ECONOMIC REVIEW

DECEMBER 1975

"They wear coats and hats of iron. They do not stay a minute in one place, but walk here and there. They eat pieces of stone and drink blood. They give two or three gold or silver coins for one fish or one lime. The report of their cannon is louder than thunder......their cannon balls fly many furlongs and shatter fortresses of granite."

Rajavaliya, 18th century.

DON'T TALK TO ME ABOUT MATISSE

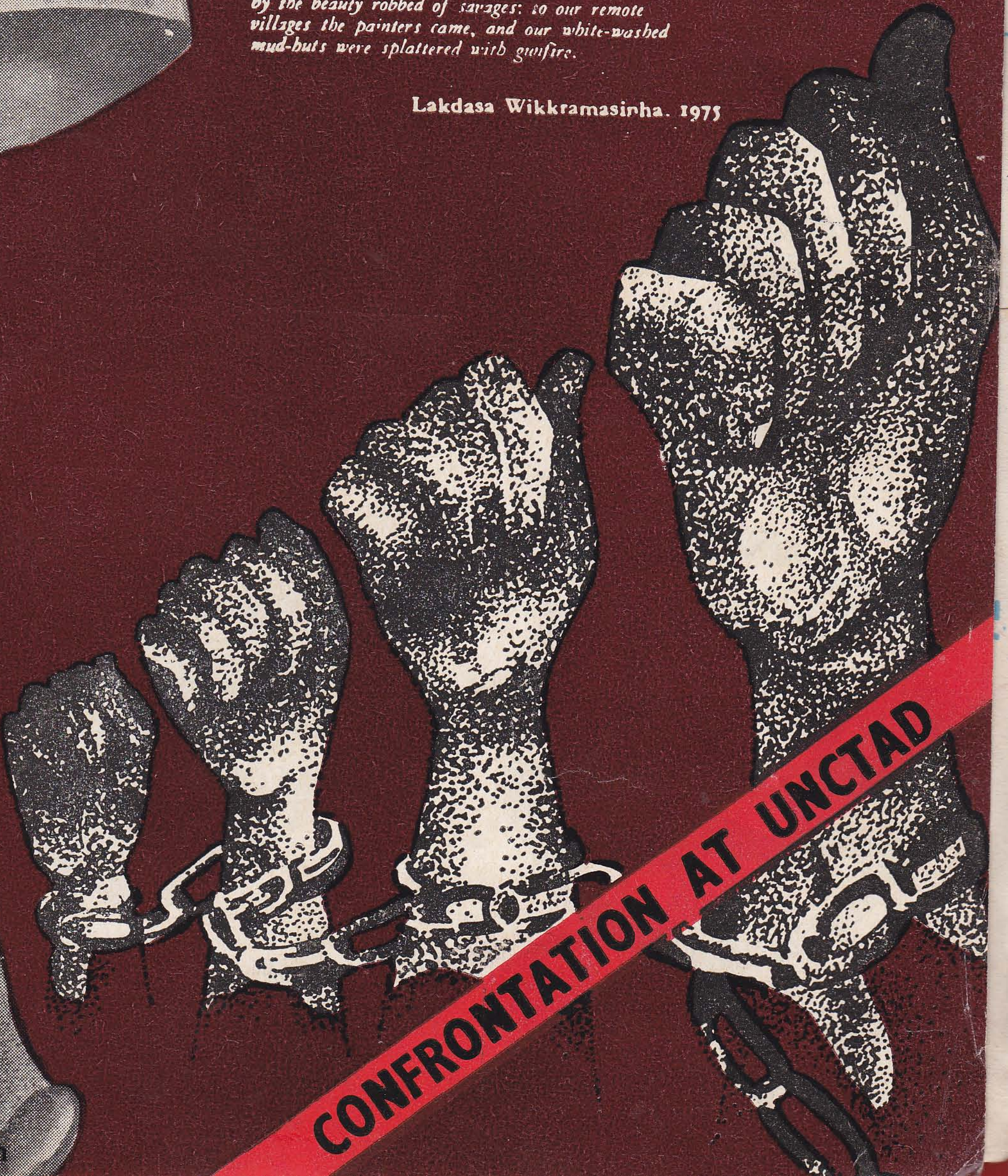
Don't talk to me about Matisse, don't talk to me
about Gauguin, or even
the earless painter van Gogh,
and the woman reclining on a blood-spread . . .
the aboriginal shot by the great white hunter Matisse

with a gun with two nostrils, the aboriginal
crucified by Gauguin—the syphilis-spreader, the yellowed obesity.

Don't talk to me about Matisse . . .
the European style of 1900, the tradition of the studio
where the nude woman reclines forever
on a sheet of blood.

Talk to me instead of the culture generally—
how the murderers were sustained
by the beauty robbed of savages: to our remote
villages the painters came, and our white-washed
mud-huts were splattered with gunfire.

Lakdasa Wikkramasinha. 1975



A People's Bank Publication

INTRODUCING WORLD DEVELOPMENT

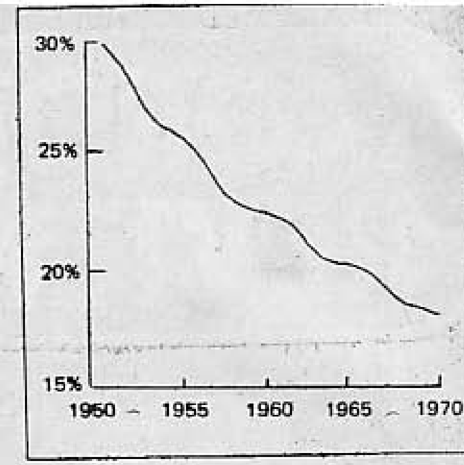
A monthly series on issues that affect the lives of millions

I. TRADE

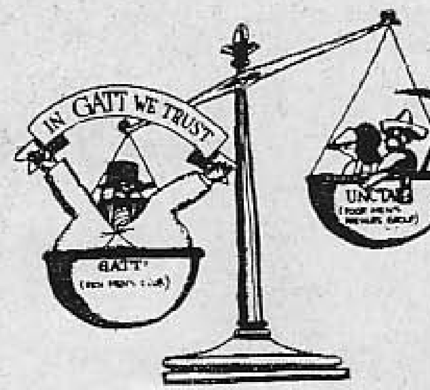
Source:
New Internationalist which has the joint backing of Christian Aid, Oxfam and Third World First.

1. Poor countries need money to buy goods from abroad which they need for their own development.

2. Trade is therefore vital. As the UN General Assembly has said, trade is "the primary instrument of economic development". Poor countries already finance 80% of their own development from their own work and their own trade earnings.



3. But the developing countries' share of world trade has steadily declined from 30% in 1950 to 18% in 1970. To make matters worse, the price of their exports has fallen in relation to the rising cost of their imports from the rich world.



4. World trade is at the moment based on bargaining power—which depends on what you have to offer or threaten. Until recently, the poor world has had little with which to do either.

5. 80% of the poor world's exports are raw materials like coffee, tea, copper, jute, etc. Often this dependence is a legacy of colonial times. Many poor countries are almost totally dependent on just one or two of these natural products.

6. Supply of such agricultural raw materials can fluctuate wildly. Bad weather can wipeout a season's work in the field. Good weather everywhere can produce a sudden glut which brings world prices tumbling down so that you produce more and earn less.

7. The demand is also uncertain and is actually falling for many of the poor world's products. One reason is that the rich world spends over $1,000 million a year on research into man-made substitutes for natural products produced by the Third World.

8. The rich world is spending a decreasing proportion of its increasing income on raw materials. A large fraction of the cost of ordinary chocolates goes to the producers of cocoa, but they receive a very small fraction of the cost of "After Eight" mints.

9. In addition, the rich world subsidizes its own agricultural products and imposes taxes and limits on imports of raw materials from the Third World. The Common Market, for example subsidizes its own farmers in order to be self-sufficient in agriculture.

(Continued on inside back cover)

ECONOMIC REVIEW

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COVER STORY

NEXT ISSUE

- The changing village in Sri Lanka. A many-sided coverage giving the several facets to this phenomenon
- Development alternatives
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COVER

Our cover is inspired by one that appeared a few weeks ago in the American weekly *Newsweek* on the "New Cold War" between the West and the Third World. Our cover artist Upasena Gunawardena has used this basic idea to re-draw the cover from a Third World perspective. To accentuate the difference he also illustrates with two pieces of writing one from the historical chronicle Rajavaliya at the time of our decline and loss of confidence and the other when this confidence is again ascendant and aggressive. Wikkramasingha is perhaps the leading English poet in Sri Lanka speaking today with the new voice of harsh truth.

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

Nov. 1 The Central Freight Bureau was successful in getting the Ceylon-Continental Conference to reduce freight rates on coconut oil by about 24 per cent. The reduction will assist local shippers in improving their competitive position in the international bulk oil market.

Surveys for the first two locations for off-shore drilling in Sri Lanka's Northern waters will be completed in a month's time, the Petroleum Corporation's Chairman announced at the opening of an office for the off-shore exploration project. A contract has been signed appointing Pexamin Pacific Inc. as consultants for the off-shore drilling programme.

4 The Imports and Exports (Control Act) was amended in India by Presidential Ordinance to deal effectively with offences pertaining to imports and exports, including misuse of import licences.

5 The Minister of Finance presented the Budget for 1976. This is the sixth budget of the present government.

Developed countries as well as members of OPEC, attending an FAO meeting in Rome confirmed their intention to meet the initial target of an International Fund for Agricultural Development, of one billion Special Drawing Rights as originally proposed by Saudi Arabia, Iran and other OPEC countries.

The U.S. Senate approves a $3,100 million foreign aid bill, having sliced nearly $220 million intended for United Nations projects..

6 The export duty on copra, coconut oil, desiccated coconut and fresh coconuts was abolished in respect of export sales of these items registered with the Coconut Marketing Board.

The U.S. State Department officially informed the Director-General of the ILO that the United States was withdrawing from the International Labour Organisation.

9 The price of an electric bulb costing Rs. 3.90 was reduced to Rs. 3.55 following discussions between the officials of the Ministry of Industries and manufacturers.

11 Angola is officially granted independence, when the Portuguese High Commissioner in Angola proclaims the full transfer of sovereignty to "the Angolan people, who alone are qualified to decide how it is to be exercised".

12 The £6,000 million United Nations' plan to stabilise world prices will be debated at the UNCTAD Session in Nairobi next May, the UNCTAD Secretary General, Dr. Gamani Corea announced in Geneva. The scheme envisages regulating prices and supplies by establishing reserve stocks in the key commodities—coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibres, copper and tin, and guaranteeing developing countries stable earnings from their commodity exports and countering higher import costs caused by inflation.

12 The U.N. General Assembly admits the Comoros, a small archipelago of four islands with a quarter of a million people lying between Madagascar and the African mainland, as the 143rd member of the United Nations.

16 The Six Nation Economic Summit Conference in France reached tentative agreement on new guide lines for world trade and currency exchange rates. The leaders of U.S., France, West Germany, Italy, U.K. and Japan participated.

17 The first consignment of crockery manufactured by the Ceylon Ceramics Corporation for export to Kuwait was shipped from Colombo.

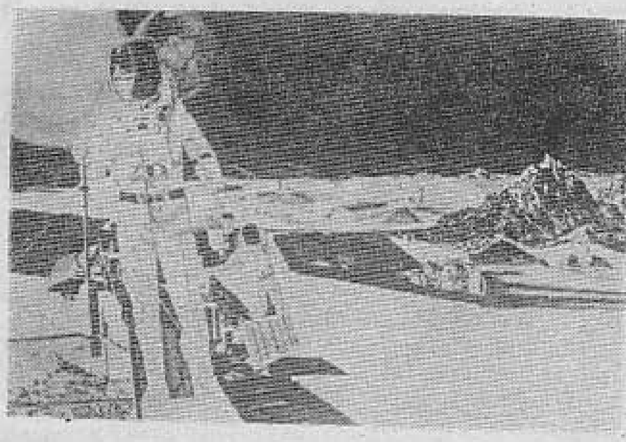
Price control was re-introduced on a number of consumer articles like margarine and tooth paste and reductions effected on these items following discussions with Industries Ministry officials and manufacturers.

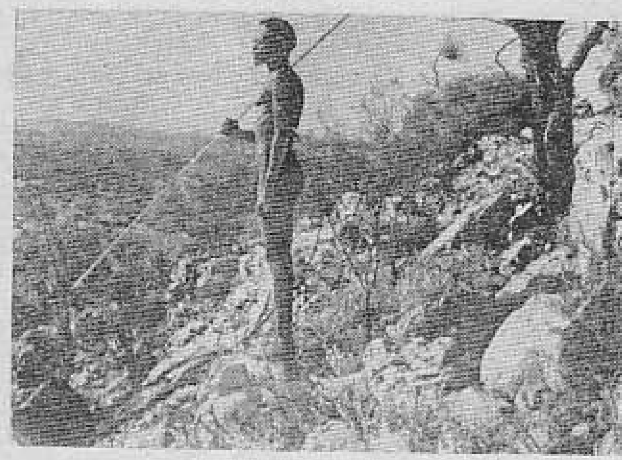
18 Finance Ministers from thirteen major oil exporting nations (OPEC) decide in Vienna to set up a multi-million dollar fund to aid developing countries.

23 The Minister of Trade left for Peking to negotiate and conclude a bilateral trade protocol for 1976 under the 25 year old Sino-Sri Lanka Barter Agreement.

27 Three leading soap manufacturers agreed to make reductions in their retail prices after a discussion with officials of the Ministry of Industries and Scientific Affairs.

The IMF has approved the granting of 10.8 million units of Special Drawing Rights under regular facilities and 21.75 million units of Special Drawing Rights under the oil facility (amounting to Rs. 285 million), according to an announcement in the National State Assembly made by the Minister of Finance.





Towards Full Equality in the 21st Century
Bargaining at UNCTAD

The well known American strategist and futurologist Herman Kahn predicted a few years ago in his best selling book *The Coming Japanese Super State* that the 21st century would be the century of Japan. He predicted that Japan in a few decades would overtake America and Western Europe and would soon have the highest standard of living in the world. This book was widely reviewed, discussed and was generally believed in.

But a factor that Kahn had failed to foresee was the dramatic increases in the price of oil that would be made by a section of the Third World, namely the OPEC countries. With the fourfold increase in oil prices, the Japanese rate of growth which had been soaring at an annual rate of about 14%, and which had given rise to predictions like those of Herman Kahn, went into reverse gear. Consequently for the first time since the Japanese recovery, after the 2nd World War, their growth went negative and Japanese statesmen were soon rushing to Arab capitals, cap in hand and head bowed low. This was a dramatic demonstration of the nature of the relationship of unequal exchange between Third World countries and the affluent societies.

The latter's affluence was created by buying cheap Third World products like rubber and petroleum and selling their products expensively to the Third World. The United Nations Conference on Trade and Development was established in 1964 with recognition of this fact. Its main inspiration initially came from the Latin Americans whose pioneering efforts showed the falseness of conventional analyses of trade. The

THE ROAD TO NAIROBI

The Seventh Special Session of the UN is highlighted in many of the issues which will be taken up at Nairobi, where the fourth full UN Conference on Trade and Development will meet from 3 to 28 May 1976. Although its results, in the view of Gamani Corea, UNCTAD's Secretary-General, do not necessarily reflect comprehensive agreement on the substance of problems, nor agreement on the implementation of decisions which have already been taken, the Seventh Special Session has, in his opinion, demonstrated the political will of the international community to negotiate certain key issues. This is a significant and constructive step forward which can help to break the apparent stalemate which has arisen in recent years, between the poor and the rich, over development problems.

Before delegates from 150 countries get together in the Kenyatta Conference Centre, some of the pressing issues before them will already have been subjected to intensive negotiations between consumer and producer countries at the Paris Conference on international economic co-operation and development in December. Those delegations which are members of the Group of 77 will also meet in Manila, where the whole Group of 77 will come together for a discussion of matters which, four months later, will be taken up in Nairobi.

UNCTAD IV can, therefore, be seen as a unique event which will allow the international community to consolidate and translate into negotiated programmes many of the broad political issues that have been under discussion for a considerable time, both within and outside the United Nations system.

The chances of achieving concrete results at Nairobi are increased because, for the first time, a pre-Conference negotiating session is taking place before the Conference meets. In this session, countries will have the opportunity to table recommendations on issues on which they want decisions to be taken. At former UNCTAD Conferences, the time was always too short to come to grips with such proposals and frequently, therefore, no decisions were reached. Before delegates meet for the final negotiating rounds in Nairobi, however, there will be ample time, since there is more than one month between the end of the pre-Conference session and the beginning of UNCTAD IV, during which governments will have an opportunity to consider the proposals made.

The provisional Conference agenda is short and includes nine major concerns of UNCTAD. Within each policy area, specific issues for negotiation are clearly identified. It can be expected that the attention of the international community will be concentrated particularly on two items: UNCTAD's integrated programme for commodities and the debt burden of the developing countries, which threatens a number of them with a slow-down or even a standstill in their economic progress.

main efforts of UNCTAD since then have been to unite the Third World against exploitation.

The next UNCTAD conference will be held in Nairobi in May 1976 and will be crucial for reversing this exploitative relationship. The conference coming in the wake of similar ones earlier like the United Nations conferences on Environment (Stockholm), Population (Bucharest), Raw Materials and Development (New York), Food (Rome) and the recent Special Session of the UN on the New Economic Order is a prelude to the new Third World stand that will be taken at the coming Non-aligned Summit in Colombo. In November the Sri Lanka Association for the Advancement of Science held in conjunction with the UNCTAD, a five-day seminar on the possibilities of the New Economic Order.

The UNCTAD Secretariat, in a background note, emphasises the concept of collective self-reliance for the Third World as the framework within which bargaining with the West could be carried out. That this process is not easy but depends on correct strategy is borne out by the fact that as recently as December 2nd, at the UN General Assembly, the Western industrialised countries either abstained from voting on or opposed a resolution designed to change trade and investment relations between rich and poor countries. Only two weeks earlier six leading industrial nations met in France in what was described as a "ganging up" operation to consider measures to resuscitate their ailing economies but had not seemed inclined to ponder the problems of the developing world at their summit. (See page 30).

In the following five contributions we focus on some of the main view points and issues on the contract of bargaining that emerged at this Seminar, a basic point of agreement being that UNCTAD IV will be a very different kind of animal from the previous ones.

Trade Trends UNCTAD Secretariat's View

A more optimistic hypothetical set of calculations for 1975, made by the UNCTAD Secretariat, shows that the terms of trade would decline sharply in 1975 for all groups of developing countries, with the exception of the three large low-income countries and the fast-growing exporters of manufactures which however remain far below the 1970 level. The index of the purchasing power of exports for these countries would drop to around the 1970 level in 1975. In particular, the export purchasing power index of the developing countries with a *per capita* income of less than $250 would show a marked decline from the already low 1974 figure, reaching a level 19 per cent below that of 1970. (See table below).

The bleak trade outlook presented here is likely to be reflected also in a serious dampening of the real income growth rates for most of the developing countries in 1975.

EXPORTS: VALUE, UNIT VALUE, PURCHASING POWER, AND VOLUME 1973 AND 1974 AND ILLUSTRATIVE PROJECTIONS FOR 1975 BY MAJOR DEVELOPING COUNTRY CATEGORIES

	All developing countries	Major petroleum exporters	All other developing countries: Total	All other developing countries: Fast-growing manufacture exporters	Remaining countries: Total	Remaining countries, of which: *Per capita* GNP over $250	Remaining countries, of which: *Per capita* GNP under $250	of which: 3 Large (a)	of which: Least developed (b)
Exports in current dollars (*Value in $ billion*)									
1973 ...	101.1	38.6	62.5	16.3	46.2	29.5	16.7	4.3	2.1
1974 ...	209.6	120.9	88.7	22.2	66.5	43.6	22.9	5.4	2.5
Export unit value index (1970 = 100)									
1973 ...	158	184	146	131	150	153	142	130	160
1974 ...	339	593	212	161	230	238	212	165	224
1975* ...	343	610	210	178	221	236	195	177	209
1975** ...	315	603	194	168	176	182	161	157	172
Export purchasing power index (1970 = 100)									
1973 ...	136	160	124	159	115	125	103	92	102
1974 ...	197	381	119	154	111	123	93	73	87
1975* ...	187	366	111	160	100	114	81	76	76
1975** ...	180	379	97	161	84	92	71	72	65
Export volume index (1970 = 100)									
1973 ...	118	119	118	171	107	113	101	101	88
1974 ...	115	115	116	189	101	107	92	99	75

Source: UNCTAD secretariat estimates. (a) The three large low-income countries. (b) "Hard-core" least developed countries

UNCTAD IV and Implications for Sri Lanka

H. A. de S. Gunasekera

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UNCTAD has performed the role of catalyst in organising the efforts of developing countries in their legitimate demand for a new international economic framework based on the freedom, independence and sovereignty of nearly 150 nations of the world. During the course of history, internatiomal economic systems have been largely the creation of a handful of nations which had the military power and the economic power to impose their will on smaller nations. That age of Empire has gone. We live in a more democratic era—in an age of the common man. It is true, both of individual nations as well as the entire community of nations.

Decisions taken by a few are being superseded by decisions taken by the many; in other words, by the vast majority of nations representing mankind, both rich and poor. UNCTAD has played a crucial role in providing points of focus in the long struggle to achieve a desirable international economic order, particularly for the developing countries. In terms of the history of organisations, UNCTAD is still a very young organisation. Its task has only just begun.

What we see today in the form of demands for the establishment of a new international economic order is nothing less than the demand of the depressed and oppressed nations of the world for a framework of laws, rules and regulations governing the international economic system. Over the years, the task of building up a system of law and institutions within each nation has been tackled fairly and satisfactorily. This has eluded mankind, however, in the international context. We see today the stirrings of a movement to provide a global apparatus of law in various spheres. In the political sphere we have the rudiments of a system of international law. There are institutions to conciliate and arbitrate on matters in dispute between nations. In the economic sphere we are now in the midst of formulating a corpus of accepted rules made by the parties concerned and not formulated for them by others. The weakness of the international economic system which emerged after the last World War lay in the fact that it was the product of the efforts of only a few countries. I think it is generally agreed that the global economic system, the decline of which we are all observing, has served the world to some extent in that it ensured an expanding world economy, during at least a part of its time. The benefits of this expanding world economy were however concentrated among a few countries. While it is important that we ensure economic expansion, we also need a system that will include in it elements of a proper and just distribution of the benefits of such expansion. It should also maintain the language of priorities, which will eliminate the wasteful features of the affluent society.

Concern with life styles

The debate on the establishment of a new international economic order takes place at a time when there is greater consciousness of the relationship between man and nature. The entire question of the Environment which was so lucidly elaborated during the proceedings of the Stockholm Conference was nothing less than a clarification of a new relationship between mankind on the one hand and natural resources on the other. The old economic order had no conception whatever of any "limits to growth". Science and technology may have the means to tackle the questions arising from the depletion of non-renewable resources but that is not the whole of this problem. There is also the quality of life. The question of life styles is now increasingly the concern of both developing and developed countries. Conservationists the world over are involved in working out hypothetical life styles which can be sustained by mankind without reducing the quality of life. I consider this a particularly appropriate exercise for the developing countries as they obviously cannot imitate the patterns of conspicuous consumption of the affluent countries. Moreover, the developing countries have to provide the jobs for large numbers of their increasing populations at a time when they are faced with a severe scarcity of capital resources to provide the wherewithal for employment-creation. The subject of Science and Technology is a major area which will concern UNCTAD IV and I would think that this most appropriate field should be considered by the developing countries in the context of their concern with life styles, employment-creation, income distribution and integrated rural development for the developing countries. Only then will it have a significant meaning for the vast majority of the poorer populations of these countries.

Commodities crucial

A major area of UNCTAD's concern is that of commodities. This is one of the key development issues of our time. The role of commodities in the economic development of the developing countries is crucial and UNCTAD's continuing interest in this subject is most welcome. As a result of the recent energy crisis, there is a greater awareness among both developed and developing nations of the importance of commodities in correcting the imbalance that exists between the North and the South; between the "North" that represents the world's developed or industrialised countries, and the "South" which encompasses the less developed countries, ranging from the newly rich but non-industrialised members of the OPEC, to the poorest and least developed countries of Africa, Asia and Latin America. The potential exists for the countries of the Third World to obtain greater resources through commodities. This is clearly shown in the fact that a 10% general rise in price in real terms for commodities exported by them will more than exceed the total resources flows in the nature of official development assistance (ODA) which they now receive from the developed countries. UNCTAD's integrated programme on commodities is an imaginative approach to this question. In the international sphere, it obviously takes time for this sort of radical and innovative approach to be implemented. It requires a political will the dimensions of which we have not so far witnessed in the global dialogue that is now taking place.

It is therefore appropriate that UNCTAD is pursuing its ongoing work on individual commodities so that such a disaggregated approach could ultimately result in an aggregation of principles which could ultimately be formulated into a General Agreement on Commodities. I would consider UNCTAD's proposals for a Buffer Stock Scheme and a Common Fund to finance such buffer stocks as being within the power of developing countries to bring about. It is most important that in international bargaining the developing countries should consistently and continuously foster and strengthen its growing solidarity by the establishment of mechanisms for this purpose. The Dakar Conference on raw materials constitutes in this context an important landmark in the history of relations among developing countries. We should now pursue the achievement of those good intentions expressed in the Resolutions at Dakar through the negotiation of substantial agreements at UNCTAD IV. Our own Minister of Finance speaking at the 7th Special Session of the United Nations, made an imaginative and realistic proposal when he suggested the use of gold in the IMF reserves, which are now earmarked for disposal, to finance the Buffer Stock Scheme, as enunciated by UNCTAD. I would like to bring this proposal to your attention. If the developing countries are prepared to set apart a portion of the funds accruing to them through gold sales, the UNCTAD Fund for the financing of buffer stocks could easily become a reality very soon.

Before I leave the subject of commodities, I should like to refer briefly to the commodities of interest to us in Sri Lanka. Two of the five commodities isolated by UNCTAD for early action under the Programme, namely tea and rubber, account for 2/3rds of Sri Lanka's export earnings, and the Programme is clearly of as much importance to Sri Lanka as to any country in the world. In this context, let me refer briefly to our own experience.

Firstly, how have the earnings from Sri Lanka's exports of tea and rubber behaved over the last decade, or so?

In terms of export quantity the answer is easy. From 1962 to 1974, for example, exports of tea fell by 10% and those of rubber increased by 27%. Fluctuations in export quantity were small: 3% and 6% about their trend values for tea and rubber, respectively.

How prices moved is far harder to determine, and depends on how they are measured. If we look at rupee prices we obtain the very pleasing answer that the price of tea increased by 39% and that of rubber by 102%. If we use the now familiar dollar/SDR price, the answer is less satisfactory: a fall of 18% for tea and a rise of 20% for rubber.

This, however, does not indicate how the purchasing power of our two major exports fared over the period. Our exports ultimately are only of benefit to us because they permit us to purchase imports, and our export prices can therefore only be meaningfully expressed in terms

From 1962 to 1974 the real prices of our tea and rubber in fact fell by 71% and 58% —dramatic falls by any standards.

of import prices. Standardised by an index of import prices, we see that real prices of tea and rubber in fact fell by 71% and 58%—dramatic falls by any standards particularly when it is realised that the figure for tea represents an average compound rate of decline of 10% per annum.

It might be thought that by taking 1974 prices I have over-estimated the extent of the decline. This is true to some extent, but the real price of tea had already fallen to just 42% of its 1962 value in the more normal conditions of 1973. Rubber was not far short at 47%.

Compared to this decline, fluctuations in price have been small. For tea, real price has fluctuated by an average of less than 6% about its trend, rubber by about 9%.

When assessing the relevance of commodity policies in Sri Lanka, the nature of past price movements and likely trends must be kept constantly in mind.

In talking of price movements, I have, talked as is conventional in quantitative terms about long-run price trends and short-term fluctuations. This leads me on to the second aspect of commodity earnings which I would briefly like to touch upon.

Implicit in most of the recent international resolutions pertaining to commodities has been an acceptance of the need to change the terms of trade in favour of the less developed countries by increasing the prices of the commodities which they export compared with the prices of the goods which they import. Yet this resolve has invariably manifested itself in proposed measures aimed at the reduction of commodity prices fluctuations rather than at the long term increase in price.

Take for example the Interim Report of the Commonwealth Expert Group—The McInture Report. The Report sets out eight general principles which it considers could be applied in working out a detailed commodity policy. Seven of these are directly concerned with or would result in raising the real value of commodity exports; one is concerned with commodity price stability. Yet in the discussion of possible measures, the Report devotes three pages to issues of stabilization, one page to indexation which they see at best as a means of maintaining the real value of commodity exports, and makes no mention whatsoever of increasing the real value of commodity exports. This is certainly inadequate for the developing countries.

The issue of commodities has several dimensions to it. It is on the production and export of these commodities that we in the developing countries depend for our external resources. It is in relation to commodities that the IMF, the IBRD and the various forums of the United Nations have taken up the question of compensatory financing. There have been notable developments in this sphere. I would, however, consider the initiatives so far taken to provide the necessary compensation for the poorer developing countries to meet their day-to-day commitments as being inadequate for the achievement of even extremely limited goals. The balance of payments of the developing countries have deteriorated to an extent that the poorer countries are now facing problems of a magnitude which threaten their very survival. At this point it is relevant to question the criteria adopted by the IMF in determining the grant of balance of payments assistance. Much has happened since the Breton Woods pioneers talked of "fundamental disequilibrium".

UNCTAD's latest proposal for the creation of a further oil facility is most opportune. Time is however of the essence. There should be a sense of urgency in pursuing a proposal like the Development Security Policy. These are areas of international action which brook no delay. The 6th Special Session of the United Nations identified a programme of action to benefit the most seriously affected countries. Within the last two years, there has emerged a 4th World of Most Seriously Affected countries of not less than a billion people, nearly one-fourth of mankind. In all the proposals of UNCTAD for commodities and for the improvement in the terms of trade and increased resource flows, priority attention should be diverted to this one-fourth of the world's population. It is an unfortunate fact that South Asia is the region that has suffered most as a result of recent international economic development. The 4th World is not far away from us. It is very much here with us on our doorstep. It is also an unfortunate fact that some of the poorer countries are not necessarily countries which have economic significance to the developed countries. These poor countries are not always well endowed in essential raw materials like oil. They are in fact even short of the most basic of commodities such as food. Their per capita incomes are so low that they do not constitute major targets for direct foreign investment of the developed countries. They do not also provide substantial markets to be provided with special schemes of assistance from both the developed and the richer developing countries, motivated largely by a humanitarian purpose.

One of the encouraging features in this regard is the recent so-called "poverty orientation" in the aid policies of developed countries, so that such policies meet better the needs of the poorest countries. I would consider that commodity and aid policies of developed countries so far as they affect developing countries are complementary rather than exclusive of one another. Improved prices for commodities would ensure that benefits accrue mostly to the richer developed countries particularly those countries rich in the production of metals and minerals. I understand that at the recent 7th Special Session of the United Nations, indexation was being thought of only in terms of the export prices of metals and minerals and not of prices of agricultural commodities. Aid policis can be oriented in such a fashion that their main thrust is directed towards poorer developing countries which cannot benefit from immediate increases in the price of commodities they export. I would like in this connection to refer in particular to the interesting developments under the Lome Convention. There are elements in this Convention which are certainly useful in establishing an improved relationship between developed and developing countries. Unless conventions of this nature are globalised they are bound to constitute areas of friction among the developing countries themselves. The solidarity of the developing countries is now sufficiently strong to identify their mutual interests so that it is not possible for the developed countries to weaken this solidarity by preferential arrangements which could tend to be to some extent divisive.

What is necessary is the political will to break through age-old prejudices and develop flexible economic policies to meet the new challenge of our times.

In Aid policy we have long referred to the Pearson target of 0.7 per cent of GNP being diverted by the developed countries as O.D.A. This target has not been achieved. It is still around 0.3 per cent. I would like to raise the issue here whether it is not possible at least to get the developed countries to divert that amount of resources which they would be obliged ideally to channel to the poorer developing countries if they work on the basis of a global .7 per cent target. A global .7 per cent target would involve an increase of more than U.S. $10 billion from present levels—more or less a doubling of aid levels. But if one considers only poorer developing countries as an urgent target, and with only half the population of the developing countries living there, an increase of aid by U.S. $5 billion might meet their urgent demands.

I think that we should particularly address ourselves to issues which should be raised at the proposed UNCTAD Conference to mitigate the debt burdens of poorer developing countries. In this connection, it has to be borne in mind that all foreign aid, compensatory financing, the Oil Facility, the Third Window are at most stopgaps until very fundamental solutions are evolved. In the search for fundamental solutions, it is necessary to identify the causes of the present crisis. Amongst these causes, two stand out prominently, i.e. world inflation and cartelisation. Indeed if developed countries control their inflation about half our problems will be solved. The establishment of an automatic link between additional real resource transfers and increased international liquidity is another area for priority action. The reform of the international monetary system concerns UNCTAD intimately as the climate for development is grievously affected by the vagaries of monetary relationships.

Although the prospects for Trade and Economic Co-operation among developing countries are enormous many of us have been content merely to pay lip-service to the idea. There are complementaries in our economies which lend themselves to a greater degree of integration in trade, in shipping, in industrialization and several other fields. What is necessary is the political will to break through age-old prejudices and develop flexible economic policies to meet the new challenge of our times.

The Changing International Economic Order and UNCTAD IV

Lal Jayawardena

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I should like to take literally the thrust indicated by the title given to my address. This is, "The Changing International Economic Order and UNCTAD IV", and it carries with it the important implication that UNCTAD IV ought to be a very different kind of animal from previous UNCTADs, and that this has something to do with the course of economic events in the last few years. If that is what is expected of me—and I have chosen to interpret that unilaterally—then I think it would be important that we try to take stock of what previous UNCTADs were about, what they tried to do, and what they succeeded in doing. I suspect I was called upon to discharge this particular role because in one capacity or another I have had a great deal to do with all those UNCTADs, first as a staff member right at the beginning, and subsequently in various national capacities. But I think it is important to get an appreciation of what happened in the past before we go to UNCTAD IV.

UNCTAD'S Old Goals

As far as what I may call the old goals of UNCTAD were concerned, there were really three elements that deserve mention. The first of these has been the focus on what has been called the trade gap of developing countries. I remember at UNCTAD I this stood at something like 20 billion U.S. dollars. In other words if by 1970, and UNCTAD I in 1964, the international community could not come up with a combination of trade and aid measures that would transfer the equivalent of 20 billion dollars to developing countries, then the growth target for that particular development decade of 5% per annum growth in the GDP could not be realised. That was the first major premise of UNCTAD, of all UNCTADs in the past.

The expectation—and this is the second element for bringing about this transfer—was through a sort of gentle process of persuasion. I do not remember the sort of intervention that Dr. Prebisch used to make in UNCTAD in those days. His main burden was that all of this was going to be costless to developing countries. That 20 billion gap really did not require even the 1% development assistance target which we now have; and in terms of the thinking of that time it really required no more than one-tenth of the 1% of the increment in the demand for commodities exported by developing countries to developed countries. In other words, if barriers had been reduced to permit of the absorption by developed countries of as little as one-tenth of 1% of incremental exports of developing countries, then this, together with some modest assumption about aid, would have done the trick. So the task in the thrust of all the appeals in the past was, "this was going to cost you chaps very little indeed".

And the third element that characterised those discussions was that when developing countries backed Dr. Prebisch in this kind of appeal they were told, "go ahead and mobilise domestic resources". So it became a sort of ding-dong match. The developing countries were asking for something very little indeed and the developed countries were saying, "Really we cannot give you whatever mess of pottage you are asking for; go ahead and put your own houses in order and then you will really be in a position to benefit from a better trade regime". So those three were the goals that UNCTAD I, UNCTAD II and UNCTAD III in one way or another developed.

The Results —UNCTAD I

I have only used illustrations of UNCTAD I. Now for the results of UNCTAD I—Whenever anyone asks for something by way of assistance to the Third World, they usually get an institutional framework—a committee or a set of committees. So that was what happened in UNCTAD I. A new mechanism was born; there were jobs for the boys; some of them were good, some of them perhaps not. Anyway within that framework you had a set of studies. That is the second sort that gets thrown to developing countries when demands were made, and these studies were enormously useful and helpful.

Let me list just two or three of them. The very first one which comes to mind was the study of the state of developing countries in international monetary reform, and that really was the first occasion when the famous link that Prof. Gunasekera talked about came into international attention. It was an expert group convened by Dr. Gamani Corea, then my boss and now Secretary-General of UNCTAD, which gave birth to this notion of the link but drawing again on ideals that were turned out before—2 or 3 years before that—by one or two academics.

The second idea that was tossed out at that time was the notion of general preferences. People had been accustomed to the idea of Commonwealth preferences, i.e. preferences granted to a particular grouping of countries, and the idea was that these should be generalised and made available on an across-the-board basis to all developing countries—a tariff cut across the board to every developing exporter.

The third idea—and this is relevant in the context just mentioned by Prof. Gunasekera—was really Dr. Prebisch's version of Dr. Kissinger's "Development Security Facility". But the basic idea was the same. When developing countries draw up their plans they are obliged to take a view of two things—a forward view of their export earnings and a forward view of their aid expectations. In the imperfect world we live in there is nothing very much you can do about aid except live with it on an annual basis. As far as exports were concerned, the idea at that time was to give an insurance, so to speak, to the export expectations underlying a development plan. If those export expectations were unfulfilled, then the plan itself would have to be scuttled, and that was the idea which was subjected to intensive study. And for reasons I shall come to subsequently, it was an idea which remained stillborn until Dr. Kissinger chose to give it a modern dress and a new name called "The Development Security Facility" designed to meet precisely the objective that Dr. Prebisch then had in mind. So these were UNCTAD I's ideas that were on the agenda for study.

—UNCTAD II

UNCTAD II was a failure basically. It was such a failure that Dr. Prebisch quit; he gave up. One of the things he was pressing for at that time which I have alluded to—the Supplementary Financing Scheme which had been studied to death between UNCTAD I and UNCTAD II—was abandoned for lack of the necessary finance. The question of preferences was taken a stage forward, a firm commitment was made on principle but no action yet; the action took place between UNCTAD II and UNCTAD III, and that action again can be viewed as not being in any way a real concession to developing countries. The sorts of qualifications made to the application of the principle of general preferences were such that it could be argued that no major burden or adjustment was imposed on the developed countries that were called upon to absorb imports from the developing countries. There were certain cut-off limits to exports that could be permissible. So preferences was no real gain and supplementary financing was a "dead duck".

—UNCTAD III

As far as UNCTAD III was concerned, the emphasis moved to a slightly different area. If developing countries could not at least get the sorts of minimal things they were asking for, then perhaps they might be allowed the luxury of rubbing shoulders with the people who were taking the decisions. Decision-making internationally became the major focus of UNCTAD III, and that in the specific context of international monetary reform. As many of you will be aware, international monetary reform in those days consisted of 10 countries sitting round a table taking decisions on matters put to them and then placing them before the rest of the world community as a *fait accompli* which would then be dutifully endorsed. What we did have—and this is where UNCTAD contributed the major political thrust —was what came to be called the "committee of 20" (i.e. the 10 developed countries, one make-weight developed country, Australia or New Zealand, and 9 developing countries) who were then permitted the luxury of sitting in one room to take a view of international monetary issues that would hopefully have taken the interests of developing countries into account. So, the major break-through of UNCTAD III in Santiago was really the permission, if you like, for developing countries to take part in a process of decision-making on vital matters—international monetary matters—which hitherto had been the prerogative of the rich countries. How successful that particular piece of institutional machinery was I shall come to in a moment. By that time the link issue which had been started up in UNCTAD I had matured considerably. A great deal of work had gone into it in the UNCTAD secretariat and in the Fund. But instead of getting the link at that point we got a committee.

Dangers of first three UNCTADs

So that sums up the results of the first three UNCTADs, and in trying to look around for a way of doing that better than I have done, I was driven to something which was presented to the 7th Special Session of the General Assembly by an outfit called the Dag Hammarskjoeld Foundation. This is a group of independent researchers working under the auspices of a foundation set up in the name of the first Secretary-General of the United Nations, and this is what it says which the Third World must avoid in the future. It says that the Third World must avoid the institutionalised mendicancy, the danger of the first three UNCTADs, the illusion of paternalistic partnership without tears, the real nature of the Pearson Report and the real danger of the World Bank's pressing theme of redistribution with growth and the sterile construction of desirable year 2000 models without specifying concrete initial steps and subsequent sequences for moving towards them as exemplified in the Lima Charter of UNIDO. This, in capsule form, is an indictment of fast approaches to the question of international economic diplomacy, whether in UNCTAD or elsewhere.

The role of UNCTAD IV

This brings me, to the new role that I think—and this is a personal view—would be expected of UNCTAD IV in the context of the changing international economic order. This role I think, is again having three major elements. In a large measure—and this is my first point—the problems are unchanged except in magnitude and in composition. Let me go back to magnitudes first because this is important to get a focus on the new thrust that is required.

Dr. Prebisch's 20 billion dollars for 1970 has now become 100 billion dollars for 1980. This is the latest UNCTAD projection, and 100 billion dollars is what one needs by way of overall resources—trade and aid taken together if the new Development Decade target of 6% per year is to be achieved —6% against the 5% for the previous decade. This 100 billion—and I am going on the basis of the projections I have seen—means something really like 60 billion in 1974 dollars. The way these things are done is that you work with base year magnitudes and values and make an adjustment for inflation. So while the 100 billion compares with Dr. Prebisch's 20 billion if one is looking at it from today's standpoint, it is in the order of 60 billion. And in this game of projections a number of outfits are involved and UNCTAD's efforts are complemented by those of the Bank.

Before I get to those details I think one important thing that stands out is that the 100 billion is not the sort of figure that can be met by aid efforts alone, and that is the basic point—the difference between the future and the past. That 100 billion amounts to something like 1.3% of today's projected GNP of the developed world in 1980. It also amounts to something like .7% of their GNP by way of official development assistance. This is the point of the .7% target we were talking about, and what Prof. Gunasekera referred to as not yet achieved, which was to be achieved last year and which is only achieved to the extent of .3%. The argument here is that if by 1980 developed countries must set up their will and effort and get the .7% they will have discharged their official assistance obligations 5 years late no doubt, but discharged them leaving the balance over for trade measures. But if you again take the realistic assessment—and then you have to go to the World Bank for their in-house studies—you will find that there seems to be no hope whatever of getting that .7%. Their projections in fact imply a decline from todays .3%, which Prof. Gunasekera mentioned, to something like .29% in 1980, and if this 60 billion that I talked about in 1974 prices is to be the focus of thinking, for a moment let me switch to that now.

We can find that 30 billion of that are within sight by way of plans that that country also already has for aid transfers. Another 30 billion has to be found, and this 30 billion translates along with that proportion of the 30 billion already found which is imputed to the developed countries. Let us say 47 billion is the total I am hoping for; that 47 billion will require something like 8% of that GNP by 1980 in order to be fulfilled. In other words, when you look at this problem in terms of constant price relationships or current price relationships, if you rely on additional aid for this Development Decade target of 6%, the answer is that aid is not going to be forthcoming.

Trading with OPEC

So, developing countries have really got to be thrown much more on their own resources on seeking to widen their trading opportunities than was really the case with any of the previous UNCTADs. In considering the trade efforts I think there are two things that could be highlighted to supplement what may reasonably be expected and these two consist in relationships which the Third World might forge with the OPEC world. The estimates are of this order and they come again not from UNCTAD but from Bank sources. Today OPEC absorbs something like 6% of developing country exports. If that 6% were to rise by 1980 to something like 9% of developing country exports, then it can be argued that the 100 billion dollar gap can be bridged with the sorts of aid that on current expectations OECD developed countries look like coming up with. This particular access to OPEC markets has to be married with a reduction in trade barriers of the developed countries which could add another 12 billion. What has happened here is that many of the developed countries have mounted plans for domestic protection in order to safeguard their temperate crops and if barriers on items such as beet, sugar and cotton are lowered between now and 1980 the estimation is that developing countries can gain something like 12 billion because they have the capacity to export these products and develop that export potential. So the two areas of trade which have come up in current studies and will supplement an aid effort which is not in sight really are trade with OPEC countries and a reduction in protectionism in the developed world.

New directions for aid effort

The second area in which one sees a new role for UNCTAD consists in the fact that the developing countries today are a much more variegated lot than they were in 1964. Some of them are really on the verge of having achieved developed status. This applies mostly to the Latin American countries who have enjoyed a period of export-led growth. The real problem concerns this Fourth World of ours and that consists really, apart from Sri Lanka, of Bangladesh, India and the Sahel. I was told a story that they would soon be joined by a fifth, and that is the United Kingdom! And the reason for that is that many of the boffins or buffoons who run these places have had their original training in places like the London School of Economics, or Oxford or Cambridge or what have you. But let that pass. Anyway, because this problem of developing countries is now more variegated, the thrust of the aid effort can correspondingly be altered also, or such aid as one can expect. In terms of World Bank constant price projections I was talking to you about a while ago, an addition of 30 billion dollars in 1974 dollars needs to be found between now and 1980 if this 6% target is to be supported. Of that 30 billion, the requirement of the poor lot of them is not more than 1½ to 2½ billion dollars annually. This gives the direction in which the aid effort is moving, but it is not really clear whether one can rely even upon the aid effort to deliver that much. So these countries have the opportunity of really working out new trading relationships of the kind which I will come to in a moment and which I have just alluded to also.

Power behind demand

The third element in this new role for UNCTAD extends really fundamentally from the retort that the developing countries gave to the call of previous UNCTADs to mobilise their domestic resources. One group of countries—OPEC—took that call quite literally, and when they mobilised their resources all hell began to break loose, and it is this action which has really created a possibility for serious bargaining and negotiation by developing countries, and in my view it is this which accounts for the revival in modern dress of lots of ideas which did not get off the ground in previous UNCTADs but which when developing countries have effective power to back their demand, in a context where effective power backed their demand, the whole picture does change. And I would like to go back here again to the Dag Hammarskjoeld Report, which I think ought to enjoy wide circulation here, to say exactly what I think it ought to mean. In talking of collective self-reliance they say: "This concept requires will, capacity and power. Will includes not simply desire for change and a vision of a desirable new economic order. It must include a clear conceptualisation of what measures and sequences are necessary to begin serious progress. Capacity includes the ability to work out strategies and policies and to formulate the institutional or bargaining processes necessary to bring them into being. Power is probably the element in which collective self-reliance can offer the greatest advances beyond national self-reliance and these are the key points".

It involves the capacity to offer real benefits and to impose real sanctions. Collective self-reliance must be backed by a potential for confrontation damaging to the industrial economies as well as by a potential for providing new relationships of positive value to them. In other words, we are now in the territory of negotiated inter-dependence, of negotiation from strength, and this is I think the key task of UNCTAD IV. If one looks at UNCTAD IV in this light I think, it has implications both for the content of UNCTAD and for the form of UNCTAD. I do not propose to undertake a *tour d'horizon* of the content of UNCTAD because that might take me beyond my allotted time limit. So I shall try in the available time to telegraph as quickly as possible the broad areas of concern on which I think UNCTAD IV might focus.

These four areas are commodities; other forms of Third World Co-operation—and this is the real meat of collective self-reliance; in development finance which is standard UNCTAD territory but in my view in the future ought to be marginal UNCTAD territory; and finally monetary issues which really creates the framework in which economic growth compatible with self-reliance can proceed. These are the four broad areas that I wanted to flag briefly, but let me focus a little more precisely on commodities to begin with.

Commodities

As I have just indicated, the current concern with commodities is really nothing more than a compulsion, if you like, to take seriously the concern of developing countries when they begin to argue from a position of strength. And what this particular OPEC action has created for it is a new set of opportunities. The idea was not new. As long ago as 1942 came such a concocted scheme for a separate agency for administering buffer stocks. This lay hidden in the British Treasury archives for a good long while. Dr. Prebisch tried to find it, but by some curious accident I came across it, and what we now have in UNCTAD really in terms of this integrated commodity programme is nothing more than a detailing out of that particular scheme. But what is new here is the political opportunities that have been created which was absent in 1942, and briefly there are three sets of opportunities which I would like to flag.

Three sets of opportunities

The first is the possibility of trading off the concern of developed countries with assurances of supply with the concern of developed countries to have reasonable prices. The points of excessive prices can be self-defeating because they promote and accelerate the process of substitution which will leave commodity producers more vulnerable than before. So developing countries and developed countries have a mutuality of interest there in going for reasonable prices.

The second opportunity that the new situation creates is that developing countries are both exporters and importers of commodities. As exporters they would like higher prices. As importers they would naturally want lower prices, and if one is bargaining for the collectivity of the Third World when their common interests rest with not so much cartelisation but a reasonable level of pricing which is what really the buffer stock mechanism seeks to provide.

The third opportunity of course is that one can raid the OPEC cities. The money is there which was never ever possible before. UNCTAD has done a number of calculations on this point and they, I think, frightened the world community to begin with by coming up with a list of 18 commodities which would require prior stabilisation costing something like 10.7 billion dollars, which is really about the magnitude of the total aid flow on official account which Prof. Gunasekera referred to. They have since scaled down that particular estimate to something like 2 or 3 billion, and that implies scaling down of the commodity list from 18 to something like 10. The importance of scaling them down in this way is that you can have a scheme where developing countries would go it alone. In other words, if you start with a smaller corpus of commodities and work out a sort of arrangement which indicates to OPEC countries that they have a mutuality of interest in supporting such a scheme, then I think one can get to UNCTAD IV with a scheme which is already pre-negotiated and worked out and the developing countries will be in a situation where the rest of the developed countries will have an incentive to join. What I think I have in mind is not a cartel scheme but a realistic scheme to stabilise commodities at prices of about 1974-75 before the peak of the boom and which would be in the interests of OPEC countries to support, and it is this area of interest, I think, which UNCTAD ought to be exploring. The import dependence on primary commodities of OPEC is substantial today. They import something like 4-5% of the world's exports of wheat, something like 7% of the exports of sugar, something like 35% of rice, and something like 8% of tea, and their import bill has expanded pretty substantially during the last year by about 90% in toto.

A vested interest in stabilisation scheme

So any group of countries in that sort of position with a heavy import commitment expected over the years is really in the position of having a vested interest in a stabilisation scheme where one can draw from international stocks rather than raise market prices to astronomical levels. And this ought to suit the developing countries as well because of the obverse of prices shooting up to excessive levels with the slump that follows. So if one can work out a scheme of mutually acceptable prices which gives OPEC a profitable avenue for investing money—and the tin buffer stock has shown that buffer stock operations can be very profitable; over 19 years they realised something like £27 million profit on the operation—then I think developing countries can get to UNCTAD with a realistic prospect of "talking turkey" about buffer stocks. I am saying this because as a result of OPEC action on commodities one has had initiatives from the developed countries. But when one probes these initiatives one is a little unclear about the exact content of these initiatives.

Not transfers of money but a reasonable price

I have already mentioned Dr. Kissinger's Development Security Facility. That really is nothing more than the old UNCTAD supplementary scheme given a new label, and it does nothing more than transfer money to developing countries. What developing countries are now looking for, if I understand the mood aright, is not transfers of money but a reasonable price for their products which they are in a position to obtain by unilateral action; and when one talks of that action one again goes back to the second initiative which was taken by Prime Minister Wilson at the last Commonwealth Prime Ministers' Meeting. He has a principle which I have already alluded to. The principle is that producer countries should undertake to maintain adequate and secure supplies to consumer countries and he is proposing here a generation after the General Agreement on Tariffs and Trade, which is GATT, a great deal more at the level of individual action on commodities.

I have got the document that H.M.G. has provided as a result of the Jamaican Conference. What it comes down to is nothing more than a return to the old approach which has failed to yield dividends, which is the commodity-by-commodity approach. Everybody talks a great deal about how Commodity 'A' is different from Commodity 'B' and how the approach for Commodity 'A' therefore has to be different, and one result of this is that for the last 10 years no more than two or three agreements have been worked out. So that, to my mind, is the wrong road to take. What is perhaps the right road is what UNCTAD has in mind which is the simultaneous negotiation of buffer stocks for a number of commodities.

There is no such thing as a commodity-by-commodity approach here. It is a straight across-the-board approach which has really a number of advantages to members. If you have a single authority running it, that means that that authority can take account of the inter-relationships between commodities. It can make sure that the prices set for tea as a norm are such as not to torpedo or undermine the livelihood of coffee producers. It can take a longer term perspective of prices. If you think of a price at which it is desirable to stabilise commodities, it is also a price at which it is desirable to promote the right sort of investment attitudes. What has happened to commodities in the past is that when prices shoot up excessively in a boom you have over-investment taking place and then prices fall and acreages have to be cut back. So, that cycle can be broken if you have a single body looking into commodity price trends taken together.

Arresting the vagaries of the business cycle

Then you can have a way of arresting the vagaries of the business cycle. At a time of world inflation, boom in developed countries and rising commodity prices, the buffer stock authority can intervene in the market and sell commodities so as to moderate the impact of inflation. And similarly at a time of recession, one can intervene to buy commodities. All of this would not be possible unless you had an across-the-board approach with enough finance to back it that would carry conviction in the market as regard intervention by a single buffer stock authority which no single commodity can command. Ten commodities can command that degree of confidence in the market and 3 to 4 billion dollars, but not one commodity and 200 million dollars. That is the order of difference which an across-the-board approach makes. So I would suggest in all seriousness that if UNCTAD IV is to come up with something concrete on commodities, it should come to the negotiating table with a concrete scheme which can get off the ground with the support of developing countries alone, and the moment a sufficiently detailed scheme is worked out along these lines, the probability is that it will be in the interests of everybody else to join such a scheme.

Gap in prices of producer and consumer

I have one more point to make on commodities before I end on that particular part, and that is something which UNCTAD has so far not really done as much as it perhaps ought to do. What I am referring here to is the price which the producer receives for a commodity and the price which a consumer pays for it, and the gap between the two. The only study that I know which has gone into this question is an UNCTAD study on bananas and that shows that as little as 10% of the final consumer price is what gets to the producer. The balance is trapped among a whole range of middlemen, usurers, shippers, wholesalers, and it is this particular gap which OPEC action has bridged on the basis of its unilateral effort in respect of oil. Some of the differences between the price of the consumer and the measly 2 or 3 dollars per barrel that OPEC countries got was absorbed by way of taxes by the developed countries. This provided revenue for their budgets, and what the whole bargaining process in OPEC has achieved has been to really bring back to their coffers money which would otherwise have gone to developed country exchequers. That same sort of exercise ought to be done or can be done for a whole range of other commodities; and it would be very helpful if UNCTAD had half a sheet of paper which for every single commodity of significance gives the world at large the difference between the final price and the producer price. What I do have is a set of calculations made by a friend of mine and colleague, Dr. Mahabub ul Haq, in the World Bank globally, and that shows a very interesting story. Of the 200 billion that a whole list of commodities that he has compiled fetches in the world market, only as little as 30 billion gets to the developing countries. The rest of the swag is apportioned out elsewhere. If this dramatisation of facts and statistics were placed upon the table, the bargaining task for the developing countries would become considerably easier.

Monetary Issues

In order to draw this to a close within the time-table I have had to set myself, I only want to touch on international monetary issues. The arguments, I think, can be discussed in seminar-type intervention when the occasion arises, and as I have already said clearly development finance is in my view marginal in terms of a realistic capacity for countries to come up with that; so I do not propose to go into that. But marginal issues are important and this is for a single reason, and that is that the world inflationary process that Prof. Gunasekera alluded to is entirely the result of a malfunctioning international monetary system. If you take the magnitudes you get a very revealing picture.

Between 1949 and 1969—a span of 20 years—the stock of international money which is reserved—gold, dollars, mostly dollars actually—grew only by something like 32 billion or at an average rate of 2.7% per year. Between 1970 and 1972 you had literally an explosion of liquidity when as a result of a range of factors which sometimes people rush under the table—commitments to international diplomacy and so forth; the Vietnam war comes into this at some time—there was a major injection of dollars into the world economy. The result was that reserves which had been growing by 2.7% per year jumped to an annual rate of 27% in 1970-72; annual rate of international money growing by 27% as against international output growing by about 4-5%. That is the root cause of world inflation, the fact of very simply too much money chasing too few goods. And that was because the whole international mechanism for liquidity creation went awry at this very crucial juncture in world history. What resulted is that in the period since 1970, between 1970 and 1975, the total addition to international liquidity was about 100 billion S.D.R. But 97% of that went to the developed countries, and 3%, i.e. 3 billion only to the developing countries. This is the measure of maldistribution of world liquidity that has been witnessed in the past few years.

A rational design

In that situation there is clearly a rational design for the world to return to, and that again is nothing new. Someone I propose to quote in a few minutes has been writing a great deal about it—Prof. Triffin of the Yale University—and his ideas are really basically very simple: Replace this arbitrary business of using one nation's currency as international money by deliberately created international money, taking into account the rate of growth of world output. In other words, this is the only foolproof way of making sure that excessive money and inflation is avoided. And as an adjunct to that one would see the International Monetary Fund being converted into a genuine international central bank. What Prof. Triffin says is extremely interesting in this regard because he sees some way of using OPEC bargaining strength in this process, and I would like to quote from that: "If this design had been in existence" (i.e if the Triffin design had been in place before the oil crisis erupted) "all countries would have been committed to accumulate most of their future surpluses in reserve accounts with the Fund in S.D.Rs to be recycled or sterilised by it in the light of internationally agreed criteria and objectives rather than left free to invest such surpluses as they wished and to trigger currency crises by switching them at any time from one national currency or Eurocurrency into another for political as well as for speculative reasons. The OPEC countries may admittedly be even less willing today to negotiate such a commitment than they might have been at a time when it would not have singled them out as the major countries expected to relinquish their sovereign right to invest their reserves as they pleased. Yet the agreement of other countries to such a commitment with appropriate guarantees and earning might make it more acceptable to all, to reduce in fact the huge exchange risks now inseparable from reserve accumulation and strengthen the ability of the international community to meet other yet unforeseen crises certain to emerge in the future as in the past". He is describing here a design that might have been operative had the system been in place before the oil crisis. But the fact that there is leverage within the Third World so long as the Third World remains united plus the need to apply a certain measure of technical expertise into working out details of this sort does permit some thinking along these lines to come up on the UNCTAD agenda very squarely. I am saying this advisedly because financiers are notoriously very conservative people, and when one was talking about an international central bank and a world central bank as recently as six months ago one was sort of being laughed out of court I think. But I came across, in the "London Times", the other day the Managing Director of the Fund, Johannes Witteveen, talking very much in these terms. He was talking about over the longer term the International Monetary Fund could become an international central bank. It already performs central banking functions in a limited way since it has created S.D.Rs or paper gold, monetary reserves etc. So UNCTAD can play the role, in my view, of using the leverage that the Third World has today to bring about an ideal monetary design on mutually acceptable terms.

"Experience has shown that Third World countries—when co-operating among themselves—are capable of implementing many of the egalitarian principles for which they are fighting at the international level. The most notable recent example is the amount of financial co-operation which oil producing countries have channelled to other Third World countries.

But experience has also shown that it is much easier to approve a declaration setting out the intention and the political resolve to move forwards in an ambitious programme of action of mutual co-operation than actually to implement it".

The 1975 Dag Hammarskjoeld Report

Third World Approaches to the New International Economic Order

Paul Caspersz

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The proposal for a New International Economic Order had, so far as I am aware, its main immediate source in the Third World and specifically in the Fourth Conference of Non-Aligned Countries held at Algiers in September 1973. Unmistakable both in the Declaration and in the Programme of Action is the new mood of impatience, even of belligerence, in the Third World, against the injustices of the Old International Economic Order (OIEO) and for the speedy establishment of a New International Economic Order (NIEO).

It is indeed unfortunate—and is in itself an indication of the present disadvantage of Third World countries even in the field of developmental research—that after the official Declaration of the NIEO on 1st May 1974 at the U.N., further Third World response to it and Third World discussion of its actual implications have lagged behind the response of the Other World.

Other World responses have, on the contrary, been forceful and clear as to the extent of change considered to be fair and practicable. This paper will occasionally refer to three such responses, namely, the Wilson proposals (made at the Commonwealth Heads of Government meeting on 1st May 1975 at Kingston), the Kissinger proposals (made on 1st September 1975 at the Seventh Special Session of the U.N. General Assembly), and the Sussex Institute of Development Studies Green-Singer transition proposals (made in an article in *World Development* in June 1975.)

In none of these proposals is there an analysis of the bases of the OIEO, and only Prime Minister Wilson makes the clear admission that the relationship, the balance, between the rich and poor countries of the World is wrong and must be remedied. Kissinger indeed states quite clearly:

'So let us get down to business. Let us put aside the sterile debate over whether a new economic order is required or whether the old economic order is adequate.'

It is my view that no significant effort in favour of a NIEO is possible without this debate.

Let us therefore attempt however briefly an analysis of these bases. They are chiefly two: the power, and the perceptions of power, of the rich countries of the Other World, and the weakness, and the perceptions of weakness, of the poor countries of the Third World. Green-Singer lists the continuing aspects of the power of the rich countries: economic power over crucial commodities, especially food; the power of affluent consumer markets; the power over capital resources; the power to grant or withhold aid or loans; technological power; military power. With the one exception of cultural, research and data analysis power, the list is exhaustive.

The weakness of the Third World was basically a structural one, arising from the metropolitan centre/colonial periphery relationship. Not all the present Third World countries were like India, Sri Lanka, Pakistan, Indonesia, Kenya, Uganda, Tanzania, Algeria directly under western political power. But all came under western economic control which in several cases flowed over into indirect, but real, political control. The relationship was never one of equal partnership to ensure the parallel growth of equal partners. It was intricately structured to the advantage of one group and to the disadvantage of the other, to the exercise of economic superiority and control by one and to the endurance of economic inferiority and subservience by the other.

Is Fair Trade Possible

If this analysis is substantially accepted, the next question that arises is whether a NIEO is possible so long as this contradiction of positions exists between the Third and the Other World. More concretely, in an UNCTAD context, is fair trade possible between unequal partners? I answer negatively, but add that the situation is not irremediable. For our poor countries have potentialities of power of which we should make ourselves progressively more aware. Third World countries and China account for nearly the whole of the world production of tea, rice, bananas, pepper, coffee, cocoa, jute and kenaf and allied fibres, hard fibres and natural rubber. They can exercise control over the world exports of these commodities as well as over more than half the world exports of sugar, tobacco and cotton.

If this illustrates the power potential of the Third World over certain food and agricultural commodities, the potential in other lines of production is by no means small. India has 21 and Brazil 15 per cent of the world's iron ore resources, and so on. The course of oil in recent years is only the most remarkable example of what can be achieved by the Third World to work the change from the Old to the New International Economic Order.

There is also the tremendous potential of Third World human resources which both by absolute size and rate of growth far outweigh those of the Other World. Indeed, this is recognized by some More Developed Countries (MDC) demographers and is, I am sure, one reason for their intense fervour for population control in the Less Developed Countries (LDCs).

The most important condition for removing the contradiction of power relationships between the Third and the Other World is co-operation among the countries of the Third World. But this is something that is all too easily proclaimed at conferences of Third World countries without significant progress in the hard, patient and unglamorous task of working out the detailed implications of such actions in solidarity.

With a view to UNCTAD IV it would be useful to examine in some depth the implications of the NIEO in the field of the exchange of commodities between the Third and the Other World. Let it be fairly acknowledged that this exchange has consistently—to my knowledge without one exception—been an unequal one. Its history is an old one, and it would be worthwhile to take one illustration of how unequal exchange became embedded in the structures of international trade. This is the case of tea.

The Case of Tea

Long before India and our own country began to produce tea commercially, China tea was imported into Britain by the East India Company. This tea was grown by subsistence Chinese cultivators and manufactured by them as a domestic industry. Living at a subsistence level, with little communication with the outside world, and no knowledge of the real exchange value of their product, they were prepared to part with their tea for the low prices in money or in goods offered to them by the crafty and experienced Company traders. The unequal exchange of Third World tea against Other World products had begun.

In the early 19th century the East India Company was faced with mounting difficulties in maintaining their trading monopolies in respect of China tea. Following the normal capitalist practice of risk-spreading, British capital therefore moved into India and later into Sri Lanka in order to open new tea gardens and manufacture tea. India and our own country thus gained at the expense of China—an early illustration of the obstacles placed in the way of Third World economic solidarity by the practices of capitalist international trade.

The process, incidentally, continues in our own day when, in the face of growing risks to tea investment in India and Sri Lanka, foreign capital is moving at great speed and in vast quantities—through Brooke Bond, Lipton, Williamson Mager and international banks—to East Africa, most recently even to Nigeria, to Latin America and elsewhere in order to make sure that there will be other tea gardens for metropolitan interests when those of India and Sri Lanka are taken away.

The price of China tea was low because of the low subsistence level of the Chinese growers—an illustration of this theory is now being developed by the French Marxist economist, Arghiri Emmanuel, that it is not prices which determine wages, but wages that determine prices. Adding their profit margins, the British traders were able to sell tea at prices which consumers in Britain were able to take. When tea gardens were opened in India, tea prices paid to the real producers were set with reference to the low prices of China tea. Indian prices and the low levels of Indian tea workers then set the norms for Sri Lanka.

Wages in all tea-producing countries were thus abysmally low, a falling rate of profit was more than compensated for by rapid increases in turnover and by interlocking oligopolistic control over the forward linkages of tea, and consumers in Europe grew accustomed to regard tea as the cheapest beverage. Before the end of the 19th century the stage was thus firmly set for the perpetuation of unequal exchange between tea and the manufactured products of the rising wage industries of Britain.

A Just and Equitable International Division of Labour

A New International Economic Order cannot countenance unequal exchange. If in the LDCs one hour of socially necessary labour time produces 10 units of X and in the MDCs the same time produces 20 units of Y, then 1 unit of X must exchange for 2 of Y. Any other rate of exchange will be unfair, and will run counter to the principles of the NIEO.

In my view this is a much more important and crucial question than that of the secular and continuing deterioration in the terms of trade which have made and are making the poor countries poorer. Even in 1974 which was a good year for the exports of Third World countries in the sense that their prices generally rose, the rising index of export values, deflated by the rising index of import values, declined for the majority of Third World countries. The figures are available for inspection in the UNCTAD report on "Salient Features of World Trade and Development 1974-1975" of August 1975 which we have and in the GATT report entitled "International Trade in 1974-75" of October 1975 which so far as I know has not yet reached Sri Lanka.

It is against this background of deteriorating terms of trade that countries of the Third World in recent months have been pressing for a scheme of indexing the prices of their exports according to the prices of their imports from the Other World. Yet the Other World was quite explicit in opposing even a study on indexation.

Indexation

The fate of the famous Resolution 3083 at the 28th Session of the U.N. General Assembly on 6th December 1973 is well known. This Resolution merely asked that UNCTAD should prepare a study on indexation. Four leading countries of the Other World—the U.S.A., the U.K., France and the Federal Republic of Germany with Greece voted against it; twenty-six, including the Soviet Union, abstained; while all the developing countries with China, voted for.

In their speeches at the U.N. soon after the Declaration on the Establishment of the NIEO, the delegates of both the U.K. and the U.S.A. expressed opposition to indexation. The Third World, however, continued the pressure and Mr. Wilson at Kingston adopted a rather more flexible attitude. Yet Mr. Kissinger as late as 1st September this year at the 7th Special Session of the U.N. said:

> "Many solutions have been put forward to benefit producers of particular products—cartelization, price indexing, commodity agreements and other methods. But reality demonstrates the interdependence of all our economies, and therefore the necessity for approaches that serve global rather than narrow interests".

Does Mr. Kissinger believe that the interests of three quarters of the world's population are narrow interests? At least, let us make it clear at this Seminar that this is not our belief.

Kissinger and Wilson show themselves most ready to consider schemes of compensatory finance when Third World exports fall below a predetermined reference level. This was also as far as the EEC countries were prepared to go when they planned the STABEX scheme at the Lome

Convention of 28th February this year.

A scheme of indexation is a scheme of elementary justice. But it is my view that as I have already indicated we must go further than that. We have to evolve a scheme of export prices for many commodities independently of what prices these commodities have so far secured, for the simple reason that the established prices are prices of unequal exchange which were imposed upon the countries of the Third World but which they can now see are unjust.

The costs of establishing a regime of equal exchange will be short-term, but the benefits will be both short- and long-term. In the less acrimonious and more peaceful political climate that will develop, the benefits will be perceived faster than in the economic area. But as the present LDCs increase their capacity to purchase the exports of the present MDCs, the economic benefits will begin to be reaped by all trading partners. The tremendous potential of rising markets in the vast populations of the Third World is indeed the strongest guarantee that the NIEO will be a better order for everybody.

The objection will certainly be raised that we in the Third World are seeking to go too fast. It may further be argued, as Green-Singer seem to do, that all that is possible in the immediate months ahead is action on certain limited programmes chosen according to the four criteria they propose: practicality, mutual interest, coherence, cumulativeness.

The unsatisfactoriness of the Green-Singer transition in my view does not lie in its transitionality—essential and inevitable in any case to any dialectical view of development—but in its lack of expressed clarity about either the OIEO or the NIEO. It would not matter so much if we travelled slow provided we knew where we were coming from and where we are going to. The Green-Singer piece gives no clear evidence that it knows.

Take the measure of equal exchange prices for Third World commodities to be followed by indexation in order to protect these just prices against inflationary rises in import values. Third World developmentalists would argue that these measures eminently fulfil the criteria of coherence and cumulativeness, that they will be of mutual interest and that they are practicable. Others would argue differently. Agreement as to who is right and who is wrong can be attained only by recourse to careful analysis both of the OIEO and of the NIEO.

Exports and Aid

Raul Prebisch, the first Secretary-General of UNCTAD, in the 60's proposed three measures to bridge the trade gap between the affluent North and the underdeveloped South: raise prices of Southern exports, encourage exports of Southern manufactured goods, and aid.

No action was taken on the first of these measures: instead, the prices of these commodities were left to the usual mechanisms of free enterprise capitalistic trade. Neither was action taken on the second. Instead, foreign experts have glibly recommended that Third World countries remain satisfied with small-scale labour-intensive industries on the argument that these alone could solve the unemployment problems of these countries, not seeking to examine why similar recommendations are not made when unemployment becomes a problem in the Other World.

However, there has been much talk on aid. Three reasons may be adduced for this: (i) aid maintains the existing strong/weak, centre/periphery relationship; (ii) aid is much less expensive than paying just prices for Third World exports and, when given in the form of tied aid, loans or commercial investment, is very profitable; (iii) aid avoids and postpones the reform of structures, not least in the recipient countries themselves.

Reforming Structures

The reform of structures which UNCTAD should initiate has several important elements.

One element is wages. The gap in wages between MDCs and LDCs must be progressively reduced. As it is futile to expect that unionized workers in the MDCs would consent to a lowering of wages, action must be taken progressively to raise wages in the LDCs. This is a matter not only for leaders acting together in the LDCs but also for leaders in the Other World. Among these latter the leaders of the socialist countries should take the lead in unequivocal support for higher wages and hence for higher export prices for Third World products.

A second element would be the introduction or the extension of developmental research in, and not merely for, the LDCs. Research is necessary for the attainment of progress in the spheres of product development, processing of raw materials, marketing and technology. In 1971 the U.N. approved and published a World Plan of Action for the Application of Science and Technology to Development. But almost nothing has been done to promote development research by the Third Worlders for the Third World.

In this connection may we ask for the immediate setting up of a U.N. library in our country where all U.N. and ancillary institute documents and publications will be made available to all serious local researchers with the minimum delay? As matters now stand several of these documents never reach the Third World, or only long after they have been studied in the development institutes of the Other World.

The third element would be equalization in the structures of world production of goods and services. There is no logical reason why the Other World should continue to process the raw materials of the Third World, or why they alone should manufacture goods using vast economies of scale, while the Third World produces the raw materials and only simple manufactures to be sold at low prices to Other World traders.

The fourth element is to devise ways and means of providing access to the views of Third World masses, which are the greatest resources of the Third World. What arrangements are being made to have these views heard at conferences preparatory to UNCTAD IV and at UNCTAD IV itself? To hear these views ourselves, certainly to give expression to them, we may have to leave the precincts of Hotel Taprobane.

World Crisis and the New International Economic Order

Godfrey Gunatilleke

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

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

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

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

" *The real problem is one of power, the bargaining strength between the different groups of countries.*"

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

The other fora are where one pleaded for concessions and wanted to get minor adjustments made to relieve the situation in which the developing countries were in. Here, as Fr. Caspersz said, the real problem is one of power, the bargaining strength between the different groups of countries. In the fora where we had to extract concessions, we resorted to bi-lateral negotiations as multi-lateral agreements was left for declarations and denunciations but where one wanted to get a concession, you were prepared to go it alone in order to get ahead of rival competitors for this charity, for the global concessions that the developed countries were going to make.

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

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

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

The problem is, what is the realistic target for which the developing countries themselves must organise and mobilise their power. It is true that one can identify the enormous latent power in the position of raw materials, the trade in raw materials—how this could be done across the differences that separate the developing countries is what is important.

Raw Materials

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

Food Problems

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

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

Monetary Crisis

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

Reversals of Order

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

Key Questions

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

Resistance

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

Compensatory Finance and Aid

Within this, we have two sets of remedies being offered to us. One is the remedy that Fr. Caspersz was referring to; the remedy which depends largely on compensatory finance and aid. In that approach there is an effort for the time being while this transition takes place to support the developing countries through schemes of compensatory finance, through more massive offers of aid, and you would find that these are the essential features of the Kissinger proposals.

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

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

Collective Self Reliance

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

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

"If the Third World countries can take the initiative which has been cast upon them, then within the present generation we are likely to see some very substantial progress . . ."

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

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

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

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

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

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

Bargaining on a Global Scale—The context within which effective bargaining occurs

Susantha Goonatilake

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I hope to sensitise here some of the issues involved in the concept of co-operation between Third World countries in the bargaining situation that is emerging. I will deliberately take a historical perspective as this will highlight the past failures and the reasons for some successes. Thereafter, I will highlight what I believe are the significant points for possible future strategies in the bargaining situation specially from the Sri Lanka case.

Historically our economies have been structured by a particular centre-periphery relationship arising from the colonial past and its continuation in the economic sphere. This basically has an important conditioning factor in the co-operation situation. Firstly our economies—that is the Third World ones—are not basically complementary, they had been historically structured with the primary centre-periphery economic relationship as the fundamental one. Therefore there is in comparison little we can exchange between our economies although within this limitation there may be considerable exceptions.

As the background UNCTAD document puts it:

"One consequence of dependence has been that the structure of the economies of developing countries has tended to be oriented more to satisfy the needs of economic growth of developed countries, rather than the elementary needs of the mass of their own populations. In recent years an increasingly important role in this process has been played by transnational corporations of developed countries, which exercise a dominant influence over production and trade in a variety of primary commodities and in many branches of manufacturing industry in a large number of developing countries".

The background document identifies some of the areas of co-operation based on a policy of collective self reliance emerging as a result of the increased bargaining of developing countries as sources of supply of essential raw materials and of the existence of new sources of finance. The document recognises the fact that because of differential development between the developing countries themselves there would be increasing possibilities for exchanges to occur across the periphery, so that some of the more advanced developing countries can export their products in exchange for some of the raw materials of the less developed ones. It suggests new links among the developing countries for a wide array of goods and services including scientific and technical co-operation.

It also recognises the fact that a high proportion of present trade flows among developing countries consist of intra-firm transactions of trans-national corporations, which reflect the market and production sharing arrangements and for which related transfer prices frequently do notapproximate normal market prices. It envisages a setting up of several preferential arrangements between Third World countries including the Services Sector like Shipping and Insurance. In addition, it calls for joint bargaining action vis-a-vis developing countries and for joint technological and scientific co-operation.

Must Complementarity Remain Utopian

I will not deal with the mechanics or contents of some of these co-operation deals. It is basically an arithmetical exercise where given the exports and imports of the developing countries, we could conceptually find areas of some complementarity, even in the case of exchanges of traditional raw materials. For instance using the apt image evoked recently by a Third World writer, tea was grown in Sri Lanka, sugar in the Carribean, bananas in Central Americas and Cocoa in Africa so that the British and the European housewife could have her 4 o'clock tea. It is easy to conceive that through arrangements of complementarity, again to use the same metaphor, Third World housewives could have their 4 o'clock teas paying the respective producers a just share. However, such conditions of complementarity must remain Utopian when viewed in the context of what the background document refers to as control of these economies by the multinationals. This control, as the document points out, exists also in the case of the new manufacturers that have opened up in these countries. The same vertical integration extending from the producer at the periphery to the consumer at the centre exists with the corresponding disfunctions of the misuse of transfer prices, withholding of information etc.

It is here that we must look at the present evolution of the world system in context. Pious hopes of getting a fair deal existed from the beginning of UNCTAD or even before. In fact various regional systems of integration had been thought of in the Third World and I believe in the mid 60s, there was one actively discussed at an international seminar in Nuwara Eliya. The same efforts at regional co-operation and bargaining with the metropolitan centre also was behind the minds of all those who suggested producer cartels. These included products as varied as coffee, cocoa, tea, rubber and oil. The speakers, on the second day of this conference, who dealt with the problem of joint action with other countries as far as our primary products were concerned, namely tea, rubber and coconut emphasized the difficulties involved in the process. For instance, how does one come to an agreement limiting tea production when East African countries are reluctant to join it specially when the tea industry in those countries are operated by multinationals who have political influence within those countries and who would naturally resent any limitation of the oligopolistic control they had on the industry which a bargaining situation would tend to erode.

The Case of Bananas

I think to illustrate limitations of the pure Utopian concepts of co-operation more clearly, let me give the example of a commodity namely bananas which were mentioned in the first session of this conference.

It is this product, bananas, which gave rise to the non-derogatory term 'Banana Republic' in the same way as Ceylon became 'Lipton's Tea Garden'. Today the market for bananas is handled by the trans-national companies United Fruit, Castle and Cooke and Del Monte. Between them, they control something like 90% of the marketing and distribution system.

Within the last 20 years, there have been cost reducing innovations, introduction of varieties resistence to Panama disease, increased inputs of fertilisers and the introduction of larger and quicker cargo ships. However, during the last two decades, the price received by producers has remained static whilst imported manufactures have risen dramatically in price, a parallel to the Ceylon traditional export produce. The purchasing power from earnings of banana exports declined 60%.

It was under these circumstances that General Torrijo, the Panama President started a banana producers OPEC, a Union of Central America Banana Producing States. It met in March last year and Panama, Costa Rica, Honduras, Columbia and Guatemala, all agreed to levy a one dollar tax on every case of fruit exported.

This decision brought a strong counter attack by the banana multi-nationals. Castle and Cooke refused to pay the tax and with the existence of alternative supplies from countries like Equador, and the producers' Union was soon threatened. United Fruit followed the example of Castle and Cooke. In Costa Rica, the company went back on a wage settlement that had alreday been made and provoked a strike by the plantation workers. In Panama, banana cutting operations were suspended "because of re-negotiations" and in Honduras, company officials simply stopped the shipments, leaving more than 145,000 crates of fruit to literally rot in the port.

As a result of this concerted action, the countries concerned gave in under the stubborn stand of the companies. Recent revelations in the Wall Street Journal have pointed out in addition, the more covert ways in which the producers' stand was broken. The Honduras President was given 1½ million dollars to cut the proposed $1 tax to 30 cts. a box. As soon as this bribe was revealed, (hearings are in progress in the current sessions of the US Senate into such activities) the President of United Fruit committed suicide by jumping from his 44-storey office.

I have taken out this example of co-operation between producer countries to highlight the problems that automatically arise in such situations. I have drawn this example to show that co-operation for wringing out concessions from developed countries should not be based on false Utopianism but on the fact of what the 1975 Dag Hammarskjoeld Report calls "the will and power of the Third World". It is in this context and to illustrate the central dynamic involved that I would like to draw attention to the excellent summary of the history of UNCTAD which Lal Jayawardena has made.

Wringing out concessions depends on the will and power of the Third World.

He mentioned that UNCTAD I was started with an appeal to the charitable instincts of the developed countries which failed. UNCTAD II was also a failure and Prebisch quit. UNCTAD III however, changed its tactics and began emphasizing the study of decision-making organs in the international system, organs in which the real power lay. UNCTAD IV, however, begins with a changed climate in the international scene where the Third World now has (again to quote the Dag Hammarskjoeld Report) "the will, capacity and power for negotiations on inter-dependence from a position of strength". Recent responses from Wilson, Kissinger, Giscard d'Estaing etc. indicate the changing mood of the developed countries in response to the new Third World militancy. The point, I wish to make is that our need at the moment is to recognise that the changed possibilities arose not from any change of plans in the proposals for commodity changes but in bargaining from a position of strength, specially after OPEC, Paris 1975, UNIDO, the Seventh Special Session, Stockholm 1972, Rome 1975, Bucharest 1974, etc.

Therefore, my further remarks are going to rest largely on how to increase our bargaining posture, because it is only within the framework of bargaining from strength that concessions have been given and will also in the future be given. So therefore, I would like to spell out some areas in which further work will tend to increase our bargaining posture.

First would be to take a leaf from UNCTAD III and study decision-making organs that structure our dependent situations. Whereas UNCTAD III strategy in effect began the study of large scale international organisations, our strategy should be to study those international organisations in the developed countries that have a bearing on our dependent situations. In the case of tea, one such early study was by A. S. Jayawardena and Jayapalan, to be followed by the Government Commission on Agency Houses. The study of the tea industry institutions were taken a step further by the Marga—IDS Study on the marketing of tea done by Paul Caspersz. In short, with this study, we are now beginning to study those institutions at the opposite end of the bargaining table from within their countries themselves, an advantage we did not have before.

Third World Expertise

One of the background papers for this conference emphasizes the need to explore the possibilities of joint work with institutions sympathetic to the Third World in the Western countries. This is a problem that has been raised in the Western world itself specially rising from the fact that in almost all Third World countries today there is a higher degree of expertise than available in the development studies field in the West. In this respect I believe we should utilize such Third World oriented institutions to study these structures in the *developed countries* that deprive us of our fair share of resources. This is a reversal of the usual development studies and which also recognises that most of our problems are due to external restraints. May I also add that all studies should preferably be under the guidance of the Third World academics themselves who are actually engaged in this.

Confrontation and Supplication

Mention was made by Godfrey Gunatilleke of the UNCTAD as an institution where we confront with the West and the IMF as one where we supplicate. Reference was also made to "The Debt Trap" that interesting book by Cheryl Payer on the IMF. For a country which deals with the IMF as a supplicant, a study of the IMF should be very essential for any strategy of self reliance. I believe we should exchange information with other Third World countries about their experiences with the IMF, the depth of information which is collected by IMF teams, the various options that are open etc. I am sure the IMF in its operations, say in Rumania or Yugoslavia or for that matter in Italy would be acting very differently from the case of a country like Sri Lanka. And, a comparative study of these experiences would be a very instructive effort for us specially in the context of an IMF which is changing because of a changing world context specially with the growth of Arab power.

This type of study should also include UN and other organs operating on the development front in our countries. The Dag Hammarskjoeld Report has a section for the re-organisation of various UN organisations (I believe Lal Jayawardena had much to do with drafting that particular section) and it envisages interesting changes. For our part we should carry out critical studies on the local organisations, their ability to service us, and specially the quality of personnel they have. It is well known that often these organs act as a kind of employment club and any material assistance they give is tied with an opening of jobs for the boys. Our enquiries should go into how we can utilise that type of UN (ILO, FAO etc.) aid so that we who have enough human expertise in this country get the material aid without the burden of often irrelevant experts.

Strategic Possibilities

Our strategic position should not only be the study of those institutions at the opposite end of the bargaining table but should also extend to the future movements of the world's resource positions. With the publication of various studies of "Limits to Growth" type, the developed countries are increasingly making projections on raw material positions and thereby also making plans for assurance of such supplies or their alternatives. It is here that we have to make similar studies from our own perspective about also our future requirements of resources as well as markets for raw materials. Such studies should not take a purely technocratic form but as in developed countries, they should explore the entire gamut of the geo-political spectrum including the military eventualities which such studies in the developed countries often assume.

We should not only study the position of resources, that we possess but also resources that may be used against us by the developed countries. The Dag Hammarskjoeld Report refers to a study done by a developed country on the use of food as a strategic weapon against the Third World. We should be now doing the homework on counter scenarios for such eventualities, at least such studies should spur us to similar studies from our perspective.

Respectability of Futurology

Godfrey Gunatilleke mentioned in a previous paper about two-year 2000 models being constructed by Leontief and Tinbergen from a Third World viewpoint. I personally have serious academic reservations about the respectability of futurology. However, I accept its use as a sensitising device. In this respect, it is necessary to mention the earlier 2000 models developed in the West and the Third World positions in them. Kishan Kumar two years ago analysed some of these models as to their content, specially the year 2000 models adduced respectively to Galtung and Jungk and also to Kahn and Wiener. His work reveals that all such futurological studies indicate a diminishing share of the Third World in the world's cake. Further developing countries would under these futurological scenarios take time periods measured in centuries to reach present Western standards of living. These year 2000 models have been widely quoted and have entered the coniciousness, of the developed countries.

Counter Scenarios

It is therefore, recognising the consciousness imprinting nature of futurology, for us to develop scenarios counter to these. The proposed Tinbergen approach for example would not necessarily satisfy the criteria of a Third World viewpoint inspite of the latter's avowed pro-Third World sympathies. Therefore, it is of paramount importance for us to develop our own models. In this respect, may I add that we have sufficient expertise in our midst if only the will and imagination were there to develop them. Let me just give one example of a recent Ceylonese systems analyst who using basically the same type of Forester-Meadows world dynamics approach incorporated in the study *Limits to Growth* has analysed Sri Lankan development scenarios.

This need to develop our own scenarios is not purely an intellectual luxury but also arises from the fact that some of the scenarios put forward by developed country strategies envisage confrontation with the Third World over raw materials involving conventional and nuclear warfare. I refer specifically to the well known suggestions made in a certain developed country strategic circles in the wake of OPEC success to secure by military force a corridor of oil bearing Saudi Arabian land. I also refer to Herman Kahn's well known nuclear scenarios which include Third World situations. Peter Worsely for instance from a Third World perspective has envisaged a warfare with the Third World with the escalation of bargaining processes. May I also add that there is a study by a few London based strategists on a Third World nuclear strategy which in effect puts Herman Kahn on his head.

I will now attempt to come to the last item which I wish to deal with and which has been throughout the seminar repeatedly, referred to by various speakers, namely the need for widespread dissemination of information on a non-elitist basis.

Apart from pure information I think what is of paramount importance also is dissemination of the new theories and analyses being made to explain this phenomena. Most of these explanations lie counter to the conventional economics taught in the Western countries (at least those taught in the fifties and sixties) and a new science of economics from its own perspective and problematic has emerged. Let me add that the growth of this new thought parallelled the growth of UNCTAD and in fact provided the background for many of its positions.

Conventional Economics

These approaches began as an active confrontation with the hitherto Western economic thought. In fact 1964, the year of UNCTAD I, also saw the well known declaration of Latin American Economists which declared the emptiness of conventional economics in explaining Third World phenomena and called for in effect a new Third World Science. These calls have echoed in the case of Africa in 1968 where a fresh look of the teaching of economics was taken, as well as in Santiago in 1973 when a call was made on similar lines. To illustrate the tenor of these calls I will quote from the call in Santiago 1973 titled *"The Third World Forum Charter"*.

".....in the field of ideas, the Third World has frequently lived with concepts of development, with performance criteria, with issues of economic strategies and value systems which were often externally induced and largely inappropriate. Much of the research conducted in the developing countries has been done by academics and students from the industrialized countries and designed to fit their own needs and interests rather than those of the Third World. Furthermore, an imbalance has developed between the Third World and the industrialized countries in terms of the flow of information and research findings. The result is that the industrialized countries know, or have more information, about the Third World than the Third World has about the developed economies or even about themselves. This form of 'academic imperialism' has not contributed nor will it contribute to the development of the Third World countries".

"Basically what is required then is nothing short of an intellectual revolution which must be carried to every institute of learning and every thinking forum in the Third World".

".....in the field of research in the social sciences the Third World has tended to be exploited by the needs and interests of the developed economies. The predominant imbalance influences on research strategy and methodology from the industrialized world have led to a position of extreme imbalance in the realm of power and decision-making in such a way that priority problems of the Third World countries have tended to be ignored or "researched" in favour of established vested interests".

We should on our part make our own creative contributions.

In this connection I would like to mention the manner in which our view of reality is pre-structured so that we in effect are often left out of discussion of the central issues. Yesterday a colleague was mentioning in a private discussion the name of Chenery, the World Bank Economist.

Recently Chenery has co-authored a book *Redistribution with Growth* which is now being seriously pushed in all the Third World countries as the latest gospel. I believe there is much to recommend in the book but let me illustrate the manner in which the book was actually written in the developed country context. The book was co-authored by members drawn from the Institute of Development Studies at Sussex and the World Bank and was the result of discussion on drafts prepared by various members. The process of writing, let me assure, was not purely academic but also "political" and involved a high degree of bargaining with very different drafts and many significant portions of the chapters, were left cut in the final draft. I was at the IDS and sat in for some of these discussions and I know that some of the IDS authors were for instance unhappy about the final drafts they had to adopt on account of World Bank pressure. Now the book was published last year and in the organs of the IDS the book was reviewed critically and an interesting discussion has emerged. What I am trying to point out is that this document which will be pushed as a policy guideline for us in the future and which many of us will begin to quote as authoritative is a product of intense discussion in the developed country context. I believe that if we must depend for intellectual sustenance from abroad we should at least enter that spirit of critical and aware discussion too in much the same way as say some other Third World countries do.

I am sure by now Gamani Corea must be somewhat concerned with only Latin American thought underpinning UNCTAD positions and must be yearning for Sri Lankan effects too. Well at least I hope he is.

There is in the Western world much more information about our problems than we ourselves possess. At an undergraduate level some of the ideas that we are discussing here are decimated in the West.

There are in the Western world several new journals apart from the academic ones, that cater specially for a Third World perspective. I refer to monthlies like the *New Internationalist* of England which provides a Third World perspective coverage as the *Economist* does for a British city-oriented clientele. I believe as a first step we should at least take to those journals that deal with economic problems from our perspective.

A Dynamic Body of Thought

Within the last decade a new dynamic body of thought has emerged providing sufficient explanation from the Third World perspective. These originated with the structuralist views of some Latin Americans leading to the dependency theories as well as other more recent formulations. In this tradition of the new thought are those like Frank, Furtado, Stavenhagen, Sunkel and Santos associated with the Latin American scene, Emmanuel Wallerstein from Canada, Arghiri Emmanuel from France and Samir Amin from Africa. Some of these writers have also been the co-authors of recent UN and other declarations of Third World positions.

It is however, regrettable that the works of these writers are hardly known in Sri Lanka (I believe Lal Jayawardena and Godfrey Gunatilleke referred to them in their discussion). It is of absolute importance that the works of these writers who are forging a new Third World Social Science should be made available.

So let me conclude by stating that our highest priority should be in co-operation in the information and analytical sphere. We must exchange our experiences with other Third World countries and learn from each other and we should on our part make our own creative contributions.

THE ECONOMY

Outward Looking Economic Policies

It is quite commonly said that in most developing countries the scope for import substitution has now been virtually exhausted and that these countries should now concentrate on export-oriented industrial development. In short, the 'inward-looking' (import-substituting) economic policies should now give way to 'outward-looking' (export-oriented) policies. The import-substitution policies followed by the developing countries during the last two decades or so have been the subject of much criticism in recent years. It has been pointed out that such policies have led to the creation of high-cost industries confined to sheltered domestic markets, unable to reap economies of scale; being high-cost, they are unable to achieve a break-through into export markets. The so-called 'foreign exchange constraint' on development has continued to be a major problem under such a policy and the problem has in fact worsened owing to the continued existence of a high import content in the final products turned out by these industries. Their employment generation has been low and frequently the technology used is imported and inappropriate to the conditions of a developing economy. Monopolies and monopolistic practices have grown up in domestic markets fully sheltered from foreign competition. In short, the nature and magnitude of economic growth that has resulted from import-substitution has been disappointing and fallen far short of original expectations.

There is undoubtedly some truth in these assertions particularly insofar as some of our manufacturing industries are concerned. The growth of manufacturing industries, particularly under the private sector, was a by-product of balance of payments problems and took place in an ad hoc manner rather than in accordance with a conscious industrial development programme. Under the import restrictions imposed since the early sixties (for balance of payments reasons) manufacturing industries of all kinds grew up to exploit a sheltered market, and many of them suffer from the shortcomings listed above. Despite the liberal fiscal and other incentives available for non-traditional exports, many of the import-substituting industries have not faired well in the export field. The narrow domestic market coupled with limited foreign exchange allocations available for raw material imports have led to the growth of considerable under-utilization of capacity. The capacity utilization in the manufacturing industrial sector as a whole has been less than 50% in recent years. The most recent Industries Survey, the Central Bank's half yearly survey of industrial production, also shows (as in the table at bottom left) that overall industrial capacity utilisation, as a percentage of the total installed capacity, which amounted to 40.2 percent in 1974, with the heavy increase in Groups 5 and 9, is likely to rise to 54.7 percent in 1975. Still in the region of 50 per cent.

	Industrial Group	Capacity 1974	Utilization Rate (%) 1975
1.	Manufacture of Food, Beverages and Tobacco ...	65.1	66.3
2.	Textiles, Wearing Apparel and Leather Industries ...	45.6	56.3
3.	Manufacture of Wood and Wood Products including Furniture	32.5	57.6
4.	Manufacture of Paper and Paper Products	45.9	42.2
5.	Manufacture of Chemicals, Petroleum, Coal, Rubber and Plastic Products	8.9	63.4
6.	Manufacture of Non-Metallic Mineral Products except Petroleum and Coal	78.0	66.7
7.	Basic Metal Products	44.3	53.0
8.	Manufacture of Fabricated Metal Products, Machinery and Transport Equipment	33.0	45.6
9.	Manufactured Products (not elsewhere specified) ...	6.9	38.4
	Total	40.2	54.7

"Inward-looking" for Agriculture and Primary Production

While the criticisms levelled against an 'inward-looking' policy contain a high degree of validity in the case of many manufacturing industries, they lose much of their validity and relevance when it comes to import substitution in the field of agriculture and primary production. In fact, the problem in many developing countries such as Sri Lanka is that the policy of import substitution has not been carried far enough in the field of agriculture and primary production. Only limited progress has been made in the exploitation of the considerable growth prospects available from the import-substitution in this sphere. The potential scope for growth available from such a policy cannot be matched by any other policy in the short and medium term at least. A glance at the import statistics in the table above, will readily show the available potential.

IMPORTS OF SELECTED ITEMS OF HIGH IMPORT SUBSTITUTION POTENTIAL
(Rs. millions)

		1970	1971	1972	1973	1974	Average 1970-74
1.	Rice	318	195	161	270	720	333
2.	Sugar	170	243	248	321	190	234
3.	Milk and milk products ...	55	47	57	70	70	60
4.	Fish Products	68	72	83	52	50	65
5.	Grams and Pulses	63	45	98	31	17	51
6.	Yarn and Thread	41	40	61	21	65	46
7.	Fertilizer	81	59	63	111	221	107
8.	Total	796	701	771	876	1333	906
9.	(8) as % of total import bill ...	34.4	35.3	37.4	32.3	29.3	33.2

Source: *Customs Statistics*

As seen in the above table during the five year period 1970-74, the average annual import bill on selected goods with a high import-substitution potential has been Rs. 906 million or about one-third of the average annual import bill. This figure calculated at the official exchange rate grossly under-states the real value of these imports in terms of scarce foreign exchange resources. When these imports are valued at the FEEC rate of exchange, the figure rises to nearly Rs. 1500 million. Moreover, these figures do not reveal the actual extent of the country's requirements of (or the import demand for) these goods. They only reveal what the country could afford to import with the restricted foreign exchange availabilities. Hence the scope for possible substitution by local production goes beyond what these figures suggest.

The foreign exchange saving that is available from import substitution in these goods is of a magnitude that cannot be easily matched by the foreign exchange earnings that even the best of export-oriented industrial development plans can promise. Moreover, import substitution in this sphere is also attractive from the point of view of employment generation and income distribution. A considerable portion of the benefits of such policies is likely to flow into the rural sector of the economy. One development strategy envisages concentration of effort on those sectors or point of the economy which promises high growth potential, the so-called 'growth poles'. In the case of Sri Lanka, for the next few years at least, the development efforts must concentrate on the following key areas: (a) principal foodstuffs e.g. rice, sugar, grams and pulses (b) animal husbandry (c) fisheries (d) principal raw materials for industry, e.g. cotton and (e) agricultural inputs e.g. fertilizer. In the current economic context of Sri Lanka an 'inward-looking' policy in the above mentioned fields presents immense scope for rapid economic development. While the export-development envisaged in an 'outward-looking' policy should undoubtedly receive emphasis in the short and medium term at least, a concentration of the nation's development efforts should centre on import substitution in primary production and selected agricultural inputs such as fertilizer.

Banking - Finance

The countries of the Asian region are gearing their banking systems away from the earlier colonial patterns to what has been called "development banking". In October this year a conference of chief executives of Agricultural Development Banks in the region met in New Delhi to discuss problems of rural development. The statement issued by the Conference, which we reproduce below, is a succinct summary of current thinking on the subject. Sri Lanka was represented at this Conference by the General Managers of its leading banks, the Bank of Ceylon and People's Bank, Mr. M. Moheed and Mr. Donald Kannangara.

THE "NEW DEVELOPMENT BANKING"

Preamble

As the crisis in development deepens in the Asian and Pacific context, the challenge to all institutions is to contribute to the greatest possible extent to achieve a turning point. The crisis lies not only in the fact that development in the past quarter century has not resulted in the betterment of the economic and social conditions of perhaps 80% of the people of this region, who are mainly small farmers and landless poor, but in that their basic human values are being eroded by a fragmented process that by-passes them.

The task before all institutions is to ensure that development is viewed as a whole and involves development of people—their human as well as economic needs—as an evolving process. Man is Asia's greatest asset.

In the Asian and Pacific region, in view of the present stage of development, the land-man ratio and the rate of increase of population, there is little choice, but to encourage a "collective" approach to the problem—an approach which strengthens the individual capacity and exists with his consent and to serve his interests in the long run.

The Process

The small farming communities are fragmented by individual and social interests working from within as well as outside these communities. Often tradition of individualism forms part of the value system of such communities. However, we realise that small and marginal farmers can become viable through joint action. It is important to note that hastily formed groups for gaining assistance rather than for action are by the very nature of their objective different from groups that are striving for self-reliance and for community action.

The banks or any other development agency wishing to stimulate formation of self-reliant farming communities would gain if they bear in mind that the initiative for formation and sustenance of the group must emerge from within the group.

Therefore the aim should be to develop communities in a way that joint decision making and action replace individualism of farmers. It may be assumed that decisions taken by these groups would be such that they will be within the capacities of the communities to implement. When these decisions are implemented the group would have taken a step towards self-reliance. Movement to a higher plane of technology will come as a consequence of such effective group actions. The banks and development agencies will have a role to play in up-grading technological levels by a gradual process.

The group decision or aspects of community life will provide the plan of action for the area. A larger supportive plan may have to be developed by banks and other development agencies to support a number of such groups in the area. Such plans may highlight development prospects that are as yet beyond the imagination of individual groups. The supportive plans may provide a framework for larger action.

Role of Banks

In the context of what has been stated earlier, the role of banks in the developing economies would have to be re-defined, to enable them to lend support to small farmer development. The institutional capability of the banks to motivate weaker sections is very much more crucial than the mere provision of credit. This the banks are in a better position to achieve by mobilising local savings and ploughing them back for the economic regeneration of the area. The re-cycling of resources would be conditioned by the requirements of the small farmers for their productive operations and their basic consumption needs. The farmers and the family members would contribute the resources which they command viz: the labour and their native expertise.

The banks would bridge the gap in resources. This credit would, by and large, be converted into "agro-services". The banks need not only finance the production cycle of the group, but may need to help the group arrange for the marketing of the produce, their consumption requirements, help the group take up agro-processing activities, so that the benefits accrue to the group. Finally the effort of the financing institutions would be to help the group continually refine and improve the package of practices. This should be in tune with their local ethos and aspirations. While the initiative for the formation of the groups should be self-generated, the banks may examine if they have some useful role to play in triggering the process of thinking along these lines in areas which may not as yet have been touched by the concept of collective solution to individual problems.

Re-organisation of the Institutions, Structures and Systems

In order to achieve the goals of group development, the banks on their part may have to re-structure their organisational set-up at the field level and make appropriate changes in the existing loan policies and procedures to suit the needs of smaller farmers. The suggested changes in this regard are the following:—

(1) the organisational set-up be made more field-oriented with greater emphasis on de-centralised decision making pertaining to the sanctioning of loans and pertaining to the arrangement of services required by farm groups.

(2) appropriate changes in the eligibility criteria be made so as to enable the group to acquire credit.

(3) the loan application forms and other related documents be more suited to group lending.

(4) the security requirements be made such that they incorporate group responsibility as a security for the loan.

With the re-orientation of the national development banks the international financial institutions would also have to re-examine their own approaches and procedures to facilitate the process of change.

Action Projects

There are a number of interesting and inspiring examples of the new type of rural development projects. These provide valuable insights into the process of development. Mere observation and static analysis of these efforts is an insufficient basis for learning, particularly as multiplication of these projects at a rapid rate is the prime objective of development institutions. The best way for the banks to learn and to train their personnel in this new kind of development banking is to get involved in initiating such experiments at the ground level in selected areas. These "laboratories" which would combine social action, economic development and sound banking in the right proportions derived through a pragmatic method, would be the proving ground for ideas and people. Analysis of this accumulated experience will create the necessary knowledge which is a pre-condition for massive action at a later stage.

The Conference recommends that each Bank should undertake at least one action project which is based on the spirit of self-reliant development described in thispolicy statement. The size of project, its nodal thrust and its organisational form may be decided by each institution in conformity with the needs of the area and the philosophy and capability of the banks.

The Asian Development Institute in collaboration with national institutions may provide to the banks such assistance as is necessary for the formulation of the projects. It should also provide a mechanism for the exchange of personnel between the banks and a continuous forum for pooling of experience to accelerate the process of developing a body of knowledge on 'new development banking' to assist the Asian banking community to move forward in unison.

TECHNOLOGY

Clay Refrigerator Runs Without Electricity

REFRIGERATORS available in Sri Lanka are constituted of a small freezing chamber and the main volume of the appliance which is kept several degrees above freezing point. Meats are generally stored in the freezer while vegetables among others are stored in the main part of the refrigerator. The cheapest refrigerator today in Sri Lanka costs about Rs. 4000/- and consumes electricity and/or kerosene.

An Indian engineer Shri N. Ramu has developed a very cheap refrigerator which provides some of the facilities in the more expensive varieties. The refrigerator runs without electricity and costs only about Rs. 100/- and is based on the principle of the cooling effect created by the evaporation of water.

Simple in construction and design, the new refrigerator uses hollow blocks of baked clay available in different lengths from 1½ ft. to 2½ ft. Eight blocks of suitable size are sufficient for a 2.5 cu.ft. capacity box-model refrigerator; for greater capacity the number of these blocks may be increased. The refrigerator can also be made in the shape of an almirah with shelves to store fruits and vegetables. The box-model would cost about Rs. 50/- and the almirah type about Rs. 100/- according to Shri Ramu.

The refrigerator can be constructed by any mason by mounting the blocks on a concrete platform and fitting an airtight insulated door on one side. Water, the only refrigerating agent used, is filled in the hollow blocks, which are interconnected by a suitable arrangement. The water is drained out when needed through a spout provided at the bottom of the refrigerator. The top of the box is closed by a thin reinforced concrete slab with small holes, which are essential for effective functioning of the refrigerator. As water evaporates, the sides of the blocks get cooled and provide refrigeration by convection.

Shri Ramu has found that the temperature inside the box remains between 73° to 75° F. This temperature as well as the required humidity in the refrigerator are almost constantly maintained, irrespective of any change in the room temperature.

Tests conducted with the new refrigerator have shown that vegetables and fruits retain their freshness for a number of days and can be utilized directly for cooking or eating, unlike those preserved in electrical refrigerators which need to be brought to the room temperature before cooking or eating. Fruits like lemons, limes and sweet limes, and vegetables like beetroots and raw bananas retain their texture and freshness for over two weeks. Other vegetables remain fresh for to 3 to 10 days.

The new refrigerator has the distinct advantage of having a very low initial cost in comparison to the conventional refrigerating machine. It entails no running expenditure and can be utilized even at places where there is no electricity. Apart from homes, this type of refrigeration system could be profitably utilized in restaurants, food processing industries, vegetable markets, etc.

Towards a 'White Revolution' Soya Milk

IN a previous issue of the Economic Review attention was drawn to the production of milk in the country and the total inadequacy to meet the country's requirements. There we recorded a fall in the production of milk, as well as the rapid decline of the elite milk producing herd in the country. Further, the annual milk production of local cows in the South Asian region not belonging to the elite category is only about 173kg. compared to 4154 kg. in U.S.A., 3950 kg. in the U.K. and 3902 kg. in New Zealand. With the paucity of milk imported, a supplementary source of milk that is emerging is soya milk.

The basic raw material for soya milk is soya bean. It contains about 40% protein and 20% oil. It is now being grown extensively in Sri Lanka and processed soya bean could be a very good source of protein. The Indian University, Pantnagar Agricultural University has developed, soya milk as one of its soya products.

Soya milk has a protein content similar to that of milk: It can be mixed with ordinary milk in proportions as high as 50 : 50. This mixture is almost indistinguishable from cow's milk. Thus, soya milk and ordinary milk can not only co-exist but also supplement each other. As for the nutritive value of soya milk, the data given in the following table speak for themselves:

Nutritive Constituents	*Cow's milk*	*Soya milk*
Proteins	3.2%	3.2%
Fats	4.5%	1.7%
Carbohydrates ...	—	2.0%
Minerals	0.7%	0.5%

Though equally nutritive, the production cost of soya milk packed in bottles or sachets comes to only about one-third the cost of cow's milk. Soya milk can be imparted with any flavour or taste. With the addition of 6 to 7 percent sugar, it can be used as a good beverage. The unsweetened milk could also be used in other forms like curd.

Soya milk can be stored for quite a sufficient time. Pasteurized soya milk can be stored for about a week at 5° C. The milk can be kept in bottles, plastic sachets or in bulk containers according to convenience. About 10 litres of soya milk can be prepared from one kilogram of soya grains.

The soya grain has to pass through a number of processes before obtaining soya milk. The various processes involved are cleaning and grading, de-hulling, cotyledon separation, blanching, wet grinding, colloid milling, blending, homogenization, boiling, chilling and packaging.

According to the Pantnagar Agricultural University a plant producing 10,000 litres/day of soya milk can be set up with a capital investment of about Rs. 10 lakhs. The investment could be reduced to only Rs. 1 lakh in case of modern dairies already in existence.

Soya milk is already extensively used in some countries like China and Japan.

COMMODITIES

TEA

Increased Earnings

Over Rs. 500 million

Sri Lanka's foreign exchange earnings from tea exports, for the first 10 months of this year, fetched over Rs. 500 million more than during the same period last year. Prices fetched during this period in the Colombo and London auctions show a higher average price per kilo. The information pertaining to the prices are given in the tables on the right.

The rising trend in tea production continued into October and (as forecast in the *Economic Review* of May 1975) the declining production trend of the last few years has been reversed. Tea production for the period January to October 1975 was 399,992,315lb compared with 365,082,830 in the first ten months of 1974. Exports during this period amounted to 393.9 million pounds in 1975 compared with 325.0 million pounds in 1974.

COLOMBO AUCTION PRICES

(Rupees per kilo)

	1974	1975
High	6.86	7.10
Medium	5.96	6.41
Low	6.36	7.24
Total	6.40	6.90

LONDON AUCTION PRICES

(New pence per kilo)

	1974	1975
N. India	58.35	62.78
S. India	52.45	58.16
Sri Lanka	59.43	63.44
Kenya	63.96	65.51
Uganda	60.25	61.08
Tanzania	59.71	64.34
Burundi	56.57	58.77
Rwandia	58.39	63.68
Zaire	58.29	59.11
Malawi	55.00	57.11
Mozambique	50.82	51.11
Bangladesh	46.97	56.42
S. Vietnam	52.32	56.08
New Guinea	55.17	55.66
Brazil	54.55	48.22

Britain's Interest in World Tea Agreement

The British government is discussing with the main Commonwealth tea producing countries the scope for an international agreement on problems in the tea industry. The British government believes the solution to problems must be sought on an international basis. Discussions were recently held in Sri Lanka with British officials where we made a strong case against the continuation of the practice by international institutions like the World Bank, the Commonwealth Development Corporation and other leading institutions of giving financial assistance to countries for expansion of tea acreage. The U.K. delegation favoured an export quota agreement between exporters and importers which the British government could by administrative methods put into effect if there was a consensus amongst the major exporters and importers.

The problem arising from a long-term agreement for tea, basically a regulation of exports through export quotas at agreed price projections will be discussed further in February 1976 when Sri Lanka hosts a conference of the principal tea exporting countries. This will be followed by a meeting of Commonwealth tea producers in London on the eve of a FAO meeting in March 1976. Matters to be considered in the future include:—

1. A scheme of subsidising earnings of tea producing countries if prices of tea fall below an agreed level.

2. A levy on imports of tea for promotional work. Such funds to be used in the same country for generic promotion of tea.

3. A special committee to be set up for statistics to keep in touch with current problems on tea.

4. The need to analyse trends in tea prices and to identify prices that are suitable and remunerative to the tea producers.

5. The need for both exporters and consumers to get together.

At the Seventh Session of Sub-Group of Exporters of the International Group on tea held in Jan. 1974 under the FAO auspices it was agreed that the quota for 1974—1975 be 1450.6 mln. lbs. and 1503.5 mln. lbs. for 1975-1976. The export quota for Sri Lanka was 472.2 mln. lbs. for 1st April 1973 - 31st March 1974 but Sri Lanka's exports were only 433.4 mln.—a shortfall of 38.8 mln. lbs. The export quota agreed for India for the same period was 480.2 mln. lbs. but her actual exports were only 416.6 mln. lbs., a shortfall of 63.6 mln. lbs.

WEATHER AND CROPS

There were heavy rains during Oct. - Nov. 1975. Despite producer belief that the heavy rains recorded recently would have led to a decline in crop compared with last year, earlier forecasts have proved correct as tea crop for October has recorded 16,248,247 kilogrammes as against 15,489,035 kilogrammes for the same month in 1974. The increase for Jan. - Oct. 1975 as against the same period in 1974 is therefore, 15.8 million kilos. i.e. the total harvested to date being 181,434,678 kilos. as against 165,598,983 in 1974.

	Oct. 1975	Oct. 1974
High	5,308,111	5,823,507
Medium ...	5,367,699	5,119,932
Low	5,572,437	4,545,596
Total ...	16,248,247	15,489,035

	Jan./Oct. 1975	Jan./Oct. 1974
High	68,205,352	64,679,909
Medium ...	62,672,241	57,258,038
Low	50,556,084	43,661,035
Total ...	181,433,678	165,598,983

First Consignments of Tea for London Auctions

The first consignments of tea to the London Tea Auctions on behalf of the Land Reforms Commission were loaded a Colombo and Trincomalee on 21st November, 1975. In the Colombo port a consignment of tea was loaded on board the S.S. Lagmedon by statutory trustees, Mackwoods Estates & Agencies (1972) Ltd. who were the first statutory trustees to be granted approval by the government for export of teas for sale at the London auctions.

In Trincomalee a shipment of 600 tons was loaded by M/s. George Steuarts, also statutory trustees.

LOWER FREIGHT RATES FOR SRI LANKA'S SORGHUM & MAIZE

The Ceylon Freight Bureau of Sri Lanka has persuaded the Ceylon/Straits Hongkong to grant Sri Lanka promotional freight rates for exports of sorghum and maize to be effective from November 1, 1975 till 30th June 1976. The rate is 19.80 U.S. dollars for 1000 kilos subject to currency adjustment factors and the prevailing bunker surcharge. Under the Food Drive sorghum and maize cultivation were encouraged but the influx of low priced wheat flour into the local market did not make it remunerative for farmers to undertake extensive cultivation of this crop. Unlike kurakkan, manioc, sweet potatoes and other yam substitutes sorghum and maize were not as popular among the people. The Paddy Marketing Board is therefore aiming at export orders from Singapore and some far East countries, but for Sri Lanka to be competitive freight charges had to be reduced.

COCONUT

Actual Exports

Export earnings from coconut products in October 1975 at Rs. 49.6 m. indicated an increase of Rs. 23.3 m. in comparison with the previous month and Rs. 9.8 m. drop in comparison with the corresponding month last year.

Earnings from the export of coconut oil in October 1975 at Rs. 19.8 m. showed a recovery from the previous month's sharp drop.

Fibre trade recovery

Earnings from the export of D.C. in October 1975 at Rs. 17.5 m. showed a slight decrease of Rs. 1.2 m. when compared with the previous month.

Earnings from the export of coir fibre and fibre products in October 1975 at Rs. 8.4 m. showed a substantial increase of Rs. 3.9 m. when compared with the previous month. This was an indication of the recovery of the fibre trade. Details in table below.

EXPORTS OF COCONUT PRODUCTS

		1974 January - October		1975 January - October	
		Volume	*Value Rs.*	*Volume*	*Value Rs.*
Coconut Oil	Cwt.	361,010	122,203,064	503,716	152,834,942
D.C.	,,	664,219	197,258,775	445,206	161,535,384
Copra	,,	120,000	291,656	9,990	3,648,340
Poonac	,,	57,894	977,713	19,920	524,760
Freshnuts	,,	1,313,557 nuts	2,074,739	24,201	6,822,876
Fibre Products	,,	1,812,501	87,629,746	1,066,238	70,087,708
Shell Products	,,	496,570	26,069,227	184,154	11,806,733
Total Value ...			436,504,920		407,260,743

RUBBER

Sri Lanka's export earnings from rubber had dropped by over Rs. 150 million upto the end of October, when compared to the same period last year. Though the exports of rubber during January to October 1975 has shown a substantial increase in quantity, export earnings at Rs. 492.6 m. was lower by Rs. 150.9 m. when compared with the corresponding period in 1974. R.S.S. 1 prices averaging Rs. 1.50 per lb. during the month of November were higher than those of the corresponding month last year by 46 cts. Average prices for September and October this year were Rs. 1.46/lb. and Rs. 1.47/lb. respectively as compared with Rs. 1.20/lb. and Rs. 1.21/lb. in the corresponding months of 1974.

Production Increase Forecast

It is reported that the International Rubber Study Group (IRSG) has forecast that world natural rubber production for 1976 will increase to 3.5 million tons from an estimated 3.25 million tons in 1975.

SPICES

Cardamoms earnings up

Export earnings from spices during the period January to October this year continued to be lower than the corresponding period in 1974. With the exception of Cardamoms all other spices showed a decline both in quantity and in value. Cardamom exports at 5,251 cwts. for the first ten months of this year showed a substantial increase over the same period in 1974. Total earnings from spice exports upto October this year were Rs. 47.4 m. compared to Rs. 69.2 m. during the corresponding period in 1974.

RUBBER EXPORTS

	1974 January-October		1975 January-October	
	Quantity (lbs.)	*Value (Rs. m.)*	*Quantity (lbs.)*	*Value (Rs. m.)*
Sole Crepe ...	7,119,833	33.4	8,234,704	21.9
Latex Crepe ...	68,464,073	209.4	84,482,233	164.0
Scrap Crepe ...	25,969,946	56.0	25,274,611	36.6
Sheet Rubber ...	134,108,708	341.7	169,984,706	266.8
Block Rubber ...	1,053,032	3.0	2,032,870	3.2
Latex ...	4,144	.009	94,204	0.1
Grand Total ...	236,719,736	643.5	290,103,328	492.6

	1974 January - October		1975 January - October	
	Quantity Cwts.	*Value Rs. m.*	*Quantity Cwts.*	*Value Rs. m.*
Spice Exports				
Cinnamon	121,136	50.3	62,294	30.99
Cardamom	1,836	4.0	5,251	9.9
Cloves	9,803	10.5	3,169	5.5
Pepper	6,017	3.0	1,892	1.2
Nutmeg	2,287	1.3	n.a.	n.a.
Essential Oil Exports				
Cinnamon Leaf Oil ...	1,713	4.7	813	1.3
Cinnamon Bark Oil ...	17	0.7	4	0.2
Citronella Oil ...	2,308	5.1	1,679	1.7
Ginger Oil	9	0.3	2	0.05
Cardamom Oil ...	19	0.7	3	0.03
Clove Oil	14	.04	—	—
Nutmeg Oil	72	0.2	63	.3

ESSENTIAL OILS

Exports of cinnamon leaf oil and citronella oil have shown a slight increase in October compared with the exports during the previous month. However, total exports of these items, during the first ten months of this year were much lower than compared with the corresponding period in 1974. Total earnings from essential oil exports upto October this year at Rs. 3.6 m. was lower by Rs. 8.1 m. when compared with the corresponding period in 1974. Details are given in the table at left.

WHEN SIX RICH NATIONS MEET NEAR PARIS

The three day economic summit of the six leading industrialised nations that took place at Rambouillet near Paris in mid November brought, once again, to the fore the strange economic dilemma in which the western world is now caught up. We had the heads of Government of the USA, France, Britain, West Germany, Italy and Japan pledging at the end of their confabulations to co-operate closer in managing their increasingly inter-dependent economies and agreeing to fight vigorously against "high unemployment, continuing inflation and serious energy problems" without the slightest indication of how they could achieve such inherently contradictory goals.

Dilemma

The dilemma facing these societies is that if they take energetic steps to revive economic activity they would provoke a new outbreak of inflation. On the other hand the steps taken to curb inflation could prolong the recession which threatens to become chronic. Today there are as many as 12 to 15 million unemployed in the industrialised Western World; while inflation rates in these countries vary from Britain's 25 per cent to 6 per cent in West Germany. The severity of inflationary pressures in these six countries cannot be underestimated. This became quite apparent in the tone of their final declaration which stated that their most urgent task was "to reduce the waste of human resources in unemployment". In the same breath they were compelled to caution that "in consolidating the recovery, it is essential to avoid unleashing additional inflationary forces which would threaten its success" The political and social consequences that could arise if this situation got out of hand is causing serious concern in the Western World, most of all among its leaders.

Anxiety

The Western press voiced much of the fears of their leaders and anxiety at the ineptness of these heads of state to suggest any concrete solutions. Britain's *Guardian*, for instance, expressing alarm added that at Rambouillet they found a loose agreement on such things as currency and tariffs, which could "also split the industrialised world into a kind of fatal fragmentation that helped create the great depression of the thirties and the terrible wars that were part of it". The reaction of many observers, and some aides to the government chiefs, was summed up by London's *Daily Express*, which dubbed the gathering "Non-Event of the Year".

Other reactions were the *Economist* "In sum, not a triumph but not just a masque, either"; and *Time* magazine "In sum, face to face discussions seemed to give the six leaders a better grasp of each other's problems".

It was exactly this concern with only "each others problems" that evoked the obvious reaction of the Third World that it would have been a far more fruitful exercise had these six leaders also discussed the problems of the less developed world.

The Rambouillet summit brought also to the fore the reality that the world community is getting more compartmentalised at the economic level. Here the Western industrialised nations upset beyond control by the group of oil producing countries who decided to assert their rights *en bloc* as raw material producers, the western socialist states pursuing their own goals at various levels of planned economic activity; and finally the Third World comprising largely of raw material producers at the mercy of a system still not within its control. A closer and more meaningful dialogue among all nations and an acceptance of the inevitability of a new and more permanent economic order is what the Third World is now coming to take for granted. This attempt by the world's richest nations to consolidate and preserve their standards at any cost can cause disenchantment throughout the developing world.

Disillusionment

Rambouillet was certainly an occasion of disillusionment at least in one respect. The six said that they would play their part in urgent measures to help the Third World meet its deficits and to stabilise its export earnings. The Americans put forward again their proposals developed at the United Nations Special Session, rejected indexation of commodity prices, but said they were ready to be constructive on commodities case by case.

The issue, however, is not stabilisation of export earnings but of protecting the purchasing power of the developing countries. The unceremonious rejection of the demand for indexation of prices of goods exported by the developing world emphasised once again where exactly the stumbling blocks to the evolution of equitable international monetary and trading systems lay.

A typical Third World reaction was that of the Madras *Hindu's* London correspondent Batuk Gathani —

"Although leaders of the six leading industrial nations ended their economic summit by signing a declaration pledging economic, trade, monetary and energy co-operation, the Rambouillet communique has the look of a rushed affair embedded in monotonous platitudes which seems to ignore totally the presence and plight of the Third World and raw material producing countries.

The Western world now caught in a strange economic dilemma appears to make desperate attempts to save its skin. At what cost and consequences for the less developed parts of the world these attempts are being made is anybody's guess, but this "ganging up" operation can hardly bring any joy to the poorer countries of the world.

The summit looked more like a board meeting of a prosperous international cartel. It is also a sad commentary on the present health and future of to-day's world economic order because more than anything else the Rambouillet economic summit characterises the Western world's desire to consolidate and preserve its extraordinary high standard of living and economic prosperity at any cost. But it remains to be seen how the new Rambouillet 'spirit' will usher in an era of inflation-free economic revival".

LATIN AMERICA Then And Now

> "The quetzal bird is the national symbol of Guatemala. He is said to have lost his voice when the Mayas were defeated by the Spaniards. Others say he never lost his voice, but since then has refused to sing. The fact is that when he is caged he dies"
>
> EDUARDO GALEANO
> *"Guatemala, Occupied Country"*

For most of us in Sri Lanka, Latin America and its countries are merely distant images. The lines of modern communication existed only via the bowels of Metropolitan Europe. There are no direct links. Only images. As school children, we may have gathered some vague idea about the length of the Amazon river and the primitive nature of the indigenous settlement along it, or of the *Gaucho* on horse-back rounding up large herds of cattle in the Pampas. These blurred images may have received some new life since the events in Chile. For not merely Sri Lankans, but indeed the whole world had heard of Salvador Allende and his unfortunate experiment of attempting to introduce a revolutionary Marxist Society through the Parliamentary road. The demise of Allende and his dreams were accompanied by bloodshed, vengeance and ritual blood letting. But what happened in Chile to the mass of the people was hardly an exception in the history of Latin America. Latin America's tranquillity ended with the advent of the Spanish Conquistadores. From then began the chronicle of plunder and disposition, of hunger and death. At many times in the history of Latin America, brave men have risen to defend their continent from the ravage of foreigners. They spoke eloquently about the pillage of their wealth to feed Europe and America, but they came and went–Zapata of Mexico, Bolivar who gave his name to his country and the legendary Che Guevara. Allende joined this long and seemingly never ending list. Whatever their weaknesses they did not just die for a dream. They died in order to make their dream a reality. They dreamt of liberating their people and giving them a part of their birthright—the massive wealth of Latin America. Death has not brought an end to renewed challenges; and in a way in Latin America death may have also been terrible enemies of the rulers.

Whatever one may say about the theories of the International Division of Labour the fact remains that so far some have been winners and others losers. Latin America has lost "ever since those renaissance Europeans ventured across the ocean and buried their teeth in the throats of the Mayas and Azetecs and other Indian civilizations." From then on, ship loads of gold and mountains of silver have travelled from the continent to Europe. The picture has not changed. The ships still travel in one way. The only difference is that today they carry perhaps coffee, oil, phosphates and many other minerals buried in the Latin American earth. Trade and industry concerned with emptying the wealth of Latin America shifted from the Spanish to the British and has now passed on to American hands. American business concerns have a privileged position in most Latin American countries. As far back as 1913 President Woodrow Wilson said "You hear of concessions given to capitalists in Latin America. You do not hear of concessions to foreign capitalists in the United States. They are not granted concessions". He went on to say "States that are pledged.........to grant concessions are in this condition, that foreign interests are apt to dominate their domestic affairs". There has never been a mutuality in the process.

It was like the elephant speaking of equality to the chickens. For that matter, Benjamin Disraeli, the British Prime Minister in the second half of the last century, speaking of Latin America said "I call a new world into existence to redress the balance of the old". His call was based on the same ideology of domination and arrogance, for he spoke mellifluously of "each man for himself and God for us all". Large areas in Latin America were designated functions by the foreign powers. Some supplied minerals, others meat, beverages and so on. The wealth and the labour of the Latin American people was transmitted to Europe and the United States as capital. What Latin America lost became the gain of others. The finite nature of this wealth is evident now in the endless number of emptied tunnels which were formerly mines for precious metals; the silver mines of Potosi are now merely a big hole in the earth. The desolation of the Chilean nitrate pampas and the Amazon's rubber forest are "history" books in themselves.

Throughout this period the living standards of the people of Latin America have deteriorated. Around the 1850's the world's rich countries enjoyed a 50 per cent higher living standard than the poor countries. By the end of the 20th century this would have grown by 15 times in the case of Latin America. The United States citizens' average income is 7 times that of Latin America and grows 10 times faster. But even this statistic is deceptive for 6 million Latin Americans at the top share the same amount as the 140 million at the bottom. One child in Latin America dies of disease or hunger every minute and in per capita terms Latin America today produces less than it had produced before World War II.

The population of Latin America is growing at such a rate that in the year 2000 it is estimated to reach 650 million. Of the today's 280 million 50 million are unemployed and one hundred million are illiterate. The population keeps growing and the health keeps decreasing. According to the tenets of the population controllers one may even say that Latin Americans are over-enthusiastic lovers who have thrown precaution to the wind. The family planners sow pills and condoms but reap children. But the problem is not the inability to support this population, for the magnificent lands of Latin America could give to its people enough and more. The problem is with the system that expropriates and controls the wealth of Latin America for the benefit of those who live outside the continent. The dominating ideology was expressed by President Johnson who said "let us get on the fact that 5 dollars invested in population control is worth 100 dollars invested in economic growth".

But the absurdity of this is that most Latin American countries have no surplus of people. In fact they have too few. "Brazil has 38 times fewer people per square mile than Belgium, Paraguay has 49 times fewer than England. Peru has 32 times fewer than Japan". Half the territory of Bolivia, Brazil, Chile, Equador, Paraguay and Venezuela have no inhabitants at all. Could population control be preached in such circumstances?

Today

Times have changed but for Latin America the process of exploitation goes on, in addition to the extraction of raw materials. The external debt of Latin America has also kept increasing as seen from the following table:

Foreign Investment and External Debt in 1963

(in millions of 1960 dollars)

	direct foreign investment	*external debt*	*total*
Brazil	3,950	2,750	6,700
Venezuela ...	5,400	300	5,700
Argentina ...	1,280	2,250	3,530
Mexico ...	1,620	1,650	3,270
Chile	920	1,020	1.940
Colombia ...	550	700	1,250
Peru	680	400	1,080
Bolivia ...	50	250	300
Panama ...	210	70	280
Ecuador ...	150	110	260
Dominican Repub.	150	100	250
Uruguay ...	80	150	230
Guatemala ...	160	50	210
Costa Rica ...	90	90	180
Honduras ...	130	40	170
Nicaragua ...	50	50	100
Paraguay ...	20	30	50
Latin America ...	15,230	10,100	25,330

Source: ECLA, 1966

Statistically speaking Africa and Asia may be in a worse position but the income differentials within Latin America are massive. Every now and then some country in Latin America attempts to redress the balance, but all they seem to achieve in this process of trying to gain control of their natural resources is disaster in most cases, and sometimes a mere "Re-negotiation of the terms of dependence".

Land distribution reflects colossal divergences. They speak of *Latifundio* and *Minifundio* (big and small land holdings). The average size of Latifundios in Argentina is 270 times that of Minifundios. In Guatemala a Latifundio may be as much as 1,732 times the size of the Minifundio. The impoverished peasant is huddled even more in smaller and smaller plots of land and barely ekes out a living. The size of the Latin American business concerns and their power means that Latin American businessmen attempting independent development are either smashed by competition or bought up. A Corporation like General Motors is richer than most of the smaller Latin American countries. The roles played by ITT, Anaconda and Kennecott need not be repeated here. The famous Kennedy plan called the Alliance for Progress was dubbed by Latin America as the Alliance for Progress of Imperialism. Coups, revolutions and spy dramas are products of the Latin American sub soil. The continent achieved independence long before Asia and Africa and has suffered economic strangulation ever since. The real rulers have come and gone. In 1824 the British Prime Minister Canning wrote "The deed is done, the nail is driven, Spanish America is free; and if we do not mismanage our affairs sadly, she is English". The English did make their profits in Latin America but then came the American Monroe doctrine and since then Latin America has become nothing more than a backyard for the United States of America. The story of this pillage has been related eloquently by Eduardo Galeano, Celso Furtado, Andre Gunder Frank. The haemorrhage of profits from direct U.S. investments in Latin America has been five times greater in recent years than the infusion of new investments. All attempts to control this process have been of little avail. According to an International Banking Survey in 1967 there were 133 branches of U.S. Banks in Latin America holding deposits of 1.27 billion dollars.

The price differences between raw materials and manufactured goods have steadily grown. In 1954, the price of 22 bulls could purchase a Ford Tractor. Today a machine will cost about 50 animals. All attempts at import substitution have been of little avail and meanwhile the rape of virgin lands goes on unabated after five centuries in many parts of Latin America, particularly the Brazilian North. In theory the Latin American has equality of opportunity with a foreigner. Anatole France once said that the law in its majestic equality forbids the rich as well as the poor from sleeping under bridges, begging in the streets and stealing bread. The majority of the Latin American people understandably when convicted of such offences naturally do not salute the impartiality of the law.

In recent times Latin America's plight and the dangers to her economy have grown more and more evident. The inability of the people of Latin America to take charge of their own resources and re-structure their economies in the manner they would wish to has left them no alternative but to depend on the vagaries of world trade. Through the period 1974-1975 market conditions for most of Latin America's principal export products deteriorated. Terms of trade, consequently, have continued to get worse. Several countries in the region derive 20% or more of their export receipts from coffee and the relative decline in coffee prices had a particularly widespread effect. Lower copper prices have adversely affected Chile and Peru, and lower wool prices together with a decline in world market meat prices reduced the export earnings of Argentina, Paraguay and Uruguay. To make matters worse the EEC placed limitations on beef exports to the countries of the Community.

Countries such as Argentina, Brazil, Columbia and Mexico have achieved a fair degree of economic diversification but the recession in the industrialised world only reduced demand for their manufactured exports. For most of these countries, changing price and demand conditions mean larger trade deficits and with their existing economic structures lower rates of economic growth.

And the circle continues to prove more vicious as world trade conditions and their own existing economic structures make it even more difficult for them to diversify their exports and break the stranglehold.

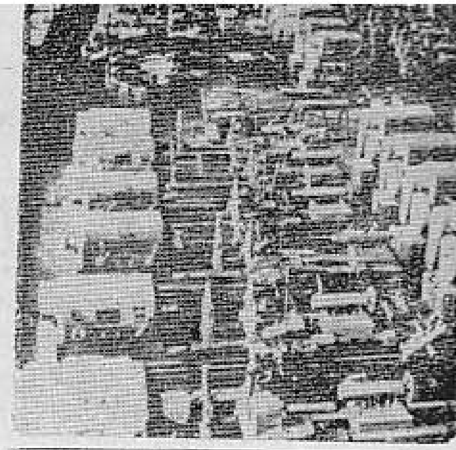
The saddest part of the Latin American scene is the runaway inflation that has plagued several of these countries and put many of her people in a helpless position. The following figures tell the tale most eloquently.

The table below sets out rates of increase of consumer prices in some Latin American countries. The 1973 figure is the percentage increase over 1972 and 1974 the increase over 1973.

	1973	1974
Peru	9.5	16.6
Panama	6.9	16.8
Argentina ...	61.5	18.7
Columbia ...	22.8	22.0
Mexico	12.1	23.3
Nicaragua... ...	12.5	23.3
Ecuador	13.0	23.4
Paraguay	12.7	25.6
Brazil	12.9	25.8
Bolivia	31.6	70.7
Uruguay ...	97.2	71.4
Chile	352.8	504.7

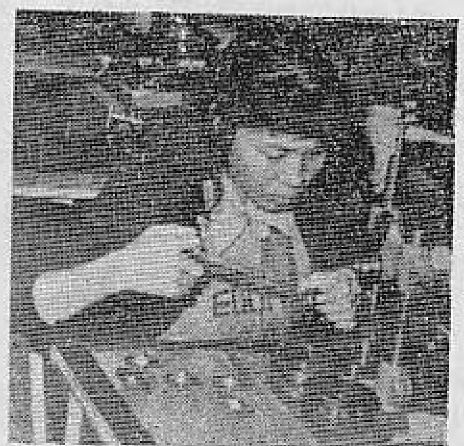
The obvious answer is for poorcountries to switch to industry and manufactured goods which provide more stable revenue and more employment. World trade in manufactured goods has risen twice as fast as trade in raw materials (excluding oil) in recent years.

11. But to start up manufacturing industries requires capital, factories, machinery, technology, trained man-power etc. all of which are in short supply in the poor countries.



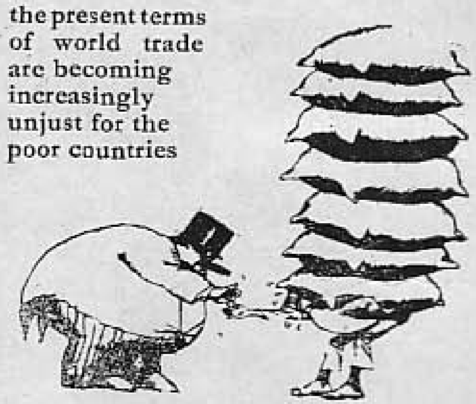
12. Even if the poor countries can overcome this obstacle, their people are too poor to buy many manufactured products—so they have to sell overseas. But the rich countries have already sewn up the main overseas markets.

. Even if this barrier is overcome then the manufactured exports of poor countries are also heavily taxed by the rich countries. Raw iron can be imported into the USA duty-free. But pins or drain pipes are subject to import tax.

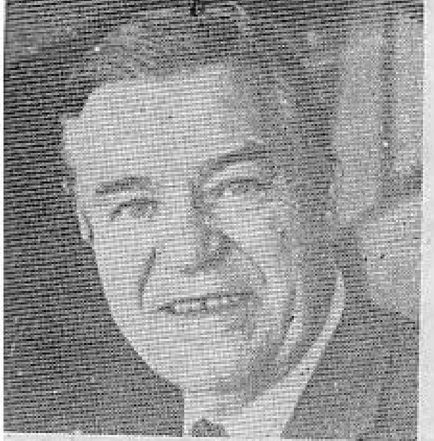


14. Despite all this, the export of manufactured goods from the poor world has grown by 15% per year in recent years. But three quarters of this increase has come from only eight developing countries and one-third of it is attributable to Hong Kong alone.

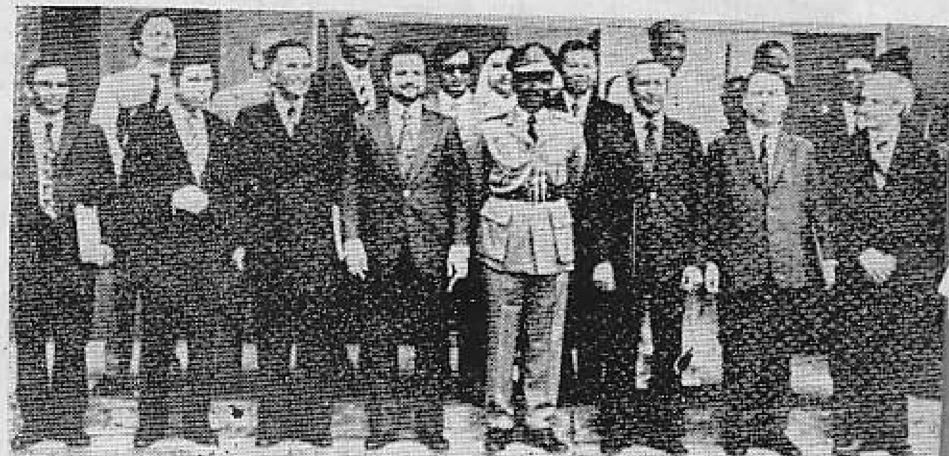
the present terms of world trade are becoming increasingly unjust for the poor countries



15. At the root of the problem is the fact that the rich world is coming to need most of the products of the poor world less and less, whereas the poor world needs the products of the rich world more and more, for its development effort.



6. This is why the distinguished Swedish economist Gunnar Myrdal has said: "The fact is that international trade will generally tend to breed inequality, and will do so the more strongly when substantial inequalities are already established".



17. For the poor world now, the main hope is that the producers of still-vital raw materials can get together in a kind of trade union of the Third World and so make the rich world pay more for the raw materials it needs. OPEC has shown the way with oil. Now perhaps other Third World nations can co-operate to earn more for their raw materials, and so finance their own development under their own control.

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