their implementation. When the ideologues of the Third World developed the thesis that the imperialist countries owed the excolonial countries a debt on account of past expropriations, certain western nations tried to pass on a part of this debt to the Socialist Bloc. They argued that all "rich countries" regardless of their sociopolitical systems were responsible for the economic backwardness of the developing nations. In other words, the imperialist countries were trying to play down the degree of their responsibility for the plight of their ex-colonies by developing the concept of equal responsibility of all industrialised countries.

The socialist countries have always refused to accept this but they have helped in the economic growth of the developing countries through bilateral agreements, credits and other forms of aid. The socialist countries, banded together in the Council for Mutual Economic Assistance have aimed at pooling their efforts together with the developing countries in order to work out solutions to problems connected with their long-term economic and social development. They have participated in the construction of industrial and agro-industrial complexes embracing all stages of production from the production of raw materials to the manufacture of finished goods. Another important sphere of co-operation is the development of infrastructure-railways, bridges, highways, airports as well as in the public health and education systems. The objective in co-operation has been the development of independent national economies in the developing nations. Countries receiving CMEA assistance has increased from 34 in the 1960s to more than 80 by 1980.

The case of India is a good example of Soviet aid. It has provided India with more than 10 billion rupees in long-term credit and has built more than 70 industrial projects ; these have been in key areas necessary for India's industrial growth-enregy, raw materials like iron ore and basic industries such as steel, power generation, machine-building, transport equipment, etc. The Soviet Union has also agreed to the repayment of credits in manufactured products from India. Thus this aid has enabled India to make some progress in the direction of modern industrialised economy and to open up markets for its manufactures.

However the volume of assistance offered by the CMEA countries has not has been sufficient enough or spread out enough to enable the developing countries to overcome the effects of the recurring crises of the capitalist system with which they are still integrated. And the capitalist system i.e. the developed countries have consistently refused to answer the attempts of the developing countries to reshape international economic relations. To find out the reasons for their objections, we must now examine the content of the NIEO.

The core of the NIEO constitutes a coherent programme for economic growth with its constituent elements covering areas which have been discussed earlier as those suffering under the continuing crisis-raising the prices of the primary commodities exported by the developing countries ; access to the market sof the developed countries for their manufactures ; the acceleration of technology transfers ; debt relief.

What the developing countries sought to achieve in these areas can be best described in the words of the Economic Declaration of the Colombo Summit of the Non-Aligned nations in 1976. With regard to the first item, the developing countries wanted a

> "fundamental restruturing of the entire apparatus of international trade with a view to indexation, improving the terms of trade of developing countries and ensuring fair and remunerative prices in real terms to primary export products and an appropriate share of world trade for the developing countries through the expansion of processing, diversification and full participation in transport, marketing and distribution of their products."

The second objective of the NIEO was a

"basic restructuring of world production on the basis of a new international division of labour through improved access to the markets of developed countries for the manufactured products of developing countries, transfer of appropriate technology on favourable terms and conditions, re-deployment of suitable industries from developed countries to developing countries, harmonisation of production of synthetics or substitutes in the developed countries with the supply of natural products from developing countries, the elimination of restrictive business practices and effective control of the activities of Transnational Corporations in conformity with the development objectives of the developing countries."

With regard to the monetary situation, the Summit asked for a

"radical overhauling of the present international monetary arrangements which are characterised by the absence of a rational, equitable and universal system, chaotic currency fructuations, haphazard growth of international liquidity, widespread inflation, lack of responsiveness to the needs of developing countries and the domination of decision making by a few developed countries. The new system should remove the dominant role of international currencies in international reserves, ensure parity in decision making as between developed and developing countries, prevent the domination of any single country over decision making and forge a link between creation of liquidity and development finance."

The demand for debt relief was brief ; the leaders wanted the systems to "find urgent and adequate solutions to the problems of official debts", without specifying the means of doing so.

It will be observed that what the NIEO demanded was the correction of these factors that were discussed earlier as being central to the plight of developing countries in this crisis : stabilisation and increases in the prices of primary commodities so as to improve the terms of trade ; the flow of resources and technology to produce manufactures for the markets of developed countries ; the reforms of monetary structures so that such flows could take place.

However, inspite of about 15 years of negotiation the Third World has been unable to achieve any of the objectives of the NIEO. The producer organisations that would have helped the developing nations to establish control over their natural resources and to increase their earnings from primary commodities have not been established ; in their place has come a much emasculated Common Fund which has not yet really got off the ground. Rather than rising, the prices of most commodities are remaining stagnant. The Code of Conduct that was expected to encourage and regulate the flow of technology to the developing countries has been firmly rejected by the industrialised countries. In that context the prospects of an at least relatively autonomous growth of industry have been retarded. The Lima Objective-25 per cent of world production and trade in manufactured products by the year 2000-has been watered down at every subsequent meeting. The flow of foreign aid, originally targetted at one per cent of the GNP of the developed countries, has fallen for short of such targets. The demands for the reform of the monetary system and for greater control of the IMF have not even been seriously considered. The objective of linking the creation of new units with the development needs of the Third World has been a utopian dream. Though they were forced into negotiations, the developed countries have responded by outright rejection of the proposed reforms or by advancing various counter proposals, that behind their rhetoric, merely seek to meet their own needs

In March, 1983, the non-aligned movement met in Delhi. They took stock of the continuing crisis and of the difficulties that had been met in the process of negotiations for a restructuring of economic relations. While emphssing the need for continued discussions on the NIEO, they also suggested certain immediate needs, measures to overcome some of the immid ate problems that had arisen in the wake of the current crisis :

"The world economic crisis, which originated in some of the major industrialised countries has now become truly global in character and scope. In developed countries it has led to economic stagnation and rising unemployment to which they have reacted by adopting protectionist and other inward-looking policies. In developing countries, whose economies are specially vulnerable, it has led to enormous balance of payments deficits, mounting debt burdens and worsening terms of trade due to the steep fall in their commodity prices and to the sharp rise in the prices of industrial products which they have to import All this has brought many of these countries to the brink of disaster.

Never before have the economic tunes of the developes and developing nations been so closely linked together. Yet the rich nations of the world are turning in the midst of this common crisis to the catastrophic bilateralism of the 1920s and 1930s rather than to enlightened multilateralism. They still refuse to recognize that the economic revival of the North is simply not possible without the economic survival of the South. Solutions to these problems must necessarily be global.

The present crisis has demonstrated the inadequacy of the existing international economic order to deal with the problems of development. A thorough-going restructuring of this order through a process of global negotiations is necessary. All hurdles must now be overcome so that these negotiations can be launched without delay. Non-aligned countries are committed to strive for the establishment of the New International Economic Order based on justice and equity.

Concurrently, immediate measures must be taken to start a process of recovery and to bring the world economy back to the path of sustained growth. The activisation and stimulation of the growth process in the developing countries, must be a key objective of this endeavour. Immediate measures are needed in several areas. Special emphasis must be placed on enabling developing countries, particularly the least developed countries to solve their acute balance of payments problems without interrupting their development process. At the same time, satisfaction of their basic needs of food and energy, enhanced access to markets and fair prices for commodities must be ensured. Protectionist trends must be reversed and immediate measures to dismantle trade barriers implemented. It is necessary to put an end to unequal exchange between developed and developing countries. Besides, many developing countries are in tragic situation because of their inability to meet their debt obligations This serious problem should be urgently addressed."

They accordingly proposed 'the immediate convening of an international conference on money and finance for development, with universal participation, and a comprehensive restructuring of the international monetary and financial system." The only response so far has been the abortive Cancun meeting.

What did the developing countries actually expect from the NIEO, or to put it another way, what did the ruling classes? The removal of external obstacles to growth, they believed, would at least create an opening for the development of self-reliant, self-sustaining, autonomous capitalist economies in their own countries, that the envisaged reforms of the international division of labour will reinforce the establishment of integrated and industrialised economies. There is behind this expectation a stated or tacit theoretical assumption; that there are laws of capitalist evolution that apply to all societies that adopt the capitalist road, that the developing countries could duplicate the development of capitalism in the advanced industrialised countries if only external constraints could be removed. We do not propose to enter into a detailed discussion of these theoretical perspectives except to say that developments and experiences of Third World countries, particularly of newly ndustrialising countries, do not lend much support to this view

In the meantime, the developed nations and their TNCs have been following their own policies. Their aim is to make the most profit from the cheap labour and natural resources of Third World countries. They have absolutely no intention of helping developing countries to creat integrated national industrial, economies. They "redploy" industry in developing countries certainly, but as fragments of productive processes, the whole being totally subject to their control. The whole point as far as the TNCs are concerned is to transplant bits and pieces of industrial processes in an unintegrated form in various developing countries, so as to enable the better to organise their economic processes on a global scale. Within this framework, TNCs make minor concessions to the host countries; they are even prepared, in some cases, to give up the ownership of capital to the state or the bourgeoisie in the host country. In this context, the the failure of international negotiations to achieve any reforms the developing countries are now actually welcoming, and even competing for the privilege of having TNC investment in their economies. Actually, the establishment of Free Trade Zones and investment on infrastructure in many developing countries constitutes an additional gain to the TNCs, a use of local resources to assist them.

As was noted in the section on the economic crisis, the developed capitalist nations have now entered a period of stagnation. World trade has slowed down. The international monetary system is subject to dislocation. Competition among the different blocks in the capitalist system has now become severe. Evey industrialised country is faced with internal problems arising from lack of growth and mass unemployment. Any reform of international economic relations that would transfer a larger share of profits to the bourgeorisie of the developing countries would only intensify their own internal difficulties and contradictions. These are not the conditions in which any reform is possible.

In the last analysis the New International Economic Order is a blueprint for capitalist development on a global scale. It allows a deepening and an expansion of the international division of labour, allows an increase in the rate of profit on a world scale In this context, all that it would do is to push the heavily tilted present balance slightly in favour of the bouregoisie of the developing nations. But it needs to be emphasised that, even if achieved, the NIEO will not solve the basic problems of the effects of the present crisis on developing countries.

If we go back and consider again the core elements of the NIEO this will become apparent. In the primary commodity sector, the changes sought are primarily concerned with raising the income derived from exports of mineral and agricultural commodities. Even though price fluctuations do actually affect adversely the economies of developing countris,e price rises will do nothing to solve the fundamental problems which arise from low levels of productivity.

In the case of industry, emphasis is on the removal of barriers to improve access to the markets of developing countries. Even if such barriers are removed exports would still be subject to competetitive forces within these economies. Developing countries could compete only by keeping their costs of labour down, keeping wages down; this will retard the development of internal markets for manufactured goods. The reforms suggested for the transfer of technology seek only improved terms for such transfers; they will not be an answer to the problem of developing indigenous scientific and technological capacity. Even as far as the debt problem is concerned, the reforms would only be temporary palliatives that would not attack the conditions that create debt obligations.

Even if the changes advocated were achieved, the basic problem of the developing countries — backward agriculture and industry, subservient economic relations, poverty, illiteracy, malnutrition — would not be pemanently solved. Even though the expectation generated in the 70s that a nev division of income between the rich countries and the poor countries could be brought about through a process of diplomatic negotiations informed by an awareness of mutual interests has proved to be more relies ory than achived yet a mon just and equitable palltern of international economic velates must be sought for by the this world; it wll at least mean an increase in the resoures available for their growth, the use of these resoures being depundent on the balance of forces in their own socelist.

CHAPTER VI

The Arms Race and the Present Crisis

The "cold-war" and the military expenditure arising therefrom was one of the factors responsible for the long period of "expansion" of the economies of the developed countries from the end of the second world war to the early seventies. It is ironical that the intensification of the arms race in the seventies is now a contributory factor in the continuing recession experienced in these countries.

We can begin this discussion by looking at arms expenditure in the developed countries belonging to the capitalist system. We will have to bear in mind that this is consequently related to the arms expenditure of the socialist bloc; nevertheless, we shall concentrate on the developing countries as it is the military policies of these countries that have an effect on the economies of developing countries. The political background to arms expenditure is outside the scope of the present essay.

Military expenditure in the US began to rise dramatically from 1974 onwards, recording during the period 1977—1981 an annual growth rate of 12 per cent. The administration of President Reagan, in keeping with his foreign policies, proposed even higher volumes of armaments expenditure; According to these proposals, arms expenditure was expected to rise by 16 per cent in current prices or at 9.6 per cent in constant prices to amount to a sum of $375 billion in 1986. This astronomical figure has to be set against another figure of similar magnitude — world military expenditure was estimated to be close to $ 650 billion in 1982.

WORLD MILITARY EXPENDITURES

(Millions of dollars at 1979 constant prices)

1972	—	416,304	1977	—	464,127
1973	—	421,045	1978	—	478,007
1974	—	435,629	1979	—	492,927
1975	—	448,421	1980	—	502,542
1976	—	456,045	1981	—	518,727

Source: Based on SIPRI yearbooks, 1982, p. 140.

Even considering the scope of the developed economy of the United States, their military expenditures are enormous. The share of military expenditure in the country's G N P during the Korean and Vietnam war reached 13.4 per cent (1953) and 9.5 per cent (1968) respectively. In the 1970's it dropped, the figure for 1979 being 5.1 per cent. With military expenditure this indicator has begun to climb again and in 1986 is estimated to reach 7.3 per cent.

The military expenditure of the United States has also to be set in the context of similar outlays by its allies — the other developed nations organised in the EEC and in the North Atlantic Treaty Organisation. This is more significant now as the US has begun to pressurise its allies to bear a more appropriate share of the military burden which is seen as necessary to safauard "the free enterprise system"; thus Western Europe's share in NATO's total military spending has increased from 23 per cent in the 1965 — 1970 period to over 33 per cent by now. In 1980, for example, the military expenditures of the Federal Republic of Germany reached 38,800 million marks; the UK spent 10,800 million pounds in the fiscal year 1980/81 for military purposes.

In considering the effects of such military expenditures on the present crisis, several factors need to be given consideration. First, military expenditure on this scale has given rise to tremendous deficits in the US budget; such deficits have led not only to cuts in social welfare, depressing the living standards of the poor, but to high inteterest rates on the capital market. We have seen earlier that high interest rates in the US has had very adverse effects on the debt problems of the developing countries. Secondly, they have tended to affect direct aid flows: as deficits increase the tendency has been to reduce the amount available for development aid. This is a tendency seen not only in the US but also in other developed countries.

The use of military means by the developed countries in the pursuit, of political and economic objectives, has involved the developing countries in a number of different ways, most importantly in a rising level of militarisation.

Internal factors linked with the specific characteristics of their economic and political processes, combined with influences exerted on them by global political and economic situations have combined to make Third World countries increase their military expenditures. The following factors are of importance in this regard;

— many developing countries suffer from political and social instability due to the amorphous character of their class structure and to their economic backwardeness. Those countries which have opted to link themselves more closely with the capitalist system find it necessary to ensure political stability to the foreign investors who make such linkages possible. They also have to keep their wage levels down in comparison with the developed countries. These imperatives lead to highly authoritarian regimes which need military backing to repress their own peoples. The growth of military machines to the point when they more or less dominated the country in such states as Indonesia, Thailand, South Korea and in most conutries of Latin America can be traced to this factor.

— many developing countries have inherited from the colonial background, outstanding territorial and national-ethnic problems. These continue to be sources of contradictions and clashes, with dominant ethnic groups using military means to supppress others. The growing militarisation of many African and other Asian countries can be attributed to this factor.

— Political necessities of two kinds can also give rise to militarisation. Some countries, on the one hand, have expanded their military structures to safeguard their national liberation from both internal and external imperialist opposition. Cuba, Angola, Zimbabwe and Vietnam may be cited as examples of this trend. On the other hand, some countries such as Iran, Brazil have attempted to become dominant, sub-regional military powers on behalf or in association with some developed countries.

— specific situations such as in the Middle East or in the Indian sub-continent have also tended to drive up military expenditures by countries in these regions.

Whatever the reasons the tendency towards increasing their military expenditures is noticeable throughout the Third World.

In the 1960s, the average annual rates of growth of military expenditures in the Third World topped 7 per cent, a figure more than twice the world average during this period. In the 1970s they continued to rise, reaching an average of 9 per cent (including 2.9 per cent in Africa, 4.6 per cent in South Asia, 9.3 per cent in the Far East, and 13.5 per cent in the Middle East), or 5.4 times the world average. At the same time, the gross national products of these countries scored annual increases of only 6.6 per cent. Thus, as a result of the growing spending of resources for non-productive purposes, the growth of military expenditures outstripped the development of the material foundations of their societies.

The growth of military expenditures was particularly rapid in the countries involved in the Middle East conflict, in the oil-producing states and also in some countries of Southeast asia.(Kuwait by 12.6annually, Syria — 12.8 per cent, Oman — 15 per cent, Saudi Arabia 19.5 per cent, Malaysia 12.9 per cent, South Korea— 14.1 per cent, and in the phillipines — 17.8 per cent).

The overall spending of the developing countries for military purposes amounted to — 65 billion in 1980, having almost trebled since 1969. All in all, from 1969 to 1980, they spent $ 450 billion for military purposes . For a number of reasons it is possible to calculate only approximately, the Third World's share in the world expenditure of Armaments. At the same time, the data available makes it possible to describe the trend of its course: 6.2 per cent in 1969, about 13 per cent of 1978, and aproxinately 16 percent in 1980.

MILITARY EXPENDTURES IN UNDERDEVELOPED COUNTRIES:

(Millions of dollars at 1979 constant prices)

		Expenditure	*Percentage of World total Expenditures*
1972	—	32,980	7.9
1973	—	37,296	8.8
1974	—	48,074	11.0
1975	—	56,034	12.4
1976	—	64,946	14.0
1977	—	63,630	13.7
1978	—	66,085	13.8
1979	—	67,838	13.7
1980	—	71,316	14.1
1981	—	81,281	15.6

Source: Based on SIPRI, Yearbook 1982, Op. 140.

In absolute figures the average per capita amount of military spending in the Third World is $ 25 a year ($ 87 in the OPEC countries) varying from several dollars in states like Burma or Cameroon ($ 4 and $ 6 respectively), to amounts which considerably exceed the expenditures of the developed industrialised countries: $ 1,086 in Saudi Aarabia, $ 390 in Oman, $ 270 in Iran, $ 130 $180 in Singapore, Iraq and Syria against $ 302 in the FRG, $ 215 in Britain, and $ 93 in Italy. According

According to a study made by UNESCO, overall military spending per head of the population in developed countries is ten times higher than the average forthe developing countries; however because of essential differences in general per capita incomes,, the real burdens of this spending is much heavier in the developing countries.

The developing countries obtain their arms by direct purchases either in cash or on the basis of long-term credit oras aid from either the developed industrialised countries, or from the socialist bloc. The magnitude of such imports is indicated in the Table.

Top 20 Third World Weapons Importers 1978 82

	Imports US£ millions)
Syria	4,484.74,
Libya	4,389.32
Saudi Arabia	3,912.22
India	3,101,15
Egypt	2,767.18
Iraq	2,480,92
Israel	2,237.79
South Korea	1,956.11
Iran	1,669.85
Vietnam	1,192.76
Morocco	1,145.04
Algeria	1,045.04
Jordan	1,09,33
South Yemen	1,089,67
Argentina	1,007,91
Peru	859.78
Indonesia	715.65
Taiwan	667.94
Cuba	620.23
Thailand	572.52
Others	10,543.31
	Total US£ 7,710 billions

Source ; SIPRI Yearbook 1983

The role of aid is also important in the growing militarisation of the Third World. In the period 1945 — 1976 the US provided aid valued at 221,000 million dollars to 140 countries. Of this sum, 145,000 million dollars were allocated as economic aid and 76,000 million dollars as military aid. These sums have considerably increased in the last few years with growing emphasis on more and more sophisticated and therefore more expensive armaments.

Another aspect to be noted is that over 30 countries of the Third World have become significant producers and even exporters of armaments. In 1979, the combined military outputs of these countries amounted to more than 5 billion dollars. It is interesting to note that, with the exception of India which manufactures planes under licence from the Soviet Union, all these countries manufacture armaments under licence from the developed capitalist countries.

The increased levels of militarisation in the developing countries have contributed to the current crisis significantly. In the first place, scarce national resources in terms of capital and manpower are diverted to armaments over more productive uses that could reinforce the material base of their economies and contribute to faster economic growth. We have already discussed the magnitudes of capital thus spent; the distortions that they impose on national economies are more difficult to quantify. The fact that in the Third World as a whole there is one soldier for every 250 inhabitants and one doctor for 23,700 is ample evidence of such distortions.

Furthermore, increasing militarisation enforces dependence on arms supplies. National sovereignty in such circumstances often becomes only a legal fiction.

In the context of the generally dismal picture of the Arms race in which the Third World countries find themselves engulfed in, it muslt be pointed out that proposals have been made from the superpowers to reduce military spending, and divert such resources to the Third World Countries. For instance, in March this year, the Warsaw Treaty member countries proposed to the NATO countries to reach 'concrete agreements on the non-increase and subsequent reduction of millitary spending so that the means thus released would be used to meet the needs of economic and social development, including those of the developing countries'. One can only hope that such ideas not languish but attempts made to translate them into practice.

The present pace of the arms race, the increasing use of the nuclear deterrent, its expansion to space, as evinced by the 'star-wars' concept exacerbate the present crisis.

CONCLUSION

We have been discussing the nature and characteristics of the present crisis in the developed countries, the impact of that crisis on the developing countries and the so-far abortive strategies that have been tried by the developing countries to overcome the crisis. This conclusion will try to set out very briefly some of the social and political dimensions of this crisis in the Third World, even though the emphasis of this essay has been on the economic aspects.

The discussion has been generally in terms of the entirety of the developing countries, for which the term 'Third World' has also been used. However, it needs to be emphasised that the burdens of the recession have not been spread uniformly amongst the the developing countries. There has been an increasing differentiation in the ways in which countries have been affected. The greatest setbacks appear to have been suffered by the African countries. The countries of South-East Asia for instance appear to have been somewhat successful in miniminsing the effects of the crisis on their own economies. But here also there is a difference, which has depended on the way in which countries have adjusted to the crisis and the strategies they have followed. India for example has been able to build a sound industrial base while, countries such as Singapore and South Korea have chosen the deliberate strategy of linking even more closely with international capital. But, in this particular instance, although there has been some development in terms of temporary growth, it is no guarantee of continued growth.

Even the temporary growth has been purchased at a terrible price. It has been mentioned earlier that accommodation with foreign capital demands, political stability and the maintenance of relative low-wage structures. The political imperative generated by this economic necessity has been authoritarian. Most of the countries that have chosen this path have political structures that are undemocratic that deny to their people fundamental civil-rights. The ruling classes of these countries have found that the conditions that will allow them to exploit, in conjunction with foreign capital, their own peoples can only be ensured by rigid military control. In a policy of import substitution, the prime necessity is to maintain or expand the internal market; to do this, it is necessary to have an income distribution policy that will enable the working class and the other poor sections of the community to buy at least a part of the products manufactured. The political effect of this economic necessity is an alliance between the bourgeoisie and the working classes and the emergence of various populist regimes. The political, imperatives of export-industrialisation are completely different: it is not only necessary to keep down wages but also to keep down domestic demands for products which could be exported. Producers cannot be allowed to become consumers.

The promotion of exports thus removes the base for any soft of populist alliance and implies the repression of the working classes. As a result society has to be organised on rigid authoritarian lines. Thus it is no surprise that most of the Third World countries that have chosen this path to growth are already authoritarian, with the military in a dominant position or fast becoming so. This is the inevitable political manifestation of one way of coping with the repercussions of the present crisis.

The other aspect, very important but only to be touched on briefly is that though we talk of Third World or developing countries, talk of transfers, flows of resources to the various countries, these are not monolithic structures. The developing countries are class societies with their bourgeoisies in either complete control or in association with other classes of society in populist alliances. In this situation it is inevitable that the effect of the crisis will fall on the population in a differentiated way. Just as the capitalists of the developed countries throw the burden of the major part of adjustment to the crisis as to the developing countries, so will the bourgeoisies of the developing countries tend to throw the burdens of the crisis on the masses in their own countries.

Social welfare expenditures are cut; the outlays on education, health, and other public services are reduced. The prices of goods and services supplied by the state or its agencies are defined at 'market" levels; any subsidies that may have been in existence on consumption are removed and are replaced by subsidies for local and foreign capital. The examples of Sri Lanka after 1977 and Jamaica after the fall of the Manley government are outstanding examples of this trend. Thus the burdens of adjusting to the crisis are placed on the poorest sections of the community, on the workers, the unemployed, the peasants and, by extension, on women and children. A report prepared for the UN Food and Agriculture Organisation estimated that, in 1980, one half of the 1.34 billion people living in the rural areas of 68 developing countries lived in conditions of absolute poverty; there are historical reasons for this but it is also significant that the numbers of people living in absolute poverty in the Third World are increasing year by year. More and more children are gorwing up malnourished and illiterate. This is another political implication that we must bear in mind when we talk of the crisis in terms of countries and nations. The victims of the crisis are people, and particularly people at the bottom of the social hiearchy.

We have also discussed the NIEO, the alternative strategy that has been advanced over the last decade. As we have pointed out, countries have chosen different strategies to cope with the crisis and this, in itself, has create various fissures in the Third World. The degree of unity and solidarity among the developing countries that was present in the early 1970s no longer obtained. The NIEO can be brought about only if all the Third World counries are united and act in solidarity; and if this solidarity could force the developed countries into giving up their selfish predatory economic policies as were seen in the activities of the TNCs. Unfortunately the solidarity now appears to have been eroded and the developed countries no longer feel the necessity to accomodate themselves to the demands of the Third World; in fact the hdeveloped countries have successfully incorporated many developing countries into the international division of labour on their own terms. In this context, the original concept of the NIEO now seems an utopian dream; furthermore, if the developed countries had been more far-sighted, the NIEO might have been the instrument for a more equitable means of economic integration of the global capitalist system, serving both the developed and the developing countries. Instead, capital is at the moment trying to overcome the crisis of accumulation that it is faced with by re-organizing, on its own terms, the world economy on the basis of a new division of labour made possibl by new technologies that are under its own control. Capital may probably succeed in this task if labour can be disciplined and organised on a global basis so as to make it profitable. Thus whether capital can re-organise and go onto another major, extended period of expansion will ultimately depend on the balance of class forces, not least in the developing countries.

DECLARATION AND ACTION PROGRAMME ON THE ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER.

APPENDIX I

We, the Members of the United Nations

Having convened a special session of the General Assembly to study for the first time the problems of raw materials and development, devoted to the consideration of the most important economic problems facing the world community,

Bearing in mind the spirit, purposes and principles of the Charter of the United Nations to promote the economic advance-ent and social progress of all peoples,

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 furture generations, and, to that end, declare :

1. The greatest and most significant achievement during the last decades has been the independence from colonial and alien domination of a large number of peoples and nations which has enabled them to become members of the community of free

peoples. Technological progress has also been made in all spheres of economic activities in the last three decades, thus providing a solid potential for improving the well-being of all peoples. However, the remaining vestiges of alien and colonial domination, foreign occupaton, racial discrimination, *apartheid* and neo-colonialism in all its forms continue to be among the greatest obstacles to the full emancipation and progress of the developing countries and all the peoples involved. The benefits of technological progress are not shared equitably by all members of the international community. The developing countries, which constitute 70 per cent of the world's population, account for only 30 per cent of the world's income. It has proved impossible to achieve an even and balanced development of the international community under the existing international economic order. The gap between the developed and the developing countries continues to widen in a system which was established at a time when most of the developing countries did not even exist as independent States and which perpetuates inequality.

2. The present international economic order is in direct conflict with current developments in international political and economic relations. Since 1970, the world economy has experienced a series of grave crises which have had severe repercussions, especially on the developing countries because of their generly greater vulnerability to external economic impulses. The developing world has become a powerful factor that makes its influence felt in all fields of interational activity. These irreversible changes in the relationship of forces in the world necessitate the active, full and equal participation of the developing countries in the formulation and application of all decisions that concern the international community.

3. All these changes have thrust into prominence the reality of interdependence of all the members of the world community. Current events have brought into sharp focus the relations that the interests of the developed countries and those of the, developing countries can no longer be isolated from each other that there is close interrelationship between the prosperity of the developed countries and the growth and development of the

developing countries, and that the prosperity of the international community as a whole depends upon the prosperity of its constituent parts. International co-operation for devlopment is the shared goal and common duty of all countries. Thus the political economic and social well-being of present and future generations depends more than ever on co-operation between all members of the international community on the basis of sovereign equality and the removal of the disequlilibrium that exists between them.

4. The new international economic order should be founded on full respect for the following principles;:

(*a*) Sovereign equality of States, self-determination of all peoples, inadmissibility of the acquisition of territories by force, territorial integrity and non-interference in the internal affairs of other States;

(*b*) The broadest co-operation of all the States members of the international community, based on equity, whereby the prevailing disparities in the world may be banished and prosperity secured for all;

(*c*) Full and effective participation on the basis of equality of all countries in the solving of world economic problems in the common interest of all countries, bearing in mind the necessity to ensure the accelerated development of all the developing countries, while devoting particular attention to the adoption of specia measures in favour of the least developed, land-locked and islandl developing countries as well as those developing countries most seriously affected by economic crises and natural calamities, without losing sight of the interests of other developing countries;

(*d*) The right (of) every country to adopt the economic and social system that it deems to be the most appropriate for its own development and not to be subjected to discrimination of any kind as a result;

(*e*) Full permanent sovereignty of every State over its natural resources and all economic activities. In order to safeguard these resources, each State is entitled to exercise effective control over them and their exploitation with means suitable to istown situation, including the right to nationaliazation or transfer of ownership to its nationals, this right being an expression of the full permanent sovereignty of the State. No State may be subjected to economic, political or any other type of coercion to prevent the free and full exercise of this inalienable right;

(*f*) The right of all States, territories and peoples unde oreign occupation, alien and colonial domination or apartheid to restitution and full compensation for the exploitation and depletion of, and damages to, the natural resources and all othe resources of those States, territories and peoples;

(*g*) Regulation and supervision of the activities of transnational corporations by taking measures in the interest of the national economies of the countries where such transnational corporations operate on the basis of the full sovereignty of those countries;

(*h*) The right of the developing countries and the peoples of territories under colonial and racial domination and foreign occupation to achieve their liberation and to regain effective control over their natural resources and economic activities;

(*i*) The extending of assistance to developing countries-peoples and territories which are under colonial and alien domination, foreign occupation, racial discrimination or apartheid or are subjected to economic,political or any other type of coercive measures to obtain from them the subordination of the exercise of their sovereign right and to secure from them advantages of any kind, and to neocolonialism in all its forms, and which have established or are endeavouring to establish effective control over their natural resources and economic activities that have been or are still under foreign control;

(*j*) Just and equitable relationship between the prices of raw materials, primary products, manufactured and semi-manufactured goods exported by developing countries and the prices of raw materials, primary commodities, manufactures, capital goods and equipment imported by them with the aim of bringing about sustained improvement in their unsatisfactory terms of trade and the expansion of the world economy.

(*k*) Extension of active assistance to developing countries by the whole international community, free of any poilitical or military conditions;

(*l*) Ensuring that one of the main aims of the reformed international monetary system shall be the promotion of the development of the developing countries and the adequate flow of resources to them;

(*m*) Improving the competitiveness of natural materials facing competition from synthetic substitutes;

(*n*) Preferential and non-reciprocal treatment for developing countries, wherever feasible, in all fields of international economic co-operation whenever possible;

(*o*) Securing favourable conditions for the transfer of financial resources to developing countries;

(*p*) Giving to the developing countries access to the achievements of modern science and technology, and promoting the transfer of technology and the creation of indigenous technology for the benefit of the developing countries in forms and in accordance with procedures which are suited to their economies;

(*q*) The need for all States to put an end to the waste of natural resources, including food products;

(*r*) The need for developing countries to concentrate all their resources for the cause of development;

(*s*) The strengthening, through individual and collective actions, of mutual economic, trade, financial and technical co-operation among the developing countries, mainly on a preferential basis;

(*t*) Facilitating the role which producers' associations may play within the framework of international co-operation and, in pursuanceof their aims, inter-alia, assisting in the promotion of sustained growth of world economy and accelerating the development of developing countries.

5. The unanimous adoption of the International Development Strategy for the Second United Nations Development Decade (General Assembly Resolution 2626 (XXV)) was an important step in the promotion of international economic co-operation on a just and equitable basis. The accelerated implementation of obligations and commitments assumed by the international community within the framework of the Strategy, particularly those concerning imperative development needs of developing countries would contribute significantly to the fulfilment of the aims and objectives of the present Declaration.

6. The United Nations as a universal organization should be capable of dealing with problems of international economic co-operation in a comprehensive manner and ensuring equally the interests of all countries. It must have an even greater role in the establishment of a new international economic order. The Charter of Economic Rights and Duties of States, for the preparation of which the present Declaration will provide an additional source of inspiration, will constitute a significant contribution in this respect. All the States Members of the United Nations are therefore called upon to exert maximum efforts with a view to securing the implementation of the present Declaration, which is one of the principal guarantees for the creation of better conditions for all peoples to reach a life worthy of human dignity.

7. The present Declaration on the Establishment of a New International Economic Order shall be one of the most important bases of economic relations between all peoples and all nations.

Programme of Action on the Establishment of a New International Economic Order

Introduction

1. In view of the continuing severe economic imbalance in the relations between developed and developing countries, and in the context of the constant and continuing aggravation of the imbalance of the economies of the developing countries and the consequent need for the mitigation of their current economic

difficulties, urgent and effective measures need to be taken by the international community to assist the developing countries, while devoting particular attention to the least developed, land-locked and island developing countries and those developing countries most seriously affected by economic crises and natural calamities leading to serious retardation of development processes.

2. With a view to ensuring the application of the Declaration on the Establishment of a New International Economic Order (U.N. General Assembly Resolution 3201 (S-VI) it will be necessary to adopt and implement within a specified period a programme of action of unprecedented scope and to bring about maximum economic co-operation and understanding among all States, particularly between developed and developing countries, based on the principles of dignity and sovereign equality.

1. *Fundamental Problems of Raw Materials and Primary Commodities as Related to Trade and Development*

1. *Raw materials*

All efforts should be made :

(*a*) To put an end to all forms of foreign occupation, racial discrimination, apartheid, colonial, neo-colonial and alien domination and exploitation through the exercise of permanent sovereignty over natural resources;

(*b*) To take measures for the recovery, exploitation, devlopment, marketing and distribution of natural resources, particularly of developing countries, to serve their national interests, to promote collective self-reliance among them and to strengthen mutually beneficial international economic co-operation with a view to bringing about the accelerated development of developing countries;

(*c*) To facilitiate the functioning and to further the aims of producers' associations, including their joint marketing arrangements, orderly commodity trading, improvement in export income of producing developing countries and in their terms of trade, and sustained growth of the world economy for the benefit of all;

(*d*) To evolve a just and equitable relationship between th prices of raw materials, primary commodities, manufactured and semi-manufactured goods exported by developing countries and the prices of raw materials, primary commodities, food, manufactured and semi-manufactured goods and capital equipment imported by them, and to work for a link between the prices of exports of developing countries and the prices of their import from developed countries;

(*e*) To take measures to reverse the continued trend of stagnation or decline in the real price of several commodities exported by developing countr s, despite a genral rise in commodity prices, resulting in a decline in the export earnings of these developing countries;

(*f*) To take measures to expand the markets for natural products in relation to synthetics, taking into account the interests of the developing countries, and to utilize fully the ecological advantages of these products;

(*g*) To take measures to promote the processing of raw materials in the producer developing countries.

2. *Food*

All efforts should be made :

(*a*) To take full account of specific problems of developing countries, particularly in times of food shortages, in the international efforts connected with the food problem;

(*b*) To take into account that, owing to lack of means, some developing countries have vast potentialities of unexploited or underexploited land which, if reclaimed and put into practical use, would contribute considerably to the solution of the food crisis;

(*c*) By the international community to undertake concrete and speedy measures with a view to arresting desertification, salination and damage by locusts or any other similar phenomenon involving several developing countries, particularly in Africa, and gravely affecting the agricultural production capacity of these countries, and also to assist the developing countries affected by this phenomenon to develop the affected zones with a view to contributing to the solution of their food problems;

(*d*) To refrain from damaging or deteriorating natural resources and food resources, especially those derived from the sea, by preventing pollution and taking appropriate steps to protect and reconstitute those resources;

(*e*) By developed countries, in evolving their policies relating to production, stocks, imports and exports of food, to take full account of the interests of:

(i) Developing importing countries which cannot afford high prices for their imports;

(ii) Developing exporting countries which need increased market opportunities for their exports;

(*f*) To ensure that developing countries can import the necessary quantity of food without undue strain on their foreign exchange resources and without unpredictable deterioration in their balance of payments, and, in this context, that special measures are taken in respect of the least developed, the land-locked and island developing countries as well as those developing countries most seriously affected by economic crises and natural calamities;

(*g*) To ensure that concrete measures to increase food production and storage facilities in developing countries are introduced, inter alia, by ensuring an increase in all available essential inputs, including fertilizers, from developed countries on favourable terms;

(*h*) To promote exports of food products of developing countries through just and equitable arregements, inter alia, by the progressive elimination of such protective and other measures as constitute unfair competition.

3. *General trade.*

All efforts should be made :

(a) To take the following measures for the amelioration of terms of trade of developing countries and concrete steps to eliminate chronic trade deficits of developing countries;

(i) Fulfilment of relevant commitments already undertaken in the United Nations Conference on Trade and Development and in the International Development Strategy for the Second United Nations Development Decade (General Assembly Resolution 2626 (XXV),

(ii) Improved access to markets in developed countries through the progressive removal of tariff and non-tariff barriers and of restrictive business practices;

(iii) Expeditious formulation of commodity agreements where appropriate, in order to regulate as necessary and to stabilize the world markets for raw materials and primary commodities;

(iv) Preparation of an over-all integrated programme, setting out guidelines and taking into account the current work in this field, for a comprehensive range of export interest to developing countries;,

(v) Where products of developing countries compete with the domestic production in developed countries,each developed country should facilitate the expansion of imports from developing countries and provide a fair and reasonable opportunity to the developing countries to share in the growth of the market;

(vi) When the importing developed countreis derive receipts from customs duties, taxes and other protective measures applied to imports of these products, consideration should be given to the claim of the developing countries that these receipts should be reimbursed in full to the exporting developing countries or devoted to providing additional resources to meet their development needs;

(vii) Developed countrries should make appropriate adjustments in their economies so as to facilitate the expansion and diversification of imports from developing countries and thereby permits a rational, just and equitable international division of labour;

(viii) Setting up general principles for pricing policy for exports of commodities of developing countries, whith a view to rectifying and achieving satisfactory terms of trade for them;

(ix) Until satisfactory terms of trade are achieved for all developing countries, consideration should be given to alternative means, including improved compensatory financing schemes for meeting the development needs of the developing countries concerned;

(x) Implementation, improvement and enlargement of the generalized system of preferences for exports of agricultural primary commodities, manufactures and semi-manufactures from developing to developed countries and consideration of its extension to commodities, including those which are processed or semi-processed; developing countries which are or will be sharing their existing tariff advantages in some developed countries as the result of the introduction and eventual enlargement of the generalized system of prefernces should, as a matter of urgency, be granted new openings in the markets of other developed countries which should offer them export opportunities that at least compensate for the sharing of those advantages;

(xi) The setting up of buffer stocks within the framework of commodity arrangements and their financing by international financial institutions, wherever necessary, by the developed countries and, when they are able to do so, by the developing countries, with the aim of favouring the producer developing and consumer developing countries and of contributing to the expansion of world trade as a whole;

(xii) In cases where natural materials can satisfy the requirements of the market, new invstment for the expansion of the capacity to pruduce synthetic materials and substitutes should not be made.

(*b*) To be guided by the principles of non-reciprocity and preferential traeatment of developing countries in multilateral trade negotiations between developed and developing countries, and to seek sustained and additional benefits for the international trade of developing countries, so as to achieve a substantial increase in their foreign exchange earnings, diiversification of their exports and acceleration of the rate of their economic growth

4. *Transportation and insurance*

All efforts should be made :

(*a*) To promote an increasing and equitable participation of developing countries in the world shipping tonnage;,

(*b*) To arrest and reduce the ever-increasing freight rates in order to reduce the cost of imports to, and exports from, the developing countries;

(*c*) To minimize the cost of insurance and reinsurance for developing countries and to assist the growth of domestic insurance and reinsurance markets in developing countries and the establishment to this end, where appropriate, of institutions in these countries or at the regional level;

(*d*) To ensure the early implementation of the code of conduct for liner conferences;

(*e*) To take urgent measures to increase the import and export capability of the least developed countries and to offset the disadvantages of the adverse geographic situation of land-locked countries, particularly with regard to their transportation and transit costs, as well as developing island countries in order to increase their trading ability;

(*f*) By the developed countries to refrain from imposing measures or implementing policies designed to prevent the importation, at equitable prices, of commodities from the developing countries or from frustrating the implementation of legitimate measures and policies adopted by the developing countries in order to improve prices and encourage the export of such commodities.

II. *International Monetary System and Financing of the Development of Developing Countries*

1. *Objectives*

All efforts should be made to reform the international monetary system with, inter-alia, the following objectives:

(*a*) Measures to check the inflation already experienced by the developed countries, to prevent it from being transferred to developing countries and to study and devise possible arrangements within the International Monetary Fund to mitigate the effects of inflation in developed countries on the economies of developing countries;

(*b*) Measures to eliminate the instablitiy of the international monetary system, in particular the uncertainty of the exchange rates, especially as it affects adversely the trade in commodities;

(*c*) Maintenance of the real value of the currency reserve of the developing countries by preventing their erosion from inflation and exchange rate depreciation of reserve currencies

(*d*) Full and effective participation of developing countries in all phases of decision-making for the formulation of an equitable and durable monetary system and adequate participation of developing countries in all bodies entrusted with this reform and, particularly in the Board of Governors of the International Monetary Fund.

(*e*) Adequate and orderly creation of additional liquidity with particular regard to the needs of the developing countries through the additional allocation of special drawing rights based on the concept of world liquidity needs to be appropriately revised in the light of the new international environment; any creation of international liquidity should be made through international multilateral mechanisms;

(*f*) Early establishment of a link between special drawing rights and additional development financing in the interest of developing countries, consistent with the monetary characteristics of special drawing rights;

(*g*) Review by the International Monetary Fund of the relevant provisions in order to ensure effective participation by developing countries in the decision making process;

(*h*) Arrangements to promote an increasing net transfer of real resources from the developed to the developing countries;

Review of the methods of operation of the International Monetary Fund, in particular the terms for both credit repayments and "stand-by" arrangements, the system of compensatory financing and the terms of the financing of commodity buffer stocks so as to enable the developing countries to make more effective use of them.

2. *Measures*

All efforts should be made to take the following urgent meas-ures to finance the development of developing countries and to meet the balance-of-payment crises in the developing world;

(*a*) Implementation at an accelerated pace by the developed countries of the time-bound programme, as already laid down in the International Development Strategy for the Second United

National Development Decade, for the net amount of financial resource transfers to developing countries; increase in the official component of the net amount of financial resource transfers to developing countries so as to meet and even to exceed the target of the Strategy;

(*b*) International financing institutions should effectively play their role as development financing banks without discrimination on account of the political or economic system of any member country, assistance being untied;

(*c*) More effective participation by developing countries, whether recipients or contributors, in the decision-making process in the competent organs of the International Bank for Reconstructions and Development and the International Development Association, through the establishmnt of a more equitable pattern of voting rights;

(*d*) Exemption, wherever possible, of the developing countries from all import and capital outflow controls imposed by the developed countries;

(*e*) Promotion of foreign investment, both public and private, from developed to developing countries in accordance with the needs and requiremets in sectors of their economies as determined by the recipient countries;

(*f*) Appropriate urgent measures, incuding international action, should be taken to mitigate adverse consequences for the current and future development of developing countries arising from the burden of external debt contracted on hard terms;,

(*g*) Debt renegotiation on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium rescheduling or interest subsisdization;

(*h*) International financial institutions should take into account the special situation of each developing country in reorienting their lending policies to suit these urgent need ;there is also need for improvement in practices of international financial institutions in regard to inter alia, development financing and international monetary problems;

(*i*) Appropriate steps should be taken to give priority to the least developed, land-locked and island developing countries and to the countries most seriously affected by economic crises and natural calamities, in the availablility of loans for development purposes which should include more favourable terms and conditions.

III. *Industrialization*

All efforts should be made by the international community to take measures to encourage the industrialization of the developing countries, and, to this end :

(*a*) The developed countries should respond favourably, within the framework of their official aid as well as international financial institutions, to the requests of developing countries for the financing of industrial projects;

(*b*) The developed countries should encourage investors to finance industrial production projects, particularly export-oriented production, in developing countries, in agreement with the latter and within the context of their laws and regulations;

(*c*) With a view to bringing about a new international economic structure which should increase the share of the developing countries in world industrial production, the developed countries and the agencies of the United Nation system, in co-operation with the developing countries, should contribute to setting up new industrial capacities including raw materials and commodity-transforming facilities as a matter of priority in the developing countries that produce those raw materials and commodities;

(*d*) The international community should continue and expand, with the aid of the developed countries and the international institutions, the operational and instruction-oriented technical assistance programmes, including vocational training and management development of national personnel of the developing countiries, in the light of their special development requirements.

IV. *Transfer of Technology*

All efforts should be made :

(*a*) To formulate an international code of conduct for the transfer of technology corresponding to needs and conditions prevalent in developing countries;

(*b*) To give access on improved terms to modern technology and to adapt that technology, as appropriate, to specific economic, social and ecological conditions and varying stages of development in developing countries;

(*c*) To expand significantly the assistance from developed to developing countries in research and development programmes and in the creation of suitable indigenous technology;

(*d*) To adapt commercial practices governing transfer of technology to the requirements of the developing countries and to prevent abuse of the rights of sellers;

(*e*) To promote international co-operation in research and development in exploration and exploitation, conservation and the legitimate utilization of natural sources and all sources of energy.

In takeing the above measures, the special needs of the least developed and land-locked countries should be borne in mind.

V. *Regulation and Control Over the Activities of Transnational Corporations*

All efforts should be made to formulate, adopt and implement an international code of conduct for transnational corporations;

(*a*) To prevent interference in the internal affairs of the countries where they operate and their collaboration with racist regimes and colonial administrations;

(*b*) To regulate their activities in host countries, to eliminate restrictive business practices and to conform to the national development plans and objectives of developing countris, and in this context facilitate, as necessary, the review and revision of previously concluded arrangements;

(*c*) To bring about assistance, transfer of technology and management skills to developing countries on equitable and favourable terms;

(*d*) To regulate the repatriation of the profits accruing from their operations, taking into account the legitimate interests of all parties concerned;

(*e*) To promote reinvestment of their profits in developing countries.

VI. *Charter of Economic Rights and Duties of States*

The Charter of Economic Rights and Duties of States, the draft of which is being prepared by a working group of the United Nations and which the General Assembly has already expressed the intention of adopting at its twenty-ninth regular session, shall constitute an effective instrument towards the establishment of a new system of international economic relations based on equity, sovereign equality, and inter-dependence of the interests of developed and developing countries. It is therefore of vital importance that the aforementioned Charter be adopted by the General Assembly at its twenty- ninth session.

VII. *Promotion of Co-operation Among Developing Countries*

1. Collective self-reliance and growing co-operation among developing countries will further strengthen their role in the new international economic order. Developing countries, with a view to expanding co-operation at the regional, sub-regional and inter—regional levels, should take further steps, inter—alia;

(*a*) To support the establishment and for improvement of an appropriate mechanism to defend the prices of their exportable commodities and to improve access to and stabilize markets for them. In this context the increasingly effective mobilization by the whole group of oil-exporting countries of their natural resources for the benefit of their economic development is to be welcomed. At the same time there is the paramount need for co-operation among the developing countries in evolving urgently and in a spirit of solidarity all possible means to assist developing countries to cope with the immediate problems resulting from this legitimate and perfectly justified action. The measures already taken in this regard are a positive indication of the evolving co-operation between developing countries.

(*b*) To protect their inalienable right to permanent sovereignty over their natural resources :

(*c*) To promote, establish or strengthen economic integ-tration at the regional and sub—regional levels;

(*d*) To increase considerably their imports from other developing countries;

(*e*) To ensure that no developing country accords to import from developed countries more favourable treatment than that accorded to imports from developing countries. Taking into account the existing international agreements, current limitations and possibilities and also their future evolution, preferential treatment should be given to the procurement of import requirements from 'other developing countries. Wherever possible, preferential treatment should be given to imports from developing countries and the exports of those countries;

(*f*) To promote close co-operation in the fields of finance, credit relations and monetary issues, including the development of credit relations on a preferential basis and on favourable terms;

(*g*) To strengthen efforts which are already being made by developing countries to utilize available financial resources for financing development in the developing countries through investment, financing of export-oriented and emergency projects and other long-term assistance;

(*h*) To promote and establish effective instruments of co-operation in the fields of industry, science and technology, transport, shipping and mass communication media.

2. Developed countries should support initiatives in the regional, sub-regional and inter-regional co-operation of developing countr ies through the extension of financial and technical assistance by more effective and concrete actions, particularly in the field of commercial policy.

VIII. *Assistance in the Exercise of Permanent Sovereingty of States Over Natural Resources*

All efforts should be made :

(*a*) To defeat attempts to prevent the free and effective exercise of the rights of every State to full and permanent sovereignty over its natural resurces;

(*b*) To ensure that competent agencies of the United Nations system meet requests for assistance from developing countries in connetion with the operation of nationalized means of production.

IX. *Strengthening the Role of the United Nations System in the Field of International Economic Co-operation*

1. In furtherance of the objectives of the International Development Strategy for the Second United Nations Development Decade and in accordance with the aims and objectives of the Declaration on the Establishment of a New International Economic Order, all Members States pledge to make full use of the United Nations system in the implementation of the present Programme of Action, jointly adopted by them, in working for the establishment of a new international economic order and thereby strengthening the role of the United Nations in the field of world-wide co-operation for economic and social development.

2. The General Assembly of the United Nations shall conduct an over-all review of the implementation of the Programme of Action as a priority item. All the activities of the United Nations system to be undertaken under the Programme of Action as well as those already planned, such as the World Population Conference, 1974, the World Food Conference, the Second General Conference of the United Nations Industrial Development Organization and the mid-term review and appraisal of the International Development Strategy for the Second United Natons Development Decade should be so directed as to enable the special session of the General Assembly on development, called for under Assembly resolution 3172 (XXVIII) of 17 December 1973, to make its full contribution to the establishment of the new international economic order. All Member States are urged, jointly and individually, to direct their efforts and policies towards the success of that special session.

3. The Economic and Social Council shall define the policy framework and co-ordinate the activities of all organizations, institutions and subsidiary bodies within the United Nations the present Programme of Action. In order to enable the Economic system which shall be entrused with the task of implementing mic and Social Council to carry out its tasks effectively :

(*a*) All organizations, institutions and subsidiary bodies concerned within the United Natons system shall submit to the economic and Social Council progress reports on the implementation of the Programme of Action within their respective fields of competence as often as necessary, but not less than once a year.

(*b*) The Economic and Social Council shall examine the progress reports as a matter of urgency, to which end it may be convened, as necessary, in special session or, if need be, may function continuously. It shall draw the attention of the General Assembly to the problems and difficulties arising in connexion with the implementation of the Programme of Action.

4. All organizations, institutions, subsidiary bodies and conferences of the United Nations system are entrusted with the implementation of the Programme of Action. The activities of the United Nations Conference on Trade and Development, as setr forth in General Assembly resolution 1995 (XIX) of 30 December 1964, should be strengthened for the purpose of following in collaboration with other competent organizations the development of international trade in raw matrrials throughout the world.

5. Urgent and effective measures should be taken to review the lending policies of international financial institutions, taking into account the special situation of each developing country, to suit urgent needs, to improve the practices of these institutions in regard to, inter alia, development financing and international monetary problems, and to ensure more effective participation by developing countries — whether recipients or contributors — in the decision-making process through appropriate revision of the pattern of voting rights.

6. The developed countries and others in a position to do so should contribute substantially to the various organizations, programmes and funds established within the United Nations system for the purpose of accelerating economic and social development in developing countries.

7. The present Programme of Action complements and strengthens the goals and objectives embodied in the International Development Strategy for the Second United Nations Development Decade as well as the new measures formulated by the General Assembly at its twenty-eight session to offset the shortfalls in achieving those goals and objectives.

8. The implementation of the Programme of Action should be taken into account at the time of the mid-term review and appraisal of the International Development Strategy for the Second United Nations Development Decade. New committments, changes, additions and adaptations in the Strategy should be made, as appropriate, taking into account the Declaration on the Establishment of a New International Economic Order and the present Programme of Action.

X. *Special Programme*

The General Assembly adopts the following Special Programme, including particularly emergency measures to mitigate the difficulties of the developing countries most seriously affected by economic crisis, bearing in mind the particular problem of the least developed and land-locked countries:

The General Assembly;

Taking into account the following considerations:

(*a*) The sharp increase in the prices of their essential imports such as food, fertilizers, energy products, capital goods, equipment and services, incuding transportation and transit costs, has gravely exacerbated the increasingly adverse terms of trade of a number of developing countries, added to the burden of their foreign debt and, cumulatively, created a situation which, if left untended, will make it impossible for them to finance their essential imports and development and result in a further deterioration in the levels and conditions of life in these countries. The present crisis is the outcome of all the problems that have accumulated over the years: in the field of trade, in monetary reforim the world-wide inflationary situation, inadequacy and delay provision of financial assistance and many other similar problems in the economic and developmental fields. In facing the crisis, this complex situation must be borne in mind so as to ensure that the Special Programme adopted by the international community provides emergency relief and timely assistance to the most seriously affected countries. Simultaneously, steps are being taken to resolve these outstanding problems through a fundamental restructuring of the world economic system, in order to allow these countries which solving the present difficulties to reach an acceptable level of development.

(*b*) The special measures adopted to assist the most serrously affected countries must encompass not only the relief which they require on an emergency basis to maintain their import requirements, but also, beyond that, steps to consciously promote the capacity of these countries to produce and earn more. Unless such a comprehensive approach is adopted, there is every likelihood that the difficulties of the most seriously affected countries may be perpetuated. Nevertheless, the first and most pressing task of the international community is to enable these countries to met the short-fall in their balance-of-payments positions. But this must be simultaneously supplemented by additional development assistance to maintain and thereafter accelerate their rate of economic development.

(*c*) The countries which have been most seriously affected are precisely those which are at the greatest disadvantage in the world economy: the least developed, the land-locked and other fow-income developing countries as well as other developing countries whose economies have been seriously dislocated as a result of the present economic crisis, natural calamities, and foreign aggression and occupation. An indication of the countries thus affected, the level of the impact on their economies and the kind of relief and assistance they require can be assessed on the basis, inter-alia, of the following criteria :

(i) Low per capita income as a reflection of relative poverty, low productivity, low level of technology and development;

(ii) Sharp increase in their import cost of essentials relative to export earnings;

(iii) High ratio of debt servicing to export earnings;

(iv) Insufficiency in export earnings, comparative inelasticity of export income and unavailability of exportable surplus

(v) Low level of foreign exchange reserves or their inadequacy for requirements;

(vi) Adverse impact of higher transportation and transit costs;

(vii) Relative importance of foreign trade in the development process.

(*d*) The assessment of the extent and nature of the impact on the economies of the most seriusly affected countries must be made flexible, keeping in mind the present uncertainty in the world economy, the adjustment policies that may be adopte by the developed countries and the flow of capital and investment. Estimates of the payments situation and needs of these countries can be assessed and projected reliably only on the basis of their average performance over a number of years. Long-term projections, at this time, cannot but be uncertain.

(*e*) It is important that, in the special measures to mitigate the difficulties of the most seriously affected countries, all the developed countries as well as the developing countries should contribute according to their level of development and the capacity and strength of their economies. It is notable that some developing countries, despite their own difficulties and development needs, have shown a willingness to play a concrete and helpful role in ameliorating the difficulties faced by the poorer developing countries. The various initiatives and measures taken recently by certain developing countiries with adequate resources on a bilateral and multilateral basis to contribute to alleviating the difficulties of other developing countries are a reflection of their commitment to the principle of effective economic co-operation among developing countries.

(*f*) The response of the developed countries which have by far the greater capacity to assist the affected countries in overcoming their present difficulties must be commensurate with their responsibilities. Their assistance should be in addition to the presently available levels of aid. They should fulfil and if possible exceed the targets of the International Development Strategy for the Second United Nations Development Decade on financial assistance to the developing countries, especially that relating to official development assistance. They should also give serious consideration to the cancellation of the external debt of the most seriously affected countries. This would provide the simplest and quickest relief to the affected countries. Favourable consideration should also be given to debt moratoium and res cheduling. The current situation should not lead the industria-ized countries to adopt what will ultimately prove to be a self-defeating policy aggravating the present crisis.

Recalling the constructive proposals made by His Imperial Majesty the Shahanashah of Iran (U.N. Doc. A/9548, annex), and His Excellency Mr. Houari Boumediene, President of the People's Democratic Republic of Algeria (U.N. Doc. A/PV. 2208, pp. 2—50);

1. *Decides* to launch a Special Programme to provide emergency relief and development assistance to the developing countries most seriosly affected, as a matter of urgency, and for the period of time necessary, at least until the end of the Second United Nations Development Decade, to help them overcome their present difficulties and to achieve self-sustaining economic development;

2. *Decides* as a first step in the Special Programme to request the Secretary-General to launch an emergency operation to provide timely relief to the most seriously affected developing countries, as defined in subparagraph (*c*) above, with the aim of maintaining unimpaired essential imports for the duration of the coming 12 months and to invite the industrialized countries and other potential contributors to announce their contributions for emergency assistance, or intimate their intention to do so by, 15 June 1974 to be provided through bilateral or multilatral channels, taking into account the commitments and measures of assistance announced or already taken by some countries, and further requests the Secretary-General to report the progress of the emergency operation to the General Assembly at its twenty-ninth session, through the Economic and Social Council at its fifty-seventh session;

4. *Calls upon* the industrialized countries and other potential contributors to extend to the most seriously affected countries immediate relief and assistance which must be of an order of magnitude that is commensurate with the needs of these countries. Such assistance should be in addition to the existing level of aid and provided at a very early date to the maximum possible extent on a grant basis and, where not possible, on soft terms. The disbursement and relevant operational procedures and terms must reflect this exceptional situation. The assistance could be provided either through bilateral or multilateral channels, including such new institutions and facilities that have been or are to be set up. The special measures may include the following :

(*a*) Special arrangements on particularly favourable terms and conditions including possible subsidies for and assured supplies of essential commodities and goods;

(*b*) Deferred payments for all or part of imports of essential commodities and goods;

(*c*) Commodity assistance, including food aid, on a grant basis or defared payments in local currencies, bearing in mind that this should not adversely affect the exports of developing countries;

(*d*) Long-term suppliers' credits on easy terms;

(*e*) Long-term financial assistance on concessionary terms;

(*f*) Drawings from special International Monetary Fund facilities on concessional terms;

(*g*) Establishment of a link between the creation of special drawing rights and development assistance, taking into account the additional financial requirements of the most seriously affected countries;

(*h*) Subsidies, provided bilaterally or multilaterally, for interest on funds available on commercial terms borrowed by the most seriously affected countries;

(*i*) Debt renegotiation on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium or rescheduling;

(*j*) Provision on more favourable terms of capital goods and technical assistance to accelerate the industrialization of the affected countries;

(*k*) Investment in industrial and development projects on favourable terms;

(*l*) Subsidizing the additional transit and transport costs, especially of the land-locked countries;

4. *Appeals* to the developed countries to consider favourably the cancellation, moratorium or rescheduling of the debts of the most seriously affected developing countries, on their request, as an important contribution to mitigating the grave and urgent difficulties of these countries;

5. *Decides* to establish a Special Fund under the saupices of the United Nations, through voluntary contributions from industrialzed countries and other potential contributiors. as a part of the Special Programme, to provide emergency relief and development assistance, which will commence its operations at the latest by 1 January 1975;

6. *Establishes* an *Ad Hoc* Committee on the Special Programme, composed of 36 Member States appointed by the President of the General Assembly after appropriate consultations, bearing in mind the purposes of the Special Fund and its terms or reference:

(*a*) To make recommendations, inter-alia, on the scope, machinery and modes of operation of the Special Fund, taking into account the need for :

(i) Equitable representation on its governing body;

(ii) Equitable distribution of its resources;

(iii) Full utilization of the services and facilities of existing international organizations;

(iv) The possibility of merging the United Nations Capital Development Fund with the operatons of the Special Fund;

(v) A central monitoring body to oversee the various measures being taken both bilaterally and multilaterally;

and, to this end, bearing in mid the different ideas and proposal submitted at the sixth special session, including those put forward by Iran (U.N. Doc. A/AC, 166/L. 15) and those made at the 2208th plenary meeting, and the comments thereon, and the possibility of utilizing the Special Fund to provide an alternative channel for normal development assistance after the emergency period;

(*b*) To monitor, pending commencement of the operation of the Special Fund, the various measures being taken both bilaterally and multilaterally to assist the most seriously affected countries;

(*c*) prepare, on the basis of information provided by the countries concerned and by appropriate agencies of the United Nations system, a broad assessment of :

(i) The magnitude of the difficulties facing the most seriously affected countries;

(ii) The kind and quantities of the commodities and goods essentially required by them;

(iii) Their need for financial assistance;

(iv) Their technical assistance requirements, including especially access to technology;

7. *Requests* the Secretary-General of the United Nations, the Secretary-General of the United Nations Conference on Trade and Development, the President of the International Bank for Reconstruction and Development, the Managing Director of the International Monetary Fund, the Administrator of the United Nations Development Programme and the heads of the other competent international organizations to assist the *Ad Hoc* Committee on the

Special Programme in performing the functions assigned to it under paragraph 6 above, and to help, as appropriate, in the operations of the Special Fund;

8. *Requests* the International Monetary Fund to expedite decisions on:

(*a*) The establishment of an extended special facility with a view to enabling the most seriously affected developing cuntries to participate in it on favourable terms;

(*b*) The creation of special drawing rights and the early establishment of the link between their allocation and development financing :

(*c*) The establishment and operation of the proposed new special facility to extend credits and subsidize interest charges on commercial funds borrowed by Member States, bearing in mind the interests of the developing countries and especially the additional financial requirements of the most seriously affected countries;

9. *Requests* the World Bank Group and the International Monetary Fund to place their managerial, financial and technical services at the disposal of Governments contributing to emergency financial relief so as to enable them to assist without delay in channelling funds to the recipients, making such institutional and procedural changes as may be reqiuired;

10. *Invites* the United Nations Development Programme to take the necessary steps, particularly at the country level, to respond on an emergency basis to requests for additional assistance which it may be called upon to render within the framework of the Special Programme;

11. *Requests* the *Ad Hoc* Committee on the Special Programme to submit its report and recommendations to the Economic and Social Council at its fifty-seventh session and invites the Council, on the basis of its consideration of that report, to submit suitable recommendations to the General Assembly at its twenty-ninth session;

12. *Decides* to consider as a matter of high priority at its twenty-ninth session, within the framework of a new international economic order, the question of special measures for the most seriously affected countries.

TABLE IX — Developing Countries: Debt-Service Payments as per cent of Export Earnings, 1973-83.

			Interest Payments Ratio				Debt Service Ratio			
			1973a	1977	1980	1983	1973a	1977	1980	1983
(1)	All Developing Countries b	..	n.a.	5.7	9.1	13.2	n.a.	15.3	17.1	22.5
	— 25 Major Borrowers c	..	n.a.	7.1	11.9	18.6	n.a.	19.1	21.5	29.9
(2)	Non-Oil Developing Countries	..	6.1	5.7	9.1	13.2	15.9	14.8	17.2	21.6
	— Low-Income Countries	..	6.1	4.7	4.4	5.4	14.6	12.1	10.3	13.3
	— Excluding China and India	..	n.a.	5.1	6.1	9.3	n.a.	13.2	14.3	22.4
(3)	By region									
	— Africa	..	2.9	5.0	8.1	10.8	8.8	11.9	17.4	25.1
	— Asia	..	3.9	3.1	4.4	5.9	9.6	7.9	8.4	10.8
	— W. Hemisphere	..	11.1	10.0	18.9	32.2	29.3	28.2	34.1	44.0

NOTES : (*a*) Figures for 1973 do not include China in any category and are not strictly comparable with the figures for later years. Regional figures for 1973 refer to non-oil developing countries only.

(*b*) Excluding eight oil-exporting countries: Iran, Iraq, Kuwait, Libya, Oman, Qata Saudi Arabia and United Arab Emirates.

(*c*) The 25 developing countries with the largest total external debt at the end of 1982. In order of the amount of debt, they are: Brazil, Mexico, Argentina, Korea, Indonesia, Venezuela, Israel, India, Chile, Egypt, Yugolavia, Turkey, Alegeria, Philippines, SouthAfrica, Portugal, Nigeria, Thailand, Malaysia, Peru, Pakistan, Morocco, Romania, Colombia and Hungary.

SOURCES: IMF' **World Economic Outlook,** 1983 and 1984.

TABLE X

Commodity price changes, 1979-1982 (Percentages)

	1979	1980	1981	1982x
Food	14 1	34 1	013 9	012 6
Beverages	5 8	012 2	22 2	0 7 9
Agricultural raw materials	22 0	4 1	0 9 8	0 4 8
Metals	29 8	10 6	013 8	011 2
All commodities	16 4	8 8	014 7	0 9 4
Crude Petroleum	46 0	66 0	9 8	Cx50x
Manufactures exported by dev--eloped market economies	14 4	10 4	0 5 0	50x

Sources : International Monetary Fund, International Financial Statistics, Vol. XXXV, No. 10 (October, 1982) ; and World Economic Survey 1981-1982.

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Change in export prices and in terms of trade, 1965 - 83.
(*Average annual percentage change*)

Country group	**65-73**	**73-80**	**1981**	**1982**	**1983**a
		Change in export prices			
Developing countries					
Food	6.6	7.8	16.1	14.1	5.2
Nonfood	3.7	10.1	4.6	9.4	10.3
Metals and minerals	1.6	5.6	12.0	8.0	2.2
Fuels	6.7	24.7	10.5	2.6	14.5
Industrial countries					
Manufactures	4.7	10.9	4.2	1.8	3.2
		Change in terms of trade			
Low-income Asia	0.5	1.4	0.1	1.6	0.6
Low-income Africa	0.1	1.5	9.9	0.9	4.6
Middle-income oil importers	0.6	2.2	5.5	1.9	3.0
Middle-income oil exporters	1.1	8.1	9.0	0.4	7.0
Developing countries	0.4	1.6	0.5	1.2	0.6

Note : Calculations are based on a sample of ninety developing countries.

a. Estimated.

TABLE XII

U.S., European Community and Japanese Dependence on imports of selected industrial raw materials, 1973-8 (percentages)

	European Community	Japan	U.S.
Bauxite	60	100	86
Chromium	100	100	91
Cobalt	100	100	96
Copper	96	83	6
Iron Ore	59	99	20
Lead	70	70	20
Manganese	99	86	98
Natural Rubber	100	100	100
Nickel	100	100	72
Phosphates	100	100	0000
Tin	99	93	87
Tungsten	100	100	68
Zinc	60	68	63

Source : Jan Tinbergen, *Reshaping the International Order* (Amsterdam, 1976) ; *Government and thd Nation's Resources,* Report of the National Commission on Supplies and Shortages, (Washington, 1976) ; World Bank, *Commodity Trade and Price Trends.*

TABLE XIII.

Selected developing ESCAP economies. Average annual rates of growth in industrial output, 1976-1981.

Gross product [value added]

	GDP	Total industry	Manufac-tuing	Mining and quarrying	Electri-city, gas and water	Constru-tion
Bangladesh	5.1	6.7	5.6		22.2	6.7
Burma	6.4	8.2	6.5	0.4	17.1	15.8
Fiji	4.0	5.2	7.5	9.5	4.6	1.7
India	3.7	5.3	5.6	2.2	4.9	2.2
Indonesia	6.9	8.6	11.0	4.7	4.1	10.8
Malaysia	8.2	10.9	11.8	6.5	10.5	12.8
Pakistan	5.3	8.0	6.0	8.0	0.2	8.0
Philippines	3.7	8.0	6.5	8.9	9.9	10.6
Rep of Korea	7.8	11.5	12.2	3.7	13.7	9.7
Singapore	11.6	10.2	11.1	7.3	10.7	7.1
Sri Lanka	5.6	5.9	3.8	11.6	12.4	8.8
Thailand	7.6	10.8	10.0	12.3	11.6	12.8

Sources: National sources.

Note: 1976 - 1980.

TABLE XIV.

USA Country Quotas for Sri Lanka and Export Perofrmance 1982.

Quantity: pieces

I T E M	*Country Quota*:	*Performances*	*Performances Percentage of quota*
Woven Cotton Shirts	4943400	3519792	71.2
Woven Cotton Blouses	4945968	5186856	104.9
Woven man made shirts	964284	417792	43.3
Woven man made blouses	4945968	5080908	102.7
Cotton Gloves	9617160	9616152	100.0
Cotton Coats mens	1373880	1649436	120.1
Cotton Trousers	2747760	2425452	88.3
Cotton Coats womens	1874640	1445172	77.1
Cotton Jeans & Shorts	5700000	3338952	58.6
Males & Females Sweaters	1620000	1479840	91.4

TABLE XV.

Annual rate of growth of GDP per capita of developed market and developing countries by region (at constant 1980

Year	Developed market economies	Latin America	Africa	West Asia	South and East Asia	All developing countries
1972	4.2	4.1	0.4	10.6	3.0	3.6
1973	5.3	5.5	2.3	10.0	6.3	4.9
1974	-0.2	3.5	0.3	6.3	1.4	2.6
1975	-1.1	-0.3	-1.3	-1.1	4.1	0.5
1976	4.1	2.0	4.8	6.6	5.6	4.2
1977	2.9	1.7	5.0	3.3	5.3	3.3
1978	3.0	1.4	2.5	–2.7	4.1	1.3
1979	2.6	2.6	3.5	7.0	0.5	3.1
1980	0.7	2.8	1.0	-10.7	3.1	0.1
1982	0.8	-2.0	-4.6	-8.6	3.7	-1.4
1983	-0.9	-4.1	-4.3	-9.1	1.2	-2.7
1983*	1.2	5.2	-2.0	-4.9	2.8	-2.8

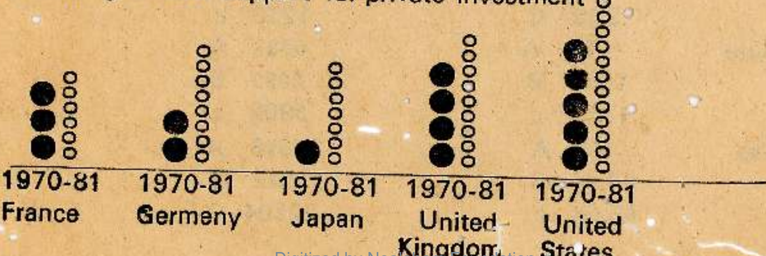
Source: United Nations Department of International Economic and Social Affairs.

Data for 1983 are based on preliminary estimates for the first eight months. They are, therefore, highly tenatative and subject to subsequent revisions.

TABLE - XVI

Changing League Table of "Big Five" Investing Nations
Percentage Share of Estimated stock
of Direct Investments in Developing Countries from Main O.E.C.D Investors
Sources O.E.C.D.

Total DAC Investment; 1970 -$42,712 billion
1981 -$1 31,252 billion
Excluding official support for private investment



(Continued from page 24)

WHAT COMMODITIES CAN BUY

SOUTH INDICES

This table shows the changes in the purchasing power of commodity exports. Commodity purchising power is measured in the following terms:

1975 A
June 1983 B
May 1983 C

1, how much oil one tonne of each commodity can buy;

2. the volume of debt service payments one tonne of each commodity can cover in US dollars.

	Oil (barrels) bought by 1 tonne of commodity		*US $ debt interest covered by 1 tonne of commodity*	
Aluminium	73	A	11326	A
	50.60	B	15097	B
	49.79	C	16150	C
Rubber	62	A	9657	A
	39.83	B	11882	B
	40.69	C	13198	C
Soya bean	19	A	2866	A
	7.63	B	2276	B
	7.88	C	2556	C
Sugar	41.89	A	64.62	A
	8.20	B	24.47	B
	6.75	C	2190	C
Maize	10.61	A	1749	A
	3.99	B	1191	B
	3.92	C	1270	c
Jute	35	A	5338	A
	1039	B	3099	B
	12.05	c	3909	c
Tea	129	A	19948	A
	64.46	B	19232	B
	69.68	c	22604	c

TABLE XVII.

DIRECT FOREIGN INVESTMENT FLOW TO UNDERDEVELOPED COUNTRIES AND PROFITS ON DIRECT INVESTMENTS REPATRIATED TO INVESTOR COUNTRIES

(Accrued sums 1970-1980, millions of dollars)

	Net flow of direct investments in underdeveloped countries	*Profits on direct investments repatriated to investor countrie*
Total of underdeveloped countries	62 615	139703
Latin America	33 437	38 642
Africa	10 341	23 916
Middle East	57	48 619
Southern and Southeast Asia	18 048	27 260
Oceania	732	1 266

This low figure is due to disinvestments in the Middle East during that period.

Source: Based on UNCTAD. Handbook of International Trade and Development Staristics. Supplement 1981, pp. 264 - 265.

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