

**ECONOMIC
REVIEW**

August
1990

The Third World Today

* PONNA WIGNARAJA

* PRINCY DHARMARATNE

* BRUCE MATTHEWS

* JOAQUIN VILLALOBOS

Overview

The South Commission report on the Third World was released a few days ago. For a considerable time Europe, specially Eastern Europe, has been occupying the centre stage of international events and the Third World, except for a few trouble spots here and there, has almost become a forgotten entity. Therefore the South Commission report served an important purpose – that of reminding the rest of the world about the existence of the Third World.

It is in this context that the Economic Review decided to do an issue on the Third World. The destiny of the Tricontinental countries and the developed world are bound together and even the dream of a common European Home cannot become a reality if the problems of the Third World are ignored. If the current problems of the Third World are not solved the resulting explosions will have a devastating effect on the developing countries as well.

Poverty is undoubtedly one of the main problems facing the developing countries. Most of these countries are trying, to a greater or a lesser extent, to contain if not overcome this problem – Sri Lanka's Janasaviya being a case in point. This problem of poverty has become so acute that even international financial institutions like the World Bank have accepted the concept of Poverty Alleviation as an important aspect of the development effort. In his article, Ponna Wignaraja traces the history of the attempts to come up with an alternative strategy leading to poverty alleviation and sustainable development.

In the past few years, the democratic system has managed to make headway in a number of Third World countries. Still the debates as to whether western style democracy is suited to

specific situations in the Third World countries and whether political authoritarianism is a necessary precondition for economic growth in the Third World, are still raging. And despite the success of many democratic parties the military is still a force to reckon with. These are some of the problems that Princy Dharmaratne deals with in her contribution.

Ten years have gone by but the physical evidence of the Killing Field of Kampuchea still remains – a grim reminder of the devastating policies of Polpotism. And Vietnam is trying to implement its own brand of Perestroika, "Doi Moi", and awaiting the lifting of US embargo. Bruce Mathews a recent visitor to both countries tells a lamenting tale of a Vietnam in the throes of radical economic changes and of a Kampuchea struggling for sheer survival.

Gorbachev's New Thinking might be anathema to the Polpotists in Kampuchea but several guerrilla organizations specially in Latin America are being influenced by this. The thrust therefore seems to be towards dialogue with the incumbent governments. These movements are also emphasising the importance of both political and economic pluralism, democracy and freedom rejecting irrationality, totalitarianism in all spheres and fundamentalism. The piece by Joaquin Villalobos reproduced from the prestigious, 'Foreign Policy' magazine (U.S.A.) reiterating these new beliefs and values, should serve as an eye opener to fundamentalist rebels elsewhere in the Third World.

This issue also carries the report of the Second Pugwash Workshop on Foreign Debt and International Stability and a piece by Mr. Gazzalli on the "Observers with Surplus Balances" and the challenges it poses to the least developed countries.

T. G.

CONTENTS

Published by the People's Bank,
Research Department,
Head Office,
Sir Chittampalam A. Gardinar Mawatha,
Colombo 2,
Sri Lanka.

Tisaranee Gunasekera

WIDER

Barbara Crossette

2 Introduction

22 Mobilising International Surpluses
for World Development

23 Income as Development's
Yardstick

24 Scanner

SPECIAL REPORT

THE THIRD WORLD TODAY

Ponna Wignaraja

Princy Dharamaratne

Bruce Mathews

Joaquin Villalobos

M. A. M. Ghazzali

3 The theory and practice of Poverty
Alleviation

7 A trend towards Authoritarianism in
the Third World

12 Vietnam and Kampuchea today
an eye witness account

15 A democratic revolution for
El Salvador

19 Obsession with surplus balance
creates challenge and opportunity
for LDCs

25 "Foreign Debts and
International Stability"

26 The other perspective

THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage, facts and debate. THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents however are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome. THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

Layout and Production Coordination
W. G. S. Waidynatha

Typeset
Sumathitypes

Introduction

Is there a Third World today? Now that the Second World (Socialist Community) is almost gone, can it be said that the Third World is also no longer in existence?

The particular term – the Third World – might be superfluous in the current context, but this loose category of nations, made up of developing countries in the three continents of Asia, Africa and South America, is very much in existence. Certainly these countries are not unaffected and untouched by the momentous changes taking place in the Second World. Winds of democratic change seem to be blowing across the tricontinental world; economic New Thinking originating from the Soviet Union and the erstwhile socialist bloc seem to be affecting the economic policies of many a Third World government; and with the end of the Cold War and USSR's acceptance of the need to have economic and political pluralism, a dialogue is taking place between anti government rebel groups and incumbent regimes in many parts of the Third World – specially in Latin America (Colombia and El Salvador being cases in point).

The end of the Cold War might have improved the international political climate, but an end to all the diverse problems faced by the countries of the tricontinental world is still far away. These countries remain poor and underdeveloped. They are still caught in the debt trap. Social ills like unemployment, malnutrition etc. are still plaguing these countries.

In that sense the Third World remains and will always remain whatever happens elsewhere in the world, as long as the tricontinental countries remain poor, underdeveloped and dependent.

In spite of the rich diversity, these countries are facing common dangers and are engaged in many common struggles to safeguard their sovereignty and their right to have the socio-economic system of their choice; to safeguard democracy, to strive for development to eradicate poverty, hunger, indebtedness and unemployment. And they face a vast array of common inimical forces – intolerance; foreign interference, authoritarianism, poverty, hunger, indebtedness, fundamentalism, racism, irrationality, backwardness and so on.

At a time when we are on the threshold of a new century, these tricontinental countries should strive to work together for their common good in various regional and international forums. But that doesn't mean that we should isolate ourselves from the rest of the world. That certainly will not provide the solutions for our problems. An enhanced effort should be made to establish a meaningful dialogue with the developed world to have a new relationship which is more equitable and therefore beneficial to both groups. Because it's only by working together with each other and with the developed West that Third World countries can find a solution to their socio-economic and political problems and therefore finally make the concept of an under developed Third World redundant and obsolete – a thing of the past.

Tisaranee Gunasekera

THE THEORY AND PRACTICE OF POVERTY ALLEVIATION IN SOUTH ASIA

by Dr. Ponna Wignaraja

Dr. Ponna Wignaraja is currently Co-ordinator of the United Nations University Project on South Asian Perspectives, based in Colombo. In this capacity he works closely with the SAARC countries on problems of poverty alleviation. Dr Wignaraja started his career as an Economist in the Central Bank of Sri Lanka and over the past twenty five years has served as a Development Adviser with various UN Agencies (IMF, World Bank, IFAD, UNICEF, UNDP and the United Nations Asian Development Institute). During this period he was also Chairman of the Participatory Institute for Development Alternatives (PIDA) in Sri Lanka and Secretary General of the Society for International Development, a local and global NGO respectively. He has authored a wide range of publications on development alternatives and poverty alleviation.

The Search for Alternative Paradigms

In the late 1940's and 1950's, amidst the process of decolonisation in South Asia, a number of ideas caught the imagination of South Asian scholars and ruling elites. These included the "instant" creation of new nation states (with the illusion of transference of political power), the grand vision of progress through development with modernisation and industrialisation, and the notion of a single interdependent economic system (known as "One World"). Taken together these ideas appeared to provide a coherent paradigm that was to mould the destiny of the South Asian Region for the next half century. Few hard critical reviews were made of the processes – economic, social and political – that followed the adoption of this paradigm. This uncritical acceptance was also extended to the more specific economic development intervention that was an integral part of the paradigm.

The partial success of India's early planning and efforts at industrialisation, the green Revolution in Pakistan and later in India, the aid flows and foreign "expert" advice that accompanied it mesmerised all concerned and re-inforced the belief that a rapid social transformation was underway and that the world economy would be managed for the betterment of all people.

Whatever, criticism there was of the process as it unfolded, came mainly from a minority of conventional Marxist intellectuals who understood some of the dangers of incorporation of South Asia into the global capitalist framework. However, the limited categories in their early analytical framework did not permit them to either understand the complexity of the reality or to see many of the contradictions that were to emerge subsequently. Mahatma Gandhi with his now famous dictum *"the World has enough for everyone's needs, but not for everyone's greed"*, provided an alternative vision for development, but with his death soon after Indian Independence, neither the theoretical nor practical implications of his vision for South Asia were fully worked out.

As the warning signals began to emerge in the 1970's, one of the earliest attempts to understand the reality, question the "development" intervention that had taken

place and systematically begin to conceptualize a different paradigms was undertaken by a group of South Asian Scholars. A somewhat broader framework of economy than conventional single discipline analysis, was reflected in a trilogy of separate studies undertaken by these Scholars between 1974 and 1979. These have now been published in one book under the title *"Towards a Theory of Rural Development."*¹

The beginnings of this alternative approach was based not on a priori theorizing or borrowed thinking from Western Social Sciences. It was based on looking at the South Asian reality and formulating a more rational intellectual framework for eradication of rural mass poverty, rooted in a more 'scientific' approach to South Asian history and culture than the conventional paradigm. The material basis for their generalizations on alternatives was provided both by the negative impact of a quarter century of development on large numbers of people in South Asia, as well as, by the first generation of positive experiments at the micro grassroots level. This analysis demonstrated the possibilities of incorporating social justice and participation, into a process of accumulation and economic growth which would involve and benefit the poor and the vulnerable in the all round development of their lives. In particular, there was increasing evidence that such processes were sustainable at the micro-level. At that time, these scholars also had the lessons of China's post war development experience of "socialism under the non-classical conditions" and South Korea's "capitalism under non-classical conditions" to draw from.

In the 1980's as the countries comprising South Asia began to face an even more critical crisis of development, with the global system itself in disarray and the structures and institutions of the South Asian nation states unable to cope with the twin crises of development and democracy, another intellectual effort was crystallised. A larger network of South Asian scholars, under the auspices of the United Nations University South Asian Perspectives Project (UNUSAPP), came together to understand the steady slide of these societies into anarchy and destabilization, despite the rhetoric of development, democracy and regional cooperation. Breaking out of the conventional paradigms and transcending the cruder versions of

Neo-classical and Marxist thinking, UNUSAPP Scholars also took a deeper look at the emerging reality and articulated elements in an alternative, within an inter-disciplinary framework. The aim of the exercise was not only to examine the available alternatives in terms of categories that were hitherto neglected, but also to focus on those alternatives which were sustainable in the present South Asian context. The results of this research and reflection were embodied in a book titled *"The Challenge in South Asia: Development, Democracy and Regional Cooperation"*.²

A part of this United Nations University network was also concerned with the Gender and Equity crisis – another facet of South Asia's growing economic, social and political problems. Here again there was an increasing body of positive evidence which indicated that poor women contributed significantly to economic and social development, particularly in the informal sector and represented a new factor. In looking at the ground it also became evident that they could overcome their double burden of being women and poor, through better organization and using local resources and knowledge and their own creativity.

Moreover, where they had support from sensitive macro institutions, the small development actions initiated could also go to scale and be sustainable. A study entitled *"Women, Poverty and Resources"*³ attempted to draw the lessons from these experiences for poverty alleviation among women and further refine the concepts and methodology of an alternative approach to poverty alleviation for South Asia.

These three studies paved the way for a further probing of the South Asian reality at both the macro and micro levels. Building on a number of positive fresh development experiments at the micro-level, a new study was undertaken entitled *"Participatory Development: Learning from South Asia"*.⁴ It not only highlights the deepening multifaceted crises that are confronting South Asia, but also provides a harder and systematic critique of the dominant development framework which has guided a major intervention into the lives of the people of South Asia. From this analysis of poverty reproducing itself, deeper insights into critical elements in an alternative methodology for reversing some of these processes have been identified. A number of peoples movements and experiments in South Asia which have matured in the 1980's have also provided the further basis for the generalisations. These movements and experiments demonstrate both the potential for damage limitation and reversing past processes, as

well as, possibilities for initiating positive sustainable development actions with the participation of the poor and vulnerable.

The four studies taken together make an important contribution to understanding the larger crises in South Asia and identifies a culturally relevant point of departure for moving systematically towards poverty alleviation and sustainable development. The following sections set out the main lessons learned.

Lesson No. 1

The emerging contradictions and need for seeking an alternative driving force for accumulation

In the first of the studies, the South Asian Scholars contended that the development intervention that took place when South Asian countries emerged from colonial rule ignored a fundamental issue. South Asia was predominantly rural society, yet the dominant "development model" adopted was both **indifferent** and **inimical** to rural development. The chosen model had three major components: central planning, control, and coordination as a top down process; industrialization and expansion of the modern sector as a means of rapid economic growth and take off; and assistance from development countries to bridge the savings, foreign exchange and technological gap. It was assumed that rural South Asia would be carried on the back of a modern urban industrial sector, until a new society was created. With the benefit of hindsight, it is now evident that the working of the model has not only failed in its own terms, but has also caused fundamental damage to the possibility of these new nations mobilizing their own resources – people, natural and financial – to sustain the process.

From the failure of the "model" of development (even in its own terms) to benefit the large numbers, these Scholars concluded that the South Asian region was confronted by a world historical framework in which the ideological driving force for accumulation pertaining to the economically advanced societies no longer offered a viable road to accumulation itself for the former. Therefore, the compulsion for seeking and alternative driving force for accumulation, even in its narrower conception was mounting.

In this search, they further felt that the definition of development in narrow economic terms was insufficient and adopted an alternative perspective on development itself. The concept of development they presented in the late 1970's was in terms of fundamental humanistic values and was people centered, rather than narrowly techno-economic, as in the old model. The core of the concept was the de-alienation of man vis-a-vis the material forces of production and society and a purposeful growth of the human personality. The study further sought to understand

how the creative initiative of the people of South Asia may be released and mobilized for the all round development of their lives.

Attention was then focussed on how to redirect this social effort. The process of mobilizing people, they argued, must be the **primary** mechanism for accumulation in the South Asian context. The insights gained in this pioneering intellectual effort were systematized into what may be seen as the beginning of a theory of rural development in the South Asian context, and for that matter, a theory of development for predominantly rural South Asia.

In deepening the elements in the theory, the authors focused on a analysis of the basic unit in South Asia – the village – to gain insights in evolving principles of micro-level development in consonance with the perspective developed above. The specifics of various village situations and experiments in peoples participation were then generalized to identify strategies of micro-level development and the principles underlying the design and evaluation of rural development projects with peoples participation, the use of local resources and local knowledge.

By way of a summary two visual representations of the principles of participatory project design and evaluation identified by the South Asian scholars are set out below.

Figure I See page 24

What the diagram above (Figure I) indicates is that typically South Asian villages are not homogeneous economic and social entities. The contradictions at the village level distort a purely technical thrust that is planned and delivered bureaucratically from the top, without the involvement and participation of the poor and marginalised as subjects in the process. This creates further contradictions and polarisation. Any positive strategy under these circumstances must separate the poor from the rich, work on their minds to actualise cooperative values and initiate group actions, in a staged manner, according to the felt needs of the people. This process does not always get initiated spontaneously, and an outside initiator or animator may be required to catalyse the process. As the process gathers momentum the peoples knowledge system, which is an integral part of the culture, comes into play and new people's organisations, including village level savings funds, are set up to sustain the process economically.

Figure II See page 24

Figure II indicates that for the process to evolve and be sustained, a continuous process of self evaluation and internal correctives is required. Evaluation then becomes part of the internal dynamics of the process. Thus, design and evaluation become two sides of the same coin. The values or criteria used are not always

narrowly **economic** or **quantifiable**. A number of values, however, may be perceived by the people as being of strategic importance and one can measure the qualitative changes in the overall situation through them. Even though much of economic benefits, attitudinal changes and self management are **measurable** in a variety of ways, in the final analysis, what is important is the raising of consciousness of the people and enhancing of the political power of those who are hitherto marginalized. Initially this may take the form of building countervailing power. The methodology of participatory development thus identified, informs much of the innovative approaches to poverty alleviation even today.

To test the approach and methodology, the group initiated an action research programme jointly with the activists of the Bhoomi Sena Movement, landless labour movement in Maharashtra in India. This partnership between committed scholars and landless peasants, from a methodological point of view, provided for the intersection of perceptions and knowledge generated from two different life streams, interacting with each other to create new knowledge about reality, jointly. This was a further breakthrough in methodology which went beyond conventional social science research. This new method of dialogical research helped to bring out the perceptions of people who are involved in the struggle for survival. In the process, the accumulated experience from their life and struggle, their consideration of options and rationale for action, the institutions they build are also revealed. This experience laid the foundation for what was to become known as Participatory Action Research (PAR).

With this Study, the first phase of an attempt by a group of South Asian Scholars to understand mass poverty in South Asia, even in a rudimentary fashion, was completed. The Study started with a macro-development perspective, probed the micro and then moved again through this concrete analysis to an enriched understanding of the macro. The Study was not intended to be comprehensive. Questions like the interdependence between the rural and modern urban sectors and foreign trade were not analyzed nor was the nature of state structures in South Asia examined. It also did not cover the wider crises which have since emerged more sharply.

Lesson No. 2.

The multifaceted crisis and the need for a more complex culturally relevant economic and social response.

The second study was undertaken in the 1980's and began to systematically uncover the multi-faceted crises that had emerged in South Asia, which was not only further marginalizing large numbers of people (in economic and political terms) and creating a crisis of survival for them, but was also destroying the environmental and their

natural resource base, generating a reverse flow of resources from the region and creating violent unmanageable social conflicts which could lead the societal collapse and anarchy. Politically, these consequences were paralysed by the erosion of democracy and a growing militarization of the regimes. The ideas in this study builds on and reinforces the search for alternative pathways to development and social change in South Asia, initiated in "Towards a Theory of Rural Development". It also added several new dimensions and categories of thinking to the earlier effort.

The authors surveyed the development strategies adopted in each country and highlighted the fact that:

- (a) In the four decades since Independence national income has increased without significantly alleviating poverty and that agricultural growth has increased food output without affecting the nutritional status of the poor; and
- (b) Foreign aid dependence is increasing, while there is a continued reverse flow of resources from South Asia to the rich industrialized countries.
- (c) The Strategies pursued were not culturally relevant nor sustainable.

In sum, as a result of uncritical continuation of past development strategies, development (even in its own narrow economic terms) was being undermined. Poverty within these countries is reproducing itself and economic disparities are increasing. They are nowhere near "take off" to catch up with the rich countries. This analysis was combined with proposals for an alternative approach which takes people rather than growth, and participation rather than highly centralised planning, as a starting point. This involves both new institutions and use of the knowledge system to be specified in greater detail. A refined methodology to reverse past processes through peoples praxis, i.e. the action-reflection-action process was identified. The essence of this methodology, also called Participatory Action Research (PAR), is that when people participate as subjects in the development process, it is also possible to achieve a balance between growth and accumulation, natural resource use, equity and self reliance. The peoples knowledge system also becomes a critical lever in reversing the process and empowers people to bring about a change in their reality.

Further, this study examined the crisis of State Power in South Asia and the problems and prospects of Regional Cooperation. The crisis that was sparked by the acute inequities resulting from the development process has its impact internally on the political process and democracy. Political power increasingly becomes centralized. Significant sections of the peoples are denied participation. Minorities are tyrannized and political power is

increasingly wielded by military bureaucratic oligarchies. The tendency for growing militarization and fragmentation of states along ethnic, linguistic or religious lines creates internal conditions for further external intervention. The crisis of the State thereby assumes an international dimension and inhibits bringing out the full potential of Regional Cooperation, which is in time necessary for reinforcing the path of sustainable development and democracy.

The question whether there are elements in the cultural traditions of South Asia which would constitute the ideological basis of the political alternative which is now on the historical agenda of South Asia is also addressed. It is argued that there is a major contribution of the cultural dimension towards building democratic states in South Asia. The potential in the folk consciousness of Islam for containing ethnic conflict within the dialectic of unity in diversity was examined. Hindu ideology was probed to ascertain the role of women in Hindu society. The class character of militant groups in an ethnic conflict is another new cultural dimension that is analysed.

In relation to Regional Cooperation, the study attempted to enunciate the strong compulsions for cooperation in South Asia. It further argued that the inherent asymmetry, can be turned into a supportive factor in the promotion of development and democracy in the Region. The study concluded on the note that this perception should guide future intellectual efforts, now that SAARC, the first manifestation of Regional Cooperation has come to stay. If countries individually do not have the political will to systematically alleviate poverty a collective approach under SAARC auspices is proposed.

Lesson No. 3

The double burden of gender and equity - some innovative approaches

Within the United Nations University South Asia Network, parallel to the earlier works, a special study was initiated in collaboration with a number of institutions working with poor women, to understand in depth the relationship between gender and equity issues. The study was a pioneering effort to look at the question of the double burden poor women face within the dominant development paradigm. Over the past decade the women's movements in South Asia had helped to focus unambiguously on the important role poor women play in development and the various factors that prevent them from benefiting from the process. Secondly, it highlighted the continued adverse effects on poor women as the dominant development model unfolds, accompanied by the conventional "delivery" of inputs process, with the further marginalization of poor women and even erosion of their capacity to survive. Thirdly, it brought out the new energy that was represented by releasing the creativity of poor women and their empowerment.

Using this context, as the starting point, this study attempted to look at the role of poor women in an alternative development strategy. It examined several experiments in South Asia where poor women as subjects in the process had organized themselves primarily in informal sector activities for micro-level development actions and gone beyond survival, to building new organizations and savings systems to sustainable development. These experiments ranged from the Working Womens Forum and SEWA in India, to the Grameen Bank and BRAC in Bangladesh, to experiments in Nepal, Pakistan and Sri Lanka. In most cases, this change in their economic and social conditions was brought about through the methodology of participatory action research, using their creative energies, local resources and local knowledge. Where there was a sensitive support system involving a Government Agency, an NGO, a Bank or a Donor, these experiments have been able to go to scale. The process which was identified was very different from poor women being the objects of the process and merely

receiving "delivered" credit and other inputs from outside in the name of Women in Development programmes. Both the development perspective and the methodology are further refined in these people-oriented development experiences under varying socio-political circumstances.

From the selective survey in South Asia where this innovative approach to poverty alleviation by poor women and their empowerment has gone beyond experimentation, it was possible to identify the essential elements in the total process which contributed to sustainable development by poor women. It was also found that the methodology, processes and organisations with appropriate adaption could be used for initiating, expanding or multiplying similar processes in Africa and Latin America.

From Lessons to Concepts and Methodology of Participatory Development

The preceding sections have briefly indicated the backdrop of empirical and conceptual work, within which South Asian Scholars have attempted in a fourth study to deepen the critique of the dominant development paradigm, and their understanding of South Asian reality. From this, the network of South Asian Scholars and activities in a partnership have attempted to refine further the methodology for not only partially reversing past processes, but also to initiating the transition to a new strategy of development. The approach taken in the study "Participatory Development: Learning from South Asia" builds further on the earlier positive lessons of the innovative participatory development experiences on the ground, which have matured and are proving to be sustainable in South Asia.

This study, as mentioned, serves a four fold purpose. First, it highlights the multifaceted crisis that is already upon South Asia, albeit in varying degrees of intensity and inter-relatedness in the different countries, which makes it imperative for these countries to adopt a different development pathway. Secondly, it provides a critique of the dominant development paradigm that has been adopted and show that neither in its own narrow ideological and socio-economic terms nor as a response to the wider crisis is it sufficient. Thirdly, it articulates in an unambiguous manner elements in a strategy based on participatory development at the micro level which can both limit some of the damage of past strategies, as well as go a long way towards alleviating the worst forms of poverty and de-humanisation in South Asia. This process at the same time, once initiated at the micro-level, can provide a transition to sustainable development. Finally, it helps refine some of the methodological and analytical tools which are indispensable for re-inforcing these alternative processes already underway.

It is increasingly clear that the crises that South Asian countries face, is no longer merely the poverty crisis, but is now taking the form of the ecological crisis, ethnic violence, gender conflict, militarisation and external destabilisation. These are not isolated phenomena, but are inter-related both to each other and to the fundamental development intervention that was initiated after de-colonisation. Taken together they have deep consequences for the fragile democratic processes at work and the task of nation building.

This study does not pretend to substitute an alternative theory as such to the conventional dominant theory that has influenced development thinking and action in the past forty years in South Asia. Rather it proposes that the methodology of Praxis and the instrumentality of Participatory Action Research (PAR) that goes with it can help in moving the development intervention at the micro-level towards sustainable development. This requires a new conceptual framework and interdisciplinary analytical tools on the one hand and the collective reconceptualisation by those engaged in social praxis on the other. Social praxis can be achieved by releasing the creative energies of the people in South Asia, who are now being marginalised and mobilising them, alongwith local resources and knowledge, for the all around development of their lives. Participation of the poor and vulnerable will entail building new peoples organisations not only to enable them to participate effectively, but also to multiply and sustain the process. It is axiomatic that without their participation as subjects in the process no sustainable development can take place, because people and their creativity is South Asia's greatest asset. With the majority being poor and vulnerable the process has to start with them.

In a pioneering effort, this group of South Asian scholars have located the methodology of Praxis and the PAR instrumentality unambiguously in the context of the development of development theory and practice. For the past fifteen years, after the methodology was first identified in the contemporary South Asian context it had been considered a maverick methodology by the development establishment. The rhetoric of "participation" has been used both in theory and practice, without making explicit its methodological basis or its point of departure from existing development theory. Today, with the mounting crisis of development, the crisis of the State and Civil society, past attempts at development theory are also in disarray. It may be timely therefore, to restate the new premises for development thinking and action, as they are manifested in the positive experience of participatory micro-level development.

To move to the new premises for development it is essential that first a critique of the dominant development paradigm both in its own terms and in terms of the new values be attempted, so that there is no ambiguity between the old and the new. The critique of the old paradigm was attempted in this study along three points of departure:

- (a) An examination of the fundamental concepts of the mainstream economic development paradigm, showing that the very design of this paradigm precludes comprehension of the fundamental relationships between people, nature and growth. As such it is incapable of formulating a sustainable relationship between them.
- (b) Demonstrating how the dominant economic theory called neo-classical theory has itself evolved into its present highly refined version, in its historical cultural context. The purpose of examining this historical evolution of the current paradigm is primarily to clarify the theoretical and ideological basis for evaluating the outward-oriented development strategy now being imposed on South Asian countries, through "structural adjustment programmes", and its relevance to the South Asian reality.
- (c) At a third level, the critique is intended to examine the actual effects of past-development practice in the South Asian region in the post colonial period. A wide range of data is brought to bear to show that the particular form of economic growth that is in operation in South Asia is such that it is not only perpetuating poverty of the majority of people, but is also eroding the natural, human and financial resource base on which a new beginning could be made. This in turn contributes to destabilising the fragile democratic structures as also leading to heightened violence and societal collapse in South Asia. It is the stark facts, at the end of the

multi-level critique of existing development theory and practice, that has given a sense of urgency for finding a focal point for reversal of past processes.

This critique is also being made not from narrow ideological orientations or a priori theorising but from the perspective of an alternative possibility which is emerging, though still in a nascent form. However, there is a material basis of sufficient scale and geographical coverage to indicate the broad outlines of the methodology that is implicit in this experience.

From the critique, the study thus moves to new premises of action. Those people who were impoverished and marginalized by current growth processes are seen as the prime movers of history in future. The scholars then attempt to generalise on possible ways, on the basis of action that has been taken. If the release of the creative energies of the people is a critical factor, the question then is needed to initiate a process to enable them to use their full creativity and realise their true self-worth. Once this is done the further task of building organisations to sustain and multiply the process could be left to the internal dynamics of the process itself. The essence of the process is the mobilisation, conscientisation and organisation of the people, in that order. This process could proceed from being a countervailing factor to ensuring social justice and equality for all.

There is now a growing body of experience in South Asia where the methodology Peoples Praxis (i.e. the cycle of an action-reflection-action process) and Participatory Action Research (PAR) can be observed. This experience, as has been mentioned, provides the material basis for the generalisations relating to the process, that follow. A considerable literature also exists on new social movements in South Asia that go beyond conventional trade unions and the co-operative movement which have run out of steam or been distorted or co-opted. In any event these only addressed limited issues relating to peoples' lives. Likewise, illustrative case studies are available on these experiments, which show how people in this cultural milieu view their lives holistically and respond to real life situations by using local knowledge systems and resources. Sensitised catalysts and animators are instrumentalities to initiate or reinforce social praxis. From this experience generalisations can be made on how to re-focus the methodology of Praxis and PAR as an effective step in moving to the next transition.

Part-III of the study specifically relates to refocussing praxis and initiating participatory action research for releasing the creative energies of the people. Apart from elaborating on participation and the action research process two critical instrumentalities are highlighted and discussed as they are at the core of the methodology. One is the knowledge system inherent in

Contd. on page 33

A TREND TOWARDS AUTHORITARIANISM IN THE THIRD WORLD

Princy Dharmaratne

The writer has a Degree in Economics from the University of London and has specialized in Development Studies at the University of Bath. She has written on certain aspects of Third World development. Her publications include 'Politics of Dependent Capitalism' published in the 'Social Scientist' – the Indian Journal of Social Sciences, and 'Aid and the Growth of Third World Indebtedness' published in Logos.

The transfer of representative institutions to the Third World

It was assumed that the orderly transition to pluralistic political development pioneered by the Westminster model of Parliamentary democracy would be duplicated in the Third World under the modernization process. But events have changed this assumption. What we are witnessing in most developing states is a retreat from democracy and in some ways a throwback to traditionalism.

Perhaps representative government is inappropriate in modernizing societies and the models we derive from the concepts of equity and justice in the Western experience may fail to take root in these societies. For new nations problems of political overload and the consequent generation of widespread tensions in the Third World state are seen to favour authoritarian rather than democratic rule. One of the surprising developments in East Asia is that high levels of modernization have taken place with low levels of political participation as is seen in the miracle economies of the Four Dragons of Asia – Hongkong, Singapore, Taiwan and South Korea in the last two or three decades.

Stable democratic institutions necessitate a close fit between these institutions and society. The experience of political development in the developing societies confirms the view that the transfer of alien institutions from one society to another without the attendant political culture either results in their rejection or total transformation. The latter process is taking place in the developing states.

Trend towards departicipation in Third World Politics

At Independence these new states of Asia and Africa had each been endowed with the formal trappings of democracy by their departing colonial overlords – a democratic constitution, a two Chamber legislature, elective politics, a framework for multiparty politics – all the ingredients that made for Western style democracy. But in occasion after occasion one sees the distortion of these institutions in the politics of the Third World state.

A growing tendency towards departicipation is discernible, brought about by governments bent on destroying the very institutions intended to facilitate popular political participation.

Opposition excluded from politics

In country after country in the Third World opposition forces have been excluded from politics. Chun Doo Hwan's Korea in the 80s showed no signs of tolerating an effective opposition. As a sequel to the Kwangju riots in 1980 all political parties in South Korea were dissolved for 8 months. 811 people – virtually every leading politician – were banned from politics for 8 years.

Single Party States

The Single Party state has evolved as an effective means of warding off oppositional popular mobilisation. Singapore has remained a Single Party state since 1959, and although multi-party politics has recently been permitted, Singapore remains virtually a One Party state. Kenya has been a Single Party state with KANU dominating politics since 1982 and recent attempts at multi-party politics have been stifled.

Hand over of power as an outcome of elections

Elective politics prevail but the outcome of elections often remains in doubt. When the Sandinistas lost the elections in Nicaragua this year it was doubtful at first whether there would be a voluntary hand over of power to Opposition Leader Violet Chamorro. Similarly Burma's military held elections recently but was not prepared to abide by its outcome and hand over power to the opposition 'National League for Democracy'.

Political Participation centres round the incumbent regime

Political participation on the contrary centres round government created institutions in order to mobilise support for the incumbent regime. The Gulf States have organised 'Majlis' (Councils) to redress citizens grievances – a limited

outlet for participation – giving a semblance of legitimacy to the states.

Ayub Khan's 'Basic Democracy', giving the masses a chance to vote in local elections, was designed to rally the populous round the Military.

Political institutions inherited at independence have thus been distorted from their original purpose.

Ethnicity and Religion as central issues in Third World politics

Far from fading, ethnicity and religion have come up as central issues in the politics of Asia, Africa and the Middle East – providing a popular base for political participation.

Marginalisation, displacement and dispossession are defined in ethnic, religious and linguistic terms – not class terms. Some of the widespread political movements during the past decade have centred round religion or ethnicity – the Shiite clergy in Iran, the Tamils in Sri Lanka, and the Mujahideen in Afghanistan. With the Islamic Revolution under Khomeini the clergy has emerged as a ruling class.

Religious strife in Lebanon

Some of the worst effects of religious strife in the Third World are seen in the politics of Lebanon. Here Maronite Christians, Druse and Shiite Muslims are each trying to establish political control – dismembering the Lebanese state in the process.

Claims for political power in Africa

Claims for political power in Africa are increasingly being fought on religious lines. The Islamic Salvation Front has captured power in Algeria. In Sudan's recent military coup the governing elite was

part military and part Islamic. In Nigeria – a state where there is no legal opposition – Islamic institutions play an important role. Islamic Fundamentalism has of late started to play a part in Egyptian politics.

Politics of Protest

The pathology of violence associated with much of the radical Islamic and ethnic groups has resulted in the spread of the new 'politics of protest' in much of the Third World.

NEW ACTORS ENTER THE POLITICAL ARENA

With the older political structures in disarray, new political actors enter the political arena. The Military, Student Radicalism, Guerrilla movements and Trade Unions constitute these new actors on the political scene. They all employ extra-Parliamentary techniques to influence politics. Of these new forces The Military has by far played the most active role in Third World politics.

The Military in Politics

Military regimes although currently in comparative retreat especially in Latin America, still continue to play a significant role in the politics of the new nations. Barring Cuba, Venezuela, Costa Rica, Mexico, Haiti and Paraguay – 13 Latin American countries have witnessed at least one military coup since 1960. The Military dominated Brazilian politics for 2 decades until 1982. Twenty of the thirty years after Independence in Nigeria have been under military rule. In Korea a coup brought Park Chun Hee to power in 1961, starting a generation of military rule ending only in 1987. Pinochet's Chile saw the end of military rule in 1989 after 16 years of authoritarian rule. In Burma, Indonesia, Bangladesh, Nigeria and Liberia military regimes prevail.

Rapid socio economic change brings about tension and conflict leading to regime breakdown. In this situation the Military steps in to provide the legitimacy to a weak state. It sees itself as the only institution capable of enforcing a measure of stability and order in volatile societies constantly plagued by insurgency and other forms of protest politics. Introducing a repressive apparatus is almost a reflex response to political opposition.

Counter insurgency tactics, measures against drug trafficking, its role in the economy – all tasks outside its conventional military role have tended to politicise the military and condition it for its new role in politics. The absorption of military personnel into civilian Cabinets gives the Military the apprenticeship it requires for its new political role. In the present South Korean Cabinet of 25, 7 members possess a military background. In the Thai Cabinet the Commander-in-Chief of the Army – General Chavolit Youngchaiyudh – holds a Cabinet post. All these factors have made for the widespread presence of the ruler-General in Third World politics.

The Military has become a highly professionalized institution – playing a role in the economy. In Bangladesh the post Independence Army was conceived as a 'People's Army' that should engage in production tasks and became known as 'plough soliders'. Chun Doo Hwan presided over a military regime that brought about a remarkable economic growth enabling South Korea to reach the threshold of developed country status.

Student Radicalism

Student radicals clamouring for greater democratisation of the polity and a more open society, constitute one of the newer forces

agitating for political change in developing societies.

Perhaps in South Korea the Confucian respect for scholars explains the prominent role played by students in Korea's political life. In 1960 student activism was instrumental in toppling the right wing regime of Syngman Rhee. In 1980 in the Kwajung riots, students demonstrated against Martial Law. Again in 1987 student radicals launched a democracy movement which brought about the collapse of the Chun Doo Hwan regime.

In Thailand the Thammasat University student demonstrations were a landmark in the history of student politics.

Armed police have been deployed in the Bangladesh campuses after student clashes.

Presently in Burma University students are carrying on an insurgency in alliance with ethnic minorities.

Guerrilla Activity

The Shining Path of Peru, the New People's Army in the Philippines, the JVP of Sri Lanka, the Mujahideen rebels in Afghanistan, the Salvadorean rebels, the Karens in Burma, the Eritrean rebels in Ethiopia - all illustrate the widespread nature of guerrilla activity in the Third World.

Coming under the wide umbrella of liberation struggles, some of these movements like the Shining Path and the NPA are anti-systemic while others such as the Karens in Burma and the Moro rebels in Mindanao have ethnic purposes.

The new extra-Parliamentary forces that have made themselves felt in contemporary Third World politics have all the capacity to destabilise the state, but barring the Military, they do not display a capability to capture and retain political power.

Evolution of Third World political structures as a response to modernization

Increased levels of political participation by Parliamentary or extra-Parliamentary methods and the attendant strains of growing economic and political demands made on the state, necessitate higher levels of economic development. Further these demands on the state come at a time when



Burmese Opposition Leader - San Suu Kyi

disorderly protest movements create unstable conditions not conducive to economic development. Unlike in the First World, managing the rapid process of socio economic change thus becomes a vital characteristic of development. The evolution of authoritarian political structures and the new extra-Parliamentary claims to political power in the Third World can be seen as a political response to the strains of Third World modernization.

Twilight of the Generals?

In spite of these authoritarian and extra-Parliamentary developments taking place in the developing

world, there is since the mid 80s, a trend towards what is seen as a greater degree of political liberalization. More democratic regimes have sprung up in Argentina in 1983, in Brazil in 1982, in Guatemala in 1986, in South Korea in 1987 and Chile in 1989. Most of these regimes Brazil, Argentina, South Korea and Guatemala depend on sizeable doses of Aid for survival. Is this democratisation process a response to World Bank IMF strategy which requires a measure of democratisation as a condition for the disbursement of Aid? Or is this a trendy Third World reaction in an atmosphere of global Glasnost?

A repressive political apparatus serves a useful economic purpose?

The East Asian miracle economies of South Korea, Singapore, Taiwan and Hongkong demonstrate that economic success has been built on authoritarian political structures. In volatile Third World societies confronted by insurgency and student radicalism and other forms of protest politics, warding off de-stabilisation becomes a priority for economic success. In such a situation both Parliamentary and extra-Parliamentary mobilisation must be curbed to assure economic stability. An elaborate military/ police/ bureaucratic apparatus assures the conditions for capital to thrive. In Gunder Frank's terms "the repressive political policy has very clear economic purposes and functions to make these economies more competitive in the world market by lowering wages..."

Falling economic growth in South Korea - The price paid for greater democratisation?

South Korea was destined to be a second Japan with a GNP rate averaging 12% per year in the years 1986 to 1988. The Hyundai Excel made a most successful entry into the United States market. Leading Edge personal computers

produced by Daewoo won market shares from IBM. Korea's rapid growth in the 1980s owed much to relatively low wages which enabled companies like Hyundai, Daewoo and Samsung to carve out a competitive wedge in industries ranging from autos to ship-building. However, GNP in 1989 fell to 6.7%.

South Korea's economic success has been built on authoritarian political structures. Under Chun Doo Hwan's military regime in the 80s a close oppressive political system placed a lid on all forms of political activism which would endanger economic stability. Under Roh Tae Woo a limited democratisation process was initiated – reforms in respect of elections, Press Freedom and permitting the establishment of labour unions.

The democratisation process instituted by Roh Tae Woo led to a period of wage strife and wage hikes which eroded the competitive advantage of Korean industry. In another way it fostered dissent and strife with repercussions on economic stability and showed how much Authoritarianism had become part and parcel of the Korean economic miracle.

According to South Korea's Deputy PM Lee "Democratisation has meant the subjugation of economic efficiency to the politics of economic equity." As political unrest surged the Korean companies gave way to wage hikes. In the years 1986 to 1988 when growth averaged 12% per year, average wage increases for organised workers averaged 20% each year. For Hyundai Motor Company three straight years of nearly 20% wage hikes virtually doubled labour costs, and largely contributed to its loss of competitiveness. After a wave of industrial strikes in 1989 in an atmosphere of falling exports, the government clamped down on the unions – enforcing a provision of the Korea labour law that bars workers from getting paid when they go on

strike. When Kwangwon steel-works Pohang went on strike the government invoked Emergency powers and arrested union leaders.

Overt manifestations of an authoritarian legacy remain in South Korea, as is evidenced by the recent action taken against the unions. A resurgence of the Military and reversion to authoritarian rule appears plausible given the unprecedented degree of labour activism promoted by the democratisation process that has occurred. The Military is disillusioned and is not supportive of Roh Tae Woo's handling of the existing situation. Forces in the military and the ruling Democratic Justice Party are already calling for a return to old methods of deal with dissent.

Taiwan – a consolidation of Authoritarian KMT rule

Liberty and Democracy are recent imports to Taiwan. Up to 1988 one party – the mainland bred Nationalist party – the Kuomintang ruled Taiwan unchallenged. Martial Law was lifted only in 1987.

In Taiwan democratisation has meant introducing reforms into a still exclusive political system. Two thirds of the Taiwanese legislature is still dominated by aging Kuomintang representatives who came in when the Nationalist were driven out of the Communist mainland during the Chinese Revolution. A proposal to retire these aging KMT representatives did not meet with approval. The political reforms introduced by Chiang Ching-Kwo were a way of mustering support among the Taiwanese who compose 85% of the population in a move to guaranteeing Kuomintang rule. Measures such as permitting the formation of political parties and a proposal to retire aging KMT representatives were means of bringing in more Taiwanese into the legislature not to challenge, but consolidate authoritarian KMT rule.

The infusion of a few democratic reforms in Taiwan did not change its authoritarian base. Under Chiang Ching-Kwo's guidance Taiwan developed a robust export driven economy that had netted more than \$75 billion in foreign exchange reserves, and raised annual per capita incomes to \$7000. Taiwan has a rapidly expanding manufacturing and service industries ranging from ship-building and auto industries to high tech electronics. The Taipei Stock Exchange ranks as one among the 4 most active in the world.

A stranglehold on state enterprise and an unwillingness to yield control dates back to earlier days of Kuomintang rule. These state ventures provide a power base for the ruling Kuomintang elite. A wavering privatisation policy reflects the ruling party's disinclination to lose control over a powerful sector of Taiwan's economy. **Fine tuning of Singapore's political system to ensure economic stability.**

As in the three other East Asian economic successes, the fine tuning of Singapore's political system has made for her stability and economic success. Like the KMT in Taiwan, the People's Action Party has dominated the legislature since 1959 and although multi party politics has recently been permitted, Singapore remains virtually a One party state. Power is concentrated in the hands of the Executive. The Communist party is outlawed. Campus protest is diffused. The all powerful People's Action Party controls the labour unions – building its own power base. All opposition quelled, the system has the 'correct political mix' for economic stability and for the entry of transnational capital. Singapore's economic success is maintained on high doses of repression.

"Imagine a country run like a Company and you've got Singapore... Under the leadership of Lee Kuan Yew its Chairman and Chief Executive for the past 1/4 century Singapore Inc. has prospered

mightily." These quotes from the Economist of 9-15th June 1990 describes Singapore's performance very aptly.

Government identified objectives assure a favoured place for transnational capital. The right to 100% foreign participation facilitates the entry of foreign capital. The US remains the largest investor-generating 1/3 of all foreign investment in Singapore.

GNP has averaged 9% per year during Lee Kwan Yew's tenure.

There is a heavy emphasis on electronics – 30% of exports being confined to this sector. Efforts continue to make manufacturing more capital intensive and high technology based. A tightening labour market is making labour intensive industries locate outside Singapore. Singapore has no foreign debt problems.

Will Capitalism continue to propel Hongkong's future?

The political system prevailing in Hongkong does not favour democracy. Under British rule she has not enjoyed universal suffrage. A powerless colonial legislature has been installed with a British appointed Executive. The Basic law – Hongkong's mini – constitution after 1997 drew the line at letting the territory go its own way politically. It provides for direct election for 1/2 Hongkong's legislature only – with ultimate power residing in Beijing's national people's Congress – the final interpreter of the Basic law. Deng's promise of 'one country 2 systems' after 1997 is an idea rather than a politically guaranteed plan. Few in Hongkong are hopeful of creating a homegrown democratic movement by 1997 with a leadership able to resist Beijing.

Hongkong was leading China to economic prosperity through Deng's open Door policy. In most ways the colony was the economic hub of South China with investments totalling \$1.8 billion and providing direct employment to 1.1 million workers.

As of the first quarter of 1989 approximately 80% of Hongkong's re-exports accounting for 61% of China's total exports. China has become Hongkong's 2nd largest market in terms of value. Two China related political events have shaken business confidence in Hongkong. The first is the suppression of The Democracy Movement in China which has had adverse repercussions on Hongkong's investments in the Chinese mainland.

The second was the move to revert Hongkong to China by 1997 in an amalgam with a Communist state in what Hongkong sees as an end to Capitalism. This has led to a severe brain drain and a capital flight from Hongkong.

Hongkong remains a disputed domain between 2 rival ideologies – Capitalism and Communism. Its existence as a Capitalist enclave if not an East Asian success will depend very much on what basis it comes to terms with China on the Communism/Capitalism relationship.

Authoritarianism and economic success

In East Asia hence facts seem to point to a close correlation between Authoritarianism and economic growth. Authoritarianism has not been an undiluted ingredient propelling these economic to success. The American factor, in building and maintaining a Capitalist enclave as a bulwark against the expansion of Communism in the Pacific region, was a vital factor in nurturing and expanding the capitalist thrust of these newly emergent nations of East Asia. The 70's reached the Zenith of Communist expansion. Taiwan was conceived as a base against Communism by the United States during the Korean War even during the 1950s, and US military and economic support during the Vietnam War was an important factor in its expansion. South Korea relied on a fair dose of Aid for

her economic expansion. The US remains the largest investor in Singapore generating 1/3 of all foreign investment. Moreover these countries had the advantage of an early start when world economic conditions were in comparative boom.

Political regimes and economic structure

Authoritarian regimes do not necessarily have an edge in the promotion of economic growth. In Asia, Thailand has seen an evolution to democracy with parallel spectacular economic success. Since the Student Revolt of 1973 the democratic process has been growing – strengthening and legitimizing political parties and Parliament. From public relations groups, parties have grown to become institutional party systems. There has been a shift from personalized to institutionalised politics. Chatichai Choonhavan was the first elected member of Parliament to become Prime Minister.

Since 1986 growth rates in Thailand have touched 10% – among the highest in the world. The export sector has grown faster than any other sector – nearly 25% per year from 1986-1989. Manufacturing is now responsible for a larger share of G.D.P. than agriculture-achievements which most developing nations have been striving for in their development plans.

Latin American experience

The experience of regimes in Latin America points to the fact that regime form may not be a determinant of economic development. If one takes the changes in per capita GDP in 1980 constant dollars from 1960 to 1980 Authoritarian Brazil led Latin America with an average of 137%. Two non oil producers with more competitive civilian regimes – Colombia and Costa Rica did well with 92.5% and 83.5% respectively.

Contd. on page 27

VIETNAM AND KAMPUCHEA TODAY — AN EYE WITNESS ACCOUNT

Bruce Matthews

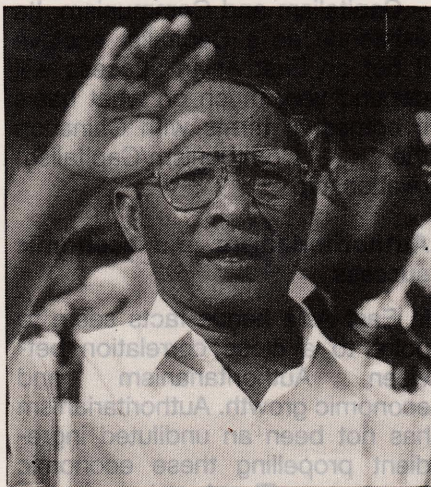
At the 6th Party Congress in 1986 the Vietnamese decided to eliminate central planning and to initiate a series of reforms to create a market economy, a free enterprise economy. That was an irreversible decision. The die is cast. I was told by a number of authorities — both Vietnamese and Western diplomats — that reversing those decisions now is inconceivable. So the possibility of Tien-an-Men Square type situations developing, of the clock being really and deliberately turned back, is highly unlikely.

However, what makes the situation in Vietnam somewhat unpredictable is the fact that the Vietnamese are interested in trying to keep the political and the economic apart. They insist that these are two separate entities. The Soviet Union reformed its politics but not its economy and the Vietnamese reformed their economic system and not their political system and in both cases the result is chaos.

Today Vietnam is facing economic chaos. Though they are trying to build a market economy of sorts, they lack the most basic of infrastructure needed in a modern economy like communications, banking laws and a system of commerce that is based on a well worked out legal system. Still, businesses are allowed to function. This is a paradox. For example the green light has been given to go ahead with private banking but there's no private banking law. The people, especially in the South and Ho Chi Ming City, are finding this situation very frustrating. They

know that there is a great deal of opportunity which they want to use but there is also a lot of uncertainty due to the lack of proper material and legal infrastructure.

Vietnam is an enormous country. No European or foreign power can ever help them to build the infrastructure. It needs an international effort of enormous magnitude — at the IMF, World Bank level.



Heng Samrin: Diego Taro

Vietnam now has a debt of 1.7 billion US dollars. Most of this is owed to the so called hard currency states. It's something that they have to keep in mind. Most economists I spoke to, argued that in 1991, when the New Five Year Plan comes into focus, there will have to be a big military budget cut because military expenditure comes up to about 15% — 30% of the total expenditure every year.

The economy is still run by the so called Planning Commission in Hanoi and its decisions are mostly poor, due to the lack of experience.

The way in which this can be offset even to some degree is by the cities taking on more and more responsibility of their own, i.e. economic decentralization. But still major decisions are made in Hanoi by the so-called Planning Commission.

Most of the trained economists in Ho Chi Minh City are unhappy with this state of affairs, but there's not much they can do about it except to try to persuade the bureaucrats in Hanoi to leave economic decision making to trained experts. It's hoped that trained investment and management experts might be invited to come in to help run some of the businesses which are being planned.

Vietnam get most of its produce from China. The Dong — the Vietnamese currency — is not controlled and there are no fixed prices any more and so there's no black market. In Vietnam you can go to any store and change your money. So there is a great deal of surplus US dollars pumping through the entire entrepreneurial economy of Vietnam. So there is a roaring trade even of luxuries.

In Vietnam a average family makes about 40,000 dong a month and that's about 12\$ US. The average village school teacher makes 27,000 dong a month — 5\$ US. In return they live in co-operative farms and they can rent land from the Government. In Vietnam, you rent the land according to the size of the family. You can will it to your children or to somebody else. But it can never be sold.

I visited a Vietnam co-operative farm. They are not called 'collective' any more. The families have been allowed to lease land from the state, so they all have a stake in the success of the farm. And they work very hard. They can keep 70% of their produce to sell. Only 10% goes to the government. 7% goes to village funds. The rest goes to pay bills like electricity etc.

History of the economic embargo

The US, Japan and therefore the IMF, World Bank, Asian Development Bank embargo is one of the most crucial circumstances confronting the Vietnamese. If we go back over the chronology of this, when Vietnam invaded Kampuchea in 1979 (I think that was a humanitarian thing to do) the Americans felt insulted for whatever reason and they cut their own assistance to Vietnam, which had only been in place for four years. Then they persuaded the IMF to suspend its lending in 1985. So for the last five or six years Vietnam had to face this comprehensive embargo. The two major forces behind this embargo are the United States and, curiously, Japan.

Vietnamese economy to become more like a Pacific Rim economy and instead of being locked into the isolation where America has pushed Vietnam into.

In the last few days there seem to have been a refreshing change in the US attitudes towards Kampuchea – the fact that the US will not to back the tripartite group with the Khmer Rouge. Indirectly of course this will spill over to affect US policy attitudes to Vietnam. As you know US Congressional Elections are coming up in November. The issue of Vietnam is a very touchy one in America. Most lower middle class Americans and that is the majority – distrust Vietnam. They are still smarting from the wounds of the war. So there isn't a great deal of public support in the U.S. to change

nam at the PRC because there's nobody else turn to. The consequence of US policy is therefore defeating what America originally wanted and that is ironic. Hardliners in the US and in Vietnam feed on each other and strengthen each other.

I think the EEC, Australia, Canada etc. are going to take a line independence from America and are going to go ahead and do business with Vietnam. Already, for instance, Petro Canada is into oil exploration in Vietnam. And American oil companies are very unhappy about this. South East Asian Oil Exploration is a very lucrative business and American Companies are missing out on this and therefore passing control over to Canada, France and other countries. I think the US business community in the long run will have a bigger say with Bush and Congress than any other group. But so far this has not happened.

What makes the situation in Vietnam somewhat unpredictable is the fact that the Vietnamese are interested in trying to keep the political and the economic apart. They insist that these are two separate entities.

The Europeans in particular and also some of the Pacific Rim countries like Australia are probably not going to go along with this much longer and have already taken the first steps out. For example Sweden is giving a 100 million US dollars free grant between this March and the March of 1992. France for instance is planning of forty million dollar programme over a two years period. Australia, Denmark, Canada, Switzerland and Italy are also interested in going in with what I consider to be rather massive aid programmes. These aid programmes are loosely called humanitarian aid. A country like Canada can go ahead with a programme of aid citing humanitarian reasons because this way they can explain themselves to the United States. And I think aid from these non socialist countries will increase in the coming months.

Australia's stake right now in Vietnam is trying to solve the Kampuchean problem. They want the

the attitude towards Vietnam. It's not a high priority item with President Bush. And if there's a change in US policy attitude towards Vietnam, he might lose some of those congressional elections. So if there's some kind of change in the US policy towards Vietnam and a lifting of the embargo it'll most probably happen next Spring.

I was very impressed with the work that the Heng Samrin Government has done in Kampuchea to restore law and order and some sense of viable economy.

The US and Western embargo against Vietnam has forced Vietnam to find other sources of support and they found that in the Eastern bloc. But that source is drying up. So it looks as if they have no way out other than the Peoples Republic of China. And at the street level the economy is Chinese. All the goods come from the Peoples Republic of China. So there is already this close link with the Chinese economy at that level. US policy actually is hurling Viet-

The Kampuchean Issue

US has used as an excuse for the embargo, a demand that there is a solution to the Kampuchean conflict. Now here they have acted with considerable duplicity because the initial demand was that Vietnam should withdraw from Kampuchea which they did in the September of 1989. Then immediately or very soon after,

instead of lifting the embargo, the US added this new caveat.

There have been several attempts recently at an international level to find a solution to the Cambodian problem. The first such attempt in the recent past was the Paris Conference of 1989 consisting of the so called P5 – the five permanent members of the US security council. Then there was the Tokyo meeting – just a few months after, and then on the

11th of July this year there was another P-5 meeting. So there were three high level meetings in one year on this issue of Kampuchea and none of those was able to make much headway which is depressing.

If one looks at the Tokyo meeting however there was a little more hope because Japan and Australia took the leading roles in trying to put ideas on the table and argued that the Kampuchean issue should not be the monopoly of the permanent Security Council of the UN – because what has France, for example, got to do with Indo China anymore? The council period is over. Much more relevant are countries that are close to Kampuchea like Australia and Japan – the Pacific rim countries. But nothing really came out of the Tokyo meeting either because the Peoples Republic of China wouldn't go along with the SNC proposals – having a provisional administration of 12 member, 6 for the present Hun Sen government, 2 for Sihanouk, 2 for Son San and 2 for the Khmer Rouge. So you'll have the tripartite group plus the present government of Phnom Penh co-operating together. It sounds reasonable, but neither the Khmer Rouge nor the Peoples Republic of China would accept it. Then Australia proposed the UN plan to send a UN body into Cambodia – like Cyprus or the Gaza strip. A UN force to keep law and order while a UN administration runs the country and organizes elections. Australia did a lot of work on this and has a well planned and articles strategy. But this too was turned down. So there was some disappointment.

What is happening in Kampuchea?

Like many visitors I will have to say that I was very impressed with the work that the Heng Samrin Government has done in Kampuchea to restore law and order and some sense of viable

economy. It's a very open economy though Kampuchea is still theoretically a Communist State. And though it is a one party system and there's very little evidence of a multi party democracy coming into being, nonetheless it is not a heavy handed government.

Khmer Rouge will have us believe that they are making big inroads into the interior of Kampuchea. This is absolute rubbish.

The Khmer Rouge have a very effective propaganda machine and for some reason people believe them. And when we were in Phnom Penh meeting with various people – including Western experts and NGO representatives – I thought the way in which Khmer Rouge had persuaded the West that they actually have control over the country side is extraordinary, **because it was clearly not the case.** The Khmer Rouge control at most 6% of Cambodia – at the very most. Yet if you listen to international news agencies – even the Voice of America – you will hear that the Khmer Rouge saying “last night we assaulted Battam bang and any day now we will capture the cities.” This is rubbish. And people hearing this would think that the Khmer Rouge has a lot more popular support and control over land mass than it really does. I think however that some countries are waking up to this reality. Canada, for instance is planning to go into Kampuchea in a big way with aid packages etc.

I went from Ho Chi Minh Ville to Phnom Penh. Not many people do this drive. In Phnom Penh there's an economy, a micro economy, an economy at the fundamental, level which has turned every house which faces even a minor road into a store where you can buy Heineken beer and Coca Cola etc. These items come in from Indonesia, Singapore and Thailand.

In fact you can buy Hieneken beer cheaper than you can buy it in the US! I have never seen a more aggressive market – street

level economy – than I have been seen at Phnom Peng. But there's no environmental consciousness at all.

Cynics say that Heng Samrin is just a puppet government, but I don't agree with this point of view.

In 1979 as soon as Heng Samrin took over in Kampuchea within two or three years, they were exercising considerable independence from Vietnam in terms of economic policy. And Vietnam didn't seem to mind as long as the Kampuchean government policies didn't interfere with the status quo of the Vietnamese army. So Kampuchea's economy liberated itself before Vietnam economy did. Kampuchea started having a market economy before Vietnam did – in the early 80s. In Vietnam the change took place only in 1989 after the 6th Party Congress.

The Kampuchean economy didn't look sick or feeble to me. But as I said it's at a very micro level. But if you go beyond that you will confront the infrastructural problems which are much more serious than in Vietnam. For example there's hardly a communication system and there are no trained management experts at all. But still I feel that Phnom Peng can rejuvenate itself very fast – if the necessary infrastructure and expertise are provided.

Vietnam has a problem of overpopulation – there's not enough arable land. In Kampuchea it's the opposite. It's underpopulated. You have a country that's more than twice the size of Sri Lanka with a population like what was here in 1900. The agriculture potential, economic potential of Kampuchea is considerable.

The Thai Factor

Incidentally why didn't the Thais play a role in ridding Cambodia

Contd. on page 28

A DEMOCRATIC REVOLUTION FOR EL SALVADOR

by Joaquin Villalobos

Joaquin Villalobos left his studies in economics to become a full time revolutionary. Currently he is a member of the directorate with the rank of Commander of The Farabundo Marti National Liberation Front.

Any discussion of political reality in El Salvador today must be premised on two obvious and widely accepted facts. The first is the collapse of the U.S.-backed Christian Democratic government. The second is the need for a negotiated political settlement of the current conflict.

President Jose Napoleon Duarte has failed because his economic and political policies responded to the political demands of the United States – not to the real internal needs of El Salvador. As a result, he has only succeeded in accelerating the political decomposition of his own administration.

A negotiated settlement that will stabilize El Salvador can be achieved only after a significant change in the correlation of forces and only through internal agreements and pacts expressing the interests of diverse social and political sectors. An understanding of this fact provides the point of departure for the revolutionary program of the Farabundo Marti National Liberation Front (FMLN).

Revolutions reflect the concrete reality in which they develop. Accordingly, each revolutionary process must develop its own concepts and models. To understand the Salvadoran revolutionary effort the historical context in which it developed must be understood.

Some observers fear that the FMLN's revolutionary program responds more to an ideological scheme or definition than to objective conditions in El Salvador. It has been suggested that a revolutionary triumph in El Salvador would mean the implementation of radical plans. Some have even spoken of the danger of a regime like that of the deposed Cambodian dictator Pol Pot. The Reagan administration itself raised the specter of an FMLN that is harsh and radical. As a result, forces that otherwise accept and understand El Salvador's need for revolutionary change feel compelled to support a policy of aggression in Central America; for they do not see any way to reconcile the internal reality, which seems to argue for change, with the external reality, which, through the

Revolutions reflect the concrete reality in which they develop. Accordingly, each revolutionary process must develop its own concepts and models.

geopolitical framework facing Central and Latin America, sets constraints.

The Reagan administration, as one of its major arguments against a change in U.S. policy, contended that revolution in El Salvador poses a danger to U.S. national security. Another geopolitical argument is that a revolutionary victory could not be consolidated because it would not end conflict in the country but would bring another

war—namely, a counterrevolutionary war led by the United States against El Salvador.

Yet all the allegations of supposed radicalism or geopolitical danger rest on a superficial analysis of both the FMLN and the internal and external correlation of forces that have influenced its development. In responding to allegations, the FMLN knows that it cannot simply appeal to good faith or cite its speeches and words in an effort to gain acceptance of its program. It must show that the internal and external historical context of the country requires that revolutionary change in El Salvador be based on a broad and open political model and that the thinking of the FMLN takes into account this determining factor. Otherwise the FMLN will make a mistake. It will isolate itself from the forces that are vital in bringing the country profound, serious, and realistic change and that are needed to maintain international support.

Revolutionary movements face the challenge of maintaining an objective analysis of reality in their countries, rather than falling back on ideologically motivated "wishful

dreams." "When revolutionary actions are inspired by ideological goals more than by concrete or historical realities, they lapse into dogmatism. The revolutionary movement generally maintains a permanent struggle against dogmatism. To recognize the danger of dogmatism is not a matter of concessions but rather is inherent in the character of revolutionary change. It is not a question of meting out the revolution in doses to make it acceptable. Rather, it

is a question of recognizing that current conditions are different from those that prevailed during the revolutionary struggle in other countries in different eras.

It would be dishonest and ridiculous to deny the influence of Marxism and Leninism within the FMLN. First, few or none would believe such a denial; and second, it would not be true. Further, we revolutionaries cannot deny the Marxist-Leninist influence simply to defend ourselves against retrograde anticommunism.

In general, the middle class in most societies is bombarded with a series of beliefs about revolutionaries and revolutions that not only is motivated by a concern for certain material interests but also is influenced by an ideological burden with respect to what Marxism-Leninism actually is—namely, a theory within the social sciences.

U.S. society, in particular, is saturated with anticommunist ideology and beliefs that prevent its members from seeing reality. Mistaken policies are the result. Ideology drives the United States to invest more resources in the struggle against the hungry than in the effort to end hunger. But it is a serious historical error to see one's own society as a universal model and to reject totally other models in a world with great complexity among societies, each with distinct historical determinants, each with its own pattern of development. The influence of Marxism-Leninism as a theory of social science is already universal. This is accepted in the socialist camp as well as in the capitalist world. The FMLN understands Marxism-Leninism as a scientific discipline for analyzing reality and as an organizational theory for struggle. But we do not convert the tenets of Marxism-Leninism into dogma that might isolate us from reality. Such an approach would contradict the requirements of a scientific approach to political

work. In other words, the FMLN argues not about ideological theory or definitions but about reality.

This approach does not mean that in the past revolutionary ideas have not been dealt with in an ideological manner. But this fact is explained as part of the development of these ideas and as a necessary defensive reaction responding to attempts to block their dissemination. Today, however, social communication is highly developed in the world, and it is increasingly difficult to block the circulation of ideas everywhere. Each revolution must adapt to the realities it faces and build on this basis its own thinking.

It is an error to presuppose a given political behaviour on the part of a person or a party on the basis of discourse alone without

why it has been able to resist advance, and renew its struggle and political thinking. In the beginning the Salvadoran revolutionary movement held very ideological positions, but it was influenced by a multiplicity of currents and debates within the revolutionary movement worldwide. Later it passed through a period of strong ideological struggle and faced some very critical moments. Now it has emerged with a new sense of maturity. It has learned from experience.

The FMLN, responding to reality, has displayed great ability to maintain political influence among the masses and to face up to the challenge of political debate. In that sense, it is important to note such aspects of the FMLN as its strong Christian base, its integration of women, its self-management policies among the popula-

Ideology drives the United States to invest more resources in the struggle against the hungry than in the effort to end hunger. But it is a serious historical error to see one's own society as a universal model and to reject totally other models in a world with great complexity among societies, each with distinct historical determinants, each with its own pattern of development.

considering the factors that have determined the behaviour in question. For example, it is a mistake to assume that political actions of "communists" are automatically untrustworthy or that revolutionaries who proclaim moderate intentions, once in power, will turn totally "communist." Such an approach is subjective and unrealistic. An examination of the context in which the FMLN operates, of the development of its political thinking to date, of the practices it has followed, and of the course events will most likely follow in the future reveals the lack of substance behind allegations about the radical nature of the FMLN.

The FMLN's Adaptability

In fact, throughout its history the FMLN has shown a remarkable ability to adapt to changing situations. This adaptability explains

tion, its ability to engage in dialogue, its pragmatic proposals for negotiation and de-escalation of the war, its solid unity and alliances, and, above all, its ability to make wise use of crucial historical turning points and to adapt to new situations. Also important is the significant foreign recognition it enjoys. Its level of representation abroad underscores the FMLN's ability to maintain relations with a wide array of political thought.

Some observers attempt to sketch the future program of the FMLN by extrapolating from the apparent radicalism of some FMLN military actions, such as sabotage and mine laying. It must be asked, however, whether such radical actions—which are a matter of current tactics and are not part of the movement's historical program—could not be explained more by the level of U.S. intervention

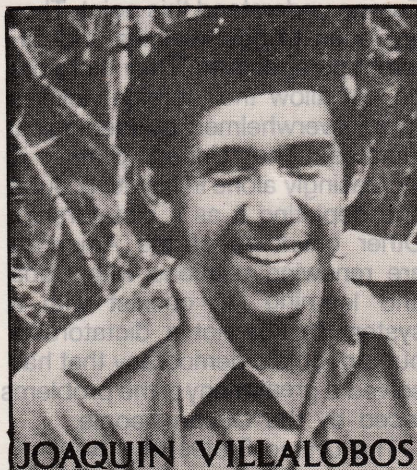
in the conflict that by a radical political will on the part of the FMLN.

The number of Salvadorans slaughtered through genocide now totals about 70,000. One million people have been displaced. The United States has spent \$3 billion and deployed its technology to ravage El Salvador with fire and death. In such circumstances it is difficult if not impossible to expect the FMLN to wage a successful war and deal with the U.S. intervention through a Robin Hood type of war. The tactics adopted have proved effective in halting and defeating an unjust and immoral aggression. These tactics have proved effective to defend a broad, democratic, and realistic historical goal.

The United States has sought to portray the FMLN as a terrorist movement. But the FMLN does not have roots in religious or nationalist protest that would force it to turn to fanaticism. The FMLN is not a terrorist organization. Its military practices seek to win the support of society, not to intentionally and premeditatedly cause civilian casualties. Conversely, the armed forces advised by the United States do undertake such actions when they carry out bombings and when they massacre thousands and thousands of people in order to eliminate and cow the social base of the guerrillas. In international forums, including the United Nations, the FMLN has defended its actions politically. It has taken the responsibility for its actions within the context of the circumstances of the war. At the same time, it has presented pragmatic proposals to de-escalate the war and reduce the harm to the civilian population, an approach that has been rejected by the government.

Those who doubt the FMLN's good will on this point should ask, Could the FMLN continue its struggle, build its strategy, and maintain its social base, alliances, and inter-

national recognition if it were unable to display in its program great political and military flexibility? It is difficult to believe that the FMLN, when victorious and implementing its revolutionary



model, will ignore the realities of the country and alter its political practices. It certainly will accept as a fundamental principle that it should not seek either to isolate or to distance itself from popular interests. It will try to take into account other social forces and geopolitical realities to provide balance to its model.

Three major factors establish the context in which El Salvador's revolution will necessarily develop:

To be sure, developed capitalism in the Western world has worked. Its development, strength, and efficiency in innumerable areas cannot be denied. But that success has been based on colonialism in Africa, Asia, and Latin America.

the weakening of U.S. militarism; the geopolitical multipolarity of today's world; and the social composition of forces driving change in El Salvador. Without attempting here to enter into a deep analysis of the United States in today's world, we can only state our belief that there is evidence of a decline in U.S. militarism and a reduction in its capacity for aggression. In our view the United States faces a structural crisis in the imperialist model in the economic realm. The United States is losing its leading role among the world's capitalist economies; this shift has political

effects. At the same time, progress in disarmament provides socialism and other independent poles of authority with greater room to maneuver. This multipolar world both conditions and weakens the U.S. determination to decide what will and will not happen internationally.

In our case there has been a fundamental change in U.S. policy. Since America's defeat in Vietnam, U.S. strategists have adopted the option of low-intensity warfare, which is an effort to maintain a policy of intervention by other means. They recognize that using U.S. troops in El Salvador is not effective or in line with political realities inside the United States. In short, administrations running the Vietnam War had a free hand than those now running the war in Central America. The reduction in militarism and the shift from policies of direct intervention permit revolutionary movements formerly threatened with siege and attrition, and facing reversals, to receive more space to act in the political arena. Although America's policy of empire persists, there is an obvious difference for others between being prepared to defend themselves from the threat of invasion and preparing for certain invasion.

In these new conditions, political confrontation takes on a preponderant role. An open and flexible strategy is required to take power and defend the revolution. It is worthwhile to note that revolutions prior to the one in Nicaragua occurred at a time when imperialism followed a tougher and more aggressive policy and therefore had to be more rigid. The Bolshevik revolution, for example, had to face fascism at the terrible cost of 20 million dead. Revolutionaries were forced to focus all their energies on the effort to survive, an approach that was just and correct for the times.

Still, even today it cannot be said that interventions are over and will not be repeated. Moreover, there are other forms of intervention besides invasion—economic blockades, mercenary armies, and the permanent danger that the United States might take advantage of a moment of temporary weakness, error, or a specific situation to intervene. Nonetheless, the conditions that enabled the United States to intervene in the Dominican Republic in 1965 and Grenada in 1983 or to isolate Cuba from Latin America from the early 1960s on no longer exist. The case of U.S. policy in Panama is enlightening in this regard. In that country the Reagan administration had created degree of domestic opposition and temporarily isolated

with revolutionary change, which is inevitable. It has never sought other ways to relate to and influence revolutionary change except through threats and war. Meanwhile, Latin America and Western Europe understand this point. They are open to new realities and different perspectives. They therefore do not allow their foreign policies to be overwhelmed by ideological dictates. The United States is increasingly alone in isolating Cuba and depicting it as a dictatorship. Other countries of the Americas are renewing relations with Cuba and learning to coexist with a system that is not a dictatorship but a people's democracy that has solved a great many of the problems faced by the Cuban people.

The United States thus appears

Today geopolitics is multipolar. There are more open spaces for other powers, which obviously affects not only the character of the revolutionary process but also the conduct of the imperial powers. It is impossible to reduce today's world to capitalism versus socialism.

it internationally. U.S. troops were already on the ground, making intervention just a matter of crossing the street. But the firm and patriotic position of Panama's government and the Panama Defense Forces have thus far thwarted the danger of U.S. intervention. For a U.S. invasion of Panama would not be comparable to the intervention of Grenada; in Panama the government and the defense forces are united around the decision to defend the country's independence. In addition, the Reagan administration was opposed domestically by those who pragmatically believed that Panama is not an enemy and that intervening in Panama would constitute a U.S. government adventure that could initiate a war at a sensitive geopolitical point.

The question must be asked, Don't empires always invade, carry out aggression, and endeavour to dominate other countries? The United States has not implemented—indeed, it has never attempted—a policy of coexistence

to be left behind and displays a lack of realism when it tries to impose its developed capitalist system worldwide, and in particular on El Salvador, a country of more than 5 million people that occupies just 8,260 square miles and lacks oil and other natural resources except for its land and people. Obviously the country requires a different economic system that can place greater emphasis on meeting social needs. Otherwise it will not survive. It will enter into a never-ending war over land and bread.

To be sure, developed capitalism in the Western world has worked. Its development, strength, and efficiency in innumerable areas cannot be denied. But that success has been based on colonialism in Africa, Asia, and Latin America. The history of slavery and exploitation cannot be repeated. If the United States understood this point, not doubt with less treasure than the \$3 billion it has sent to wage war in Central America, it could have done more for the region's people and avoided the

tension of having a major conflict in its area of influence. The idea that U.S. national security is threatened in El Salvador is mistaken and is motivated by an out-dated ideological world view. The Reagan administration overestimated the importance of El Salvador and became caught in the morass of a senseless war. The world in which the Salvadoran revolution is unfolding is not the world of the 1960s, when the Vietnam War was fought. Today geopolitics is multipolar. There are more open spaces for other powers, which obviously affects not only the character of the revolutionary process but also the conduct of the imperial powers. It is impossible to reduce today's world to capitalism versus socialism. Today's is a more complex world of technological and commercial confrontation, with new poles of power like Japan and Western Europe; of developed socialism with *perestroika* (restructuring); of a modernizing socialist China trying to open its own geopolitical space; of strengthened social democratic governments; of an emerging sense of Latin Americanism; and of a united Third World struggling for its own interests and drawing on the multiple ideological streams that flow from the different realities of each continent.

An Education in Pluralism

In such a world it is absurd and antihistorical to adopt a closed model of revolution. Such an approach blocks the development of revolution and leads to its isolation. This multipolarity greatly benefits revolutionary change; however, it leaves room to try different revolutionary models and to take into account different interests and capabilities. Many political, economic, and ideological influences come into play. Revolutionary movements do not have to subject themselves to any predetermined scheme nor succumb to the pressure of a war.

Contd. on page 29

OBSESSION WITH SURPLUS BALANCE CREATES CHALLENGE AND OPPORTUNITY FOR LDCs

M. A. M. Ghazzali

Mr Muhammed Ghazzali is a practising advocate in Colombo and is a free lance writer. His paper on Regional Cooperation, presented to the Confederation of the Asia Pacific Chamber of Commerce and Industry in 1986, was Sri Lanka's selected entry to the project conceptualisation contest conducted by the CACCI and was adjudged the winning entry for the entire region.

The pursuit of a surplus balance as a virtue, par-excellence, has stayed far too long with the global economies to the detriment of both developed and least developed countries (LDCs). The tolerance of high rates of unemployment and low growth among the EEC countries is a manifestation of the absurd proportions to which such a pursuit could be pushed. More latently, the failure of the global economic policy makers to formulate a concerted programme for the surplus and deficit economies of the world, has resulted in confusion in the developed nations, and continued abject poverty for the LDCs.

Some EC countries (Germany in particular) and Japan, have become the top surplus nations of the world. Policy studies of these nations show that their primary concern was not to lose the export advantage they have won. In order to preserve their victory, they were and are even prepared to change the rules of the game, covertly if possible, and overtly if necessary.

Much lobbying had to precede before Germany or Japan could be persuaded to re-value their currencies and yet it was not up to the desired degree. The Japanese engage in the stealthy transfer of money into Euro - Dollar markets in order to present a picture of low reserve, as an excuse against legitimate pressure for further re-valuation of the Yen. It is not so much the degree of success of these exercises, as the reality that surplus balance is pursued and preserved as an 'obsession', an end-target, that is of concern to economic policy makers.

The present day scenario is one of wildly disturbing elements in the global economy gigantic transnational capital movements causing difficulties in internal money management; panic flight of capital in pursuit of speculative gains on the heels of anticipated devaluation of the accepted currencies causing fear suspicion and frenzy in regular capital markets (this culminated in the stock market crash of October 1987); jealous protection of surplus balances followed by stealthy transfer of capital into the credit markets of the world contributing to the creation of surplus credit that

marauds the globe; tempting credit hungry LDCs into traps of easy money and eternal debt, as what happened since 1972; precipitating 'cold' trade war among nations as is the current case between the U.S. and her trading partners. All this in one way or the other be traced to this meaningless obsession with 'surplus balance'.

It is no secret that the U.S. economy is now largely sustained by substantial transfer of LDCs debt servicing funds and foreign funding on U.S. bonds, (together accounting for not less than 400 Billion Dollars on the credit column of the U.S. balance sheet). The latter rests mainly on the reputation of the U.S. Dollar. This reputation of the Dollar, however is fast dwindling, particularly after the good beating it had in the stock market crash in October 1987 a single incident that portrayed the declining confidence in the U.S. Dollar in spite of increasing Central Bank efforts to keep it adequately propped up. More than the dwindling confidence in the U.S. Dollar, the stock market incident in October 1987 drove home the realisation that the U.S. Dollar is not what it purports to be. It is of far lesser value in real proportions and the delicate mechanism that holds it has to be always well oiled. A complete erosion of the confidence in

in savings, will lose confidence in the Dollar - not to mention the great destabilising effect it will have on countries that hold their reserves, in U.S. Dollars. The U.S. performance since the Bretton Woods and its efforts to stem its problems by resort to every means, other than devaluation, gives the confidence that devaluation will not come easily and certainly not unless it becomes the last expedient. To say it in other words, devaluation although logical is not the expedient option for the U.S. economy.

The U.S. Economy is increasingly convinced that its export earnings are falling short and its deficit, although small in terms of ratio, is large in real terms. The optimists think that this short fall of 2.5% to 3.5% of the U.S. GNP is no cause for concern and insist that it would adjust itself over the years. However the frenzied reaction of the U.S. Government in recent times picking up trade quarrels and precipitating protectionist trade wars with poor 3rd world countries (like India and Brazil among others) is evidence that the government is not optimistic about its projected trade performance. The U.S. plight is all the more aggravated by the spirited advance of newly industrialised countries (NICs), who have jointly captured 50% of the U.S. share of the global export market. Each of the NICs, viz: S. Korea, Singapore, Hongkong and Taiwan, have surplus balances with the U.S.! Neutral observers regards the U.S. responses like the omnibus trade bill (particularly the super 301 provision) as nervous reaction.

In an international economy, subjective solutions alone cannot be fully effective; and national economies are interlocked in such complex manner that solutions that seem logical are not necessarily expedient. Suitable reciprocal conduct by globally significant surplus economies is an essential

The U.S. Economy is increasingly convinced that its export earnings are falling short and its deficit, although small in terms of ratio, is large in real terms. The optimists think that this short fall of 2.5% to 3.5% of the U.S. GNP is no cause for concern and insist that it would adjust itself over the years. However the frenzied reaction of the U.S. Government in recent times picking up trade quarrels and precipitating protectionist trade wars with poor 3rd world countries (like India and Brazil among others) is evidence that the government is not optimistic about its projected trade performance.

the U.S. Dollar can cause a run on U.S. bonds, causing a wide gap in U.S. domestic savings, which will further aggravate the short fall in U.S. export earnings. Indeed, the slightest hint of Dollar devaluation can cause a big run on Dollars by investors, seeking not only stability but also speculative profit. If this devaluation comes without warning, holders of the vast sums of Dollars,

prerequisite for the smooth functioning of an 'internationalised' global economy. The EC and Japan particularly and the NICs have failed to play the reciprocal role expected of them to keep the global economy running smoothly. The international policy makers are equally to blame not merely for their failure to formulate a behavioural pattern for surplus and deficit

nations; but more so for their dim and disapproving attitude to the deficit balance and disapproving attitude to the deficit balance economies (although they are an essential counterpart in a zero sum game).

The international policy makers have not assessed the role that surplus countries can play and should play in order to rejuvenate a corresponding deficit economy. They have resorted to the conventional and allowed theoretical solutions – i.e. devaluation, increased tariff, austere fiscal policies etc. However, as seen in the case of a developed economy like that of the U.S., these seemingly logical solutions are not expedient. Since 1986 the tension between the U.S. and Korea have increased. The U.S. wants Korea to revalue her currency, and open her trade wider to take in more U.S. goods. The U.S. is increasingly in conflict with her western allies of the EC as well pursuing relentlessly (and with no response), the idea that a greater part of her military commitments should be borne by the EC., in order to help the U.S. economy reduce her deficit. The U.S. Japan conflict over protectionist trade wars and similar developments with India and Brazil in recent times all point to the pressure on the U.S. economy and the need for adjustment. The U.S. is also increasingly concerned with the trade balances in favour of South Korea, Singapore, Hongkong and Taiwan, running to billions of U.S. Dollars. Japan had recorded a surplus of 83 billion U.S. Dollars in 1986 and since then has revalued the Yen under pressure. Conscious that she has to reciprocate her good fortunes, Japan has overtly shown her intentions to accommodate more imports by politically declaring a policy of conciliation instead of a policy of competition. This overt altruism with secret desire for the very opposite has become the standard policy of surplus nations. After more than two years the U.S. remains still with a deficit balance and complaining that Japan is not doing enough.

What is required today is not abandoning competition but more competition, that would create the internal situation necessary to attract and accommodate more and more foreign goods. Both surplus and deficit nations need to scrupulously avoid policies that could attract recession and depression. An artificial brake on the tempo of development can further aggravate the ills of the deficit nations and in the long run perniciously affect the export process of the originally surplus nations. What is required is not a process of self sterilisation of the economy, which can have a depressive chain effect on the global economy, but an articulated policy of accommodation of expanded imports from deficit nations. It necessarily involves enhanced development in the right directions. The complaint is that Japan is siphoning a large portion of her surplus money on social security nets that cannot attract foreign goods

instead of widening internal construction to set in motion a greater transfer of foreign goods into Japanese capital investment. Contrarily, in spite of the revaluation of the Yen, Japan has striven to maintain the cost advantage of her exports by relocation of her industries in relatively low wage countries.

The European scenario is even more illustrative of the efforts used by surplus nations to hold on to their export advantages – with little or no concern of the effects on the global economy. These countries have a trading volume much larger than that of Japan. They have also recorded a growth rate of 2% to 4% which is considered to be highly satisfactory. However a close look at these countries reveals a different scenario, leaving much to be desired.

There is vast unemployment in almost all the European countries, arising from sub-normal utilisation of capital assets. The comprehensive social security nets in all the EC countries, prevents any untoward political reaction to this situation. Like in Japan vast spending on social securities does not help foreign exporters. This policy of controlled stagnation is not the desirable conduct of a surplus nation, for the well being of the global economy. German financiers and banking houses, consciously followed a strategy that could retain the export advantage for Germany. "Faced with the choice of maintaining a certain volume of sales at lower prices and utilising existing capacity, or to cut back sales and production, most companies plump for the former as, by far the easier. Underlying this strategy is the consideration that in the last analysis, every export order that helps to cover the overheads over and

is unemployed capital assets and idling skilled labour. Germany is perpetuating this situation by resigning itself to a very low growth rate and pacifying its labour, in layoff, by gratifying social welfare schemes. The resulting economic impact on the global economy, is almost lethal.

Government spending is almost nil, and the people have accepted this situation as the norm, for, the alternative is to court inflation. Entrepreneurial spending is discouraged by keeping interest rates high, on the excuse that to do otherwise will let loose inflation. The high interest rate in Germany has led to great strides in the flight of foreign currencies especially the U.S. Dollar, into Germany, over-supplying the Euro Dollar credit market, which in turn due to the sluggishness of the EC economy (particularly the Germany economy) has found no takers either in Germany or anywhere else in Europe. It was this trend of sluggishness and recession in the EC's investment sector that contributed to push Euro Dollars easily into the LDCs; the LDCs were credit hungry and the Euro Dollar had no takers in the authentic sector. The greed of international investment bankers, cut the final knot, and easy credit flowed into sectors hitherto considered not credit-worthy by conventional banking circles. If any banking principle was followed in the negotiation of these loans to LDCs it was the target of profit. "Money was lent recklessly to the 3rd World leaders who had infinite appetites and little choice but to borrow" reports S. C. Gwynne an offshore banker who had left a lucrative job as a loan officer, as he was disgusted with the whole system. Creation of idle money in the international money market of Europe through ill

What is required is not a process of self sterilisation of the economy, which can have a depressive chain effect on the global economy, but an articulated policy of accommodation of expanded imports from deficit nations.

above its regular costs, affects profits less than a complete stoppage of production. And most important of all the valuable pool of skilled labour is preserved in this way" (quoted from Dr. Kurt Richebacher, Chief Economist Dresdner Bank.) The German thinking, policy options, and the psychological preference to hold on to the export advantage cannot be made more clear. However it is not possible in the normal course of events for any corporation to continue to export at marginal prices without the economy absorbing a good proportion of the punch. This is precisely what is happening in the German economy. These are vast amounts of unused assets, particularly in the consumption industry, are conspicuous. Some, like the Volks Wagen, have squeezed themselves out into foreign climes. Yet the scenario in Germany

balanced and selfish policies by the surplus economies and the self suppression of the demand for the available money created the mood for irresponsible lending to the LDCs, and subsequent aggrandisement of this burden by further irresponsible refinancing, leaving the LDCs with a current debt burden of an estimated staggering 1.3 trillion U.S. Dollars. Apart from the devastating economic effect of this burden on the LDCs the developed nations themselves (particularly the U.S., Britain and other deficit nations) stand to lose by way of suppression of demand from the LDCs. Today the U.S. receives a large sum of money (nearly 250 Million U.S. Dollars) annually by way of interest on a part of these loans. But the slightest mal-adjustment in the future that would affect the repayment capacity of the LDCs concerned

can leave the creditors holding the bag.

The EC is a significant factor in the global economy both in terms of size and volume. It has a positive role to play in maintaining the health of the global economy. Self induced depression or recession merely to retain the position of surplus balance, depriving, developing and developed nations of vital market opportunities for their products will not only dampen the global economy, but in the ultimate analysis be self defeating.

The 'no-let' attitude of the developed nations to their affluence can give little or no hope for the LDCs, that their plight would be considered with concern. The LDCs need to formulate their own strategy; an economic programme of their own, oriented to lure the involvement of the developed nations, on market terms.

The writing is on the wall. The hard rule of international economic relationship is not generosity or fellow feeling; it is profit and maximisation of profit. This is the moral the LDCs have to learn and live with.

The climate for such an effort is best, just now.

The countries of the EC and Japan are 'children' of the Marshal plan and the Dodge plan respectively. When these two sectors of the global economy were razed almost to the ground nearly 50 years ago, the U.S., probably the only nation in the western hemisphere with a surplus balance and an operative economy, came to their assistance. The Marshal plan was formulated and executed for the reconstruction of Europe, and the Dodge plan played a similar role for Japan. Today these countries particularly West Germany and Japan have massive surpluses. But they are conspicuously unwilling to play the receiprocating role needed for the global economic balance. The writing is on the wall. The hard rule of international economic relationship is not generosity or fellow feeling; it is profit and maximisation of profit. This is the moral the LDCs have to learn and live with.

The issue is not altogether unrecognised in the LDCs circles. At least among the intellectuals, the force of subjective experience has directed the thinking towards options other than absolute dependence on the altruism of the developed nations. Even so the political leadership in the LDCs is yet to rise up to the challenge to formulate a strategy to meet the developed nations on strictly economic terms. LDC declarations both in the U.N. and outside conferences abound. The declaration and action programme on the establishment of a new international order contained in the U.N. general assembly resolution 3201 (S-VI) and 3202 (S-VI) of May 1st, 1974 and the

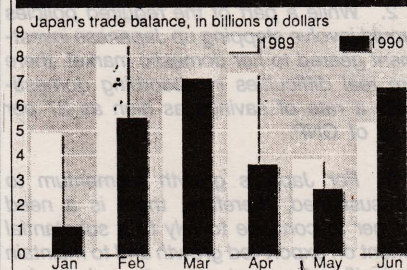
Dakar declaration and action programme of the conference of developing countries on raw materials of April 15th 1975 are some of the early declarations showing the yearnings and aspirations of the LDCs. To say the least, they represent bankruptcy of strategy and method, for achieving their object, for they are no more than entreaties for generosity and kindness on the part of the developed nations. This is precisely what LDCs must not look for in their relationship with the developed nations and perhaps also in their relationships among themselves. There is no evidence of commercially based strategy by the LDCs except for isolated instances, confined to a few nations. The ASEAN and the South Pacific forum in the Asian region merit mention in this sphere, for generating motivated leadership in diverse aspects of finance and development relating to their member

countries. The Banco Latin Americano de Exportacion (BLADEX) an organisation for export financing among Latin American countries is also considered a model that has attracted the attention of conscious intellectual, financial and political leaders in the LDCs who are on the lookout for a change.

In the late 1970s and 1980s many developed countries with surplus balance and high exchange premium on their currencies, offered to establish their industrial plants in low wage LDCs. The developed nations in re-establishing their plants in these LDCs had to incur substantial costs. They did not do this for the love of the LDCs. They were pushed into this re-organisation by genuine economic pressure. West Germany, Japan, France, Italy, Switzerland, Netherlands, and indeed almost all the countries of the group 10, countries of the OECD, and many of the NICs, were scrambling for favours from Asian and African LDCs, for the re-establishment of their crowded out industries. This was a great moment for the LDCs to assert themselves. Opportunities akin to this scramble among developed nations are occurring in

developing countries, who do not play the game according to standards set unilaterally by one or more of the developed nations, had been received with mixed feelings. The relatively great dependence of the EC countries and Japan on the resources of the LDCs reduces the likelihood of an unyielding resistance to LDC demands for change in developed countries treatment of the LDCs. Indeed this demand needs to be backed by the force of economic viability and expediency. The reaction of almost all the developed nations to the OPEC drama (although an extra ordinary situation) can still become the standard, under increasingly changing situation of greater dependence of the developed countries on the resources of the LDCs. The increasing internationalisation (particularly the increasing involvement of the LDCs in the global economy) will make developed countries more responsive to the demands of the LDCs.

A Trade Turnaround?



Japanese Surplus Widens

Tokyo - Japan's trade surplus surged 27.6 percent in June, the Ministry of Finance reported Thursday. June marked only the second time in 14 months that Japan's surplus widened from a year earlier.

The jump was led by exports, which rose sharply because of a weaker yen. The rise in overall exports may signal a turn-around, analysts said.

Courtesy - International Herald Tribune July 13th

The political and business leadership has a responsible role to play; to search for and implement bold new and innovative ideas.

many areas, crying for exploitation by the LDCs. This can be seen in the global political and economic scene. (for example the disintegration of the consensus among developed countries for the tough line approach of the U.S. to LDCs) majority of the developed countries see greater advantage, in 'woeing' than in 'warring'. The call by the U.S. for trade embargoes and denial of capital and technology to

destroyed jobs in the United States, Europe and Japan. In order to repay debts Latin American Countries have cut imports to the bone and subsidised exports. American industries and farms find it impossible to sell products in Latin America. One Million U.S. Workers have lost their jobs as a

Contd. on page 28

Mobilising International Surpluses for World Development:

A Wider plan for a Japanese initiative

Report of a Study Group of the World Institute for Development Economics Research (WIDER), Helsinki, Finland, of the United Nations University (UNU), Tokyo, Japan.

Members :

Dr. Saburo Okita, Chairman of the Group, and Chairman of the Board, WIDER; Chairman, Institute for Domestic and International Policy Studies; and Chancellor, International University of Japan.

Dr. Lal Jayawardena, Director, WIDER

Dr. Arjun K. Sengupta, Member, WIDER Advisory Group on International Economic Issues; and Executive Director, International Monetary Fund (IMF), representing Bhutan, Bangladesh, India, and Sri Lanka.

A Seven-Point Plan

1. The international community should find methods to sustain higher growth in Japan in order to offset the decline in the momentum of the U.S. and counter any tendency towards world deflation.

2. While a part of the required policies would involve stepping up Japanese investment geared to her domestic market, there are real difficulties in absorbing domestically a rate of savings as high as 27 per cent of GNP.

3. For Japan's growth momentum to be sustained, therefore, there is a need for her to continue to rely to a substantial extent on export-led growth and to maintain a significant current account surplus in her balance of payments, in order to enable her to continue to "export" her excess savings abroad.

4. Japan's large current account surplus and her finding a large export market was primarily due to her comparative advantage in her export sectors, but she was also helped by the vast U.S. budget, and consequently, trade deficit.

5. Any reduction in the U.S. budget and trade deficit would tend to shrink, in the absence of offsetting policies, the external market for Japan, and reduce her economic growth and hence in the world economy. One such offsetting policy measure would be to enhance the import capacity of developing countries. This can be accomplished by re-directing the Japanese surplus to finance the deficits of the developing countries. This means that excess Japanese savings which cannot be absorbed domestically or in the U.S. can find a home in financing productive capital formation in the developing countries.

6. There is a need, therefore, for evolving mechanisms for financial intermediation of Japan's surplus towards this end.

7. Once this principle is accepted, the specific financial instruments and

mechanisms can be worked out. They range from the notion of a Japanese Marshall Plan for the developing countries as has been recently proposed, to mechanisms for promoting Japanese investment in developing countries and increased lending by the Japanese international banks. Since the inter-mediation mechanisms have to enable private Japanese savings to find an outlet in developing countries, there may be a need for the Japanese government to promote this process either by subsidising the interest rate on loans to developing countries or by providing some collateral to Japanese private savings institutions to make investment in developing countries attractive.

The considerable reduction in recent years in Japan's fiscal deficit in relation to GNP and in her interest rates should permit this to happen with relative ease in the coming years. In this context the Japanese government could take the initiative of contributing one-tenth of one per cent (0.1 percent) of her GNP to set up an international fund, while simultaneously inviting other industrial countries to join the fund by making a similar contribution. The fund would permit concessions and incentives of the sort mentioned above which would mobilize private capital flows to developing countries that are a substantial multiple of the resources available from the fund.

Summary

The Study Group arrived at the following conclusions and recommendations:

1. Substantial surpluses on current account are likely to prevail for the next several years among many developed countries, and there is a need for their diversification towards meeting developing country requirements, both on intrinsic grounds, and in the interest of promoting global economic stability.

2. Japan, in particular, should take an initiative to launch a \$ 125 billion five-year plan for resource transfers to developing countries, at an annual rate of \$25 billion. Such an initiative is fully in line with the

three-year programme already begun by Japan for the period 1987-89; if matched by other developed countries, the joint effort would contribute significantly to world development. Depending on the persistence of Japan's current account surplus, the plan might be extended beyond five years.

3. The ideal mechanism for implementing such a Japanese initiative would be to equip a Japanese Government Agency with an **explicit** government **guarantee** that will enable it to borrow in the domestic capital market on market terms, with resources for an appropriate level of interest subsidy to be provided to it by a suitable reallocation of Japanese Official Development Assistance.

4. In the Japanese context, the following equivalent mechanisms are also available:

(a) Loans raised under the guarantee of a suitable agency, a **Japanese Trust Fund** might be covered by private reinsurance arrangements.

(b) Developing countries might borrow from the Japanese commercial banking system against the collateral of zero coupon bonds purchased from the Japanese or international market, or specially issued by the Japanese Government. The amounts borrowed would be a substantial multiple of the investment needed to buy these bonds, whose face value on maturity will be equivalent to the principal borrowed, thereby fully securing the "bullet" repayment of the principal.

The most appropriate mechanism for this form of borrowing would be through a **Japanese Trust Fund** located in Tokyo and liaising with the World Bank and other regional development banks, for administering the scheme. It could, alternatively, be located within the World Bank, especially if other countries were to join in adding resources to the facility. Its management might be entrusted to a Policy Co-ordination Committee including commercial banks, the Bretton Woods institutions and major developed countries in order to facilitate the evolution of longer-term policy frameworks for lending.

The Trust Fund would purchase the zero coupon bonds from the Japanese Government and from the market, borrow in its own name from the Japanese commercial banking system and from the market, and relend these monies to developing countries at a suitable blended rate.

In order to support a five-year programme of borrowing annually of \$10 billion, with a possible extension to ten years, the Trust Fund would ideally need resources from the Japanese Government for the purchase of the bonds to be used as collateral. This would have no immediate net financial

Contd on page 23

Income as Development's Yardstick: UN Study Challenges the Standard

By Barbara Crossette

Challenging traditional ways by which the world has measured the growth of nations, a new report issued by the United Nations

Contd. from page 22

impact on the Japanese budget, since the funds would return to the budget when the bonds are purchased. The interest subsidy needed to provide a representative blended rate for lending at below the market rate for borrowing, can be met for the duration of the lending programme, out of the **increment** in Official Development Assistance during the period 1987-1991.

(c) Recourse could be had to the **Export Import Bank of Japan** to step up its co-financing arrangements beyond the recent levels of \$2 billion a year, by drawing more substantially on a pool of resources totalling \$150 billion annually that are available to the Zaisai-Toyushi—the Government's Fiscal Investment and Loan Programme (FILP). Additional amounts in the region of \$10 billion annually for a five-year period, with an extension to ten years if desired, are entirely feasible on this basis.

(b) The Export Import Bank of Japan has an unutilized guarantee power of around \$40 billion which could be utilized in a variety of ways for increased transfers to developing countries; the guarantee power itself could be increased either by increasing the Bank's capital or by varying its gearing ratio.

(e) The **International Monetary Fund** should be enabled to borrow in Japan's capital market at the rate of \$5 billion annually for the purpose of programme lending to low-income developing countries, under the IMF's Extended Financing Facility. The Japanese Government should provide an interest subsidy to reduce the cost of these funds to the user.

(f) A debt restructuring facility, utilizing market mechanisms, might be established on a Japanese initiative, in order to pave the way for a resumption of lending to debtor countries.

(g) Lending under these programmes might focus on infrastructure development, in addition to normal project and programme lending in support of growth-oriented adjustment programmes.

5. Japan is in a position to aim for a tripling of Official Development Assistance over the period 1985-90. ■

Courtesy — WIDER

Development Program concludes that there is no automatic link between a country's per capita income and the well-being and progress of its people.

The report, prepared by an international team under the direction of Mahbubul Haq, a former minister of finance and planning in Pakistan, is intended to touch off a debate in the last decade of this century over why some nations, however poor in resources, make people's lives better and others fail.

"People cannot be reduced to a single dimension as economic creatures," the administrator of the Development Program, William H. Draper, says in an introduction to the report.

In an age of democratic urges, Mr. Draper says, factors like longevity, education human rights and political freedoms must be part of growth.

The report singles out 15 countries that have achieved relatively high levels of development in democratic, or "reasonably democratic," settings. These are Botswana, Colombia, Costa Rica, Jamaica, Malaysia, Mexico, Mauritius, Trinidad and Tobago, Sri Lanka, Thailand, Tunisia, Turkey, Uruguay, Venezuela and Zimbabwe.

"Life does not begin at \$11,000, the average per capita income in the industrial world," the report says. "Sri Lanka managed a life expectancy of 71 years and an adult literacy rate of 87 per cent with a per capita income of \$400."

In South Asia, Sri Lanka is the exception. The nations of the reg-

ion, from Afghanistan through Pakistan, India, Nepal and Bhutan to Bangladesh, are all among the countries where human development is lowest, the report says.

The findings confirm what is daily becoming more readily observable: The Asian "miracle" is largely confined to Southeast Asia and East Asia.

In plotting regional aggregates of human development over nearly 30 years. South Asia falls behind all other regions of the world except sub-Saharan Africa in improving calorie intake, life expectancy of children under age 5, adult literacy and access to basic health care.

Meanwhile, populations continue to grow at a very fast rate in an area where more than a billion people are already straining natural resources and where government are spending large amounts of their revenues on the military and law enforcement.

By virtually every measure of material human progress, China, the world's most populous nation, outstrips India, a democratic country whose leaders contend that the Chinese have been more successful only because they apply policies coercively.

The report introduces a new measure of growth, the Human Development Index, based on a three-step calculation of deprivation measured in three basic variables: life expectancy, literacy and real disposable income. ■

The report, titled "Human Development Report 1990," is published by the Oxford University Press in Oxford, England, and in New York.

Courtesy — International Herald Tribune

SCANNER I

UN Sees Global Growth Falling to 2.2%

Courtesy - Herald Tribune

Global economic growth is expected to slow to 2.2 percent this year from 3.1 percent in 1989, with the Soviet Union and other East European countries acting as the main drag on output, the United Nations said recently.

The UN World Economic Survey for 1990 said developed market economies pressed ahead with their long-running expansion in 1989, when their economic output grew by 3.5 percent.

This was lower than the 4.3 percent of the year before but more vigorous than had been expected. The 1990 forecast for developed economies is 2.7 percent, with a rise to 3.1 percent projected for 1991, just above expected global growth of 3 percent.

In the Soviet Union and Eastern Europe, the UN said economic growth fell sharply from 4.1 percent in 1988 to only 1.2 percent last year. The forecast for 1990 is negative growth of 1.2 percent, followed by minuscule positive growth of 0.2 percent next year.

Developing countries experienced a slowdown in growth last year, dropping from 4.5 percent in 1988 to 3.4 percent, with 3.1 projected for this year and a return to 4.5 percent in 1991.

But performance among developing nations varied widely. The growth rates for south and east Asia dropped from 8.2 percent in 1988 to 6.2 in 1989. The forecast for 1990 is 5.5 percent and 6 percent for 1991.

China's growth rate plunged between 1988 and 1989 from 11.4 percent to 3.9 percent, with 5 percent forecast for both this year and next.

African countries' growth increased by 2.8 percent in 1989, compared with 2.4 percent the year before. But since this was less than the rate of population

increase it meant another fall in per-capita output. Growth of 3 percent is forecast for 1990 and 1991.

Oil consumption, which has been increasing steadily in recent years, reached 51.9 million barrels a day in 1989, excluding Eastern Europe and the Soviet Union.

This was the highest level since the 1979 figure of 52.4 million and is expected to reach 52.9 million in 1990.

At the same time, crude oil production has grown only among members of the Organization of Petroleum Exporting Countries, from 19.65 million barrels per day in 1988 to 22.05 million last year, and to a lesser extent in non-OPEC oil-exporting developing countries.

In the developed market countries, it dropped by about 700,000 barrels a day, mainly due to a fall in U.S. production from 8.17 million barrels per day in 1988 to 7.68 million in 1989, the lowest level since 1963. U.S. crude production this year is expected to fall below 7 million barrels per day, the survey said. ■

SCANNER II

Here Comes the Next Financial Shock

By David D. Hale

The economic costs of rebuilding East Germany in the early 1990s, and Eastern Europe later in the decade, are likely to be the third great financial shock in the world economy since the end of the Vietnam War. The first shock was OPEC's decision to quadruple oil prices in 1973-74. The second was the Reagan economic program of the early 1980s. Both events set in motion upheavals in global capital flows, currency values and trade patterns that dominated the world's economy for nearly a decade.

In the 1980s, Reaganomics turned the United States into the world economy's borrower and spender of last resort - while West Germany and Japan emerged as the great lenders. Although West Germany did not play as direct a role in financing America's external deficits as Japan, it was possible for British companies to purchase nearly \$100 billion of U.S. assets during the late 1980s because of London's ability to attract funds from Frankfurt. Now, as German excess savings are diverted from Paris, London and New York to rebuilding the East, interest rates are likely to rise around the world, not just in Germany.

The magnitude of the upward pressure on world interest rates will depend upon how Germany decides to finance unification. Will it raise taxes or increase its public borrowing? Will the Bundesbank attempt to restrain inflationary pressures by increasing interest rates? Will there be a revaluation

of the Deutsche mark comparable to the large rise that occurred in the dollar during the Reagan years?

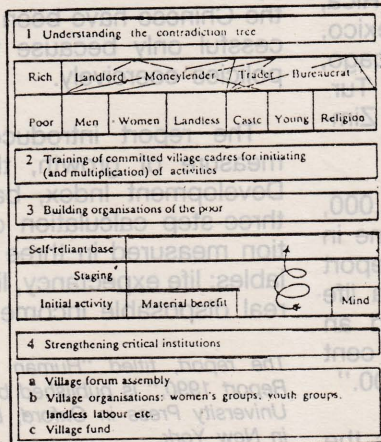
At the moment, a further rise in German interest rates in 1990 and 1991 seems the most likely outcome. Mr. Kohl is promising the German people that he will not raise taxes in order to pay for the costs of reunification. And the European Monetary System will prevent Germany from letting the Deutsche mark appreciate as dramatically and indiscriminately as the dollar did under the Reagan administration. What remains to be seen, though, is whether Western leaders, including President George Bush, will ask Mr. Kohl to rescind his tax pledge in order to lessen upward pressure on world interest rates.

The writer, chief economist of Kemper Financial Services, contributed this to The Washington Post. ■

from page 4

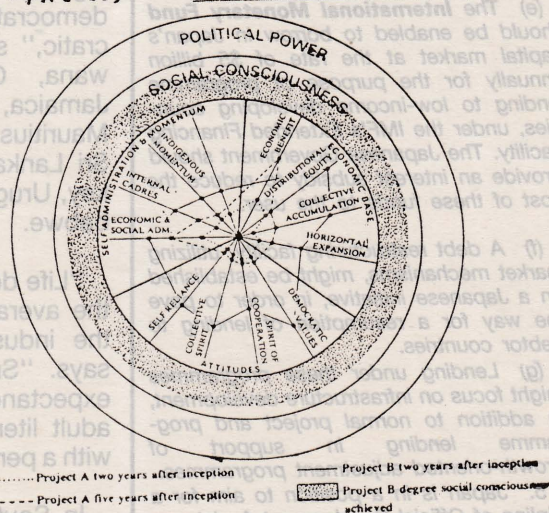
(Figure 1)

AN APPROACH TO MICRO-LEVEL DEVELOPMENT



(Figure 11)⁵

EVALUATING THE PROCESS



"FOREIGN DEBTS AND INTERNATIONAL STABILITY"

Report by Boguslaw Jasinski, Morris Miller, and David Hilton

The Workshop was attended by 32 participants from 13 countries. They met in Cracow, Poland, during three days, 18-20 June 1990. This report is the sole responsibility of the three rapporteurs; it is based on the group discussions, but it does not necessarily reflect a consensus of views of the group as a whole. All participants attended in their private capacity. The discussion focused on four questions that were deemed to be most relevant with regard to the global debt crisis and its implications for international stability and well-being.

1. Is the global debt crisis easing or deteriorating?

There was general consensus that the situation was getting more worrisome for all of the participants, both debtors and creditors alike, except for those creditors that have written off the debts owed to them or who have built very substantial reserves against bad debts.

For the debtors and the remaining creditors, there are many indicators of a deteriorating condition.

(a) The outstanding debts have been increasing and payment arrears have been growing larger (45 billion dollars in 1988, 52 billion dollars in 1989).

(b) The burden of debt (as measured by costs of servicing the debts as a percentage of export earnings) continue to weigh heavily on the debtor community.

(c) The reverse transfer flow from poor to rich countries continues at an ever increasing pace (amounting to over 50 billion dollars in 1989) with very politically destabilizing impact on the many countries that are severely indebted.

(d) The average real income levels of most debtor countries have been declining over the decade of the '80s to a point where there is a political stress of an extreme nature (Latin American debtors by 10%, Africa by 25%, and Poland by a substantial percentage when real wages have fallen by 30% within the last year).

(e) The external environment for servicing the debts has not improved with real interest rates remaining at historically high levels, many commodity prices at historically low levels and little indication of a reverse of these trends in the short to medium-term.

(f) The debt burden encourages unsustainable development as it provides incentives

to the generation of short-term economic effects at the cost of environmental degradation and plundering of the natural resource base. Such a devastation in one locality easily translates into global ecological degradation which will sooner or later entail strict countermeasures.

(g) The financial impact of the current debt muddling through "strategy" is proving inadequate and insofar as the initiatives foster false hope, the effects are harmful.

(i) The Toronto Plan: Its application is limited. The debt forgiveness by a few creditor governments applies only to the official debts of the most desperately poor countries and even if fully implemented will reduce the outstanding Third World debts by no more than 2%.

(ii) Brady Plan: This too has limited application. Banks have proven reluctant to put new money, particularly since they are asked to take losses. They have built up their reserves and are able to be more resistant to pressure to be cooperative.

The discussion indicated that the political aspect is as important as the economic and financial. Without the political will on the part of both creditors and debtors the problem will continue to fester.

2. How do the development in Eastern European countries affect the situation?

The discussants observed that there was great variation in the situation of the various Eastern European countries with respect to debt burden. Channeling a high percentage of export earnings to debt servicing exerts intense pressure on debtors but this is especially so when, at the same time, the debtor economy is going through a transformation from a centrally-planned to a more market-oriented economy. This applies with particular relevance to Eastern European countries. During this period of transition they need not only a substantial reduction of the outstanding debts and a lower rate of interest (with a grace period of several years) but also an international environment in which trade and capital flows are favourable (less protectionism, more favourable terms of trade, etc.), and, especially important, new money. Without these the countries will undergo periods of internal instability.

It was pointed out that the debt situation with regards to European members of the

CMEE is not a difficult one to resolve since the question is one of transferable ruble debts, the value of which is difficult to determine in hard currency terms.

The issue of whether the needs of Eastern European countries will divert capital from the Third World debtors was also discussed. In the opinion of many discussants this is a non-issue since it involves a different kind of capital flow; that is, the kind of investments and lending of Eastern Europe would not likely go, in any case, to the Third World except to a minor degree. Others felt it is a matter of considerable concern.

Some of the discussants alluded to the Marshall Plan concept. After the Second World War the United States lent Western Europe for reconstruction purposes 3% of its Gross National Product (or an equivalent in terms of today's dollars of almost 150 billion dollars). The question was asked: why could not this order of magnitude be considered today for similar geopolitical reasons?

3. What role is being and could be played by various institutions?

(A) The role of commercial banks

(i) The commercial banking system is less at risk having built up considerable reserves and it is mainly the US banks that are driving the speed and manner of the debt rescheduling process.

(ii) The Brady Plan is not working out at a speed or to a degree that would make a significant difference, as evidenced by the fact that since it was announced about 18 months ago there have been only three agreements reached, the results of which have not provided much money, nor is such money likely to be forthcoming from commercial banks when they are asked to take the losses and still provide new money.

(iii) The arrears to commercial banks have been mounting and the number of banks willing to play has been falling.

(iv) The debt rescheduling process is breaking down because the few banks remaining in the process have little in common, their willingness to negotiate with concern for global stability is weakening, and the intermediating role of the IMF is not enjoying the requisite confidence (see next section).

It was observed that historically the commercial bank lending was less important with respect to long-term development financing, that their role in the 1970s was the consequence of the mistaken policy of the US to constrain the international financial institutions from being the main intermediators of the petrodollar recycling in the early 1970s. It is expected that the

commercial banks will continue to provide suppliers credit, trade credit and special project financing when the global conditions are "normalized". However, it was pointed out that if conditions were preferable for commercial banks they would consider remaining engaged.

(B) The role of international financial institutions

As a result of the pressures exerted by the debt crisis in the Third World the World Bank as a major institution for development financing has been working more closely with the IMF which is the major institution for balance of payment financing. Beginning in 1979, the World Bank moved into "structural adjustment lending" (SAL). Structural adjustment lending now constitutes about 25% of the bank lending programme, displacing to some degree traditional project lending. This has enabled quicker disbursement to help relieve the debt burden to some degree, enough to prevent massive defaults. Some discussants felt their role through SALs is not proving effective in restoring growth without other global changes and that meantime this type of lending has had distressing impact on the poor.

There have been two interesting and relevant changes in the situation:

- (i) bank lending for SALs has peaked as a percentage of its overall lending programme;
- (ii) the IMF and World Bank have initiated programmes providing additional resources to help support debt reduction agreements reached between debtors and their commercial creditors; and

(iii) these institutions are now prepared to continue lending to debtors who have arrears to other creditors in certain cases where there are economic justifications.

(C) The United Nations agencies

The United Nations has only limited resources at its disposal, both in financial and professional terms, but is trying to find a role. Discussants put forward two possibilities:

(i) institution-building for debt management recently a report was put forward that recommended the expenditure of about 300 million dollars over five years to finance the improvement of debt information systems, legislation and negotiating techniques, as well as advice and training in debt management at the national level; and

(ii) the UN provide advisers to help debtors in the debt rescheduling process through Round Table and consultative groups. The UNDP's present role in RT negotiations is not very impressive. But this role should be strengthened given the fact that the UN is seen to be less subject to the pressures and persuasions of the G7 industrialized nations than the World Bank or IMF or regional development banks that presently play the principal advisory role.

4. Where do we go from here?

The discussion focused on two levels of discourse: (1) national initiatives, (2) international initiatives.

Re. (1), it was generally agreed that countries negotiating for debt rescheduling

should base their proposal not only on accurate debt data but also on an internal structural adjustment programme within a rigorous analytic framework differentiating between the short-term (5-10 years) and the long-term. Only on the basis of what is needed in the way of debt reduction for long-term sustainability can fruitful negotiations proceed about the immediate – or short-term. The model must incorporate realistic market and interest rate assumptions: if the country cannot export enough to earn foreign exchange to service its debt or if the rate of interest is too high then the country cannot expect to achieve its targeted rate of growth, let alone sustain it over the long term. This brings the spotlight to focus on the international aspect.

Re. (2), the questions were posed: what is the minimal global rate of growth required so that export earning of debtors can expand? How low a real rate of interest is necessary so that the debts can be serviced? It was noted that on the basis of modelling exercises the global rate of growth must be at least 3% but this is not being achieved; and the rate of interest in real terms must be no higher than the 3% level (1-2% being the rate that historically has prevailed), a rate well below those prevailing today – and likely to prevail for some time. This raised the question of the capability and willingness of the major industrialized countries to take the necessary step to grow faster and lower interest rates. At a minimum, all this would require the US to reduce its budget deficit and by a variety of means increase its savings so that it becomes a net supplier of capital rather than a taker; it requires that Germany and the EEC countries open their markets

THE OTHER PERSPECTIVE

Problems of education and employment, the problems of housing and nutrition, all those problems get worse, not better in recent years they have grown worse, as a result of the foreign debt crisis. Is there any magician, any genius who can come up with a solution to these problems? I can see that objectively all these problems are getting worse. So we can talk about the abundance of the First World you mentioned sitting on a volcano which can erupt. That volcano is in the Third World and nobody has an answer for these problems. Capitalism won't solve these problems.

There are more than 30 million neglected children in the streets of Latin America, more than 30 million. These figures are very grim. What future is there in all this? I don't see any. And they continue the plunder and the net export of capital. What is the future for all those countries? All this must explode.

That's why, amidst the pessimism, I tell you that the system prevailing in the world has no future;

the models of development they exported to countries of the Third World have no future; there is no future for the consumer habit.

The volcano is there, in the huge humanity that makes up the so-called developing countries, which is a lie because they are not developing countries, they are underdeveloping countries since the gap between the most advanced and the Third World countries is growing, is widening. That's the reality today.

In political terms, for the progressive and revolutionary movement this period is one of the most difficult ever, we can almost say since the turn of the century; and yet we haven't gotten discouraged, on the contrary. It's not a matter of the leaders, it's not I or any of the others – I don't know it's not one man, it's the entire people who express their admirable spirit of struggle and who don't get discouraged. I think that's one of the features of the situation.

Fidel Castro
President of Cuba
Courtesy – Granma.

to debtor countries exports, to a greater degree than heretofore and in particular reform their common agricultural policies and end quotas such as those embodied in the multi-fibre agreement; it requires that Japan divert more of its financial surplus to the Third World and take other steps to keep global interest rates as low as possible.

It was pointed out that if the problem is structural or systemic then its resolution calls for wide-ranging proposals that go beyond the demand that debtors undertake "structural adjustment"; it should be clear that the creditor countries also need to make major shifts in policy that promote structural adjustment in the global economy. Such changes are particularly urgent not only because social stress and political instability continue to mount to dangerous levels but because the gap between developed and developing countries in terms of technological capability is widening. Since trade and capital flows are the carriers in the technological transfer process, it is vital to remove barriers to these flows, particularly the perverse effects of the debt overhang that leads to import strangulation of debtor countries (including cut-off of high technology imports) and a direction of flow from debtors to creditors.

It was observed that such steps will not be politically easy to take since they imply major changes on the part of these countries or, in a phrase, structural adjustments of the global system. Political pressure is necessary since only then will capital be available for debt reduction on a massive scale, for official lending and for investing purposes and, no less importantly, to tackle other global problems such as environmental deterioration (global warming, ozone depletion, etc.). Without congenial international conditions the debtors will find it difficult if not impossible to escape the debt trap.

It was also observed that the debt service burden is now excessive for most indebted countries, hampering their economic growth. In this situation a global solution to the debt problem, aiming at a substantial debt relief, should be sought. An international body, perhaps in the framework of the United Nations, might play a useful role in this respect.

To achieve this global structural adjustment there must be serious consideration given to what institutional changes are necessary such as an up-dated Bretton Woods Agreement and other means sanctioned by international accords to channel substantially more funds to development purposes, funds that would become "available" from arms reduction (the so-called "peace dividend"), from taxing derived from exploitation of "the global commons" (i.e., the high seas, the upper atmosphere, and Antarctica), from a large

increase of Special Drawing Rights, and from other sources beyond the traditional. Whether these funds should be channeled through existing institutions (which seemed to be favoured) or through special funding arrangements is an issue, it was felt, that could be resolved through conferences convened for this purpose or through other modalities. The main thrust of the discussion was, in a phrase, that the prevailing extraordinary circumstances call for bold innovative measures that are global in scope.

The focus of the discussion thus shifted to a consideration of two related themes:

(i) how the national concept of "the peace dividend" could be realised in practice through the allocation of funds for reducing debts on a massive scale, through providing substantial new funding so net flows are once again from the rich to the poor countries, and through the launching of programmes that address the global environmental challenge;

(ii) how the debtor countries can be enabled to adopt policies and programmes that are environmentally helpful both to themselves and to the global community despite the pressures stemming from their need to service their onerous debt burdens that tend to force them to be preoccupied with survival in the short term.

Re. (i), several discussants put forward orders-of-magnitude estimates of the possible amount of funds and real resources that might be envisaged as becoming available. But the main spotlight was turned on the aspect of political action: what forms might it take that would make the cause of debt reduction and of development financing a first-order priority as a claimant for such funds and resources as disarmament proceeds? It was emphasized by most participants that any proposals in this regard would need to be simple to understand and to implement and, at the same time, be able to capture the public's imagination. One such initiative was cited as an example: Jamaican Prime Minister Manley's suggestion of an across-the-board set-aside by all countries of a fixed percentage of all military budgetary savings.

Re. (ii), the discussants also devoted time to considering measures that address the global environmental problems that are exacerbated by the debt overhang pressures. Among the ideas put forward were:

- international funding for research on "stand-alone" energy (i.e., energy sources outside the electrical grid system) that would have an exceptionally important beneficial impact on the environmental by reducing the dependency on fuelwood of those billions of people who live in the rural sectors beyond the reach of national grid systems;

- international funding for enabling multilateral and bilateral aid agencies to assist in debt-for-nature swaps on a much larger scale than heretofore, such funding being required to counteract the inflationary impact of such swaps.

The discussants throughout the five sessions stressed in various ways with numerous examples that the issue under consideration was urgent not only on grounds of compassion but also for the cause of global growth that is marked by peaceful change and is, at the same time, both more equitable and environmentally sustainable. ■

Contd. from page 11

tively. Countries governed by military authoritarian regimes for most of these decades - Guatemala and Peru grew by 66% and 36% respectively. Argentina performed well under the civilian government of Arturo Illia in the 1960's as well as under the military authoritarian rule in the early 1980's.

The East European Experience

More importantly Eastern Europe is discarding its Authoritarianism and adopting democratic political structures in a race to imbibe the economic and technological know-how from the West, and go in for the current economic outfit in vogue - the now fashionable Market Economy. For Eastern Europe economic reform is being based on an open political system. In changing global power structures and alignments, a different set of structures and economic tools may be more relevant for economic progress.

References

- 'Understanding Political Development' by Myron Weiner and Samuel Huntington. 1987.
- 'Re-Thinking Development' - David Apter, 1987.
- 'The Military obstacle to Latin American Democracy', Martin Edwin Anderson in 'Foreign Policy', Winter 88-89.
- Various issues of The Far Eastern Economic Review.
- 'Asian Survey', February '90 No. 2 Vol. xxx.
- 'Economist' 9-15 June '90. ■

| | | 1986 | 1987 | 1988 | 1989 | 1990 |
|---------------------------|-----------------|-------|-------|-------|-------|-------|
| Gross Domestic Product | % change | 3.4 | 2.1 | 5.8 | 5.6 | 6.5 |
| Agriculture | | 1.9 | -3.4 | 4.2 | 3.5 | 4.5 |
| Industry | | 4.5 | 11.3 | 10.4 | 10.0 | 11.0 |
| Services | | 4.3 | 3.7 | 4.3 | 4.5 | 5.0 |
| Gross Domestic Investment | % of GDP | 10.3 | 7.4 | 7.0 | 10.0 | 11.0 |
| Inflation Rate | % change in RPI | 487 | 301 | 308 | 175 | 75 |
| Exports | \$ billion | 0.79 | 0.86 | 1.06 | 1.12 | 1.23 |
| | % change | 5.2 | 9.7 | 23.6 | 5.3 | 9.8 |
| Imports | \$ billion | 2.16 | 2.19 | 2.49 | 2.70 | 2.75 |
| | % change | 35.5 | 1.7 | 13.6 | 4.4 | 5.8 |
| Trade Balance | \$ billion | -1.37 | -1.33 | -1.43 | -1.48 | -1.52 |
| Current Account Balance | \$ billion | -1.42 | -1.36 | -1.49 | -1.54 | -1.59 |
| Debt Service Ratio | % of exports | 51 | 49 | 77 | 67 | 63 |
| External Debt | \$ billion | 7.7 | 10.7 | 12.0 | 13.4 | 15.0 |

Sources: Government of the Socialist Republic of Viet Nam, The Central Statistical Office; and Staff estimates.

of the Khmer Rouge. If they kicked the Khmer Rouge out who would have punished them? So why didn't they do this! There are many theories about this. The one I find most interesting is that if the Thais took over the responsibility of invading Kampuchea to kick out the Khmer Rouge having got the green light from Vietnam – which would surely have given it – they probably would have been defeated by the Khmer Rouge. Because though the Thais have a huge army it's fighting capacity is poor. A few years ago they were defeated by the Laotian People's Army in a very interesting battle on the upper regions of the Mekong about 200 kms North of Vientiane. When the Vietnamese entered Kampuchea, the Khmer Rouge just collapsed like a house of cards – may be the Thais couldn't have done that.

The Khmer Rouge and the Killing Fields

Khmer Rouge will have us believe that they are making big inroads into the interior of Kampuchea. This is absolute rubbish. For example the LTTE can come down to Colombo and throw a bomb at any hotel or business. But that doesn't mean they can capture Colombo. Similarly anybody can go to Phnom Peng in the name of the Khmer Rouge and throw a bomb. In the last two or three months there was only one bombing incident in Phnom

Peng. But rumours say that the Government did it to get the people realize the possibility that the Khmer Rouge might come back and therefore get them more alarmed and alert because there is a certain lassitude that has crept in.

I don't think there's any support for the Khmer Rouge. Of course I personally didn't get the chance of speaking to the villagers. But I very much doubt it.

I was taken to the killing fields about 15 kms outside Phnom Peng. It's almost impossible to describe. There are these huge fields (there is a huge Buddhist Stupa now to commemorate the victory). You are invited to walk in the fields. And as you do it soon strikes you that what you are actually seeing sticking out of the ground are bones and little pieces of cloth. They still have no decayed after all it was only 10 years ago. Maybe in another 10 years these will not be there.

Teenagers were at the vanguard of Polpot's army. Polpot's power base was mainly very depressed youth from the North East of Cambodia and they had no civilization. There are chilling stories about how Pol Pot forces took over Battambang and Phnom Peng. Those who lived through it describes the silent stony faces of the young soldiers of the Pol Pot army as they went through towns. Then the Kampuchians didn't realize that they were visitors from hell.

Contd. from page 21

result of the debt crisis.' The developed nations cannot continue to treat the LDCs as non entities. Their new and increasing significance is now being felt. The green light is 'blinking' as it were for the LDCs to meet the developed nations on strictly commercial terms and there cannot be any mistaking about the response. It is upto the LDCs to work out the organisational set up for this great challenge.

The challenge that faces the LDCs is no easy one. It involves not less than 3/4ths of the world population occupying a vast area and is characterised by equally vast divergences in historical background, aspirations and values, education and culture and degrees of economic development. It was this immense divergence that struck economist Walt Rostow when he considered the prospects for regional corporation among LDCs in a limited area of the Asia – Pacific region. The situation prompted Rostow to conclude that any attempt at regional corporation in this region will have to take the form of 'A development towards a brick by brick build up of mutual goals and solutions leading to the construction of a network of solid regional or sub-regional institutions'. The politico economic leadership in the LDCs need to choose their goals and methods wisely. They should know by experience that entreaties will not bend the developed nations. The need and goal is to attract the developed nations to the LDCs on market terms. The house of the LDCs has to be put in order to create the economic climate conditions that encourage capital to flow from developed countries to LDCs through mutually beneficial market directed investments. Today we need a process of development, which by its very nature attract the capital and technology of the developed north strictly on market terms. The political and business leadership has a responsible role to play; to search for and implement bold new and innovative ideas.

The suggestion then, is that the global economy is in imbalance. Any manipulated restoration of the authentic order, will involve among other things, the acceptance of reciprocal responsibilities. Probably preoccupied with the mercantile thinking, most nations are reluctant to accept such reciprocal responsibilities. All economies are in selfish pursuit of maximum profit and surplus. The developed nations are in contesting with each other to make more profit and the resultant disturbances are increasingly becoming the international economic norm. This norm has delayed any international programme for poverty alleviation in the LDCs. It has also brought vast and significant alterations in the nature of the north-south inter dependence – alterations that have created both the challenge and the opportunity for the LDCs to put their house in order, so as to attract the capital and technology of the north on a marked oriented basis. The political financial and intellectual leaders of the LDCs have a job to do.

Contd. from page 18

In these new circumstances, revolutionary movements are determined to maintain peace and achieve development as quickly as possible. Also under the new circumstances, movements are permitted to become more flexible and open. We do not view this evolution as a concession but rather as a purer expression of the democratic nature of revolutionary changes. For revolutions are essentially democratic. They can and should be defended not only by a solid correlation of forces but also by a flexible democratic program representative of broad sectors, tendencies, and realities, both internal and external. The aim is to create real democracy for the entire people in the economic and political arenas.

For revolutions are essentially democratic. They can and should be defended not only by a solid correlation of forces but also by a flexible democratic program representative of broad sectors, tendencies, and realities, both internal and external. The aim is to create real democracy for the entire people in the economic and political arenas.

Without attempting to delve into the issue of *perestroika* and the complexity it poses in the socialist world, it should be noted that this movement is also a result of a new international correlation of forces. Today socialism no longer runs the risk of being overturned by invasion or eliminated by a nuclear war.

No longer threatened as before, socialism is seeking to renew and improve itself. Debate among tendencies within socialism, on both the right and the left wings, will take place. A stand on these debates must be taken. But the debate itself is a positive step to emerge from an earlier paralysis. Reform involves a complex struggle in which both advances and setbacks may be required to move forward.

Today the new thinking taking place inside the revolutionary movements in Latin America is also the result of particular conditions. A new revolutionary thinking

has resulted from the history of Latin America and from the nature of its societies, which differ from those in which the first classic revolution unfolded. Although events in Eastern and Western Europe have affected the entire world, reality in the Third World is entirely different from that in Europe. It would be politically absurd to link the Soviet Union to all emerging revolutions by some form of ideological umbilical cord.

If our revolutionary effort coincides with *perestroika* in any respect, it is in the struggle against the kind of dogmatism and orthodox thinking that endeavours to transfer mechanically to our country classic models of revolution, party systems, or strategy.

Indeed, the struggle against dogmatism within Latin American revolutionary thought predates *perestroika*.

It is equally absurd to regard the Salvadoran conflict as part of the East-West conflict and therefore to hope to resolve it through a U.S. Soviet accord. Revolutions do not wait; they are an inevitable social process. In the case of El Salvador, the level of crisis affect-

If our revolutionary effort coincides with perestroika in any respect, it is in the struggle against the kind of dogmatism and orthodox thinking that endeavours to transfer mechanically to our country classic models of revolution, party systems, or strategy. Indeed, the struggle against dogmatism within Latin American revolutionary thought predates perestroika.

ing the system points to an outbreak as a result of the strength accumulated by the revolutionary movements; and no one can stop it. The only valid negotiation process concerning El Salvador is that which occurs among Salvadorans. A relaxation of tensions in Central America will be possible only if the region's structural problems

are solved. Only through social change can outbreaks resulting from hunger be ended.

The Salvadoran revolutionary movement, based on the FMLN's alliance with the Democratic Revolutionary Front (FDR), includes within its ranks Social Christians, Social Democrats, and Marxists. These alliances reflect El Salvador's special situation and history. It cannot be concluded that simply because the FMLN is an armed organization it imposes its positions on the others. Rather, the overall correlation of forces within the movement results from the nature of the alliance, not just from the FMLN's actions. This point will become even clearer when the moment arrives for the revolutionary movement to begin defining positions, making decisions, and building a platform through a broad political debate.

The alliance has been an education in pluralism for the forces that constitute it. The various factions have been able to maintain their unity because of the need to carry out a profound transformation of Salvadoran society. Regardless of the decisive role the FMLN may play the leading edge of revolutionary change cannot be limited dogmatically to it. Social democracy's capacity to influence events in Latin America reflects a historical trend and can work for a balance of power in which social democ-

racy arises as a new pole in the international correlation of forces. Indeed, it already plays an effective and positive role in the development of new revolutions, and its participation tends to discourage extreme radicalization. The FMLN already has established an important historical and strategic relationship with social democracy

by means of the FDR-FMLN alliance. Nevertheless, the Latin American and Salvadoran reality does not allow a mechanical application of the European social democratic model of developed capitalism. We do not intend to present the Salvadoran revolution as a social democratic revolution; that, in addition to being false, would be schematic.

Realities in the Third World permit high levels of political convergence in order to carry out the necessary transformations of its societies. On our continent, Latin Americanism has acquired enormous strength since the Sandinista revolution. Even when there is no united front on the foreign debt problem, there is full awareness among broad sectors of society in most Latin American countries of the need to achieve self-determination and reduce the U.S. ability to impose its imperial will on the continent in order to achieve some degree of development and to rescue Latin America from great social upheavals.

The Contadora peace effort and its extension, the Esquipulas II accord, are clear expressions of the Latin American desire for self-determination. It is a contradiction that Latin America, with more poverty and problems, appears more disposed to coexistence than the United States itself.

For the FMLN, the basis for a solution among Salvadorans is essentially contained in the Central American and Latin American solutions expressed by Esquipulas and Contadora. The problem to be resolved is the interference of the United States. Everything else is open to discussion.

Latin America's independence is the fundamental issue for all governments and political forces within Latin America. Without independence there can be no development; without development there will be upheavals and wars. Most

of the political forces understand that social upheaval is not ideologically motivated, and "Soviet-Cuban interference" does not provoke this disorder. Rather, U.S. stubbornness is responsible for the instability because the U.S. government refuses to change the terms of its relations with Latin America. Instead it persists in its imperialist approach. The idea that revolution will be exported to others is also absolutely false.

Latin Americanism creates a force of tremendous geopolitical importance that can affect the course of a revolution within a country like El Salvador. As with the influence of European social democracy, the influence of Latin Americanism is in no way negative. Rather, it enables the revolutionary movement to avoid isolation and to unite the desire for independence and self-determination with the need for social change.

In today's world, a combination of the private and public sectors can lead to more rapid development of Salvadoran society than a supposedly more radical and closed model. The private sector must be part of the system but not the only actor capable of directing the system. Our objective is development. An ideological approach is of no use if it does not resolve the problems of poverty.

Indeed, a more independent Central America will have a very positive impact on the correlation of forces throughout the continent, not only politically but, over the longer run, economically as well. Stability within the region will convert the region into an important market for many Latin American countries and even for the United States, if it is able to alter its position. Conversely, if the United States succeeds in imposing its will in Central America and forcibly suppresses the revolutionary effort, the self-determination and independence that Latin America needs will suffer. The revolutionary fire will be extinguished; but soon another, much greater, will break out throughout Latin America.

In El Salvador, the middle class is an important part of society. Its importance derives not so much

from its size, which is nevertheless relatively large for Central America, but from its qualitative contribution to Salvadoran society. To date the oligarchy has not accorded this middle class sufficient space or power but has sought to use it by frightening its members with the fear of revolutionary change.

The oligarchy's fundamental base of support has always been the army, which it has found easier to really to its interests than the well-educated middle class. For this reason the oligarchy has always rejected to Christian Democratic party. It accepted the party's participation in the political direction of the country only to save itself after the Christian Democrats received U.S. sponsorship. But under the circumstances the Christian Democrats had to enter office without real power, aware nonetheless of the role they were playing as savior of the oligarchic system.

With reform blocked, and faced with the oligarchy's retrograde thinking, broad sectors of society had to be put of social change. Their importance is yet another reason why the FMLN's alliances are necessarily a strategic component of its approach. That policy is acquiring a greater maturity over time and explains the basis for the FDR-FMLN alliance.

The U.S. Salvadoran Relationship

In brief, the forces leading the campaign for change in El Salvador are not limited to the classic categories of workers and peasants. The revolutionary movement reaches to other sectors of society, including the middle class. Agreements among the various forces involved in the effort will determine the specifics of the new political order.

In this regard, the changes sought must have a realistic economic foundation. Agrarian reform is key since land is the fundamental factor in the economy and the fundamental source of social conflict. So long as El Salvador's agrarian structure is not profoundly transformed, war will go on for many years, not because some leader orders conflict, but for a simple social reason: Too many Salvadorans live in a very small area.

The land-tenure system is the heart of the oligarchy's power. It must change. There can be greater flexibility with regard to other structural changes, which in any event will flow from changes in the agrarian sector. Obviously a reform of the land-tenure system will not eliminate the private sector; on the contrary, it will modernize it and offer it new opportunities for development. But land reform will oblige the private sector to understand that there must be a reorganization of Salvadoran society and that within the society it must accept a new role.

In the new system there should be room for domestic political competition, with democratic elections and political parties—thus permitting the masses to participate in decision making and in the political, economic, and social management of the country.

The private sector should operate in a new structural context: In today's world, a combination of the private and public sectors can lead to more rapid development of Salvadoran society than a supposedly more radical and closed model. The private sector must be part of the system but not the only actor capable of directing the system. Our objective is development. An ideological approach is of no use if it does not resolve the problems of poverty. But El Salvador cannot develop if the United States does not understand its situation and drives it to develop a war economy.

In the new system there should be room for domestic political competition, with democratic elec-

tions and political parties—thus permitting the masses to participate in decision making and in the political, economic, and social management of the country. Participation forces the masses to defend by means of debate and daily involvement their newly acquired gains. This should make it possible to maintain equilibrium in the political participation of those social forces advocating change. Their partici-

For political democracy to be meaningful, however, there must also be economic democracy.

pation also has the advantage of guaranteeing the political defense of the revolution. For political democracy to be meaningful, however, there must also be economic democracy. People must eat, become educated, and have access to health care, as well as elect their representatives and make decisions about the country's future.

Democracy must be forged from above and from below. It is not enough to vote once every 5 years; nor are parliaments enough.

Democracy must be based on the popular will. It must be supported by all political forces that are linked to the masses. The purpose of political parties is not only to compete in elections but to help lead and educate the people in the daily exercise of power. Participatory democracy permits self-management of the masses; electoral democracy confers legitimacy on the revolution, reaffirms its mass support, and allows the balanced participation of all sectors in exercising power.

A one-party system—given the make-up of Salvadoran society—does not correspond to Salvadoran reality; nor should the unity of the revolutionary forces in a single party be confused with a

one-party society. Indeed, it is not even possible to apply mechanically the theory of a classic revolutionary party to our revolution. In El Salvador, the leading forces of social change are broader and cannot be limited to models adapted during the Bolshevik revolution. The participation of the middle class, Christians, women, and others bestows on Salvadoran socialism a character quite diffe-

rent from the classic model of East European socialism. There is a need for more flexibility, consistent with a multiparty society, among the revolutionary forces themselves.

Elections are part of the FMLN's program. FMLN rejection of the current and past electoral processes is a position of opposition to elections under a dictatorship and in a country dominated by the United States. I wonder how many Americans would vote and how many would rebuff elections if their country were subjected to a foreign power. The FMLN does not fear elections. Under fair conditions the majority of Salvadorans would opt for revolutionary change.

On January 24, 1989, the FMLN publicly proposed the postponement for 6 months of the presidential elections scheduled for March 19. This historic proposal was aimed at opening a new way for a political solution and could be the prompt for a process of negotiations. Under the FMLN proposal, the Salvadoran government would take measures to guarantee conditions that would allow the people to freely express their will. The U.S. government would not attempt to affect the electoral process. The FMLN, for its part, would ask its supporters to participate in the elections by voting for the platform and candidates of the Democratic Convergence, which includes two of the parties in the

FDR. It would also make a commitment to respect the electoral process and its outcome.

With this proposal the FMLN is making a final effort to prevent a social explosion. The FMLN is offering to remove one of the main obstacles cited by the government and the United States as an excuse to avoid a real political solution. The basis for this is the conviction that the democratic and revolutionary alliance enjoys the support of the majority of the Salvadoran people. It also reflects the FMLN's responsibility to make an effort to avoid the bloodshed that a continuation of the war would mean.

Freedom of expression is also required if equilibrium is to be achieved among domestic social forces. Through debate and education, the masses can learn why they should defend their historic achievement, the revolution itself. But this knowledge cannot be developed without opposition, without an understanding by the masses of the opposition's point of view. Debate pushes the revolutionary forces to develop and deepen the revolutionary position and to shelter it from ideological dogmatism. To promote debate, professional journalism that is both independent and critical is fundamental; at the same time, without undermining freedom of expression there should be a break in the oligarchy's control of the media.

Just as the revolution must promote the development of El Salvador with the country's own resources, so it must base its own defense on the same principle. It is neither necessary nor realistic to arm ourselves excessively. Defense should be based on the people. Becoming unconquerable through the resistance of a whole people suffices to provide acceptable margins of security. There is no need for large and overarmed military forces. In this regard, the revolution need represent no

danger to the United States. The procurement of large and sophisticated armaments would only provide the United States with an excuse to intervene. Nevertheless, defense requirements reflect real or potential threats; aggression from outside can create new requirements.

In short, the Salvadoran revolution is conditioned by the geopolitical realities of Latin America and the United States. This fact implies, on the one hand, a struggle to change the terms of El Salvador's relations with the United States and, on the other hand, a need to maintain relations with the United States. The United States must reject a policy of empire, but El Salvador must accept and understand the status of the United States as a powerful country in the Western Hemisphere. A

Europe, except for Spain, and even fewer with Eastern Europe. Our climate, our traditions, and our geographic placement create these realities. Nobody can renounce them; for our people accept, understand, and like them.

Christianity is a case in point: The rise of the Salvadoran revolutionary movement coincides historically with the Roman Catholic church's turn toward a greater commitment to social justice. The most important universal figure in our history, Archbishop Oscar Arnulfo Romero, who was assassinated in 1980, has become the principal martyr in the cause of the poor. In him the values of faith, humility, and love were joined with the revolutionary spirit of the Salvadoran people.

The young men and women now in the revolutionary movement

The goal is to solve El Salvador's social problems. We aim to lead our people to a more advanced stage of development. We have no desire to reform society according to a fixed plan simply for the sake of carrying out our plan.

revolutionary government should avoid confrontation with the United States. It is our most important neighbour. We remain linked to it by economic, cultural, and political ties stronger than those we maintain with countries in other parts of the world.

There is a belief—held primarily by key sectors of U.S. society—that revolutionary change implies a shift even in a country's cultural values, and that participants in a Latin American revolution will soon embrace the values of East European socialism. But Salvadorans are a tropical people who have lived under the cultural influence of the United States. Our culture is a hybrid embracing the values of indigenous people, black and Spanish settlers, and the Anglo-Saxons living to the north. Almost 1 million Salvadorans live in the United States. For historical reasons, we identify culturally with Latin America and the United States; we have few cultural ties with

have grown up under the influence of rock music, Hollywood, salsa music, Mexican romanticism, and Christianity. The process of cultural fusion between Latin America and the United States is part of universal culture. Such influences cannot and should not be subjected to ideological restrictions. Such dogmatism would not represent the true sentiment of our people.

Are all of these positions just tactical maneuvers by the FMLN? Conversely, do they indicate that the FMLN is ready to abandon revolutionary aims? The answer is that, whatever the process might be called, El Salvador needs profound change; and what the FMLN proposes, others would call a revolution. In asserting that, the FMLN does not advance a dogmatic view of what it means by revolution or socialism. The goal is to solve El Salvador's social problems. We aim to lead our people to a more advanced stage of development. We have no desire

to reform society according to a fixed plan simply for the sake of carrying out our plan. We seek radical change in the agrarian sector and a true pluralistic democracy. A new correlation of forces in society will guarantee their survival. Central is the need to respond to the specific historical realities of our country, which requires the democratic participation of the masses and all forces of society.

In El Salvador it is neither possible nor necessary to carry out a plan to eliminate totally the private sector, to establish a single-party system, to bar other parties from the media, to break with the church, to eliminate elections, to enter into military pacts with foreign powers, to allow foreign militaries on Salvadoran soil, or, most ridiculous, to allow nuclear weapons on Salvadoran territory.

The FMLN pursues an El Salvador that is open, flexible, pluralistic, and democratic in both the economic and the political spheres. This pluralistic democracy for El Salvador is now possible because of a change in the military correlation of forces. The forces now controlling El Salvador, in their

effort to survive, have been unable to modernize the system; they have also been unable to professionalize the army, which continues its repression and remains politically obedient to the oligarchy and the United States. Indeed, democratization will require a change in the balance of military power in the country. Change does not necessarily mean destruction of the army. Its future will depend on whether there is a negotiated solution to the war or a revolutionary victory. The army is the fundamental power in Salvadoran society. So long as the military balance does not change, social change will be blocked because the army will always act to reconstitute its power. For this reason it is absurd to suggest that the FMLN lay down its arms. For the FMLN is sufficiently powerful that the army cannot defeat it militarily. El Salvador needs a revolutionary change to establish a democratic and pluralistic society; that change needs to be guaranteed by military power. The best solution, therefore, is a reconstitution of the military component in society that will neither destroy the army nor disarm the FMLN.

Ultimately it is not a question of sharing or not sharing power,

but of forging a true democracy in El Salvador. The United States wants the FMLN to accept as democratic a government totally subject to its will, with real power in the hands of the army, and with the landowning oligarchy holding economic power. The U.S. aversion to revolutionary change in El Salvador misjudges the nature of such change, even if it were to result from a military victory by the FMLN and much more so if it were to result from a process of negotiation. If El Salvador finally embarked on needed reform, it could help to stabilize the region and the continent. If the United States understood and accepted this, it would contribute to an equilibrium that could avoid new wars in Latin America.

For the FMLN these pragmatic ideas offer a basis for a political convergence among different parties in my country. But they do not obviate the need for a negotiated solution. The way events have evolved confirms that the current arrangements governing military, economic, and political power in El Salvador cannot continue unaltered. To try to prevent change is to promote the continuation of the war. ■

—Courtney Foreign Policy Magazine

cumstances in South Asia. The cases are broadly divided into those which are more concrete development initiatives at the micro-level with new processes of accumulation and measurable material benefits and those which are peoples movements, starting with protest and now reflecting multiple objective and values. All the case studies illustrate the building of new kinds of peoples organisations either to reverse past processes or for re-inforcing, sustaining and multiplying new processes.

Fundamental to this new methodology is the epistemological proposition that the development of development theory and practice itself occurs in a dialectic relationship with each other and at each stage the lessons of practice will form the basis for further theory, just as a deeper theory will then feed back into deeper practice. For this reason the formulation of the alternative theory must be rudimentary. However, specific elements of the process in place can be clearly identified, and inform a variety of micro-level actions. As actions are taken through praxis, more explicit theorising can follow. The nature of the alternative theory is that it develops not through apriori formulations, but through the comprehension of its application to practice at each stage of praxis.⁶

Thus the rudimentary state of the alternative theory should not be taken to be a reflection of the rudimentary state of understanding of either the South Asian reality or the alternative process which is emerging and cannot be stopped.

1. G. V. S. de Silva, Wahidul Haque, Niranjan Mehta, Md Anisur Rahman and Ponna Wignaraja *Towards a Theory of Rural Development*, Progressive Publishers, Lahore, Pakistan, 1988.
2. Ponna Wignaraja and Akmal Hussain (eds.) *The challenge in South Asia: Development, Democracy and Regional Cooperation*, Sage Publications, New Delhi, Newbury Park and London, 1989.
3. Ponna Wignaraja, *Women, Poverty and Resources*, Sage Publications, New Delhi, Newbury Park and London, 1989.
4. Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja, *Participatory Development: Learning from South Asia*, Oxford University Press, Karachi and Oxford (forthcoming 1990).
5. G. V. S. De Silva, W. Haque, N. Mehta, A. Rahman and Ponna Wignaraja, *Towards a Theory of Rural Development*, Lahore: Progressive Publishers, 1988.
6. In an editorial introduction to a recent paper by one of the South Asian Scholars associated with the UNU network, it has been stated that the conceptual relationship between theory and practice (for those interested in the issues of Praxis) is as follows:
"For those interested in issues of praxis, the relationship between theory building and action remains a constant preoccupation. Not just whether the 'thinkers' and the 'action' will or can be the same, but whether theory building as an exercise is imbued with sterility in an action sense. This critique is fairly easily made about theoretical work of a neo-classical or functionalist type. Here the assumption of equilibrium, ensured either via nature or the market leads to status-quo. Even critical theory which is centrally concerned with the issue of change, and revolutionary change at that, when caught within the moors of a pre-facto working out of the implications of intervention, often ends up relying on the 'laws of motion of society.' To demand that each small action should be justifiable within a perspective of 'overall structural change' is only to foredoom the actor to inaction.
Most theoreticians would undeniably be very unhappy with such a characterization of their activity, but the great desire to elevate all that they do to a level of science, does put pressure of being satisfied to the last degree. There is of course a danger that the critique of the 'art of theorising' may further dampen the already muted theoretical activity in the South Asian region. But being clear about our presuppositions can only be a help." Editorial comment on R. Sudarshan, "Theory, Ideology and Action in Economics and Law", *Loyakan Bulletin*, 6.6, New Delhi, 1988.

Contd. from page 4

the culture that must inform the whole process. The other is the role of the initiator/animator without whom the process cannot multiply and go to scale during a foreseeable time horizon.

The discussion of the knowledge system starts at a philosophical level where the dominant paradigm of positivist knowledge influenced development action and legitimised one type of social action and delegitimised another. The corollary of this was the premise of "one stock of knowledge" and its operational tool for economic development – the transfer of technology from industrialised to poor countries which was considered as an indispensable element in the process. Even this transfer was conceived in a Cartesian fragmented mould and was an insufficient knowledge base for response to the complex of problems it was supposed to address.

Praxis and PAR were located outside this knowledge system. Therefore, it was necessary to demystify, both the nature of this knowledge and the premises and method of this knowledge transfer, before proceeding to the concept of cognitive knowledge and to the many stocks of knowledge and technology that can be drawn on for praxis, PAR and sustainable development. The discussion then goes on to elaborate on the relationship between knowledge, action and power on which PAR is premised. This then helps to bridge the gap between real knowledge and wisdom, and development action and social change. Praxis and PAR have to be premised on the wider alternative knowledge system that is also available, where the knowledge system provides the power to bring about a change in the condition of the knower and generates the new social process. In introducing the concept of the peoples knowledge system, the study also

highlights the availability of greater technological choice for the poor.

The second issue discussed relates to the role of the animator. In order to enable the people to bring out their creativity, with a spirit of self-reliance and self-involvement and assert their right to participate in development as subjects in the process, an appropriate stimulation is required. Sometimes an independence struggle or a violent protest movement against oppression, exploitation and repression can spontaneously conscientise and help organise a people as happened in India in 1947 or Bangladesh in 1971. But the discussion here is how this creativity can be released under less dramatic conditions and the prevailing socio-political circumstances in South Asia. The creative spirit exists in all human beings and does not always manifest itself spontaneously. The challenge is to bring out this quality and the strength and the dignity of the people that goes with it. This section of the study articulates the perspective and generalises on the experiences of the harder processes of mobilisation, conscientisation and organisation now in evidence in South Asia. These are the seeds of change as opposed to the "bubbles", which are softer processes. It shows how an animator can initiate and catalyse this harder process. It also deals with dialogue as a mode of promoting participation, the training of animators through the participatory methodology and identifies steps for initiating PAR. Finally, the question of the progressive redundancy of the external animator, as the sustainable and self-reliant process gets underway is analysed.

In the final part of the study, several further illustrative cases studies are presented which show the process at work under different socio-political cir-

It is increasingly clear that the crises that South Asian countries face, is no longer merely the poverty crisis, but is now taking the form of the ecological crisis, ethnic violence, gender conflict, militarisation and external destabilisation.

Dr. Ponna Wignaraja
The theory & Practice of Poverty Allevation in South Asia

A Publication of the
People's Bank
Research Department

Economic Review
Revised annual subscription rate
effective February 1990

| | |
|-------------------|-----------|
| Sri Lanka | Rs. 180/- |
| South Asia | US \$ 24 |
| South East Asia | US \$ 27 |
| Africa | US \$ 27 |
| Japan | US \$ 30 |
| Middle East | US \$ 30 |
| Rest of the World | US \$ 33 |

Price per Copy Local Rs. 15/-
International-US \$ 3

The contents of Economic Review may be quoted or
reproduced with due acknowledgement.