

# ECONOMIC REVIEW

SEPT 1975

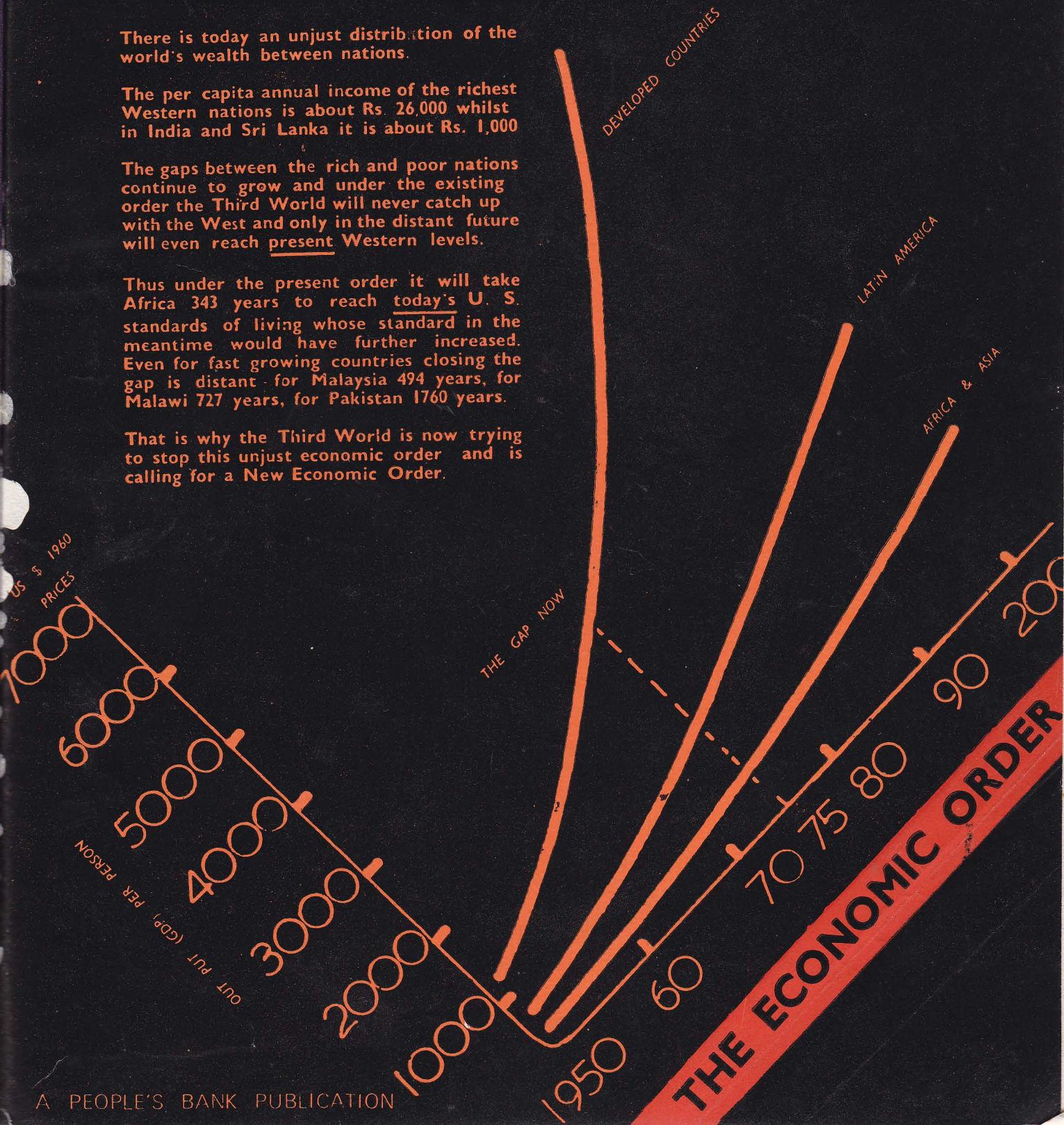
There is today an unjust distribution of the world's wealth between nations.

The per capita annual income of the richest Western nations is about Rs. 26,000 whilst in India and Sri Lanka it is about Rs. 1,000

The gaps between the rich and poor nations continue to grow and under the existing order the Third World will never catch up with the West and only in the distant future will even reach present Western levels.

Thus under the present order it will take Africa 343 years to reach today's U. S. standards of living whose standard in the meantime would have further increased. Even for fast growing countries closing the gap is distant - for Malaysia 494 years, for Malawi 727 years, for Pakistan 1760 years.

That is why the Third World is now trying to stop this unjust economic order and is calling for a New Economic Order.





# ECONOMIC REVIEW

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### COVER

Our Cover depicts the figures behind the grim reality of Sri Lanka's and Third World Nations' economic position. The graph is based on one by Richard Jolly.

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.

# DIARY OF EVENTS

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|---|---|---|---|
| <p>August 1</p> <p>1</p> <p>2</p> <p>2</p> <p>5-15</p> <p>6</p> <p>7</p> <p>8</p> <p>10</p> | <p>Sri Lanka, India, Laos, Philippines, South Korea and Thailand, signed an agreement at Bangkok on trade liberalisation — the first of its kind in the region—aimed at trade expansion through preferential trade arrangements.</p> <p>35 European and North American nations signed a document concretising 'detente' with a pledge to promote better relations among them and making post-world war II borders inviolable.</p> <p>UNCTAD forecasts that the combined commercial deficit of non-petroleum exporting states could be at least \$33,000 million.</p> <p>Commonwealth Finance Ministers Conference opens in Guyana.</p> <p>15th Session of UNCTAD Trade and Development Board, in Geneva.</p> <p>Third International Ocean Development Conference in Tokyo.</p> <p>The United Nations special committee on decolonization adopts a sub-committee report condemning foreign economic and other interests thwarting liberation in colonial areas. All States were asked to end all economic and financial aid used by colonial regimes to repress liberation movements.</p> <p>India will provide a loan of Rs. 10 crores to Sri Lanka for setting up a fertiliser project according to an agreement.</p> <p>Bangladesh takes over from Shell Oil Company 100 per cent ownership and exclusive rights in respect of Shell's all gas fields in Bangladesh under an agreement published.</p> | <p>16</p> <p>19-22</p> <p>21</p> <p>21</p> <p>24</p> <p>24</p> <p>24</p> <p>25-29</p> | <p>West Germany cut its bank rate to 4% from 4½%</p> <p>International Cocoa Council meets in London.</p> <p>The French Government formally proposed resumption of talks in preparation for a conference on energy, raw materials and development towards mid-October, according to authoritative sources.</p> <p>The U.S. partially lifts 13 years of economic sanctions against Cuba in a step towards closer relations with the Government of Dr. Fidel Castro. The State Department said overseas subsidiaries of U.S. manufacturing firms would be permitted to sell to Cuba, but the ban will continue on direct exports to the island from the U.S.</p> <p>EEC Finance Ministers meet in Venice to prepare the Community position for Fund/Bank Annual Meetings.</p> <p>The annual report of the Executive Directors of the IMF notes that because of the virulence of the inflation that had developed during the 1972-73 boom, the expansionary measures adopted to combat the subsequent recession have remained generally cautious. While rates of inflation have generally been subsiding during the recession, prices are still rising in most countries at a pace that is extremely rapid by historical standards and cost-push pressures remain a widespread problem.</p> <p>Non-aligned foreign Ministers' conference in Lima. The main topic - demands for the evolution of a new world economic order which would aid developing countries to achieve self-reliance.</p> |
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"If we survey the global development scene today, it is clear that most of our developing member countries are caught up in a critical situation.

"Statistically, stagnation means that for a billion people, per capita incomes, in constant prices, will grow from \$ 105 in 1970 to \$ 108 in 1980. The comparable figures for the peoples of the developed world are \$ 3,100 in 1970 to \$ 4,000 in 1980.

"Over an entire decade, a \$ 3 increase versus a \$ 900 increase" Robert S. McNamara President World Bank Group in his Address to the Board of Governors in September 1975,

"Seventy per cent of the world's people get only 30 per cent of the world's income...."

Children in poor countries die of diseases that would not be fatal if the victims had enough to eat...." United Nations background paper on the Seventh Special Session.

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## Towards a New International Economic Order

The Seventh Special Session of the United Nations General Assembly meeting over the first two weeks of this month (when this issue went to press) can prove momentous for every single nation and particularly for those of the Third World. How far can the Programme of Action for bringing about a New International Economic Order be implemented is the crucial question that will be answered at this Special Session. A clearer understanding of the events and pressures that have led to this meeting should help to place this Session in its true perspective.

The Session is the result of an initiative taken in Algiers in September 1973 by the Fourth Summit Conference of the Non-Aligned countries. It was a significant initiative: it showed that the Third World—even before the decision of the OPEC countries - sought a genuine two way discussion, no longer accepting its *de facto* marginal status in international decision making.

### THE SIXTH SESSION

A few months after the decision to convene a Special Session of the U.N. on development and international cooperation, circumstances

led to the meeting of the Special Session—the Sixth—devoted to raw materials and development, at which the non-aligned countries played a major role. The Session adopted a Declaration on the Establishment of a New International Economic Order and approved a Programme of Action to that effect.

The document calling for the Establishment of a New International Economic Order sets out in a crystallised form some of the demands of the Third World Nations. Its companion piece, the Charter of Economic Rights and Duties of States was proposed by President

Luis Echeverria of Mexico. The Charter itself was drafted by a forty nation working group under the auspices of UNCTAD and was adopted by the General Assembly in 1974 by a vote of 124, 6 against with 10 abstentions. The "no" votes were cast by Belgium, Denmark, West Germany, Luxembourg, United States of America and the United Kingdom. Apart from demanding a more just and equitable pattern in international trade, the Declaration and the Charter postulate the right of permanent sovereignty over a nation's wealth and natural resources and the right to control foreign investments. The Declaration was drawn up in the wake of the world's energy and monetary crises and reflects the rising consciousness and militancy of Third World Governments protesting against the growing gap between the rich and the poor countries despite all the talk of "only one earth."

The development of this growing solidarity between the Third World Nations can only be understood in the background of centuries of colonialism and neo-colonialism producing exploitation and poverty, oppression and death, humiliation and misery. It has now become clear to the Third World Nations that the only way by which they could protect their independence and survive is by co-operation among those who have hitherto been merely at the receiving end.

The Declaration is a historic document which we refer to later.

### THE SEVENTH SESSION

Finally, last December, the U.N. General Assembly specified the terms of reference of the Seventh Special Session, which was to discuss and act upon:

A comprehensive report on the state of international economic activities; focussing on constraints of a general policy nature which face the implementation of the Programme of Action, as well as the International Development Strategy.

Proposals on structural changes within the United Nations system to make it fully capable of dealing with problems on international development cooperation in a comprehensive manner.

The choice facing the Seventh Special Session is either to set in motion the process of change or to end up with another negotiation on words or with an empty dialogue. The challenge is to achieve a turning point.

### The Build up

This Session meets in the midst of a deep crisis of development, of international economic relations and of institutions. It marks the concluding stages of the international discussion whose milestones have been the major conferences held in recent years: *Environment* (Stockholm, 1972), *Raw Materials and Development* (New York, 1974), *Population* (Bucharest, 1974), *Food* (Rome, 1974),

*the Law of the Sea* (Caracas, 1974; Geneva, 1975) and *Industrialization* (Lima, 1975).

The problems brought to the fore were related to environment, raw materials, population, food, energy and economic and monetary matters. They are only the most obvious signs of this "great disorder."

### The Human Environment

The sudden crystallization of conscience about the human environment was really nothing new; it had the same salient feature that accompanied the upsurge of anxiety when the developed nations apocalyptically discovered that such phenomena as 'racism' and 'underdevelopment' actually existed. As with these preceding issues the problem of the environment came under the immediate embrace of liberals in the capitalist

democracies. The inevitable upshot of this trend has been a liberal perception and analysis which evades, or deliberately mystifies, the fundamental causes of environmental problems. Consequently, the prescriptions being proposed are only cosmetic. They do not take into consideration such variables as exploitation which are, and must be, of crucial importance to the Third World.

Those environmental problems which are predominantly the problems that reflect poverty and underdevelopment of Third World nations are obscured, if not totally ignored.

Third World countries face more serious and compelling environmental problems than the developed nations. As will be evident later, these issues are of direct concern not only to them because those

Table 1.  
Indicators of Economic Development

Country	Per capita national income in dollars-	Per capita consumption, 1964	
		Energy in kgs. of coal or equivalent	Industrial steel in kgs.
United States .. .. .	1964 2,700	8,772	615
United Kingdom .. .. .	1964 1,365	5,079	438
West Germany .. .. .	1964 1,415	4,230	579
France .. .. .	1964 1,370	2,933	356
Italy .. .. .	1964 760	1,659	221
Sweden .. .. .	1964 2,025	4,320	623
U.S.S.R. .. .. .	1964 890	3,430	355
German Democratic Rep. .. .. .	1964 1,205	5,569	424
Czechoslovakia .. .. .	1964 1,685	5,789	498
Hungary .. .. .	1964 1,445	2,824	224
Bulgaria .. .. .	1964 650	2,410	124
Cuba .. .. .	1964 575	931	29
Pakistan .. .. .	1963 80	86	11
India .. .. .	1963 80	161	16
Malaysia .. .. .	1963 235	373	43
Thailand .. .. .	1963 95	106	13
Iraq .. .. .	1963 210	666	28
U.A.R. .. .. .	1961 130	221	24
Morocco .. .. .	1964 170	149	93
Zambia .. .. .	1964 195	431	43
Nigeria .. .. .	1962 90	38	74
Ghana .. .. .	1964 250	120	31

Source: United Nations Statistical Yearbook, 1965, various tables.

that have created, and maintain, the fertile conditions under which these problems flourish also have strong vested interests. And these interests are best served by maintaining the status quo. Therefore, the ultimate and definite solution to Third World environmental problems entails a radical reversal of the present.

The primary characteristics of the environmental crisis that confronts the Third World is poverty and underdevelopment. In most underdeveloped countries today there is abject poverty. Both in the countryside and in the towns, the life of the masses is contaminated by pollutants such as poor water, bad housing, lack of sanitation, diseases, hunger, malnutrition and war. All this, when juxtaposed against the priorities of most Western environment movements, reduces the concept of *Only One Earth* to absurdity. What is at stake in the Third World is not merely "the quality of life", but life itself.

These unequal economic relationships contribute directly to environmental pressures. The cheapness of materials has been one factor in increasing pollution and encouraging waste and the throwaway economy among the rich. And continued poverty in many developing countries has often compelled the people to cultivate marginal lands at great risk of soil erosion or to migrate to the physically degraded and overcrowded cities.

## RAW MATERIALS

The sixth Special Session of the U.N. which took up the subject of raw materials produced the Declaration which we have already dealt with. The Session's ultimate importance lies in the realm of what historians like to call "watersheds"—those particular moments in time when ideas, notions and concepts which earlier had led an airy life on the speculative periphery of the main scene, suddenly coalesce into a hard core of systematic thought that is suddenly there, which will not go away, which needs to be dealt with, and which begins by affecting our actions and ends by changing our perceptions. This is

what a British delegate may well have had in mind when he said tersely to the press: "Things will never be the same again."

The real impact of the discussion on raw materials at this Session was summed up by UN Secretary General Kurt Waldheim as follows:

"But perhaps the most important effect of this remarkable session lies in the long term—perspective which it established for the future of international co-operation. There is little doubt that some new elements have entered into the fabric of international co-operation. The emergence of scarcities has brought home to the industrial world a degree of awareness of its dependence on the poor raw-material-producing countries. And, the traditional negotiating pattern may thereby have been altered.

Table 2.  
Indicators of Social Development

Country	Number of inhabitants per:				
	Doctor 1960-63	Teacher 1963-64	Registered pupil 1963-64	Books produced* 1964	Radio receiver 1962-64
United States .. .. .	690	88	3.7	6,753	1.00
United Kingdom .. .. .	840	153	5.8	2,077	3.39
West Germany .. .. .	670	158	6.1	2,226	3.21
France .. .. .	870	112	4.5	3,585	3.23
Italy .. .. .	610	103	5.9	5,682	4.91
Sweden .. .. .	690	93	5.4	1,161	2.60
U.S.S.R. .. .. .	510	118	4.4	2,910	3.15
German Democratic Rep. .. .. .	—	113	4.7	2,862	2.78
Czechoslovakia .. .. .	570	95	4.4	1,648	3.80
Hungary .. .. .	650	10	5.1	2,108	5.05
Bulgaria .. .. .	620	93	4.2	2,367	4.16
Cuba .. .. .	1,200	141	4.7	14,120	—
Pakistan .. .. .	7,000	383	11.3	65,000	183
India .. .. .	5,800	—	8.3	35,980	110
Malaysia .. .. .	10,500	144	5.3	18,280	20
Thailand .. .. .	7,600	193	6.1	7,254	15
Iraq .. .. .	4,800	164	6.2	24,170	10
U.A.R. .. .. .	2,500	215	7.0	10,870	13
Morocco .. .. .	9,700	375	11.0	—	20
Zambia .. .. .	8,900	—	9.5	—	300
Nigeria .. .. .	34,000	509	17.4	213,700	94
Ghana .. .. .	12,000	08	6.1	34,080	13.5
Peru .. .. .	2,200	149	4.9	11,900	5.5
Argentina .. .. .	670	89	5.4	6,633	3.6
Brazil .. .. .	2,700	170	7.0	14,910	10.5
Chile .. .. .	1,800	—	4.9	5,380	5.4
Colombia .. .. .	2,000	181	6.7	—	5.5

\* Production in number of titles.  
- State education only.

Source: United Nations Statistical Year Book, 1965, various tables.

"There has, furthermore, emerged a greater practical scope for the solidarity of countries of the Third World, through schemes within their group, to develop investment, trade, and transport which may help to correct some of the new imbalances. And it is encouraging that a common front was maintained between them during this period of the special session where their more immediate interests did necessarily coincide."

## POPULATION

One of the themes that have been taken up and pre-occupy the reform movement in the West is population. It is suggested that the root cause of environmental problems and even underdevelopment itself is that the world is "overpopulated". Thus population control is demanded as a solution. Some western ecologists prophesy doom and have con-

vincingly and with some impact, offered as a solution to the ills of the world a Zero World Population Growth. Notable among them is the American biologist Paul Erlich who sees population growth not only as the sole cause of underdevelopment, but also predicts that it will cause a thermonuclear war. Invariably, population growth is thought of in racial terms, and all the demands and measures for its arrest are directed towards Third World countries.

It is apparent that human population growth cannot continue indefinitely in a finite environment with finite resources. But it is also obvious that population is not the most important or the most important factor affecting the environment. In fact, the question of population is intrinsically inseparable from the question of access to resources. A qualitative improvement in the material conditions of the masses of the people of the Third World would go further in stabilizing population growth than any other measures. Thus, population is not single global or biological problem, but one which has a complex interrelationship with the social, economic, natural and political environments of man. Population may be too small or too large at a given time depending on the availability of natural resources.

Thus, population is not a single global or biological problem, but one which has complex interrelationships with the social, economic, political and natural environments of man. Population may be too small or too large at a given time depending on the availability of natural resources and the stresses on the environment. This ecological principle is equally applicable to animal and human populations. However, in human populations social organization is such that massive maldistributions of essential resources are practiced.

This does not deny that there may be an eventual need to stabilise population growth. But the emphasis must be placed on generating a consciousness among people to relate their immediate interests to the broader and long term interests of the community as a whole. This consciousness, of course, can only

materialise in a struggle for the reorganization of society and the system of production geared towards an equitable distribution of resources.

#### FOOD

Conservative estimates submitted to the World Food Conference in Rome last November indicate that close to half a billion people suffer from hunger and malnutrition. Other estimates mention a full billion and sometimes one and a half billion.

A report prepared by the Dag Hammarskjöld Foundation sums up the Third world's viewpoint thus:

The means are available to satisfy basic needs: it is a question of distributing them more equitably. Hunger and malnutrition are indeed due to the fact that the poor are deprived of the means either to produce or to purchase their food, the socio-economic mechanisms being so organized as to ensure that the lion's share goes to the rich and the powerful. The satisfaction of the need for food and its production cannot, therefore, be set apart from a transformation of political and socio-economic structures.

This is true both nationally and internationally; there is no absolute shortage of cereals (although reserves have dwindled dramatically), but price increases force the most deprived countries into a choice—to reduce imports either of food or of capital goods, thus mortgaging their future in one way or another. It is not the shortage of fertilizers, but their price, aggravated by a political decision, which cuts off the supply to countries that do not produce them; the decision of the United States Government to limit exports led to a Third World estimated deficit of 2 million tons in 1974/75, thus, preventing the production of 20 million tons of cereals. The fact that during this period 3 million tons of fertilizer were used on the cemeteries, lawns and golf-courses of the greatest world power could be condemned on moral grounds, but what is more serious is that the dependence of many Third World countries has been increased

by technological solutions, isolated from the economic, social and ecological context to which they apply; the 'green revolution', which entails the use of large quantities of chemical fertilizers, is a case in point.

#### Struggle for the Sea and Seabed

It is estimated that vast amounts of money have been spent by the various United Nations Committees on the Law of the Sea Conferences in Caracas, Geneva and elsewhere costing nearly 150 million dollars and may be a good example of bureaucratic waste at the cost of substantive progress. The fact remains, however, that the wealth of the sea, particularly that beyond the area of national jurisdiction to be found in copper, nickel and manganese nodules is a big enough resource for the nations of the world to share equitably.

Despite massive documentation and preparation there has so far been no agreement on any final text or any single subject.

The Conference is presided over by Sri Lanka's Shirley Amerasinghe. The almost unanimous agreement among the Big Powers to prevent the Third World countries from gaining access to this wealth combined with trivial differences of opinion between littoral and land locked states have prevented progress. Though the attempts to expand the territorial sea to a distance of 12 miles from the coast has a measure of agreement there is unending dispute about the next 200 miles (economic zone) and no agreement at all on the area beyond national jurisdiction. The attempt by the Third World countries to set up an international authority for the division of the wealth of the sea among all nations is opposed by those merely having the technological ability to do so. This shows very clearly that we are a long way away from international co-operation. It is in the long term interest of all states to seek to realise the goal of establishing the principle of international co-operation. It is in the immediate interest of all Third World Nations to establish a new regime for ocean space. The creation of machinery to administer ocean



space beyond national jurisdiction and its resources would be an important institutional step in the direction of the new economic order.

## INDUSTRIALISATION

The last of the Conferences was that on industrialisation held in Lima in March this year where during a marathon final meeting that began on March 26 an hour before midnight and ended the next morning, there were no less than ten roll-call votes, as weary delegates recorded their "differences on fundamental points of principle". And the adoption of the Lima Declaration and Plan of Action on Industrial Development and Co-operation was also by a vote of 82 in favour, one against and seven abstentions. The United States voted against; Belgium, Canada, the Federal Republic of Germany, Israel, Italy, Japan and the United Kingdom abstained.

The main theme of the Third World countries was that the existing forms and level of international co-operation were not sufficient to cause the major changes they wanted in the industrial map of the world. If their seven per cent shares of world industry was to be raised to 25 per cent in as many years, there would have to be radical changes, in traditional concepts. Economic growth in poor countries could no longer be seen as an appendage to growth in the richer ones, for this would lead to a widening gap between them.

To close the gap, the economies of developing countries would have to grow faster than those of the developed countries. With this end in mind, the Lima Declaration set out "the main principles of industrialization" and defined "means by which the international community as a whole might take broad action" to establish a new international economic order. It envisages a process of "continuous consultations" in redeploing world industry and bringing about a new international division of labour. And it recommended that UNIDO be made a United Nations Specialized Agency with a new "industrial development fund" and undertake the central co-ordinating role in this.

## THE ECONOMIC REVIEW AND THE NEW ECONOMIC ORDER

This is sixth issue of the *Economic Review* and this month's cover story allows us the opportunity of explicitly recording the *Review's* outlook which is one of an identity of views with the aspirations of the New Economic Order.

Since the early 1970s there has been a radical awareness of their plight by the Third World nations as was evidenced in their strong positions in several conferences like the UN Conference on the Environment in Stockholm, the UN Population Conference in Bucharest, the UN Food Conference in Rome, the Non-aligned Conference in Algiers, the Conference on the Law of the Sea and the UN call for a New Economic Order. Sri Lanka not only voted for the Third World position at all these conferences but was an active participant.

From its first issue, the *Review* has emphasised the new mood of urgency and militancy of the Third World starting with Professor Helleiner's article "The New Mood of the Third World."

It has been our consistent aim to place before our readers all the facts pertaining to these issues. Our aim has been to de-mystify and de-elitise complex issues by providing material drawn from UN and Third World documents.

Another important facet that guides the *Review* is the realisation in many centres of academia that the tools of socio-economic analysis are themselves changing. We are witnessing the process of the old analytical tools collapsing and new ones being born, and the *Review* will strive to bring to its readers these new concepts and ideas. For, we believe that Sri Lanka should be in the forefront of not only the emerging New Economic Order but the emerging New Academic Order.

A third over-riding factor that governs the *Review* is to provide facts and interpretations as and when they emerge in various centres of analysis in the world. It is our firm belief that our readers should have access to this information at the same time as their brethren in the rich countries and not many years later as happens in the existing division of labour in the world.

### The Background

The international debate fostered by these conferences brought to the fore the problems related to food, population, environment, raw material resources, industrialisation and technology, and economic and monetary matters. But underlying them all were the need to come face to face with the international crisis—namely, that of a system of unequal economic relations between a few dominant countries and the majority of dominated countries. The current Seventh Special Session was thus the

logical outcome. The background to this session is best stated in these few bare statistics.

- A banana exporting country gets only 70 cents of the \$6 price paid abroad for a box of its produce....
- Seventy per cent of the world's people get only 30 per cent of the world's income....
- The net transfer of financial resources from rich to poor countries amounts to about one-thirtieth of the world's annual military expenditure....

### THE EXISTING ECONOMIC ORDER: Some significant facts.

Within the existing Economic Order of exploitation, the world distribution of population and income changed drastically between 1850 and 1960. The world population increased 2½ times but world output increased nine fold. However, while output of the industrialised countries increased by 2000%, the output of pre-industrial countries increased only 300%. The now industrial countries with a quarter of the population produced only 1/3rd of the world output, in 1850 whereas by 1960 they accounted for four-fifths of world income. World distribution of population and income 1850-1960

Areas	Population share%		Income share%	
	1950	1960	1850	1960
Industrial economies	26%	28%	35	78
Pre-industrial economies	74%	72%	65	22

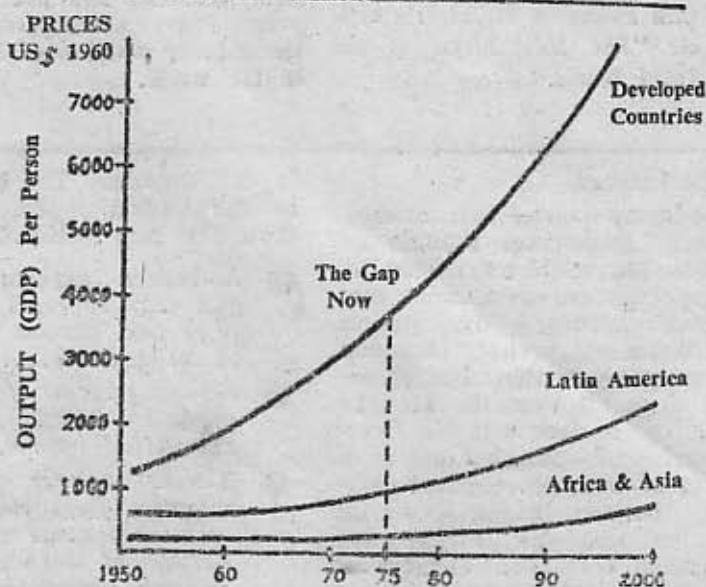
Source: Patel, *The Economic Distance between Nations*,

The gaps between rich and poor nations continue to diverge and under the present Economic Order, the poor countries will never catch up. The United Nations has estimated that the rate of growth per head in African developing countries at only 1% per annum for the period 1960 to 1966. This means that for these countries to reach present British levels of per capita income, it will take 273 years and to reach present U.S. levels it will take 343 years. During that time the rich countries would not have been standing still, they would have been growing and at a faster rate.

Dr. A. P. Thirlwall (University of Kent) has produced some interesting statistics on the problem of "catching up". For the majority of developing countries "catching up" is unrealistic as their growth rates are less than those of the rich countries. But even for those economies with faster growth rates, the outlook is dismal. For instance on the basis of recent growth rates it would take 194 years for Malaysia to close the gap between itself and U.S. For Malawi 727 years and for Pakistan 1760 years. It should be emphasised that these figures relate to a future based on the Old Economic Order existing.

Dr. Richard Jolly of the Institute of Development Studies has quantified some of these trends and the graph below gives a full picture of the growing gaps.

### THE WIDENING GAP



### The Position of Developing Countries

There is one overwhelming problem the poorer countries of the world have declared they have in common, and this is the prevailing system of international economic relations which operates consistently against their interests.

This system sets at naught all attempts to close the gap between the rich and poor countries of the world; instead, it encourages the gap to widen. Under the existing system, developing countries have little control over matters of vital concern to them. Global monetary and trade policies are decided without enough attention to their interests. Their natural resources are exploited with minimal benefit to their own. Foreign markets for their products are limited, and their main export commodities subject to unpredictable price fluctuations. The forces of science and technology in the world are concentrated on raising the living standards of the rich, and even when they could be applied to the problems of the poor the cost is set prohibitively high.

The developed countries have benefited from centuries of exploitation of the labour and natural resources of other nations. Much of the progress of developed countries was, and is still, being paid for by poor countries, and it is time, for the debt to be repaid. And repaid not by aid alone, but by changing the outdated and unfair rules of the game. Under the existing system, as Nigeria's representative in the United Nations Conference, on Trade and Development (UNCTAD), Mr. Akporode Clerk pointed out, that the "aid" given to developing countries was more than offset by the underpricing of their commodities sold to developed countries. "The developing countries cannot continue to aid the developed countries to live above their means", he said.

### Two Different Approaches

The response of countries to the call for a New International Economic Order has been varied, but two

broad approaches can be identified. One argues that the existing economic situation is worth preserving because it has, over the past quarter century, served the world enormously well. The growth of the world economy after the Second World War is unprecedented. This growth has been based on four essential elements, it is argued: (1) Open and expanding trade; (2) Free movement of investment, capital and technology; (3) Readily available supplies of raw materials; and (4) Institutions and practices of international co-operation. Changes that would restrict the capacity of any of these elements to contribute to growth would, according to this view, only retard global development.

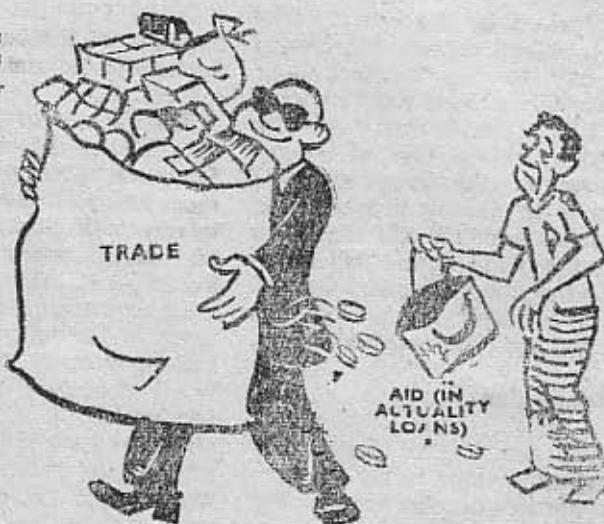
Those who hold this view also contend that much more than global economic development is at issue. As Mr. Kissinger told the Ministerial meeting of the Organization for Economic Co-operation and Development (OECD) in Paris in May 1975, "these issues go far beyond economic considerations. Economic stagnation breeds political instability. For the nations of the industrialized world the economic crisis has posed a threat to much more than our national income. It has threatened the stability of our institutions and the fabric of our co-operation on the range of political and security problems. Governments cannot act with assurance while their economies stagnate and they confront increasing domestic and international pressures over the distribution of economic benefit. In such conditions the ability to act with purpose — to address either our national or international problems—will falter."

The other approach was summed up by the Netherlands, Prime Minister, Mr. J. den Uyl, in an address to an international symposium on the Seventh Special Session (23 May 1975). "One cannot but agree that the growth of the gross world product over the last three decades has been enormous", he said. "But at the same time we have witnessed failures as a result of today's system... the uneven distribution of income between States and within countries... in-

#### TRADE NOT AID

Adverse trade terms offset 'Aid' benefits

Over the period of nine years from 1963 to 1971 the loss of foreign exchange earnings due to the adverse terms of trade calculated on the same basis of the price received in 1962 was approximately £ 110 million. Figures for British aid to Sri Lanka are not available for 1963 but between 1966 and 1971 Britain gave Sri Lanka "aid" in the form of loans to the value of £ 24.9 million.



creasing destruction of our environment... and a threatening scarcity of resources, caused by unlimited exploitation."

"Our system is not one of pure free enterprise and free markets—it is guided and manipulated in many respects.

"Against the principle of open and expanding trade we witness a tariff system with low tariffs for raw materials and high tariffs for industrial products, blocking the industrialization of the poor countries.

"Against free movement of capital we know at the same time that capital creation and credit systems are dominated by the United States and Europe, today joined by some oil producing countries.

"Against free movement of technology there is a system of regulations for ownership of patents, in fact restricting the use of these patents to rich countries.

"Against the notion of readily available raw materials we witness threatening scarcity.

"This illustrates that the international economic system is not as free as is often said, and that our choice is not one between a free

system based on free enterprise and a completely planned economy. Our real choice is between our present system which is largely guided and manipulated for the benefit of the rich countries and a system directed towards solving the problems of division of income and property, of scarcity of natural resources, and of the despoiled environment".

#### The Issues

In preparing for the Seventh Special Session, there was a general attempt to focus on important issues on which practical agreements were possible. Six broad topics were identified for discussion during the two-week session. They were:

- International trade;
- Industrialization;
- Transfer of resources to finance development and Monetary Reform;
- Science and technology;
- Agricultural Development; and
- Restructuring of the United Nations system.

#### International Trade

Most developing countries depend heavily on the trading of their raw materials and commodities to

finance their development. Few of them produce oil or other materials highly priced in the international market. Most cannot be certain from day to day whether their exports will fetch reasonable prices or will be subject to weak demand and falling prices. One of the key objectives of the Programme of Action is to redress this situation and to link (or "index") the prices of exports from developing countries to the prices of their imports. This is a major issue between developed and developing countries.

### **Industrialization**

Only 7 per cent of the world's industry now exists in the developing countries of the world. The rest is concentrated in the richer countries where, as a result, the pollution of the environment is a major and growing concern. Under this system, the developing countries export most of their raw materials to be processed in the developed countries, losing for their own people the employment and the affluence that manufacturing industries provide. A call for change was made in March 1975 when the Second General Conference of the United Nations Industrial Development Organization (UNIDO), meeting in Lima, issued a Declaration and World Plan of Action.

The Lima Declaration calls upon the developed countries to eliminate barriers to trade with developing countries and encourage their manufactured exports. They are asked to "restructure" their industries in order to deploy production capacity to developing countries and to expand technical assistance programmes. They are also asked to co-operate in ensuring that the activities of transnational corporations conform to the economic and social aims of developing countries in which they operate. They are further asked to avoid discriminatory and aggressive acts against States which exercise sovereign rights over their own natural resources. All these recommendations are, in differing degrees, matters of controversy. But encouragingly, there is no questioning of the general direction of change recommended — that of

industrializing the poorer countries.

### **Transfer of Resources and Monetary Reform**

The Charter of Economic Rights and Duties of States urges all States to respond to the development needs of developing countries by promoting increased net flows of real resources. It proclaims all States juridically equal, having the right to participate fully and effectively in the international decision-making process in the solution of world economic, financial and monetary problems. Under the Charter, all States have the duty to promote general and complete disarmament under effective international control and to utilize the resources freed by disarmament measures for development allocating a substantial portion of such resources as additional means for developing countries. The international community is asked to pay special attention to the particular needs and problems of the least developed, land-locked and island developing countries.

### **Science and Technology**

The Programme of Action declares that all efforts should be made to formulate an international code of conduct for the transfer of technology corresponding to needs and conditions in developing countries, to improve their access to modern technology adapted to local conditions, and "to expand significantly the assistance from developed to developing countries in research and development programmes and in the creation of suitable indigenous technology". Commercial practices governing transfer of technology also must be adapted to requirements of developing countries, the Programme adds.

### **Agricultural Development**

The agricultural sector lies at the heart of the development problems of many countries. It accounts for the production and income of the bulk of their populations; it is the source of food supply and raw materials for industry; and in most developing countries it is a

major earner of foreign exchange and source of domestic savings. A vicious circle of poverty, under-employment, ignorance and ill health characterize the rural sector in many developing countries, preventing the increase in production necessary to fuel strong and continued economic growth.

Solutions to the problems of agricultural development lie predominantly in the domestic area of national policy but, as was evident at the World Food Conference in Rome last year, there are unavoidable international aspects. The agricultural situation is complex not only in technical terms but in terms of its human and institutional aspects, and in its relationships with other sectors of the national and international economy. While each country has its own unique combination of resources, problems and objectives, the rest of the world can provide vital support not only in the technical field but in accommodating for pressures on the country's balance of payments and in planning agricultural policies for general benefit. It is evident now that national policies of both developed and developing countries would gain from a systematic international consideration, at least in respect to the implications for trade in agricultural inputs and output.

### **Restructuring the United Nations System**

Proposals for re-ordering the economic and social aspects of the United Nations structure have been made by an international group of 25 experts who were nominated by governments but acted in their individual capacity. Their report, entitled "A New United Nations Structure for Global Economic Cooperation", will form the basis of discussions on the structure of the United Nations system.

The expert group made two kinds of proposals for change. One set of proposals deals with the way the General Assembly, its committees and the Economic and Social Council conduct their deliberative and policy-making work. The other set of proposals

deals with the implementation of the U.N. system's action programmes.

### TOWARDS THE NEW

The demand for a new international economic order must be seen, however, in its proper historical perspective. On one level of reasoning it is a natural evolution of the philosophy already accepted at the national level: that governments must actively intervene on behalf of the poorest segments of their populations (the bottom 40 per cent) who will otherwise be bypassed by economic development.

On yet another level the search for a new economic order is a natural second stage in the liberation of the developing countries. The first stage was marked by movements of political liberation from the 1940's to the 1960's; the second stage constitutes a struggle for not only political but economic equality, since the former is unattainable and meaningless without the latter. The demand for a new international economic order must be seen, therefore, as part of a historical process.

Much of the world has not yet emerged from the historical consequences of almost five centuries of colonial control which concentrated economic power so overwhelmingly in the hands of a small group of nations. To this day, at least three quarters of the world's income, investment, services and almost all of the world's research are in the hands of one quarter of its people.

The solution of these problems cannot be left to the automatic operation of market mechanisms.

In the international system the powerful nations have secured the poor countries' raw materials at low prices (for example, the price of petroleum fell decisively between 1950 and 1960), they have engrossed all the value added from processing the materials and they have sold the manufactures back, often at monopoly prices.

At the same time, the very cheapness of the materials was one element in encouraging the industrialized nations to indulge in careless and extravagant use of the imported

materials. Once again, energy is the best example. Oil at just over a dollar a barrel stimulated a growth in energy use of between six and eleven per cent a year. In Europe the annual increase in car registrations reached twenty per cent.

Indeed pre-emption by the rich of a disproportionate share of key resources conflicts directly with the longer term interests of the poor by impairing their ultimate access to resources necessary to their development and by increasing their cost.

These unequal economic relationships contribute directly to environmental pressures. The cheapness of materials has been one factor in increasing pollution and encouraging waste and the throw away economy among the rich. And continued poverty in many-developing countries has often compelled the people to cultivate marginal lands at great risk of soil erosion or to migrate to the physically degraded and overcrowded cities.

Exploitation has been in existence for thousands of years and its modern forms have evolved through centuries. But *two new elements* now give a political dimension to the hope for change:

The decision of OPEC to multiply the price of oil, if seen in the proper perspective. Its importance lies—more than in the price increases—in its character as a historic reversal. In October 1973, the oil-exporting countries put an end to an era which had begun with what the West calls the 'great discoveries'. For the first time since Vasco da Gama, mastery over a fundamental decision in a crucial area of the economic policy of the centre countries escaped their grasp as certain peripheral countries wrested it from them.

The outcome of the events in Indochina, where the peasants, spurred on by their will for independence, organized and freed themselves from the most formidable military and technological power that the world has ever known.

In these circumstances, the basic question is obvious, 'either cooper-

ation or chaos', as stated by the Mexican President Echeverria,

### WORLD BANK VIEWS THE DISPARITIES

Robert McNamara in his September 1975 annual presidential address to the Board of Governors of the World Bank, made this point strongly when he said:

"Last year within this forum I outlined the problems imposed upon the developing countries by worldwide inflation, deterioration in their terms of trade, and stagnation in their export markets. In the intervening months these threats to development have not abated. They have grown more ominous.

"The one billion people of the low-income nations have become the principal victims of the current economic turbulence. They did not cause it. By themselves they cannot change it. And they have little margin to adjust to it. Granted all they can and must do to work out their own problems, they desperately need additional external assistance.

"But underlying this emergency situation—and partially obscured by it—lies the more fundamental problem of poverty itself, and the need to shape an effective strategy to deal with it.

"What is required is a strategy that will attack absolute poverty and substantially reduce income inequities, not merely through programs of welfare, or simply through redistribution of already inadequate national wealth, but rather through measures designed specially to increase the productivity of the poor.

"If we survey the global development scene today, it is clear that most of our developing member countries are caught up in a critical situation. The consequences of the continuing worldwide inflation, the sudden surge in the cost of oil, the deterioration of their terms of trade, and the prolonged recession in their export markets have combined to endanger their economic future. The net effect of these external forces has been to reduce

their prospective rates of economic growth, while increasing their foreign exchange requirements.

"And it is the very poorest countries, countries that collectively contain a billion human beings, which face the bleakest prospects—the prospects of virtually no increase at all in their desperately low per capita incomes for the rest of the decade.

"It is important to comprehend what this stagnation really means in the life of an average individual in a poor country. It does not mean inconvenience, or a minor sacrifice of comfort, or the simple postponement of a consumer satisfaction.

"It means struggling to survive at the very margin of life itself.

"Statistically, the stagnation means that for a billion people, per capita incomes, in constant prices, will grow from \$105 in 1970 to \$108 in 1980. The comparable figures for the peoples of the developed world are \$3,100 in 1970 to \$4,000 in 1980.

"Over an entire decade, a \$3 increase versus a \$900 increase.

"Over an entire decade, a \$3 increase versus a \$900 increase.

"The 725 million human beings in the middle-income developing countries are also facing a far more difficult situation than we anticipated a year ago. Unless the foreign exchange available to them can be substantially increased, their per capita incomes too will inch forward at a wholly unacceptable pace.

"Are those in the developed world going to conclude that they cannot find it within their collective capacity to make a modestly greater effort to help save several hundred million people from a degree of deprivation beyond the power of any set of statistics even remotely to convey?

I cannot believe so.

"I cannot believe so because what is involved for the developed nations is not the diminution of their already towering standard of life. All that is required in order to assist these peoples so immensely less privileged is a simple willingness to dedicate a tiny percentage of the additional wealth that will accrue to the developed nations over the next five years."

## U. N. ADOPTS RESOLUTION

The General Assembly adopted on September 16th a unanimous resolution on the New Economic Order.

On the question of raw material and commodities, the developing nations dropped reference to market "intervention" arrangements as a form of support for remunerative prices. The U.S. and West Germany opposed the idea of disturbing market mechanisms, but accepted the need for appropriate international stocking and "other forms of market arrangements" to secure stable and equitable prices of commodities.

The developing countries also succeeded in obtaining mention of "direct and indirect indexation schemes" as options to preserve their purchasing power in world trade.

The U.S. proposal of a development security facility to stabilise export earnings, with the provision of conversion of loans into outright grants, was noted.

On the question of transfer of resources, the developing nations received confirmation from the developed countries that the latter remained committed to the aid target of 0.7 per cent of their GNP. However, the proposed time-table to reach this target by 1978 was stretched to the end of the decade.

Developed countries confirmed their continued commitment in respect of the targets relating to the transfer of resources, in particular the official development assistance target of 0.7 per cent of gross national product, as agreed in the international development strategy for the second United Nations development decade, and adopted as their common aim an effective increase in official development assistance with a view to achieving these targets by the end of the decade.

The eight-chapter document urges the need for the establishment of a

link between special drawing rights and development assistance.

It also envisages the establishment of a trust fund to be financed partly through the International Monetary Fund gold sales and partly through contributions, and be governed by an appropriate body, for the benefit of developing countries.

On the problem of increasing debt burdens faced by developing countries, the document directs the UNCTAD IV, to be held at Nairobi this year, to consider the need for convening, as soon as possible, a conference of major donor, creditor and debtor countries to devise ways and means to mitigate the burden, with special attention to the plight of the most seriously affected countries.

On international trade, the approved document urges that an important aim of UNCTAD IV should be to reach decisions on the improvement of market structures in the field of raw materials and commodities of export interest to the developing countries, including decisions with respect to an integrated programme and the applicability of elements thereof.

On food and agriculture, the approved document suggests that in order to make additional resources available on concessional terms for agricultural development in developing countries, developed and developing countries in a position to do so should pledge on a voluntary basis substantial contribution to the proposed international fund for agricultural development so as to enable it to come into being at the end of 1975 with initial resources of one billion SDRs. Thereafter, additional resources should be provided to the fund on a continuing basis.

All states should co-operate in evolving an international code of conduct for the transfer of technology, corresponding, in particular, to the special needs of the developing countries.

A U.N. conference on science and technology for development should be held in 1978 or 1979 with the main objective of strengthening the technological capacity of developing countries.

There is an urgent need to formulate national and international policies to avoid the "brain drain" from developing to developed countries.

On industrialisation, the document endorses the Lima declaration and plan of action on industrial development co-operation and requested all government to take necessary measures.

#### EFFECTS ON SRI LANKA

Many of the approved proposals have special applicability to Sri Lanka which comes under the category of the most seriously affected. The proposals relating to trade, development assistance, science and technology, and food and agriculture are of particular value to us.

Sri Lanka's position of setting up a trust fund, to be financed partly through IMF gold sales, for the benefit of the developing countries was accepted.

Poor countries facing a shortfall in income from traditional exports could look for help from the compensatory financing facility. The IMF will have to take the final decision regarding this facility but now the U.N. has given the political mandate. Loans could be converted into grants under the same facility.

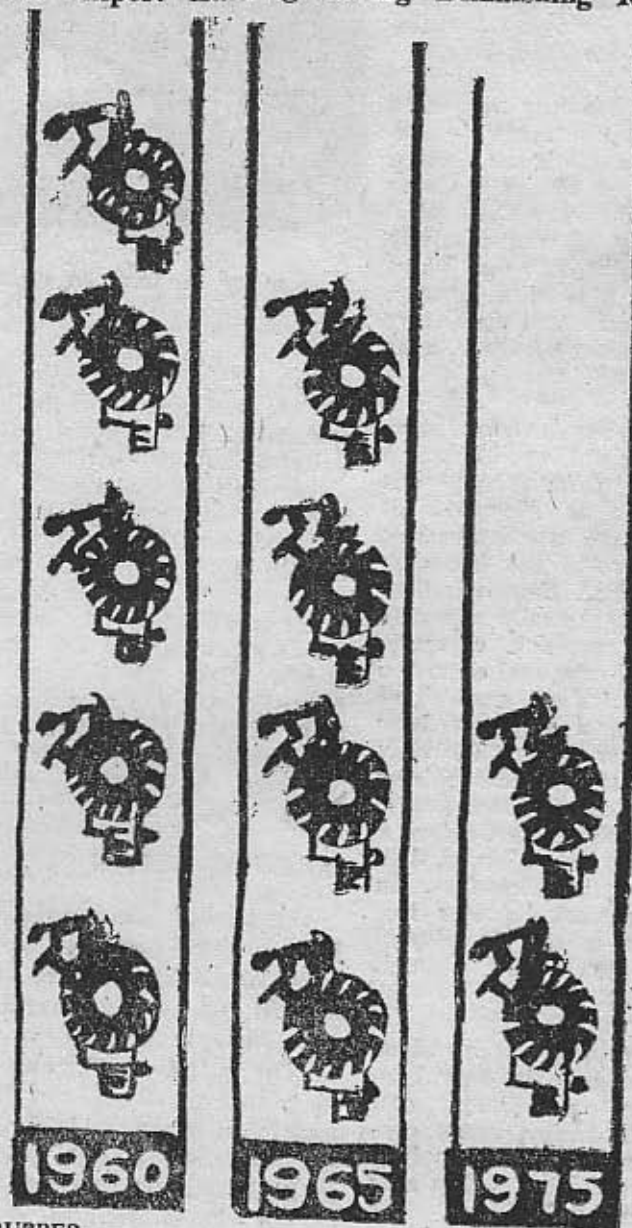
The document calls upon developed countries to enlarge the flow of concessional financial resources to developing countries in order to assist them in the implementation of their long-term programmes for economic and social development.

On transfer of real resources, the document urges that financial assistance should, as a rule be untied.

*"If the poor nations had been able to exercise the same degree of control over the processing and distribution of their exports as the rich nations at present do and get back a similar proportion of the final consumer price, their export earnings from their primary commodities would be closer to \$150 billions than the present \$30 billions."*

Christian Science Monitor

### Our Export Earnings Bring Diminishing Returns



#### RUBBER

*For 25 tons of exported rubber Sri Lanka could import six tractors but inflation has taken its toll. Some years ago it was not too bad, in 1964 and 1969 you still got four or three tractors. But the recent inflation (1975) has reduced the value of earnings to only two.*

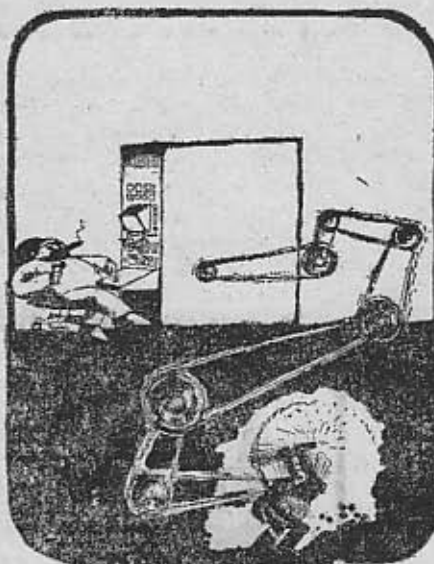
## THIRD WORLD PRESSURE PAYS . . .

At the end of the Special Session on the 16th September a compromise resolution was adopted at the United Nations (see box) incorporating some of the demands of the Third World. This is a strong indication that Third World attempts at a world redistribution of wealth, which only two years ago was generally laughed at in the rich countries have now been accepted because of the emerging bargaining strength of the Third World.

This change is amply seen when one considers the coverage given to the Special Sessions in the Western Media. *Newsweek* carried a Cover Story titled 'The New Cold War' which generally takes a relatively sympathetic view of the Third World, although from a Western perspective and it traced the history of how the present demands came to be articulated.

The other leading American international magazine *Time* also carries a Cover Story which although not so sympathetic as *Newsweek* at least brings to the consciousness of the Western world the issues at stake. The British *Economist* likewise carries a generally adequate although still pro-rich coverage. Of the regional news and economic journals, the Indian ones have naturally taken a very pro New Economic Order stance. The only glaring note was from the Hong Kong based *Far Eastern Economic Review* which in a column has taken a stand more anti Third World, than the Western media themselves. In the following week however this magazine in a sharp editorial censured the US stand. capital.

The U.S. position itself which is basically against the New Economic Order on fundamental grounds ("The United States cannot and does not accept any implications that the world has now embarked on establishment of something called the new international economic order" Mr. Kissinger stated in the U.N. on September 16th) has now softened its stand and has come nearer



*A view of the existing order*

the less hard position of the European states. This although not sufficient a shift to bring an equitable distribution of the world's wealth is a notable change of tone from the hard line U.S. stand only a few months ago. Thus U.S. Ambassador to the U.N. Daniel Moynihan in his much publicised *Commentary* article a few months ago made a frontal attack on the cry for a New Economic Order and U.S. State Secretary Kissinger himself has gone on record many times justifying the existing economic order.

### LOOKING AHEAD

The session just concluded has been a partial success from the Third World viewpoint and indicates a rapid rise of the strength of its voice during the last three years. The various world conferences beginning from the Stockholm Environment Conference in 1972 through the Algiers Non-Aligned Conference in 1973 upto the Special Session of the United Nations just concluded are milestones in the Third World's growing awareness of its problems, and of its growing self confidence and militancy. The most

crucial among these various conferences was the Algiers Non Aligned Conference in 1973 in which Algeria on the basis of carefully and laboriously worked out documents on the state of the Third World presented the basic position of the New Third World line.

As economist Mahabub Ul Haq has stated, the call for a New Economic Order is not a one shot affair, but a continuing dialogue. Its ultimate end is the equality between all nations where the standard of living for example of the average U.S. or West German citizen — the richest today (with their present two car, colour television, appliance loaded once-a-year, vacation abroad, life) is the equal of say the average Sri Lanka and Indian living standard (with its present over crowded buses, low per capita consumption of food and the sceptre of unemployment hanging overhead).

In this endeavour of the Third World there are many more meetings and conferences to come in the near future. For example a crucial one in the coming weeks is the Paris meeting of the Oil Producers and Consumers where again an attempt is made to improve the Third World position. The high point in the coming years will have to be — specially in light of the role played by the last Non Aligned Conference, the forthcoming Non-Aligned Conference in Sri Lanka. It would be our historic duty to take the torch lit by Algiers and advance it further in the coming conference. This would mean much work involving hard research into various rich-poor relationships and would imply the mapping of new strategies. During the last 3 years the Algerian work has borne much fruit and we and the other Third World countries are the beneficiaries there from. The mantle now can fall on Sri Lanka for mapping out the overall Third World strategy for the next few years.



## THE ECONOMY

### Fluctuations in the value of the Rupee

Since July 1972, the Sri Lanka Rupee has been linked to the Pound Sterling at the rate of Rs. 15.10 per one Pound Sterling. Our exchange rate system is based on this official rate with the Sterling. Exchange rates for other currencies are determined on the basis of the London market rates for these currencies. Under this system, while the Rupee-Pound rate remains fixed, the value of the Rupee fluctuates with the changes in exchange rates between the Pound and other currencies. Any weakening of the Pound, for example, as a result of continuing balance of payments problems or a relatively higher rate of inflation in UK, or any strengthening of other major currencies such as the US Dollar as a result of an improved economic outlook in the US, would lead to a depreciation of the Sri Lanka Rupee against these other currencies.

For example in 1973 there was a mild depreciation of the Rupee vis-a-vis most other foreign currencies. The exchange rate with the US Dollar, for example, changed from Rs. 6.40 at the end of 1972 to Rs. 6.75 at the end of 1973, denoting a depreciation in the value of the Rupee by about 5 per cent.

On the other hand, in 1974, when several important currencies depreciated in relation to the Pound Sterling, the Rupee appreciated against these currencies. The appreciation was particularly marked in relation to the Australian Dollar, the Japanese Yen and the Italian Lira. There was an overall appreciation of the Rupee by about 3 per cent against other foreign currencies.

In 1975 there have been some marked fluctuations in the value of the Rupee particularly in relation to the US dollar and by the end of August the Rupee had depreciated to the extent of 10% vis-a-vis the US Dollar. The important factor behind these exchange rate fluctuations has been the changes in the

economic situation and outlook in UK and USA. During January-March 1975 when the US economy was passing through a period of economic stagnation characterised by a drop in industrial production and a sharp rise in unemployment coupled with a high rate of inflation the US Dollar depreciated against most other currencies including the Pound.

### CHANGES IN THE RUPEE-DOLLAR EXCHANGE RATE

	Rs. per \$	US Cts per Re.
End 1972 .. .. .	6.40	15.63
End 1973 .. .. .	6.74	14.83
End 1974 .. .. .	6.69	14.95
1975 Jan. 29th .. .. .	6.50	15.34
Mar. 5th .. .. .	6.41	15.61
Apr. 4th .. .. .	6.55	15.26
May 14th .. .. .	6.79	14.73
June 19th .. .. .	6.87	14.56
End Aug. .. .. .	7.39	13.53

The exchange rate rose from £1 = \$ 2.33 at the end of 1974 to £1 = \$ 2.43 in March 1975. There was a corresponding appreciation of the Sri Lanka Rupee from Rs. 6.69 per US \$ to Rs. 6.41; an appreciation of 4.4%. In the later months, there was a general deterioration in the economic prospects in UK with growing trade deficits, a high rate of unemployment and a high inflation rate. These factors depressed the value of the Pound. In addition, clear signs of economic recovery appeared in US which strengthened the US \$ against practically all major currencies. The result was a drop in the value of the Pound to US \$ 2.11 by the end of August. There was a corresponding drop in the value of the Rupee vis-a-vis the US Dollar. The exchange rate at the end of August (Rs. 7.39 per US \$) represented a drop of about 10% from the level that prevailed at the end of 1974.

So long as the rate of inflation in UK continues at a higher level than in other industrialised nations, the chances are that the value of the Pound would go down further. Most analysts expect the Pound to fall to the level of US \$ 2 (that is 50 pence per dollar) unless the rate of inflation in UK is sharply brought down. If this happens the Sri Lanka Rupee would depreciate

further to Rs. 7.80 per Dollar which is a depreciation rate of about 14% from the end of the 1974 level. Thus, although Sri Lanka has not officially devalued the Rupee, world currency fluctuations have in effect led to a depreciation of the Rupee against most other foreign currencies except the Pound Sterling. The economic outlook in UK, in particular the success with which the inflation is controlled in that country, has turned out to be a major determinant of the value of

the Rupee against other foreign currencies.

### Emergency food aid for Maldives - Sri Lanka helps with stocks

About one third of the population of the Maldivian Islands will receive free rations from the World Food Programme (WFP) because of a dwindling tuna catch. The Republic of Maldives earns practically all of its annual \$3 million in foreign exchange by exporting dried tuna. One third of the earnings pays for the import of cereals and other foods.

As the average catch has fallen from 5,000 tons per year to about 3,000 tons and the food bill has risen due to higher prices, semi-starvation has struck about half the 190 inhabited islands. Normal schools of tuna have not arrived this year for causes not ascertained.

To supplement the rations provided by the Government from its resources, the Food and Agriculture Organization has approved \$496,000 emergency aid for four months for 37,250 people. The Government of Sri Lanka, in spite of its own needs, has agreed to the immediate shipment of the food from WFP and national stocks held in the country, according to the U.N. Chronicle of July 1975.

### INFLATION and the developed

During the last several years prices in the OECD countries have been rising at an accelerating rate. In 1974, the average rate of increase of prices worked out to the alarming figure of 15 per cent. In the six months ended May 1975 the rise in consumer prices in OECD dropped back to an annual rate of about 10 per cent. This was mainly due to the declining raw material and food prices and the stabilisation of oil prices. But prices have failed to drop as much as they are expected to fall in the recession, the exception being Japan, where the sharpest deceleration in inflation rate was registered.

Most member states of the Organisation for Economic Cooperation and Development succeeded in reducing their inflation rates for the year ending in June, compared with the previous May figures. But both Britain, with the second-highest inflation rate, and West Germany, with the lowest, suffered increases, along with Canada, New Zealand, Norway and Luxemburg.

Britain's rate jumped to 26.2 per cent, for the 12 month period, from 25.2 per cent in May. An OECD report says, West Germany's rate increased marginally from 5.9 per cent to 6 per cent, but it still was two full points better off than other members.

#### INFLATION RATE FOR JUNE

(May figures in brackets)

W. Germany	6.0	( 5.9)
Switzerland	8.0	( 8.2)
Austria	8.3	( 8.2)
US	9.3	( 9.5)
Netherlands	10.3	(10.4)
Canada	10.4	(10.1)
Denmark	10.6	(12.0)
Luxembourg	10.7	(10.1)
Sweden	10.6	(10.9)
France	11.7	(12.1)
Norway	12.0	(11.5)
Japan	12.9	(13.6)
Belgium	12.5	(13.7)
New Zealand	14.9	(13.2)
Australia	16.9	(17.6)
Spain	17.0	(17.1)
Finland	18.1	(18.1)
Italy	19.0	(19.7)
UK	26.2	(25.2)

Those nations benefiting from the next lowest rates were Switzerland (8 per cent) Austria (8.3 per cent) and the U.S. (9.3 per cent).

In the case of Iceland, the latest inflation figure given in the report was the May figure of 47.4 per cent.

Denmark and Belgium showed the biggest improvement in their inflation figures between May and June, according to the report.

OECD members as a group registered an overall rate of 11.9 per cent inflation in the year ending in June 1975 compared with 12.1 per cent for the year ending in May.

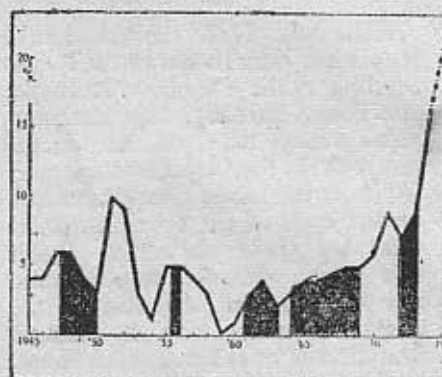
### SRI LANKA'S INFLATIONARY TREND

Measurement of the rate of inflation in Sri Lanka has always been a problem in the absence of representative retail and wholesale price indexes. The only indicator is the cost of living index.

The cost of living index itself shows a fairly substantial increase from 150.8 in December 1972 to 183.8 in June 1974 which is an increase of 22 per cent in a matter of 18 months. In no earlier period has the cost of living increased to this extent. If reference is made to the price increase since the year 1960, the cost of living had at the most increased by about 2 points each year up to 1968. From 1968 onwards, prices began to rise a little faster and between 1968 and 1972 the cost of living index rose by about 8 points yearly with the exception of 1970 when the increase was only 3 points.

It may be useful to attempt to isolate the various sources of inflation in the country. One factor that has been given emphasis upto now has been the high prices of imports. Inflation has hit the economy very hard because of the country's heavy dependence on food imports. Apart from this, there have also been scarcities of food-stuffs which are exclusively produced at home and only indirectly related to imports because some of the items required to make them may have to be imported. There have also been

Britain's Inflation Rate

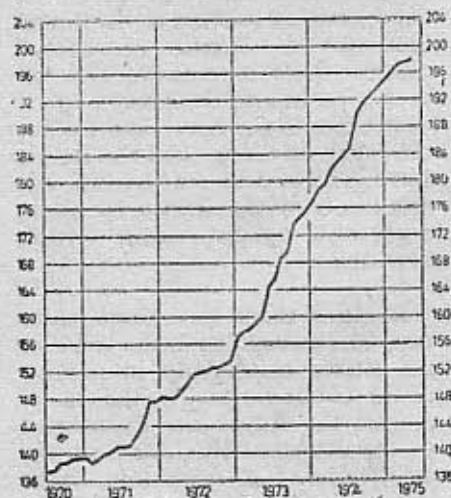


Sources: Lloyds Bank Review

price increases which have been caused by autonomous wage increases that have been confined to particular sectors of the economy, according to the Central Bank Staff Studies.

The Colombo Consumers' Price Index for the month of May 1975 stood at 198.0 recording an increase of 0.15 per cent over the previous month's figure of 197.7. This was due to an increase of 0.24 per cent in the sub-index for food. The indices for clothing, fuel and light rent and miscellaneous items remained unchanged.

Colombo Consumers' Price Index



Source: Central Bank Monthly Bulletin

## Untapped potential of the Coconut Zone

It is widely acknowledged that over 1 million acres of land under coconut need no longer continue to be exclusively occupied by a coconut mono crop — the crop which has traditionally been labelled the 'lazy man's crop'. Some efforts are being made already to bring this vast area under an intensive programme of mixed farming that will not only contribute to increased food production but also generate more employment from the coconut lands while maintaining a steady production of coconuts. Such efforts at introducing additional enterprises under coconut have been successfully attempted in several countries (in India - Kerala) while even in this country examples of intensive land use under coconut are numerous.

### Lazy Man's Crop

The total extent of nearly 1.2 million acres of coconut accounts for almost double the acreage under tea and rubber. Even the total extent under paddy - the basic food crop of the country — is slightly less than the extent under coconut.

tea accounts for over 3 times its value. On the other hand, unlike tea and rubber, the coconut industry is essentially indigenous. More than 65% of the holdings are below 20 acres in extent. The holdings over 50 acres in extent account for only a little more than a quarter of the total.

Generally the small scale sector of coconut cultivation has been very inefficient and even the estate sector, as shown by several recent studies, has not been run so efficiently. The cultivation of coconut and the maintenance of plantations generally involve very little labour and supervision. This is one reason why coconut cultivation as a source of investment had been most popular among Ceylonese planters.

The low maintenance requirements allowed a high degree of absenteeism among the owners which in turn contributed to the poor productivity of these estates. The average yield per acre is around 2,500 nuts which in most cases, as research has pointed out, could be more than doubled. The employment generation capacity under low

ture and sunlight especially in plantations less than 5 years and over 20 years in age to be capable of introducing a variety of other enterprises. To overlook the potential of putting such land to maximum use is totally unjustifiable in the present day economic and social circumstances of the main coconut growing areas of the country. One may even wonder whether some of the present coconut lands in the over-crowded wet zone areas should in fact, have been planted at all with a crop like this. The importance of coconuts as a national foreign exchange earner cannot however be underestimated and it should continue this role in the future as well. While conceding this fact, of paramount importance is the use of these lands in the most efficient and productive manner. Much discussion is presently being focussed on this.

The possibility of introducing a variety of crops between the palms and of developing livestock farming on a large scale has been pointed out repeatedly by experts and is in fact being successfully attempted in certain areas. It is noteworthy that many an enterprising and pioneering farmer did interplant crops like pineapples, bananas, various tubers and even cash crops (cocoa and coffee) prior to the general awareness of the need and potential in this area.

### Renewed Interest

The production war, no doubt, was largely responsible for eliciting renewed interest in the potential of utilising coconut lands to grow more food. The worsening unemployment situation gave an added impetus to the continued search for untapped employment potential in this zone. The twin objectives of increasing the productivity of land and productive employment which formed the basis of the 1975 Land Reform paved the way for the first serious and organised effort in this direction. The several Janawasas established on Land Reform lands in the main coconut growing areas have clearly demonstrated the feasibility of diversification through a variety of crops and livestock enterprises capable of generating more employment and greater productivity from the land.

*Continued on page 18*

	Tea	Rubber	Coconut
No. acres under Cultivation in 1974 ..	598,466	563,474	1,200,000
Export earnings in 1974 Rs. Mn ..	1,360	738	397

Coconut has a significant place in the national economy as an important foreign exchange earner, as a supplier of industrial raw materials for a wide range of local industries and also as a source of food. 50 per cent of the coconuts produced in the country are consumed locally. Coconut, however, is not a basic requirement in the diet to warrant such a vast area being devoted to this crop.

The contribution of coconut to the GNP is substantial, accounting for 15% of the total output of the agricultural sector and 18% of the industrial sector. However, the value of agricultural output per acre in coconut is the lowest among the three plantation crops;

levels of management of a coconut mono crop has been around one person per every 10 acres, thus making it the lowest employment generator among major crops.

### Untapped Resource

The practice of hitherto restricting the use of coconut lands exclusively for the production of coconut is obviously an instance of extravagant use of our scarce land resources. There is certainly no denial of the fact that the coconut palm is a useful source of food and industrial raw material. But it is clear that the coconut lands are blessed with enough ground space between palms which is fertile and is supplied with adequate soil mois-

The potential for such intensification is more marked in the wet zone coconut triangle with a well distributed rainfall, a dense network of roads and a dense population providing a large market. This zone is thus placed at a distinct advantage as a promising region for a vigorous system of mixed farming with coconut as the main crop. The potential is certainly very much higher in the so called Class II coconut lands which represent the relatively inferior segment of the coconut growing areas.

In coconut lands with sufficient sunlight a variety of crops like pineapples, bananas, passion fruit, sugar cane and many tubers could successfully be grown. Even in lands with insufficient sunlight a variety of shade loving crops could be cultivated. It has been repeatedly pointed out that the introduction of additional crops need not affect the coconut crop if both are properly managed. In some cases they even benefit the coconut crop e.g. pasture.

It is encouraging to note that the Coconut Research Institute itself has recently set up a separate division to work on the possibilities of diversification under coconut.

### Effective Planning and Co-ordination

The need for coconut lands to be more intensively used is undoubtedly an undisputed fact, but the important and difficult question is how best such a programme of intensification could be launched and sustained. Not only should such an attempt include incentives to the farmer through price support policies, credit and marketing facilities and so on, but should be integrated with a programme of adequate technical and scientific support. More intensive research on mixed farming under coconut too is an urgent requirement. Any intensification programme will obviously call for a strengthening of the institutional infra-structure which has hitherto not been geared to this task. This is more so as the bulk of the coconut holdings are small and to draw in a large mass of people to full participation in any programme of action needs effective planning and co-ordination at several levels.

## The Policy of "Walking on two legs"

What does the policy of "Walking of Two Legs" mean?

In developing her national economy, China balances the relations between industry and agriculture, heavy industry and light industry, large enterprises and medium-to-small enterprises, modern production methods and indigenous methods, enterprises run by the central government and those run by local authorities, and other pairs of relations. She does not emphasize one to the neglect of the other but develops both simultaneously in such a way that they co-ordinate with and promote each other.

The relations between these pairs are like that between the two legs of a person. When both legs co-ordinate well, the person is able to walk steadier and faster. Therefore, the policies for handling these pairs of relations in developing the national economy have been named simply the policy of "Walking on Two Legs".

What is the basic content of these policies and the underlying reasons for them?

The basic content is as follows:

1. Industry and agriculture develop simultaneously. China is still a large agricultural country and most of her population is in the countryside. Only a rapidly developing agriculture can meet the people's food and clothing needs and provide industry with ample raw materials for development and a wide market for its products. At the same time, the development of agriculture depends on the support of industry. Only a modern industry can provide the large amounts of farm machinery, electricity, chemical fertilizers and insecticides necessary for a modern agriculture. Thus, industry and agriculture in China are developed simultaneously and the two complement each other.

2. Heavy industry and light industry develop simultaneously. Building a modern industry, modern agriculture and strong national defence requires advanced equipment and materials from heavy industry.

To develop heavy industry, however, requires a great amount of funds. In China today, one of the main sources of these funds is the accumulation from light industry. Light industry needs comparatively less funds, goes into production faster and the period of capital turnover is shorter. Therefore, while giving priority to developing heavy industry, China is also actively developing light industry. As light industry progresses, more and more consumer goods are produced to satisfy the increasing needs of the people and a growing amount of funds is thus provided for heavy industry to expand production. Developing light industry also promotes the development of heavy industry because light industry demands more and more machinery and industrial raw materials such as plastics and materials for the chemical and synthetic fibre industries.

3. Large enterprises and medium-to-small enterprises develop simultaneously. To build a modern industry it is necessary to build some large core enterprises with a high level of technology and productivity. But large enterprises require large investment, a rather long time to build and the technological requirements are complicated. Therefore, at the same time that large-scale enterprises are being built, many medium-to-small enterprises are also rising up throughout the country. Medium-to-small enterprises require comparatively less investment, a shorter time to build and simpler technology. They not only provide the people with urgently needed industrial products but also train technicians and accumulate more experience and funds for building the large enterprises, thus promoting the development of the big enterprise.

4. Modern production methods and indigenous methods develop together. This means that in the main China adopts the newest modern technology and at the same time actively accepts the simple and practical technical experience of the

local people. New China's industrial base was very weak, so it is impossible in a short time to have the newest equipment and technology for all factories and mines. Wherever it has not yet been possible to adopt the newest technology, simple and practical indigenous methods are being used. These methods are then continually improved upon. This saves time and speeds up China's industrialization.

5. National and local enterprises develop simultaneously. China is a big country with a huge population. Its provinces and autonomous regions range from 100,000 to several

factories which act as the core in the country's industrial development have been built and are directly managed by the central government. On the other hand, the central government encourages every province, autonomous region, municipality, region and county to build local industries according to their particular conditions. These industries use the raw materials of their locality and manufacture for that locality. Their production plans are part of the unified national production plan.

By developing national and local enterprises at the same time, the

It enables China to mobilize all positive factors for the building of socialism, thus accelerating the country's economic development and guaranteeing that the General Line for Socialist Construction—"go all out, aim high and achieve greater, faster, better and more economical results in building socialism"—is put into effect.

Precisely because the initiative of the national and local authorities and the people has been brought into full play, China's agriculture has had good harvests every year for the past decade, her main core enterprises have developed rather quickly—thus laying the preliminary basis for socialist industrialization, and local industries have shot up everywhere.

Every province, municipality and autonomous region has thousands of factories and mines in production. Ninety-six percent of the counties have built their own farm-tool manufacturing and repair plants and 70 per cent have built cement factories. As the masses set up factories, not only are engineers and experienced veteran workers able to display their initiative to the full but the peasants' enthusiasm for building industries is also aroused.

China's large core enterprises utilize rich natural resources where they are concentrated, whereas the thousands of medium-to-small enterprises utilize natural resources that are scattered. This brings the people's initiative into full play and makes full use of materials and land.

There is also a long-range significance of the "Walking on Two Legs" policy. Because it has brought about the increasing numbers of modern industries in China's vast countryside which train many workers and engineers from among the peasants, the policy leads to reducing the differences between workers and peasants, city and countryside, mental and manual labour. The policy, therefore, will help China make the transformation from a socialist system to a communist society in which these differences will be eliminated.

Some Basic Facts about China  
From CHINA RECONSTRUCTS

*The debate about less-than-advanced technology ("intermediate"—"appropriate") versus advanced technology has now entered Sri Lanka. There are strong basic technological arguments against "intermediate" technology in that it helps perpetuate the colonial division of the world. The Third World under this scenario remains a producer of raw material and indulges in primitive technology whilst the West, as the centuries before, continues on its forward industrial march. In fact it has been seriously suggested by Third World analysts that the emphasis on "intermediate technology" is a not-so-subtle propaganda campaign for precisely these ends.*

*The opposing view is that the resource base in countries like Sri Lanka is small ("lack of foreign exchange") that to keep our people employed we have to find recourse to less expensive, less advanced technology. Why our foreign exchange resource base is small is because we have seen the continuous erosion of our terms of trade—our tea, rubber and coconut fetching less whilst capital goods from the industrial countries continue to sky-rocket in prices. These are matters that Sri Lanka and other Third World countries are trying to correct with a demand for a New Economic Order.*

*The question then is how to combine the need of reality—our small resource base which is imposed on us and which we are trying to correct with the need to be technologically equal with the world? A successful strategy that has combined both these requirements and has attracted much attention in world centres of development studies, is the Chinese one of 'Walking on Two Legs'. Here in question and answer form, we outline the basic Chinese technological strategy.*

hundred thousand square kilometers in area. Their populations range from several million to several dozen million people. In such a large economically under-developed country it is not possible for the central government to run everything in economic construction.

China is carrying out a planned socialist economy in which the industries throughout the country are parts of the whole, like chessmen in a game of chess. On the one hand, important mines and

initiative of both can be given full play, and the natural resources, funds, equipment and technology of every part of the country can be fully utilized. This speeds up China's economic construction.

**What is the main significance of "walking on two legs" in developing the national economy and building socialism?**

The policy of "walking on two legs" suits China's concrete situation and conforms to the objective laws of China's economic development.

## COMMODITIES

### TEA

#### Upward trend in prices

Sri Lanka's tea production in January—July 1975 increased by 20,104,406 lbs. compared to the same period in 1974. Exports too recorded a higher figure of 250,983,083 lbs in Jan.—July 1975 compared to 220,304,693 lbs in the same period in 1974. Export values also showed an increase during this period. In 1975 they stood at Rs. 1,170,075,391 compared to Rs. 716,070,734 in 1974 for the same period. The FOB value in 1975 (Jan.—July) stood at Rs. 4.66 per lb. compared to Rs. 3.25 per lb. in the comparable period in 1974.

Price trends at the Colombo and London Auctions also showed an increase as shown in the table below:

#### Colombo Auction: Jan-July (Rs/Kilo)

	1974	1975
High Grown	6.59	7.10
Mid Grown	5.64	6.58
Low Grown	6.08	7.02

#### London Auction: Jan.—July (£/Kilo)

	1974	1975
N. India	56.83	61.81
S. India	52.52	59.58
Sri Lanka	61.56	63.55
African Countries	59.56	61.69
Others	48.42	57.13
All	58.43	61.91

#### Instant Tea Plant in India

A Pilot plant for the manufacture of instant tea is to be set up at Jorhat (Assam) under the sponsorship of India's Tea Board, Calcutta. It will manufacture instant tea from green tea leaves produced in India's North East region.

### RUBBER

#### Buffer stock scheme

The ANRPC'S Second Sub-Committee meeting on Natural Rubber Price Stabilisation was held in Kuala Lumpur in mid August. Experts from five member countries ended

their talks without reaching final agreement on the proposed international buffer stock scheme. It is reported that it has not been possible to compose the differences of the member countries on the main issues such as the form and the operation of the Buffer Stock and the Supply Rationalisation Scheme. Another meeting of the Sub-Committee is expected to be held shortly.

#### More exports Less earnings

Exports of rubber during the period under review was higher in quantity as compared with the same period in 1974, but export earnings continued to be lower. RSS One prices continued to maintain a slightly upward trend as compared with the prices at the beginning of the year. Latex crepe and sheet rubber exports were higher in quantity during January - July 1975 as compared with that of the same period in 1974.

#### RUBBER EXPORTS

	1974		1975	
	January Quantity lbs.	July Value Rs. mln.	January Quantity lbs.	July Value Rs. mln.
Sole crepe	6,267,153	21.9	6,311,456	16.8
Latex crepe	52,533,131	164.3	59,808,163	107.0
Scrap crepe	19,293,290	44.9	17,973,430	24.3
Sheet rubber	107,928,932	287.2	120,403,805	198.6
Block rubber	394,688	1.2	1,039,724	1.6
Total	186,417,194	519.5	205,536,578	348.3

### COCOA

The preparatory Committee set up to draft a new international Cocoa Agreement has concluded its sessions in London. This was the last preliminary round of talks before the re-negotiating conference which is scheduled to start in Geneva on September 22nd.

### COCONUT

#### Indonesia lifts Copra Export Ban

According to Reuter reports the Indonesian Government has decided to lift the ban on Copra exports

imposed two years ago and has set its export target at 100,000 tons for the fiscal year 1975/76.

#### Sri Lanka Exports

Export earnings from the Coconut products in July 1975 at Rs. 35.8 million showed a decrease of Rs. 6.9 million and Rs. 20.9 million in comparison with the previous month and the corresponding month last year.

Earnings from the export of Coconut oil in July 1975 at Rs. 11.7 million showed a decrease of Rs. 12.3 million or about 51% when compared with the previous month despite an increase in the quantity exported. This was due to the decrease in the average F.O.B. price.

Earnings from the export of Deseccated Coconut in July 1975 at Rs. 16.5 million showed an increase of Rs. 6.7 million when compared with the preceding month. This was due to the remarkable in-

crease in the quantity exported during the month.

Earnings from the export of Coir fibre and fibre products in July 1975 at Rs. 6.7 million showed a decrease of Rs. 0.4 million when compared with the previous month. This decrease was due to the marginal drop in the quantity exported.

#### Export Approvals

The total value of the exports approved by the Coconut Marketing Board for August 1975 was Rs. 45.1 million as against Rs. 68.8 million in the same month of 1974.

The total value of the exports approved for the period January-August 1975 amounted to Rs. 335.8 million as against Rs. 364.8 million for the same period last year.

The total volume of kernel products approved (Copra, Coconut oil, D.C. & Fresh Nuts) during January-August 1975 amounted to 580 million nuts equivalent as against 304 million during the corresponding period last year. This represents an increase of 276 million nuts or 91 per cent.

#### International Prices

Average London market prices of Copra, Coconut oil, D.C. and Fibre were hardly altered during the month of August.

#### SPICES

Export earnings from spices during the first seven months of the year at Rs. 36.5 mln. were lower by Rs. 11.1 mln. as against the same period in 1974. Exports of cinnamon quills and chips during the period under review continued to be at a much lower levels as compared with the corresponding period last year. Imports into Mexico the main single market for Sri Lanka cinnamon during January-July 1975 was only a third of the quantity imported during the same period in the previous year. Exports of all spices with the exception of cardamoms were substantially lower both in quantity and in value compared with that of the same period in 1974.

drop is because of the substantial decline in both quantity and value of the exports of Cinnamon leaf oil and Citronella oil, the two major items of essential oil. The only increase is in Nutmeg oil, which has registered an increase at a lower level.

#### Sri Lanka-EEC Agreement

Under the Commercial Co-operation agreement signed between Sri Lanka and the European Common Market, Sri Lanka's exports will have easier access to the Community. This five year agreement will come into effect when both sides have completed the technical preparations. Under this agreement the Community is pledged to help Sri Lanka promote and expand its trade with the EEC. The progress will be monitored by a joint commission. The agreement widens the concessions already in force and includes tea, rubber, certain spices, tropical fruits and leather products and Sri Lanka would receive most favoured nation status.

#### Unctad commodity Stabilisation Plan

The scheme proposed by UNCTAD for commodity stabilisation envisages setting up reserve buffer stock piles of 10 commodities of major interest to developing countries. They are coffee, copra, rubber, tea, tin sugar, cotton, jute and manufactures and hard fibres like sisal. The aim of this programme is to regulate

#### NATIONALIZATION OF PUBLIC COMPANY ESTATES

The Land Reform Law No. 1 of 1972 covered -

- (i) individually owned lands;
- (ii) lands owned by Private companies as defined in the laws of Sri Lanka; and
- (iii) uncultivated lands belonging to companies other than Private companies (i.e. Public companies)

Thus around 1,000,000 acres came to be declared under the Law among 5000 individuals. Of this acreage about 559,000 acres were vested in the Land Reform Commission. It was reported that about 135,760 acres were tea, 82,944 were rubber and 115,350 acres were coconut, 246 acres were under cocoa, 7,699 acres under cardamom and 774 acres under cinnamon. These lands have now been distributed for management among State institutions, like the Usawasama State Plantations Corporation, Coconut Cultivation Board, Rubber, Research Institute, Land Commission, Livestock Development, Board, Forest Department, Cashew Corporation and among Janawasas, Electoral-level Land Reform cooperatives, MPC's DDC's and a sizeable acreage has been alienated among villagers — for human settlement and cultivation purposes. The cultivated lands of the Public companies were excluded from the Land Reform Law No. 1 of 1972.

The Land Reform (Amendment) Law of 1975 to be enacted by the National State Assembly of the Sri Lanka Republic provided for the vesting of every estate land *owned or possessed by a public company* in the Land Reform Commission. The management of such estate land, for and on behalf of such company, and such agency house, organisation, or person shall be deemed to be the statutory trustee of such estate land.

On this basis about 370,000 acres of public company cultivated lands are expected to be vested in the Land Reform Commission. Of which about 225,705 acres are tea, 130,869 acres are rubber and 5,779 acres coconut lands.

#### SPICE EXPORTS

	1974		1975	
	Jan. Quantity Cwts.	July. Value Rs. mln.	Jan. Quantity Cwts.	July Value Rs. mln.
Cinnamon .. ..	83,341	32.2	44,627	22.0
Cardamom .. ..	1,376	2.6	4,535	7.4
Cloves .. ..	8,940	9.2	2,843	5.1
Pepper .. ..	5,039	2.5	1,888	1.2
Nutmeg .. ..	1,896	1.1	1,254	0.8
<b>ESSENTIAL OIL EXPORTS</b>				
Cinnamon leaf oil .. ..	1,333	3.6	573	0.9
Cinnamon Bark oil .. ..	11	0.4	4	0.2
Citronella oil .. ..	2,011	4.3	1,202	1.4
Ginger oil .. ..	7	0.1	1	0.05
Cardamom oil .. ..	15	0.5	3	0.03
Clove oil .. ..	10	0.2	—	—
Nutmeg oil .. ..	24	0.09	40	0.2

#### Essential Oils

Earnings from Essential Oil exports during the period under review has registered a decrease of Rs. 6.2 mln. as compared with the same period in 1974. This marked

prices and ensure supplies of commodities in an overall integrated scheme. The major sources of financing is expected to be the exporting and importing countries and the oil producing states.

## FOREIGN NEWS SURVEY

### UN BUDGET 22% INCREASE HALF FOR INFLATION

Secretary-General Waldheim has proposed a United Nations budget of \$ 737 million for the two-year period 1976-77—21.6 per cent above the current one. Inflation accounts for half of the increase. A financial watch dog committee recommended a lower figure, \$ 721.2 million, which would hold new posts to 590 instead of the 826 proposed by the Secretary-General. The budget proposals, made public on Thursday, 31 August, go before the General Assembly at the regular session opening in September.

### UN MEMBERSHIP FOR THREE NEW AFRICAN STATES

Three new African States which recently achieved independence after nearly five centuries of Portuguese rule were recommended by the Security Council for membership in the United Nations. They are Mozambique—in south-eastern Africa—and the islands of Cape Verde and Sao Tome and Principe—off the west coast.

The Council's unanimous recommendations will go before the regular session of the General Assembly for final action—which would bring the United Nations membership up to a total of 141 States.

### World Economically Divided could not be Politically Stable

The United Nations Secretary General Kurt Waldheim in an address to the International Management and Development Institute has stated that the reduction of the gulf between rich and poor represented the greatest challenge to international statesmanship and vision over the next 20 years, just as it had represented an increasing challenge to national Governments throughout the past century. By the year 2000, the world population would probably be nearly 7 thousand million, and the great majority of those new citizens of the world would be born in the developing countries.

When the developing nations called for a New International Economic Order, they were calling for a more equitable distribution not only of the riches of the world, but of its opportunities. It was the experience of history that no society in which the few had wealth and the majority lived in poverty and without hope could remain stable. We could not hope to have the world political stability essential for human progress if we did not have a much greater degree of economic equity. The debates at the United Nations on those subjects are of the most profound importance to us all.

*The annual sessions of the United Nations General Assembly opens in New York each year in the month of September while the numerous specialised sub-committees appointed at these sessions continue their deliberations over the next three months. The General Assembly sessions are preceded by an annual stock-taking by the U.N.'s financial institutions namely, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (The World Bank-IBRD) and its group of affiliated institutions International Development Authority (IDA) and International Finance Corporation (IFC). The Finance Ministers and Governors of Central Banks of most members of the U.N. converge in Washington for these sessions which continue into September.*

*This month's U.N. sessions however, take on a particular significance with the Seventh Special Session due to discuss a Programme of Action for Establishment of a New International Economic Order and also proposals for restructuring the entire U.N.*

*The focus of the various activities of the U.N. and some of its specialised agencies in our Foreign News Survey this month indicates the many vital areas in which U.N. activity can affect the conditions of Third World nations.*

### ESCAP COMMITTEE ON AGRICULTURAL DEVELOPMENT

Key government officials of the nations of Asia and the Pacific concerned with food and agricultural development were urged to take the first decisive step towards improved farming methods and output in order to better the life of the millions in the region's rural areas. The appeal was made on Monday, 25 August, by J.B.P. Maramis, Executive Secretary of the Economic and Social Commission for Asia and the Pacific, as he opened the first session of the Commission's Committee on Agricultural Development in Jakarta.

### INDIAN OCEAN CONFERENCE

A conference on the Indian Ocean should be convened not earlier than the middle of 1976 and attended by all littoral and hinterland States of that Ocean, along with all Indian Ocean countries that had not become independent; the major Powers and other maritime States which used the Ocean frequently; and any other State wishing to participate. This was the general view of the Ad Hoc Committee on the Indian Ocean which held its first series of meetings for 1975 from 5 to 20 June.

This month the Committee will resume consideration of the question of convening a conference as soon as possible, in the context of the General Assembly's 1971 Declaration of the Indian Ocean as a Zone of Peace. The Chairman

of the Committee is Sri Lanka's delegate to the United Nations Mr. H.S. Amarsinghe

Forty States have been considered as littoral and hinterland States of the Indian Ocean for purposes of the Committee's consultations: Afghanistan, Australia, Bahrain, Bangladesh, Bhutan, Botswana, Burma, Burundi, Democratic Yemen, Egypt, Ethiopia, India, Indonesia, Iran, Iraq, Kenya, Kuwait, Lesotho, Maldives, Mauritius, Nepal, Oman, Pakistan, Qatar, Rwanda, Saudi Arabia, Singapore, Somalia, Sri Lanka, Sudan, Swaziland, Thailand, Uganda, United Arab Emirates, United Republic of Tanzania, Yemen and Zambia.



# The Brain Drain

*With special reference to Engineers*

by B. M. A. Balasooriya

*By the Sri Lankan brain-drain to the rich countries, this article reveals, Sri Lanka is aiding the rich by Rs. 110 million per year whilst incurring an additional loss to our economy of Rs. 128 million per year. B.M.A. Balasooriya is a research engineer working in the State Engineering Corporation and Editor of the Quarterly Journal of the Institute of Engineers.*

The problem of brain-drain has been discussed, debated and documented in various places at various times. However, in most instances it has been looked at from the point of view of the professionals who form the elite of this country constituting probably under 1% of the total population. Most professionals talk about the higher wages they can earn abroad, the material comforts they can enjoy abroad, education of their children and so on. It is quite clear that most view points expressed at various times and pressed on the Cabinet Committee that reported on the Brain Drain in Sri Lanka through the Institutions and Trade Unions that represent these elite groups, are for their own personal interests and not with much sense of responsibility towards the other 99% of the less fortunate people of this country who have nowhere else to go but do or die here. The professionals are more inclined to identify and compare themselves with their counterparts in the developed world together with whom they constitute an International Elite Group, and alienate themselves from the people in their own country.

The writer attempts here to discuss the problem of the so called brain-drain with special reference to the extent to which it applies to the engineering profession.

here are designed on patterns similar to those in the developed countries, and are recognised internationally.

- Consumption patterns that some are accustomed to or those that others aspire to, mostly match the developed country pattern.

The reasons for migration of the professionals should be viewed in the light of the common characteristics mentioned above.

### Reasons for migration

Various investigations have attributed several reasons for the migration of professionals from the developing countries to the developed countries or developed pockets in other developing countries. Several reasons have also been listed in the Sri Lanka Cabinet Committee Report in their investigation of the problem in the context of Sri Lanka. These reasons could be considered as constituting two types of forces, namely Push and Pull forces, the former being those which push one out of Sri Lanka and the latter, those which pull one towards the developed regions abroad.

### Pull Forces

'Attention of higher salaries abroad and the ability to make

### Characteristics of the "Drainees"

If one carefully analyses the characteristics of those that make up the 'Brain Drain', one can see several common factors.

- In the first place, almost all of them fall within the high income levels in relation to the average incomes in Sri Lanka.
- A very large majority of them have gone through the tertiary level of education, which is provided by free the state.
- They enjoy the privilege of mobility because the type of education and qualifications which they received

Category	May 1971 to April 1972	May 1972 to April 1973	May 1973 to April 1974	May and June 1974	Total
Doctors .. .. .	108	171	238	41	558
Engineers .. .. .	54	113	94	14	275
Accountants .. .. .	23	41	88	11	163
University Teachers .. .. .	—	15	24	2	41
Other Teachers .. .. .	82	55	52	4	193
Lawyers .. .. .	8	35	13	2	58
Technicians .. .. .	—	20	27	15	62
Nurses .. .. .	14	11	1	2	28
Others .. .. .	90	142	83	12	327
	379	603	621	102	1,705

substantial savings to meet a variety of personal needs both while they are abroad and on their return home.'

This is the most important and common reason as stated in the Cabinet Committee Report, and it is out of economic necessities. The international mobility gives them access to 'world market' values. This has a catalytic effect on the migration of the professionals.

Education of Children — the higher standard of education available in the developed countries and the relative ease and the less stringent standards of entry requirements, specially at British Universities. Average or even a below average student who may not stand a chance of admission to our University in the fierce competition for entry, has a good chance to go through a University at e.g. in U.K. or U.S.

#### Push Forces

Education of children could be grouped under push forces as well and this is probably the second important factor, as evidenced from what the writer has gathered from his own colleagues who have emigrated. The common apprehensions are:

- (a) the difficulty in admitting a child into a 'good' school, and the high degree of competition for admission to the University.
- (b) the belief that the chances of doing well in life with swabasha education is slim and that no foreign countries will recognise our swabasha degrees.

The latter arises through the intense desire to gain access to "World Market" values and achieve international mobility. It appears that to some, the concept of doing well in life is based on the achievement of these values.

Difficulty in adopting themselves to the changing social situation in Sri Lanka — this is also a contributory cause in some instances.

As a result of recent legislation like land reforms, ceiling on income etc. some have found that it is impossible to live up to those same standards, comforts and luxuries that they have been used to in the past. They probably consider it a loss of face to step down from the high pedestals in the eyes of the lesser beings in our own society. Yet, in a foreign country they are quite willing to adopt themselves to standards of living, may be even below those standards that they could have lived in the changed situation in Sri Lanka, and that too as second class or even lower citizens in their country of residence.

Irritations arising from personnel problems, discrimination, harassment, lethargic and negative attitude taken by the administration in respect of the needs, the problems and aspirations of the professionals. However, one should also not forget the fact there is worse discrimination abroad, not only in finding employment, but also in such other matters as finding a house to live in. Such discrimination is sometimes basically on the colour of our skin. Yet, some people take relief in the thought that it is better to be discriminated against in a foreign country by foreign people than by one's own people at home.

Another common reason is the spirit of adventure specially among the younger people — to see the world while they are young. This is quite a natural instinct.

It can also be said quite unhesitatingly that the following are *not* the reasons (except in exceptional instances) for the migration of engineers:

'Low status of professionals in the administrative system and in the society' —

Engineers on the other hand have enjoyed a privileged position in our society. However, it is true that the engineers and technical personnel in general were kept relatively lower down in the administrative system. Yet in the writer's opinion, status has not

been a consideration for any engineer to emigrate.

'Lack of opportunity for the development of professional competence and professional advancement' — For any engineer who has the initiative and the urge, opportunities are available in Sri Lanka, for professional advancement and development. This has in the writer's opinion not been a reason for migration.

'Job satisfaction and limited participation or non-participation of professionals in the decision making process' Here again this has not been a cause for migration except in exceptional instances. For that matter a survey has revealed that generally the professionals migrating to developed countries from developing countries, fit into slots lower down in the professional ranks compared to what they were occupying or could occupy in their own countries. The writer has learnt this from some of his own colleagues who have migrated; most of them admit that the level of responsibility that they shoulder abroad is much lower than what they were given here at home. Consequently, if as engineers we are some distance away from the decision making process in Sri Lanka, we would be much further away in any other country.

There are also other reasons listed in the Cabinet Committee Report such as 'absence of adequate promotional prospects, lack of equipment and other institutionalized support, organisational inefficiency and better opportunities abroad to come into contact with intellectual centres, etc.' Although some of them may be valid they have not been significant causes for the decision to migrate among engineers.

It is true that in Sri Lanka, literature, equipment and financial provisions for research are lacking. In this context it may be noted that the University of Sri Lanka had stopped subscribing for most foreign

journals during the period 1972-75. These may be some of the reasons for migration of engineering from our Universities. As far as the universities are concerned there appear to be several other reasons such as the general state of disorganisation, relatively low salaries and disgust and frustration arising from discrimination and maladministration.

It should be interesting to quantify in financial terms, the loss to Sri Lanka by the emigration of our professionals to compare it with the total inflow of technical aid to Sri Lanka through the various agencies. Main sources of technical aid received by Sri Lanka are the U.N. Agencies and the C-Plan; the quantum from other sources being not more than about 10 per cent of the total (Source: Planning Ministry)

#### RATE OF GROSS OUTFLOW OF TRAINED PERSONNEL

Category	Average rate per month		
	May 1971 to April 1972	May 1972 to April 1973	May 1973 to April 1974
Doctors .. .. .	9.0	14.2	20.0
Engineers .. .. .	4.5	9.0	7.8
Accountants .. .. .	2.0	3.4	7.3
University Teachers .. .. .	—	1.2	2.0
Other Teachers .. .. .	7.0	4.6	4.3
Lawyers .. .. .	0.7	3.0	1.0
Technicians .. .. .	—	1.6	2.3
Nurses .. .. .	1.2	1.0	—
Others .. .. .	7.5	12.0	7.0
Total .. .. .	33.0	50.0	51.7

#### Happiness

One cannot say that people migrate because they could live a happier life abroad. Most engineers who the writer has met, back in Sri Lanka for short holidays, have said that they would be happier here. They have no roots in the country of adoption; they have no sense of belonging to that country; it is a superficial existence but of course with material comforts and more money in the pocket. It appears that the latter reasons outweigh the other considerations.

#### Magnitude of the problem

The report of the Cabinet Committee (Sessional Paper X - 1974) revealed that during the 38 month period from May 1971 to June 1974 the total number of trained personnel who left Sri Lanka was as much as 1700, the number of engineers being 275. This works out to, on an average, almost two engineers every week. This is no doubt an alarming figure.

#### (a) Colombo Plan Aid

The average annual total aid input to Sri Lanka, which includes equipment received, training and student places made available abroad, foreign experts serving in Sri Lanka and other is about Rs. 14 million.

#### (b) Aid through the United Nations Agencies

The corresponding figure is estimated at about Rs. 65 million assuming that about 10% of (a) & (b) above to be from others, the total annual technical aid input from all sources is about Rs. 88 million.

The loss to Sri Lanka by the emigration of the professionals may be estimated in terms of the consequent loss in productivity. Considering the number of only the engineers, doctors and accountants who have migrated during the 38 month period studied by the Cabinet Committee, the average number emigrating is about 320 per year.

On the basis of an average productivity of about Rs. 400,000 per professional, per year (estimated by Nath Amarakoon), the loss to Sri Lanka could be of the order of Rs. 128 million per year. Therefore, it is clearly seen that the loss incurred far outweighs the total inflow of technical aid which amounts to only about Rs. 88 million per year.

It should also be interesting to quantify the extent of technical aid given by Sri Lanka to the developed countries, in the form of the professionals who migrate to them. For the purpose of this exercise the numbers of engineers, doctors and accountants who have migrated to U.K., U.S.A. Canada, Australia and New Zealand during the 38 month period of the study referred to above was 706. Since in the developed countries a very high degree of sophistication and automation is prevalent, the productivity per professional would be much higher in comparison to that in a developing country like Sri Lanka. Taking a conservative figure for the productivity of say Rs. 500,000 per professional per year, the total technical aid input to the developed countries from Sri Lanka would be of the order of Rs. 110 million per year, which is far more than the total quantum of technical aid received by Sri Lanka which is about Rs. 88 million per year.

#### Beneficial effects of "Brain-drain" among engineers

Migration of engineers is in a way a blessing in disguise because it acts as a safety valve on rising unemployment or under employment of engineers in Sri Lanka. The statistical data given in the Cabinet Committee Report reveals that the largest proportion of those who migrated was in the age group 25 to 29, i.e. those with not more than 6 - 7 years experience after obtaining their degree; and about 60 to 70 per cent were those under 35 years of age. These people could be replaced without much difficulty from among the new graduates in stages.

A positive effect of the brain drain is the potential to develop links between our local organisations and

similar organisations abroad where our professional personnel are working, with a view to co-operation in research and the use of services such as documentation and information.

It has been argued by many that experience gained abroad is comparatively richer and would be a great advantage on return to one's own country. While agreeing that such experience may be different from that at home, and useful it is not necessarily more rich. Perhaps it broadens one's experience, but certainly it does not make one a better engineer than one who has chosen to carry on working at home. The writer has seen sufficient evidence for this conclusion to be made in his own place of work.

#### Cabinet Committee recommendations

The Cabinet Committee has obviously considered the problem from all possible view points. They have considered both the human aspect i.e. the attitudes and aspirations of the professionals, and the national aspect, i.e. the need of the professionals in the development of the country. The recommendations made are very liberal and they are being gradually implemented. However, the writer is of the opinion that on the whole it would result in a worsening of the situation as regards the brain-drain, from a national view point.

It is presumably hoped that by facilitating the flow outward as well as inward, the net outward flow would decrease from what it has been during the past few years. But is this possible in the context of the reasons for migration enumerated earlier.

Obviously Sri Lanka cannot match the salary levels and living standards of developed countries. Secondly, we cannot hope to reach the levels of the institutions in the developed countries as regards facilities for study and research due to the fact that we are in a much lower stage of development. In respect of the education system in Sri Lanka, it is through necessity that it is being reorganised to suit the needs of a developing country such as ours from what has been a system transplanted here from Britain, which was designed to suit their needs then. It is natural that it would take some time for a new system to stabilise itself. Therefore, the 'pull' forces remain as they were.

Similarly, as regards the 'push' factors, there is nothing that the Government could do to change the existing situation because they are resulting from Government policy accepted by the people in the larger interests of the country and of her people. But have any steps been taken to remove the irritations described in an earlier Section i.e. discrimination, harassment and maladministration? It is very necessary for the administration to take a positive attitude when dealing with problems of professionals and avoid causing such irritations.

However, the Cabinet Committee has also made certain valuable recommendations which could 'pull' back some of our professionals working abroad. One of the very important recommendations made in this regard is to open avenues for recruitment or re-recruitment of personnel at senior and intermediate levels in the state service. In fact, this facility is already available in the Corporation sector and it is

hoped that it will be extended soon to the Government Service too. There are quite a number of those who migrate with the main purpose of earning a little more money and to acquire various domestic gadgets, a car and so on, which make life that much more comfortable. Some of them wish to return to Sri Lanka when they feel that they have fulfilled their mission.

#### Recruiting returnees

Therefore, a facility whereby they could be recruited at levels in keeping with their qualifications and experience is very necessary. Furthermore in making such recruitments it is essential that the administration should not be bound by a rigid cadre, if his or her services are useful to the organisation concerned. After all a cadre should have that flexibility to adjust itself to the changing needs of an organisation. At the same time, it is necessary to establish a secretariat here to which any of our professionals abroad in any field could apply for seeking employment. It should be the responsibility of this Secretariat to process his or her application *speedily* in consultation with the other government agencies where his or her services would be most useful and to offer him or her a place. At present since this service is not existent, there have been instances where such inquiries made to various agencies have not even been acknowledged, even after many reminders, which no doubt put off the prospective 'returnee' and make him change his mind. Another recommendation that can act as a 'pulling' force is the facility of convertible Rupee Accounts for earnings abroad.

Apart from what the Government can do to retain professionals within our country, the professionals should also have a sense of responsibility to fulfil their obligations by the peoples of this country. The writer feels that it has come to a stage where the professionals are attempting to hold the government to ransom by making various demands some of which are unjustifiable. For example, a university don has recently suggested that the

STOCK OF GRADUATE-LEVEL PROFESSIONAL AND TECHNICAL PERSONNEL AND PROPORTION EMIGRATING

Category	Stock in 1971	Outflow-May 1971 to June 1974	Per cent of 1971 stock
Medical Personnel .. .. .	3,294	558	16.9
Engineering personnel .. .. .	1,983	275	13.8
Accountants .. .. .	614	163	26.5
All categories .. .. .	21,297	1,500	7.0

TRAINED PERSONNEL WHO LEFT — BY COUNTRY OF DESTINATION, MAY 1971 TO JUNE 1974

Category	U.K.	U.S.A.	Canada	Australia and New Zealand	Malaysia	Zambia	Nigeria	Other Countries	Total
Doctors	70	95	6	128	11	12	7	29	558
Engineers	100	8	19	34	28	36	24	26	275
Accountants	23	4	4	15	6	76	16	25	169
University Teachers	7	6	3	7	6	3	5	4	41
Other Teachers	34	40	5	14	2	64	17	17	193
Lawyers	26	2	4	3	—	3	—	20	58

children of professional parents should be given preference, in admission to the so called 'good schools', because otherwise they will have no choice but to proceed abroad with their children, as they have a ready market for their skills.

It is possible that some of the recommendations of the Cabinet Committee which appear rather unwarranted may have been made through pressure from the professional groups. For instance, the proposed facility of 5 years leave for employment abroad, is in the writer's opinion unjustifiable. This period is far too long and the writer feels that about 2 years should be the maximum period that may be given for this purpose. If one wishes to be away for a longer period of employment one should rather resign. However, he or she should have the facility of being re-recruited at an intermediate or senior level on return, depending on the needs of the same organisation or any other relevant organisation.

Another instance is that in the case of those who are sent abroad for higher studies and/or training on scholarships or grants, a facility is recommended whereby they could relieve themselves of the whole period of obligatory services by payment of the bonded sum of money. It has to be realised that such scholarships or grants are given for training of personnel to meet the manpower needs of a particular organisation; they are not gifts given to any particular individual; at least they should not be so. Therefore at least 50% of the total period of obligatory service should be insisted upon,

after completion of which they could pay up on a pro-rata basis and be relieved of the bond. There have been instances where certain individuals who earned this opportunity for training/study abroad purely because a particular organisation needed such trained personnel, did not even return to Sri Lanka at the end of the period of study-training. This is the limit of selfishness. Of course, at the same time there is the obligation on the part of the administration to use such trained personnel in the most efficient manner. Again, there have been instances where the officer returning after specialised training found his place usurped by others who may be less qualified and less experienced, but having the right political or other connections to the right place. If the Government would not take steps to prevent the recurrence of such actions, in fairness to the scholar, the writer would not insist on the 50% minimum period of obligatory service.

#### The situation as regards engineers

At present there are more engineers produced than can be absorbed within Sri Lanka, so that there is considerable unemployment and under-employment among engineering graduates. Unless there is greater investment and activity in development work and greater participation of our engineers in such work, this situation will not be changed. Therefore, in this context we need not be unduly alarmed about the migration of engineers.

However, the loss of experienced engineers at intermediate and senior levels is causing serious problems in many of our engineering organisations, specially so in the writer's own place of work.

#### Conclusions

There is a general lack of a sense of owing a service to the mother country for all that one has obtained from the state in climbing up to the very position one is as a professional. In the final analysis this is basically the reason for the exodus of professionals. Could it be due to some essential element lacking in the process of education of a child and/or the absence of true and honest national leadership who should set the right sense of values for the rest of the country to follow and derive an inspiration from? This provides some food for thought.

Unlimited freedom in migration of professionals is not in the best interests of the country. A certain degree of governmental control should be effected nationally and internationally when there is necessary justification for it. At the same time, it is essential that those who exercise such controls do so with a positive attitude.

While it is true that migration of trained and professional persons is a great loss in terms of human resources, in the context of the existing supply and demand situation in Sri Lanka, one need not be unduly alarmed about the out flow of engineers.

\* The 4 tables included in this article are from the Sri Lanka Cabinet Committee Report on the "Brain Drain". This data was gathered from only the official records available with the Department of Immigration and Emigration during the 38 month period surveyed.

# Developing Countries - A New Source of Expertise

by Mary Lynn Hanley

*The Third World today—specially Sri Lanka with its highly educated personnel is a store-house of knowledge and skills. In fact one of its most difficult problems today is finding employment for this experience. One avenue for this expertise is the brain-drain — discussed in another feature—where Third World personnel often occupy low-rung slots in the skill hierarchy of the Western World. The author of this article — writing in one of the official U.N. organs—proposes a different strategy which uses Third World skills with dignity. The recent decision of the UNDP's 48-nation Governing Council to make its scope of activities and working methods more responsive to the changing needs and priorities of Third World countries gives official recognition to this requirement.*

“... We do not accept any more to continue playing a passive role simply as receiving countries. We are willing to share our experiences and capacities. In this context all developing countries with the support of UNDP's seeding funds and mainly its field offices, should become receiving and donor countries simultaneously.”

**Delegate of Brazil to the Twentieth Session of the UNDP Governing Council, June, 1975.**

Traditionally, technical assistance, defined as the transfer of knowledge and skills from one country to another, has taken place through exchanges between developed and developing countries. Experts from industrialized nations have been sent to impart their abilities to developing country “counterparts”, or fellows from developing nations have been enrolled for terms of study in developed - country institutions. When differences between donor and recipient have been too pronounced, both practices have produced less than ideal results. In the annals of development assistance agencies there are many accounts of well-intentioned experts having been unable to adequately communicate their techniques to local personnel, being physically or psychologically unable to adapt to unfamiliar living conditions, or attempting to transmit technologies which proved too sophisticated or otherwise inappropriate for developing country needs. Similarly, fellowship

students have had to contend with unfamiliar languages and social customs, as well as curricula with little relevance to their countries of origin.

Increased co-operation between countries which are close to each other not only in terms of the stage of development but also in terms of cultural heritage, political traditions and systems, and physical living conditions, could considerably lessen these problems and also greatly expand sources of available expertise.

Against this background, it is more than understandable that the Plan of Action for the Establishment of a New International Economic Order, accepted by the UN General Assembly last year, calls for an increase in technical co-operation among developing countries (TCDC).

The Plan recommends specific areas in which developing countries should increase their co-operation with each other. They are asked “to promote and establish effective instruments of co-operation in the fields of industry, science and technology, transport, shipping and mass communication media”. Thus, the sharing of industrial, technological, managerial and legislative experience is urged, along with the co-operative establishment of producers' associations to ensure stable prices for commodities and maritime transport enterprises to promote trade.

The recommendations come at a time when increased numbers of

experts are badly needed. Development progress made over the past few years has, itself, generated the need for more - and more sophisticated - skills. They also come at a time when the developing countries themselves have much to offer.

Pursuant to a 1972 resolution passed by the UN General Assembly, the UNDP convened a special Working Group to study technical co-operation among developing countries. Analysing data submitted by 75 developing countries, the Working Group found that these countries possess a wide range of universities and training and research centres capable of providing instruction in diverse fields ranging from engineering, medicine and home economics to nuclear research for agriculture and satellite communications. More than half of the facilities cited, it noted, had received or were receiving assistance from the UNDP. Increasingly, the Programme has emphasized in its technical assistance activities the building and strengthening of national education and technical institutes and research facilities, which enables developing countries to produce skilled personnel on a continuing basis.

At the same time, however, the Working Group found that the capacities of these facilities were inadequately known and little utilized by other developing countries, due mainly to a widespread communication and information gap and the lack of adequate mechanisms to promote co-operation.

As recommended by the Working Group, UNDP is taking remedial action on two fronts. In its work with developing country governments, it is focusing its activities on strengthening their capacities for identifying “TCDC” opportunities and initiating actual projects for mutual assistance. Within the U.N. system, it is endeavouring to encourage inter-country co-operation in new and existing projects and programmes. A key element in both efforts is the designing and organizing of a new information system for obtaining and distributing data on the capacities and needs existing in developing countries for technical co-operation with other developing countries.

To some degree, the UNDP has always applied the "TCDC" principle to its work. During 1974, for example, 3,011 of the 9,809 experts who served in the field under its auspices were from developing countries, as were 38 per cent of the U.N. volunteers who worked on UNDP supported projects. In addition, 2,551 of 6,834 fellowships it awarded were for study in 110 developing countries and territories.

Through assistance to regional inter-regional and global projects, too, UNDP has fostered co-operation among developing countries. Under many such projects approved for assistance, developing countries have worked together to develop shared land, water and mineral resources, build transportation and communications facilities and control common plagues such as the debilitating disease of River Blindness and the crop-devastating desert locust pest.

At the present time, the Programme is placing its emphasis on multi-country projects in the critical areas of food and trade. International agricultural research institutes in all parts of the world are receiving its support, as are regional institutions such as the West African Rice Development Association (WARDA), which has its headquarters in Liberia. This enterprise involves thirteen countries in research, demonstration, training and data processing activities geared to increasing rice production through the use of varieties suited to individual growing conditions.

In Asia, a regional project is training officials, from Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka in methods for initiating trade negotiations under the framework of the Asian Trade Expansion Programme.

At the Arab Institute for Economic and Social Planning in Kuwait officials from countries in the Middle East are also being trained to carry out multilateral trade negotiations, and to facilitate trade procedures, with a view towards liberating trade and eliminating tariff barriers.

## DECISION

UNDP's 48-nation Governing Council met in Geneva recently to discuss and debate some "New Dimensions" in UNDP technical co-operation as proposed by Administrator Rodolph A. Peterson.

In its decision on the proposed New Dimensions, the Governing Council requested the UNDP Administrator to introduce more flexibility in the Programme and to make its scope of activities and working methods more responsive to the changing needs and priorities of the developing countries. Using the New Dimensions documents as a basis for action, the Council then adopted the following set of guidelines for the future orientation of UNDP's role:

- (i) The basic purposes of technical co-operation should be the promotion of self-reliance in developing countries by building up, *inter alia*, their productive capability and their indigenous resources — by increasing the availability of the managerial, technical, administrative and research capabilities required in the development process;
- (ii) The selection of priority areas in which to seek UNDP assistance should remain the exclusive responsibility of the Governments of the recipient countries. In this context, UNDP should respond favourably to requests for meeting the most urgent and critical needs of each developing country, taking into account the importance of reaching the poorest and most vulnerable sections of their societies and enhancing the quality of their life;
- (iii) Technical co-operation should be seen in terms of output or the results to be achieved, rather than in terms of input;
- (iv) So long as projects are for the basic purpose of technical co-operation, UNDP should provide, where appropriate, equipment and material resources, adopt a more liberal policy towards local cost-financing and be flexible in requirements for counterpart personnel;
- (v) UNDP should diversify the sources of its supply from countries, to enable it to mobilize in a prompt and efficient manner all available human and material resources for technical co-operation, including particularly those from developing countries;
- (vi) UNDP should give increased support to programmes of technical co-operation among developing countries and should procure as much equipment and services as possible on a preferential basis, in accordance with United Nations practice, from the local sources, or from other developing countries;
- (vii) Governments and institutions in recipient countries should be increasingly entrusted with the responsibility for executing UNDP-assisted projects.

In Latin America, fifty per cent of all UNDP funds allocated for regional projects are consigned directly or indirectly to integration activities. In the Central American subregion, for example, the Programme works closely with the Central American Integration Treaty (SIECA), and a recent joint review of SIECA's plans and needs indicates that UNDP will be giving its support to multi-national co-operative efforts for the development of productive enterprises. It is also expected to assist these countries in the formation of a Regional Committee for the conservation of their natural and cultural heritage.

As the UNDP's Deputy Administrator, I.G. Patel pointed out to the organisation's Governing Council earlier this year, however, "...UNDP's programme, however substantially oriented, cannot encompass more than a small proportion of the resources which developing countries can make available to each other. The bulk of the future, and hopefully, expanding flow of such resources will take place outside the U.N. system both bilaterally and multi-laterally. And the scale at which it takes place will depend primarily upon the initiative and effort of the developing countries themselves."

# Self-Reliance and Ujamaa: Tanzania's Development Strategy

by J. H. J. Maeda  
Ibrahim M. Kaduma

Since independence, the cornerstones of Tanzania's development philosophy have been freedom, equality and justice. These principles, however, were not effectively articulated in strategy and policy until 1967, when the Arusha Declaration was promulgated. Experience had shown that Tanzania had made the same mistakes as many other countries in supposing that growth plus regulation of a basically private sector were consistent with either greater equality or planned structural change. Thus in the Arusha Declaration it was stated explicitly that "The development of a country is brought about by people, not by money. Money, and the wealth it represents, is the result and not the basis of development. The four prerequisites of development are different; they are: People, Land, Good Policies, Good Leadership."

This statement implied that Tanzania would now rely primarily on maximum utilization of her own resources for development. Hence the country's philosophy of socialism and self-reliance.

With 14 million people, large tracts of arable land and ample resource potential, Tanzania should be able to rely on itself to a very large extent. This does not imply, however, a desire to live in isolation. On the contrary, the principles of international collaboration and solidarity are subscribed to by Tanzania, but with the proviso that co-operation must be on the basis of equality and in pursuit of balanced mutual benefits, in which each country is free to shape its own destiny.

One of the developing countries attempting a development strategy carved out of their own experience is Tanzania with its concept of Ujamaa. This article based on a paper by J. H. J. Maeda and Ibrahim M. Kaduma of the Institute of Development Studies, Dar es Salaam describes this interesting experiment.

## The Village: the basis of Tanzania's development

Since the overwhelming majority of Tanzania's population lives in the rural areas, success in achieving the country's goal of socialism and self-reliance will be determined by the extent to which the peasants understand, accept and formulate the policy's implications. Ultimately, this means the creation of the necessary institutions at the local level.

A policy paper entitled 'Socialism and Rural Development' was issued by President Nyerere in 1967 outlining the structural reorganization to be introduced in the rural areas to begin the transition towards the Arusha Declaration's goals. The paper calls upon the peasants to organize themselves into viable socio-economic and political communities. These are the 'ujamaa villages' intended to transform production that is private and scattered into communal and planned production.

Ideally, the *ujamaa* villages are to be socialist organizations created by people who decide of their own free will to live and work together for their common good governed by those who live and work in them. The peasants form these villages either in existing traditional communities or more typically by moving into unused land or re-grouping scattered homesteads to establish new ones. The villagers are required to own, control and run at least some of the economic activities in their villages communally, and to organize productive activity on that basis.

As socialist and democratic living and working communities in which the members are responsible to themselves, the *ujamaa* villages are governed by members, jointly making their own decisions on all issues of exclusive concern to the village. They are expected to

own and run their communal farms and other projects such as shops, flour-mills, pre-primary and primary schools, dispensaries, and cultural and recreational activities. The size of an *ujamaa* village depends upon the land available and the number of people in each village ranges from 50 to 4,000, although 500 to 2,500 is normally viewed as the desirable village size. There exists no standard pattern of organization to be followed by all *ujamaa* villages—a deliberate attempt to ensure that each *ujamaa* village is organized in a way compatible with its environment and to encourage creative local planning.

The constitutions of various *ujamaa* villages, however, show similar features in their political orientation and organizational structures. From these, as well as from the general guidelines issued by the Prime Minister's office (partly on the basis of early experience), and under whose framework most recent village constitutions have been drawn up, the main objectives of most *ujamaa* villages are distinguishable:

To engender ideological awareness among members, organize total opposition to exploitation in any form, and create instead a sense of communal spirit in working together for the benefit of all members.

To give employment opportunities to every member of the village, thus enabling each to earn a just income.

To expand the socialist economic undertakings of the village by the establishment of communal farms, shops, industries and commercial and service activities.

To market all the products of the village, including those from private plots.



To buy or construct buildings, offices, machines and other necessary equipment for the development of the village.

To co-operate with other *ujamaa* villages or para-statal institutions in commercial undertakings provided that such co-operation does not run contrary to the common good.

To give the villagers an opportunity to receive adult and primary education, medical treatment, pure water, improved housing and other essential services necessary for an adequate material standard of living and fuller human development.

To be an example to Tanzanians who are not members so that they can see the benefit of the *ujamaa* way of living.

#### Management of the villages

Overall responsibility for running the affairs of the village is vested in a general meeting composed of all villagers. The meeting is normally held four times a year. A two-thirds majority is required to change the constitution or to dismiss a member or members and a simple majority for other business, including annual village plans and budgets.

The day-to-day management of the village lies with the village executive committee elected by the general meeting. The committee is required to meet once every month and a village may set up specialized committees with advisory, executive or operational authority.

#### Results expected

There are several short-and long-run benefits that are expected to be derived from successful implementation of the *ujamaa* village programme. Among these are:

The creation of self-reliant and self-determining communities following the tenets of the Arusha Declaration. National self-reliance is impossible without deep-rooted self-reliant communities at the local level.

Avoidance of exploitation and excessive differentiation in wealth, income and power.

Better utilization of rural labour to raise productivity potentially obtainable through groups of peasants working together. Realization of this potential requires specialization of functions, division of labour, work discipline and strong leadership to guide the enthusiasm of group activity into productive channels.

Economies of scale in purchasing, marketing, provision of services (schools, health care etc.), and some field operations requiring mechanization.

Openness to technical innovations, through increase in scale, and readier access to farmer education.

Raising the socio-economic standards of the peasants and consequently reducing the socio-economic gap between rural and urban people.

Facilitating national planning both as to formulation of overall goals and decentralized implementation.

Mobilization of the masses for both their development and the defence of their country.

Establishing a new pattern of human settlements (including knowledge, finance, marketing and transport as well as health, water and education).

Creating communities which can relate effectively to government officials and councils following the 1972 decentralization of most governmental functions directly affecting individuals.

Between 1968 and 1973 *ujamaa* village formation exceeded party and government expectations. The record also showed that provision of supporting services and especially adult education (1974-75 enrolment was about 3.5 million) could be expanded rapidly in villages but

remained virtually impossible for more dispersed populations. Therefore in 1973 the TANU Congress set a 1976 target date for enabling everyone in rural areas to live in a permanent and planned village.

Thus, since 1973, there has been a national drive to move the scattered rural population either into *ujamaa* villages (for those who so wished) or to ordinary planned villages (for those who are not ready to start *ujamaa* living). Movement to villages, therefore, is now compulsory, while the transformation of a village into an *ujamaa* village is still, and likely to continue to be, voluntary. It is hoped that many of the benefits expected to be accrued from living in an *ujamaa* village will also prevail in an ordinary planned village.

By June 1974 at least 2.6 million peasants (of a total of about 10 million) were members of over 5,000 *ujamaa* villages. After the 1974 village system campaign, it was established that upto 80 per cent of the peasant population were resident in planned villages, about 1.5 million in old non-*ujamaa* villages, 3.0 to 3.5 million in *ujamaa* villages and 2.5 to 3.5 million in new non-*ujamaa* development villages.

Public-sector assistance, while seen as supportive, has been large. In 1974/75 education, health, housing, agricultural extension and inputs, transport and other expenditure directly related to the village exceed 500 million shillings (4 per cent of total GDP.)

#### Implications of the village system policy on international cooperation

From the foregoing, three things may have become evident from the point of view of international cooperation.

The village is intended to be the economic base for rural planning and implementation. Self-governing villages must be involved in deciding what outside resource transfers they should receive and on what terms.

Projects at the village level will be basically small-scale ones directly responsive to local initiatives and resources, and implementation capacities.

Although village communities require technical and material assistance at least during the initial phases, their most important role is one of self liberation, psychological as well as material. Therefore, 'assistance' which is ideologically antagonistic to participation and socialism is inefficient in terms of village goals and thus unacceptable.

With regard to international cooperation and *ujamaa* village development the international community will have to accept the decentralized, participatory and socialist nature of the village and not seek to use 'assistance' to reverse it.

#### An interim assessment

What can be said of the results of the *ujamaa* programme to date? The human settlement pattern has been transformed from one dominated by scattered homesteads and hamlets to one of more compact communities.

Access to basic health, adult education, primary education and communication facilities has greatly improved. Access to skills within the village community (not simply to outside skilled agents) is increasing.

Access to directly productive knowledge and inputs has improved somewhat but is hampered by inadequate central and village resources and inadequate communication and control patterns between villages and 'experts'.

Food production effects to date are marginal—though probably positive - because weather and relocation difficulties have imposed costs, and reorganisation has taken time. Access to food has improved; the change in settlement pattern, for example, was useful in identifying and meeting deficits during the 1973-75 drought.

Mistakes have been made at village, regional and national levels, both in poor technical

planning and the partial substitution of exhortation and coercion for education and participation, but more notably these have usually been identified and rapid corrective measures have been taken, e.g. by TANU's central committee in October 1974 following peasant criticism of aspects of some regions' village - system programmes.

Communal action has risen rapidly with regard to infrastructure, new economic activities (e.g. shops, dairy herds, small workshops) and new crops, but less in respect of staple foods and traditional cash crops, which are largely grown on individual plots.

Egalitarianism has progressed within villages - private plots are unequal in size but not radically so, especially when compared to those in some non-*ujamaa* rural enclaves.

Participation within villages has broadened and the degree of rural elite control fallen. The villages have often been able to exert far more influence on the post-1972 decentralized government structure than peasants could apply to the elite-dominated cooperative unions or the agents of central government bodies during the pre-*ujamaa* period.

Village self-reliance has been unequal both in terms of goals and of achievements but has risen in many cases. This is linked to a parallel decline in clientage exemplified by a much more assertive and self-assured pattern of relationships, with government and party officials.

Peasant ideological development has begun, especially in the realization that basic needs can be met and that they must mobilize pressures and support for party and government agents and institutions to safeguard and build on results to date. Adult education and improved communication have led to broader and deeper individual and community cons-

sciousness in a significant number of villages, even if it may be fair to question the present degree of clarity and elaboration.

Each of these assessments is a qualified one—individual cases of total failure or regression, authoritarianism of clientage can be found. Each represents a state of transition, not arrival. Tanzania, like China, sees the full achievement of socialist rural communities and of a socialist rural society as a goal requiring time, evolution and sequences of priorities.

To attempt more than an interim assessment would be to distort. Tanzanians do not claim to have achieved participatory, self-reliant, socialist development but to have begun the long transition to it. They do not claim that the *ujamaa* village core of another rural development is complete but that it has begun to emerge. The participatory nature of the transition forbids laying down detailed patterns for the year 2000 as opposed to evolving sequences and programmes within the strategic framework. The 1967-75 record is one of significant change towards another form of development. Basic needs—food, habitat, water, mass education, health, the utilisation of surpluses to increase provision of essentials are central to economic strategy. The quest for self-reliance does inform major village, regional, national and international policies. Inequality of income and of access to basic services has been reduced rapidly both by redistribution and increased production. Participation and decentralization have moved very far from the colonial, authoritarian, bureaucratic starting-point, with an increasingly socialist and participatory mass party in control of strategic and basic policy decisions. To claim more does a disservice to Tanzania. Claims of total success and absolute certainty as to the future are part of the old, authoritarian, technological, growth mystique. 'Mistakes are mistakes' (to quote Mwalimu Nyerere) and the ability to recognize, correct and learn from them is an integral part of the Third World's development perspective.



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