The Industrialised Nations of the West And The Third World

by

S. P. Amarasingam

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INTRODUCTION

Much water has flown under the bridges since the time the nations of Asia, Africa and Latin America, which had been conquered and thereafter controlled by foreigners for several decades, sometimes centuries, first started to win national independence to emerge as soverign states. Though a long time has gone by, many of these former colonies and dependent territories have yet to consolidate their political sovereignty and, more than that, to achieve economic independence.

The colonial system has no doubt disintegrated. There is no going back to it. Nor can the past be resurrected because the West has neither the capacity nor the means to reimpose its political power over its former colonies. But the industrial countries still retain economic control. They never abandoned it. Contemporary history moreover has shown, convincingly, that the declaration of independence and a little progress made to build viable national economies do not mean an end to the exploitation of the former colonies by the industrial nations of the West.

The truth is that the exploitation continues even more vigorously than before under cover of new **alibis** *to suit the changed circumstances and the imperatives of new geo–political realities. The former colonial masters have found new methods to perpetuate economic control and domination over the countries of Asia, Africa and Latin America and make them even more dependent than ever by manipulating trade, investment and aid. And the new mechanism for extending investment, credit and technology, has enabled industrial nations to send modern armies of invaders as advisers, consultants and experts.*

This infiltration and invasion, aptly described as neo–colonialism, has accentuated even further the inequitable nature of the relations between developing countries in the Third World and the developed countries of the West. The activities of foreign transnational monopolies—the new colonial

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masters—manifest themselves in political pressurising of the governments of developing countries and ruthless exploitative profit–greediness in trade and industry and these proclivities inhibit and distort the economic development in the newly independent countries.

Although it is true that countries in Asia, Africa and Latin America have registered some progress in several fields in the last three decades, it is an inescapable fact that the gap between them and the industrial nations of the west keep growing. It is therefore only natural, in this context, for developing nations to demand more and more vigorously for a New International Economic Order (NIEO] to secure a change in their relationship with the developed nations of the Western world to overcome their social and economic backwardness as quickly as possible. Whatever the propagandists for the West—and they are legion with the money the West spends on academics, ideologues, publicists and the like—may say about the virtues of Western free enterprise, there is not the slightest doubt that the present economic system rules out any possibility of change for the better for the poor countries. That is why the growing demand for the NIEO.

In the meantime, mountains of books, articles and essays have been written by western apologists to point out that some developing countries have grown "excessively rich" because of the skyrocketing prices of oil and some other raw materials. But an objective analysis will show that behind the smoke–screen of talk about developing countries "getting rich", governments and transnationals in the West have deviced clever methods of exploiting the developing countries in ways that bring new hardships while making worse the difficult problems they already face.

In this study, we have set ourselves the task of examining this new methodology and strategy of the continued exploitation of the developing world. We will scrutinise the mechanics, the techniques and arithmetic of how the western governments and monopolies still virtually plunder developing countries in the same way the old colonialists had done. The new sophistication is to have a larger local elite to share some of the booty and collect the crumbs. But this does not change the exploitation of the majority of the people and the natural resources of the countries concerned.

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The real question is to find out the true nature of the economic relations between the developed and underdeveloped groups of countries in the present world market economy. An effort will be made to unravel the intricacies that stem from this question. To understand the problem more clearly, we will look at developments in Sri Lanka as well as some other Third World countries. But an overview of the major developing countries involved in the market economy of the world dominated by the industrial nations of the West will reveal the true character of the present confrontation between Rich and Poor countries or what is euphemistically called the North–South crisis.

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CHAPTER I

THE QUEST FOR ECONOMIC INDEPENDENCE

In the first flush after political independence, a very large number of the newly emergent countries sought to achieve economic independence through a variety of programmes described with euphoric exuberance as "mixed economy," "democratic socialist", "self-reliant", "non-capitalist" and so on. These countries said they wanted to be free of the clutches of imperialism and neo-colonialism without being drawn into what they regarded as the regimentation of marxist communism. They looked to United Nations organisations like ECAFE and UNCTAD to help them preserve their economic independence whilst obtaining aid from international leading agencies like the World Bank (International Bank of Reconstruction and Development—IBRD) and the International Monetary Fund (IMF). The Non-aligned Movement (NAM) realising that economic development through the IMF or even direct Western aid that claimed to be altruistic was leading developing countries up the garden path into stagnation and chronic poverty, formulated the NIEO. Even the Group of 77, the ginger group of developing countries has not succeeded in making the United Nations or its specialised agencies like UNCTAD take the first step towards implementation of the NIEO.

UNCTAD has also endeavoured, without much success, to help developing nations to get on the road to meaningful economic development in co-operation with the industrial nations of the West. A North-South dialogue was initiated to resolve the problems of co-operation between the Rich and Poor nations through conciliation without confrontation. The Brandt Commission, inspired by the World Bank in the McNamara era, drew up a plan to bring the Rich and Poor together to resolve global economic problems in peaceful cooperation. The culmination of the North-South cooperation envisaged by the

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Brandt Commission ended in the sterile Cancun Summit (October 22–24, 1981). But whilst all this went on, one developing country after another was drawn into a new sophisticated version of a free market economy that the industrialised nations of the West have fashioned to continue the exploitation of the former colonial countries rich in natural resources and cheap manpower.

Sri Lanka, after Independence, followed a distinctive way of its own in the development of its economy. Concepts of freedom and justice influenced policies and programmes and all governments without exception in the post–Independence period proclaimed support for democracy and socialism. Independence, it will be recalled, was ushered in on developmental policies with subsides for food, education, health and other welfare measures to cushion the poor against destitution. Further to ensure an equitable distribution of weatlh, all governments had recourse to partial socialisation of the means of production in some key sectors and also to punitive taxes on high incomes to collect revenue and also to reduce the gap between the rich and poor. This pattern of fiscal policies to achieve economic development was pursued for nearly thirty years. Sri Lanka also sought to gain increasing control over the country's resources by nationalising the foreign owned sectors of the economy e.g., especially plantations, insurance and large sectors of trade. This policy was followed by successive governments with slight changes of emphasis from an accent on free enterprise to publc enterprise, but both within a larger framework of a "mixed economy" seeking a national consensus of both concepts.

This trend was not peculiar to Sri Lanka alone. Many developing countries including India indulged in such tight–rope walking exercises in what was called by its originators a "mixed economy". The advocates of this system believed that it would be possible to avoid the evils of capitalism and shun the pitfalls of communism by treading the "mixed economy" path of democratic socialism. Some developing countries like China, which wanted to avoid being sucked in by the powerful economic mechanisms of the industrial nations and organisations like the World Bank and the IMF, proclaimed that their "self–reliant" policies provided infallible panaceas for Third World countries. But whatever policies they followed very few countries in Asia, Africa and Latin America were able to free themselves from their earlier ties with the industrial (former

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colonial) powers of the West or from poverty and under–development. And more and more they were sucked into the new Western market economy system which offered substantial benefits to a small elite of the privileged in the developing countries and only hardships and privation to the majority of ordinary people. And in this period, the rich developed industrial countries of the West kept growing richer whilst the poor developing countries became rapidly poorer and poorer.

It would be interesting to examine the case of Sri Lanka very briefly. From July 1977 there was a significant change in the political and economic life of Sri Lanka. A United National Party (UNP) government headed by J. R. Jayewardene came to power with a comprehensive economic programme. Those in favour of the system that has emerged since July 1977 claim that political liberty has been safeguarded, that the economy has been revived and national security strengthened. They say that the government is pledged to create a righteous democratic socialist society based on justice, freedom and religion. But those critical of the new order fear that the country is on the road to a new type of neo–colonial economic dependence and political subservience to the West. In 1977 Sri Lanka accepted the IMF formula for economic development. World Bank strategies for expanding the economy, and free enterprise— a liberalised export–oriented open economy—as the lever for bringing prosperity to the nation. Though the term was not used, Sri Lanka adopted under IMF tutelage a refurbished system of "supply–side economics" which has been resurrected to outflank Keynesianism on the one hand and Welfare economics on the other.

Before we examine the true implications of these changes it would be relevant to mention that China, which had once condemned the IMF and the World Bank as agents of imperialism and the private enterprise of the "rapacious West" as the worst enemy of ordinary people, opted in 1978/79 to follow policies which Sri Lanka adopted in 1977. Peking has now welcomed the IMF and the World Bank with open arms and invited foreign capitalists to invest in Free Trade Zones in China. Little is known about what is happening in China, but it would appear that China too is going in a big way for the supply–side economics. And now India, which had stood out as a bulwark against imperialism and neo–colonialism, has now (in October 1981)

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accepted the rigorous terms of the IMF (the same Sri Lanka accepted in 1977) to get a massive 5.8 billion dollar loan.

There is no doubt that developing countries in Asia, Africa and Latin America have entered a new era in their relations with the industrial countries of the West and this is reflected in the agreements that countries like Sri Lanka, India and China have entered into with the IMF and the World Bank. And it is well to remember that with the Reagan administration in power in the USA, the IMF and IBRD have virtually ceased to be the multilateral lending agencies they were for a short period in the sixties and the seventies. They have now become the economic instruments of the US and other rich industrial nations which have complete structural control over the IMF and the IBRD and are now using it in the bid to bring the developing countries into the total grip of the capitalist economy market system of the West in which the developing countries will be compelled to play the subservient role as the suppliers of raw materials and cheap manpower.

US President Ronald Reagan has launched a fullsome economic offensive against the Third World countries. Spelling out the US policy towards them at the annual session of the International Monetary Fund and World Bank held in late September (1981) he lectured the Third World countries for resorting to "the divisive rhetoric of US versus them, of North versus South". He told them in no uncertain terms that they must behave and run their economies in accordance with the expectation of the US administration. Reagan supported by new World Bank president A. W. Clausen denied the charge that the economic policies pursued by the developed capitalist countries were responsible for the difficulties experienced by the developing countries. He blamed the developing countries themselves for their ills. He told them, "unless a nation puts its own financial and economic house in order no amount of foreign aid will produce progress". He advised them "to pursue sound economic policies at home". The "sound economic policies" spelled out by Reagan meant the widest possible freedom of play for market forces. In fact, he became quite euphoric when he spoke of "the magic of the market place". The same basic philosophy and policies were reiterated by Reagan in his remarks before the World Affairs Council of Philadelphia on 15 October of last year. The major components of the programme of action spelled out by Reagan are:

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[1] Stimulating international trade by opening up markets, both within individual countries and between countries; [2] Improving the climate for private capital flows—commercial lending and private investment; [3] Correction of imbalances between public and private sector to be found in many developing countries, that is, greater emphasis on the private sector; [4] Creation of a political atmosphere conducive to pursuance of market-oriented policies; [5] Fiscal and price policies which would include [a] reduction in tax rates that smother incentives and preclude growth in personal savings and investment capital; [b] reduction or doing away with subsidies to food consumers; and [c] price incentives to the agricultural sector of the developing countries; [6] A distinct shift in emphasis from government-to-government aid and from international financial institutions such as World Bank and International Development Association to trade, private capital flows and "co-financing and other private financing with the multilateral development banks".

At Cancun, Reagan made some promises regarding global negotiations in future. But these promises were extremely vague. Basically, he stuck to the philosophy and programme of action spelled out earlier. He strongly opposed the creation of new international agencies like an energy affiliate of the World Bank and all proposals to restructure the existing agencies, in particular the World Bank and IMF which have been criticised for their present structure of control, management and decision-making process and also for the content and nature of the advice given by them with regard to domestic economic policies of the aid-receiving countries. Industrialized capitalist countries like France and Japan gave indications of some understanding of the problems of the developing countries and the current world economic crisis and came up against Reagan's intransigence. But even before the delegates to Cancun could examine how much they had achieved, the United States has disappointed the hopes of developing countries of fast progress towards talks on narrowing the gap between the rich and poor worlds. In a note circulated to countries present at the 22-nation North-South summit in Cancun, Mexico, the Reagan Administration laid down stiff conditions for the so-called "global negotiations" sought by developing countries. Officials at the European Economic Community (EEC) headquarters in Brussels said the hardline US policy was alienating the developing states

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and frustrating European countries which took a more conciliaryto stance. The US note restated the conditions for opening North–South 'understandings' for talks which President Reagan originally set out at Cancun. It said they should deal only with liberalising trade, boosting food production and improving the investment climate. It also said they should be held in an atmosphere of cooperation not confrontation, and should be aimed at achieving growth and development while taking account of domestic economic policies. Finally, it said they should respect existing international agencies and not seek to create any new ones, thwarting Third World countries' desire to discuss financial and monetary reforms. The US has also laid down a laborious preparatory timetable, apparently ruling out any chance of global negotations starting, before the current UN General Assembly session ends in December 1981. It said that, as a first step after Cancun, the United States was holding informal consultations in Washington, New York and elsewhere.

All this signifies a distinctively new style in the economic relationship of the US with the Third World. Laisez faire outlook, emphasis on private investment (domestic and foreign) and free trade ideology are not something new for the developed capitalist countries and particularly US administration. But in the past two decades, officials and multilateral aid was an important component of the foreign economic relationship of the developed capitalist countries including the US. In fact, through the 1970s there was a veneer of liberalism and concern for hunger and poverty in the Third World countries and their economic development in the pronouncements made by the US administration and the former World Bank president Robert McNamara.

Reagan's pronouncements at various forums and his stand at the Cancum summit make it unmistakably clear that the phase has come to an end. Placed in a situation where the US does no longer have the economic and political hegemony in international affairs enjoyed by it earlier, Reagan with his conservative monetarist and supplyside economic outlook is no longer willing to pursue the earlier policy. Exhibiting a pronounced bias against Third World countries he holds them responsible for their present difficulities and problems. At the same time he puts forward a strategy and a set of policy prescriptions which cannot but tighten the grip of the industrilised capitalist countries and the US in particular over the former as well as aggravate their problems. He has demanded a reversal of all policies and

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measures adopted by the developing countries to facilitaet even in a limited manner a process of self–reliant economic growth. He has bluntly told them to liberalize their trade policies, dismantle all controls on private trade and investment, give up the policy of public sector development and abandon planning. They have been asked to give greater access to foreign private capital investment which in effect means open door to foreign multinationals. The substance of his advice to the developing countries is to make their economies complementary to those of the developed capitalist countries and remain satisfied with that.

According to Reagan's new dispensation, private commercial banks and corporations are from now onwards to be given a larger role in lending funds to developing countries. This also excellently fits in with Reagan's anti–Third World economic policy. These private organisations controlled by the MNCs and not amenable to any international discipline have only one consideration in mind, i.e., to earn as much profits as possible. It is well–known that private capital (foreign or domestic) does not and will not flow into infrastructure projects in irrigation, power generation, railway transport and communications etc., or in certain heavy and basic industries in which purely market–oriented pricing systems based on current costs of equipment and machinery cannot help to achieve the broad objectives of rapid economic growth. Reagan has pontifically advised the Third World countries to raise themselves by their own bootstraps. But, as pointed out by Mrs. Gandhi, many of them have no boots at all. Reagan's parable that the hungry man stands to benefit by learning the technique of fishing and not by expecting a gift of fish is also misplaced. For the learning process will not only take decades in many developing countries but have to also rely on resources which they do not have. It is because of this situation that the poor countries of the world expect cooperation from the rich. They expect this not as a matter of charity. Imperialism is histo–rically responsible for the present plight of the Third World countries. Even the post–World War II prosperity of the US and other developed capitalist countries is based on unequal trade, export of US inflation and various forms of exploitation of the Third Wold countries. So the latter can justifiably tell the rich to at least partly compensate them for the wrong done to them earlier. But Reagan has firmly set his face against all such considerations. He wants Third World countries to develop free market economics to break the grip of poverty.

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Reagan is not tired of repeating his new mantra that a massive transfer of wealth from rich to poor countries was not the solution to Third World problems. Though he admitted that something has to be done to help the Third World, he believed that the core of the solution was the development of free–market economies, liberalised trade and private investment. "Some people mistake compassion for development and claim that massive transfers of wealth somehow, miraculously, will produce new well being. Still others confuse development with collectivism no matter what the cost to individuals or historical traditions. Free people build free markets that ignite economic development which depends on economic freedom". President Reagan has done a great service to the Third World by thus disabusing the minds of pundits who seriously believed that the developed rich industrial nations of the West like the US would come to the rescue of the poor developing countries.

THIS STUDY is an attempt to outline a general methodology to evaluate the extent and scope of the exploitation to which developing countries are now subject. This methodology can also be used to assess the extent of exploitation of every separate region or every separate developing country. A country–by–country assessment of exploitation may vary only in the emphasis laid on major categories of exploitation—investment profit transfers would be true of some countries while adverse trade terms would be for others and a monopoly pricing practice for still others and so on.

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CHAPTER II

THE SCALE OF EXPLOITATION OF DEVELOPING COUNTRIES BY WESTERN INDUSTRIAL NATIONS

The political independence secured by the former colonies and dependent countries had a profound impact on the methods used by Western industrial nations to continue the economic exploitation of these territories. The forms and techniques become more subtle, changing their facade and character, but the scale of exploitation of Third World countries has not declined but, on the countrary, has kept growing very rapidly, and this reflects the essence of the relations between the two groups of nations. This is also true of the relations between industrial nations and developing oil-exporting countries, despite the fact of the latter's growing profits as a result of the growing oil and gas prices. The reason for such a seemingly paradoxical situation is that the effect of the elimination of earlier forms of economic exploitation and a weakening of the economic positions of industrial nations in developing countries have been balanced and even offset by the unfavourable consequences for those countries of a many-fold growth of their economic ties with industrial nations of the West on an inequitable basis.

FOREIGN INVESTMENTS IN DEVELOPING COUNTRIES. This can be specifically shown by an analysis of the relations between the industrial market economy nations and developing countries during the last few years and especially an analysis of the data showing the international directions of investments. The total foreign investments made in developing nations, which allegedly demonstrate the economic "aid" extended by the West to those countries, are constantly growing. In 1978 alone the inflow of foreign investments to those countries totalled $ 61 billion as against $ 15.6 billion in 1970. In 1979 the industrial Western countries invested about $ 71 billion in the Third World.[1]

[1] *The OECD Observer.* No. 99, July 1979, pp. 26-27.

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TABLE 1

Breakdown of foreign investments made in developing nations (in billions of dollars in current prices)

	1965	1970	1975	1977	1978
Foreign investment, Total	10.3	15.6	39.9	50.5	60.7
Government-to-Government investments	5.9	7.9	16.6	18.3	22.3
Including:					
Loans and credits under development assistance programs	5.6	6.8	13.6	15.0	18.3
Other loans and credits	0.3	1.1	3.0	3.3	4.0
Private foreign investments	4.4	7.7	23.3	32.2	38.4
Including:					
Direct investments	2.5	3.6	10.2	8.8	10.2
Portfolio investments	0.9	1.2	7.8	14.1	16.5
Export credits	0.7	2.1	4.1	8.2	10.2
Charity "gifts"	0.3	0.9	1.3	1.1	1.5

Source: International Economic Report of the President. Transmitted to the Congress January 1977, Washington, 1977.

The analysis of the data table shows that among the investments made in Third World countries on a Government–to–Government "assistance" of the industrial nations of the West, figures prominently. However, the last 15 years have seen a constantly declining share of Government development "assistance" and a growing share of private investments in the total volume of resources flowing to developing countries from Western industrial nations. The share of "assistance" in the aggregate inflow of investments shrank from 60 per cent in 1960 to 50 per cent in 1970, dropping to 30 per cent in 1980. This trend continues today, although the absolute volume of "assistance" grew in the latter half of the 1970s.

The leading donor countries are the United States (its economic assistance to developing nations totalled $ 4.6 billion in 1979), France ($3.3 billion), Japan ($2.6 billion), West Germany ($3.3 billion).[2] Although the absolute volume of economic aid extended by industrial nations more than trebled in 1979 as against 1970, its real value dropped significantly. iFor instance, the real economic assistance extended by the

[2] World Development Report, 1980, World Bank, Washington, August 1980, p. 140.

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United States dropped by 33.8 per cent in the 1970–1974 period, and by 60 per cent by the late 1970s.[3] According to the estimates made by the United Nations Conference on Trade and Development (UNCTAD), Government–to–Government assistance given by the West in the 1970–1975 period declined in real terms by 24 per cent because of inflation and the fluctuations in the exchange rates and was at the time on the lowest level since the early 1960s.

The declining real value of the Western economic assistance was accompained by several other trends in the policies of the industrial nations of the West which were negative for developing nations. First, the share of the economic assistance by most of the industrial nations declined vis–a–vis their General National Product (GNP). The goal of the "second development decade" to raise the share of Government funds given in the form of easy–term loans to 6.7 per cent of the GNPs of Western industrial nations was reached in 1979 only by Sweden (0.94 percent), Norway and the Netherlands (0.93 percent) and Denmark (0.75 per cent), while such major industrial states as the US, the United Kingdom, West Germany and Japan were well below the target figure. The share of their budget outlays earmarked for economic assistance in 1979 was 0.19, 0.52, 0.44 and 0.26 percent of their GNPs respectively. On the whole, the share of economic assistance of all the industrial nations of the West in their aggregate declined from 0.51 per cent of GNP in 1960 to 0.34 per cent of GNP in 1979.[4] The real value of even this reduced percentage index of Government economic development assistance sharply dropped in the late 1970s as against the early 1970s because of the growing export prices of the industrial countries This factor has an adverse effect on the effective use of the economic assistance given to developing nations. Secondly, the financial terms, on which economic assis–tance was given to recipient countries, worsened. Loan interest rates were respeatedly raised and credit policy was tightened. Under the pressure of private banking business, which seeks to participate more actively in loan–granting operations, in 1969 the US Congress raised the interest rates on loans extended by the Agency for International Development (IDA) from 2.5

[3]Foreign Assistance and Related Program Appropriation Bill, 1977, 94th Congres, Part II, Washington. p. 13c.

[4]World Development Report 1980, World Bank, August 1980, Washington p. 140.

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percent to 3 percent. In 1976 the IDA began to give development loans to developing countries at an interest rate that had gone up to 5 per cent. Interest rates on credits extended by the US Export–Import Bank grew fom 5.5 percent to 8.25 percent from 1966 through 1976 (with debt interest rates reaching 8.4 per cent). West European countries, particularly France and the United Kingdom, traditionally give loans and credits to Asian and African nations on very tight commercial terms. Besides, the time period for repaying credits was sharply reduced as well as the sums to be repaid in local currencies.

Most of the development loans and credits are given under development assistance programs with some strings attached and are used primarily as a foreign trade expansion instrument. The requirement that loans are to be spent to buy products from specified countries and even from specified companies, which on the whole account for over half of the economic assistance funds provided by the OECD member states, resulted in a situation where transnational corporations sell to developing nations their own products under economic development programs at prices 30 to 50 percent higher than the average world market prices. What is more, a recipient country has to buy not the best equipment available on the world market, but only that manufactured by industrial donor nations regardless of its quality. The real losses suffered by recipient countries from this "linkage", UNCTAD experts believe, reach some 15 to 20 percent of the aid they recieve from Western countries.[5] In 1978 these losses totalled $ 3 billion. Moreover, if a devaluation discount is made for the remaining part of the aid, then it transpires that the real aid which might have been considered as a contribution of industrial nations to the development of newly–independent countries hardly exceeds 75 percent of the officially announced amount of economic assistance. From 1970 through 1978 a new inflow of private investments in developing countries on commercial terms grew fivefold from $7.7 billion to $ 38.4 billion, showing an annual growth rate of 23 percent nominally and of 10 percent in real terms (thus growing almost twice as fast as do GNPs of recipient nations) with loans and credits accounting for a greater share of the total inflow of foreign private investments (77 percent). Thus, the loans given by commercial banks to developing

[5]Private Capital Markets for Development—In: Leading Issues in International Economic Policy, Lexington (Mass,.) 1973, p. 191.

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countries grew 18 times as against 1970, reaching $ 16.5 billion. The decisive push that boosted those loans, or so Western economists claim, took place in 1974 because of the skyrocketing oil prices in many developing countries which had no energy resources of their own and were forced to turn to private banking business in the U.S., Britain, France, West Germany and Switzerland for short–term loans to balance their export–import transactions. Actually this is not exactly the case. True, in 1974 the non–oil–exporting developing countries really had a foreign rrade deficit of $ 29.2 billion as against $ 10.4 billion in 1973. However, it was in 1975 that their foreign trade deficit reached its peak under the impact of economic recession in the industrial nations of the West and the latter's growing Protectionism. In 1975 the foreign trade deficit of non–oil–exporting developing countries jumped to $ 39.1 billion.[6]

The limited Government–to–Government development assistance given by Western states to Third World countries is absolutely inadequate to help the developing nations to avoid trade and balance of payments deficits, forcing them to seek loans on private money markets. In 1978 loans and credits extended to developing nations by private banks and world banking syndicates totalled $ 16.5 billion or 46 per cent of the total private foreign investments made in Third World countries. Private export credits, which are a major source of financing foreign trade expansion of industrial nations in Third World countries are another component part of the pattern of private investments made in developing countries by Western nations. The effectiveness of export credits is improved by a system of Government insurance of Government–subsidised interest rates. Hence, the constantly growing role played by export credits given by industrial nations to importers in developing countries. The total private export credits given by Western nations in 1978 to finance exports to developing nations grew five fold as against 1970, reaching $ 10.2 billion, with the total private export credits extended in the 1970–1978 period totalling $ 38.8 billion.[7]

Bank officials in the US, Japan and West European countries are taking steps to "harmonise" their export crediting policies with a view to working out unified terms of financing exports to developing countries. They are trying to reach agreement on

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[6]Monthly Bulletin of Statistics, May 1980, pp. 108-109.

[7]The OECD Observer, No. 99, July 1979, P. 27.

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the maximum credit extension periods, the lowest interest rates on them, the size of instalment payments, etc. The "gentlemen's agreement", which 7 industrial countries—the US, Britain, France, Italy, West Germany, Japan and Canada—signed in early 1976 may be considered as a first step on the way to signing an international agreement on unified terms, on which export credits are to be extended. The agreement provides for single terms, on which export credits are to be generally extended, to finance the deliveries of sets of equipment, especially to developing nations. The agreement stipulates that the interest rates on export credits extended for periods as long as 5 years are to be no less than 7.5 percent a year and on credits given for periods longer than 5 years no less than 8 percent a year. This unification agreed with a view to avoiding "excessive competition" between the abovementioned equipment exporting nations is bound to have an adverse effect on the interests of developing countries.

Direct investments account for a substantial share in the total private investments made by Western corporations in developing countries. The growth rates of direct foreign investments made in the states of Africa, Asia and Latin Americs amounted to 15 percent in current prices and to 4 percent in comparable prices in the 1970–1978 period. Transnational corporations invested $ 10.2 billion in direct investments in developing countries in 1978.

Western economists claim that foreign private business activity is advantageous for developing nations, giving them money, stimulating local business activity, providing "the only really effective means of economic development" and encouraging the growth of manufacturing and marketing.[8]

True, initially the investments made by foreign monopolies do stimulate somewhat the growth of production, productive forces, employment and GNP. However, with the passage of time investments produce profits and thus are repaid. As foreign corporations continue to transfer their profits beyond that point, this actually reduces the national product of a host country.

The negative imbalance between the inflow and the outflow of capital thus begins to grow rapidly. This is

[8]*Foreign Policy* 1973, No. 12 p. 84 : Rolfe S,. Transnational Corporations in World Development: A Re-examination, N.Y., 1978, p. 251.

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graphically demonstrated by the data UN experts gave in a report "Transnational Corporations in World Development: A Re–examination, UN." The report shows that the outflow or profits transferred by transnational Corporations ,rom developing nations by far exceeds the annual inflow of investments there. This ratio grew from 3.1 : 1 to 7.9 : 1 during the 1971–1974 period.[9] The growing transfers of profits by transnational corporations hamper the economic progress of developing nations.

THE GROWING FOREIGN DEBT AND ITS IMPLICATIONS

The attraction of loan capital from industrial nations of the West give rise to serious problems brought about by emerging foreign debt of Third World countries. The total foreign debt of developing nations, according to estimates made by the International Bank for Reconstruction and Development had grown from $ 64.1 billion in 1970 to $ 318.4 billion in 1978, reaching $ 376 billion in 1979.[10] or had grown almost sixfold in the past decade. The total foreign debt of Third World countries in 1981, UNCTAD experts believe, will reach $ 452.8 billion.[11]

TABLE 2

Foreign Debt of Developing Countries

(in billions of dollars)

Year	*Total*	*Including:*				
		Asia	*North Africa & Middle East countries*	*Africa*	*More advanced Mediter ranean countries**	*Latin America*
1970	64.1	29.9	4.4	8.1	9.2	21.5
1974	141.9	38.3	9.5	17.8	24.1	52.1
1977	257.5	63.9	25.4	29.9	42.6	95.6
1978	318.4	75.2	34.7	34.5	52.3	121.6
1979	376.0	85.0	41.0	43.0	67.0	140.0

*More advanced Mediterranean countries, according to the UN classification, include Cyprus, Greece, Israel, Portugal, Spain Turkey and Yugoslavia.

Source: World Bank, Annual Report 1980, Washington p. 21.

[9] World Bank, Annual, Report, 1980, Washington, P. 21.

[10] Ibid.

[11] UNCTAD, TD/B/803/Add. 1, 18th August 1980, p. 11.

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If one is to take into account the private debt consisting of IMF credits and loans extended by European monetary markets, then the total foreign debt of developing countries totalled $ 380 billion in 1978 and $ 450 billion in 1979.

The bulk of the foreign debt falls on a handful of developing nations, which, as a rule, include major developing countries (with a large population), that have sizeable industrial and agricultural exporting sectors, and the countries, which have large foreign currency reserves. Of the total foreign debt of $ 318 billion, which was to be repaid in 1978, 55 percent fell on ten developing countries. Brazil and Mexico are the largest debtors of the developing world. Brazil's foreign debt had grown up to $ 52 billion in 1979, which was three times higher than the country's export earnings, only to go up to $ 62 billion in 1980. Mexico's foreign debt grew to $ 29 billion in 1979. Argentina, Chile, Peru, Egypt, India and Pakistan all have large foreign debts (vis-a-vis their economic potentials). 83 percent of the total foreign debt fall on the countries with an average per capita annual income, whereas the countries with a low per capita annual income account for an insignificant share of the foreign debt of developing nations, which can be explained by the latter's limited capacities to repay their private foreign debt and a trickling inflow of investments through Government-to-Government channels.

The total foreign debt of developing nations consists of two main parts: an outstanding Government debt or a debt on Government-backed loans and a private debt. The outstanding total foreign debt grew from 1970 to 1979 largely because of the growing private debt to commercial banks. As of late 1979 it reached $ 238 billion or 63.3 percent of the total debt of developing countries. This can be attributed to the high interest rates and relatively short-term credits and loans as compared to Government-to-Government credits and loans given by world Financial organisations.

The constantly growing foreign debt hampers the economic progress of debtor-countries. The debt repayments dynamics in the 1970-1979 period is described by the data given in the table below (in billions of dollars).

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TABLE 3

	1970	*1974*	*1977*	*1978*	*1979*
Payments to repay public debt	2.5	4.7	7.5	9.1	12.0
Payments to repay private debt	5.7	16.2	30.3	43.1	57.0
Total	8.2	20.9	37.8	52.2	69.0

Source: World Bank, Annual Report 1980, Washington, p. 21.

Thus the payments to repay the debt of developing countries according to an IBRD estimate, had grown 8.4 times during the 1970–1979 period, reaching a staggering sum of $ 69 billion. The actual payments made to repay the foreign debt, according to the Morgan Guarantee Trust, are 30 to 40 percent higher than the IBRD estimates. This discrepancy in the final figures is to be attributed to the imperfect accounting used by the debtor countries under several debt categories. According to the Morgan Guarantee Trust, the total payments made by developing countries to repay their overall foreign debt reached $ 72 billion in 1978 and exceeded $ 90 billion in 1979.

According to IBRD estimates, the highest payments—82.6 percent—were made to repay the private debt, while the payments made to repay the public debt accounted for 17.4 percent only. The share private banks accounted for in the total interest payments actually has grown from 15 percent in 1970 to 22 percent in 1973 and to 54 percent in 1976, which reflects the average annual rates of growth of such repayments of 78 percent in the 1973–1976 period.[12] This situation further aggravates the economic position of developing nations, since huge sums outflow to pay interest rates, while the repayment of the bulk of the foreign debt slows down.

The growing debt repayment rates are one of the causes of rising taxes, a growing internal public debt, increasing paper money emission and rising prices in developing nations. The use of foreign currency to repay debts and credits restricts the importing capacities of the public and private sectors of the economy. Shortage of hard currency actually contributes to growing exchange rates on money markets against local currencies of the debtor–countries. This trend in the context of a large foreign debt, whose repayment is a real problem, is a very disturbing signal, erasing confidence in the current exchange rates. Therefore, growing debt repayments may become a

[12]UNCTAD, TD/AC, 2/3 June 22, 1977, p. 3.

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factor directly destabilising the currencies of developing nations and leading to their devaluation.

The ratio of credit and loan repayments to GNP may serve as a general index of the growing of developing nations. The ratio of debt repayments to GNP of developing countries in the lower per capita income brackets, according to IBRD estimates, grew from 1.2 percent in 1970 to 1.7 percent in 1978, and that for the countries in the average per capita income brackets from 1.5 percent to 2.9 percent.[13]

The ratio of foreign debt payments of developing nations to their value of exports, according to IBRD estimates, grew from 9.3 percent in 1970 to 13.8 percent in 1978.[14] But as early as late 1973, 18 countries already crossed the "critical margin" of 13.8 percent, while 25 countries did so in 1978. In 1978 of the 86 non–oil–exporting developing nations seven had to use over 20 per cent of their foreign debt and another seven from 30 to 50 percent.

In the past decade the outflow of capital from Latin American countries to the United States alone in the form of loan and interest rates payments and profit transfers was twice as large as the total US investments made during that period. True, in the second half of the 1970s as a result of the energy crisis the positions of developing nations as regards their debt repayments sharply differentiated. The oil–exporting ones, which derived huge profits from rising oil prices, almost repaid their entire foreign debt. On the contrary, for most of the non–oil–exporting nations the foreign debt repayment problem grew very acute, because the export earnings growth rates slowed down, with debt repayment instalments rapidly growing.

Some of the developing nations asked for a postponement of credit repayments, since such huge payments are bound to have an adverse effect on their economic growth rates. At the Fifth UNCTAD session held in 1979 Western industrial nations agreed to reduce the debt interest rates payments, to postpone debt repayments etc. This adjustment of their economic assistance policies only marginally helps to ease the public debt burden carried by that group of nations. At the same time, Western countries rejected the demands of developing nations for global concessions to be made for them in the foreign debt

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[13]World Bank, Annual Report, 1980, Washington p. 20.

[14]Ibid.

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field in the form stated in the Manila Declaration and Plan of Action (on Industrial Development and Co-operation).

The growing foreign debt burden of developing countries has resulted in a situation, where the inflow of capital under Government-to-Government economic assistance programs and from Western private sources is levelling off or even declining. compared to the total debt repayments by developing countries. Thus, for example, the inflow of financial resources to developing countries in 1979 was estimated at $ 72 billion. This sum can only marginally offset the outflow of financial resources from developing countries to industrial nations under two categories of the investment movement balance—a repayment of the public debt and a repayment of the private debt— an outflow which exceeded $ 73 billion in 1979. Thus, even in this case industrial nations had a balance of more than $ 1 billion in their favour.

THE MECHANICS OF EXPLOITATION

The exploitation of developing nations by the West has found its financial expression in an outlow of capital and losses caused through many other channels of trade and economic and monetary relations, an outflow that is not offset, at all. The most significant form devised for the exploitation of developing countries in the current phase of the internationalisation of production and trade is the transnational corporation (TNC) and such corporations have come to the forefront in recent years.

These corporations stand out as monstrous giants, operating world wide. In 1979 the overall balance sheet value of their direct investments in Third World countries was estimated at some $ 105 billion. Transnational corporations control some 20 percent of industrial production and over 40 percent of industrial exports of developing nations, and these figures continue to grow.

Possessing enormous industrial and financial power and operating world-wide, transnational corporations are a significant adverse impact not only on individual industries of newly-independent states but on the emerging external environment that shapes their development, on the entire state of the economies of those countries. Suffice it to recall the role played by transnational corporations in bringing about the monetary and energy crises that played havoc with the economies of developing nations.

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To have an idea of the scale of the exploitation to which transnational corporations subjected developing countries and the size of the profits they derive in those countries, it is enough to look into the profit making techniques used by transnational corporations. Although the official data are scanty and incomplete the balance sheet of exploitation of the countries of Asia, Africa and Latin America is very impressive. According to the UNCTAD Secretariat's sample data, in the 1970–1977 period foreign companies transferred from developing countries $ 72.2 billion in profits alone, which was 1.8 times higher than the inflow of new investments. And the Profits transferred by transnational corporations were increasingly growing. The total sum of profits transferred by transnational corporations from developing countries more than doubled during the 1970–1975 period, reaching $ 10.6 billion in 1975.[15] According to some estimates, the size of transnational profits went up to $ 17 billion in 1979, which means that the costs of the economic assistance extended by Western countries to developing nations are fully paid off.

Most successful in the field of exploitation of the Third World are US corporations whose average rates of profit in developing countries were almost twice as high as their rates of profits in Western industrial nations in the 1970s. As their profits begin to grow in the countries of Asia, Africa and Latin America, transnationals transfer them on an ever rising scale. In 1971 the US made new direct investments of some $ 1 billion in those countries, but transferred some $ 2.7 billion in profits. In other words the output of capital exceeded the input by $ 1.7 billion. In 1976 US corporations invested $ 1.8 billion in developing countries, while transferring $ 5.8 billion in profits. This, in the five years the balance deficit of developing nations, under the category of "capital movement" increased 2.4 times. In the second half of the 1970s the profits of US Corporations grew still higher. In 1979 alone US transnational corporations transferred $ 9.1 billion in profits from developing nations, while investing only $ 3.7 billion in the Third World economy.[16] Thus, the mechanism of the exploitation to which Western industrial nations have subjected developing countries, is operating with growing efficiency.

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[15]Doc. UNCTAD, TD/B/SR, 503, September 5, 1978, p. 7.

[16]Survey of Current Business, August 1980, pp. 24-25.

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In their operations transnationals are actively using local resources of developing nations. Local banks display more willingness to credit them as "respectable clients" for the simple reason that some 50 percent of private bank deposits in Third World countries are foreign controlled. As a result, foreign firms operating in the Philippines financed 88.3 per cent of their transactions from local sources from 1972 to 1973.[17] In 1974 transnational subsidiaries operating in Brazil financed 66.1 percent of their growth with the capital received on the local money markets, while in Mexico this figure was 61 percent. In Latin America 24 percent of new investments made by foreign subsidiaries are covered by the resources mobilized on Latin American market, while in the processing industries this figure reaches on an average 40 percent. By and large, over 30 percent of new investments made by transnational subsidiaries in developing countries in the late 1970s were covered by local resources of Third World countries, which bleeds the money markets there at an annual sum of $ 2.5 to $ 3 billion.

An equally unfavourable situation has come to exist for developing nations in foreign trade, too. The volume of foreign trade of Western industrial nations grew 20.7 times in 1978 as against 1950. However, the share of developing countries in world trade dropped from 31.5 percent in 1950 to 24.8 percent in 1978 despite the growing share of oil–exporting countries in world trade.[18] Trade of developing nations with industrial countries in absolute terms was steadily growing throughout the post–war period, as a rule, on terms unfavourable for most of the former.

Despite their persistent efforts to reverse the situation and to turn world trade from an instrument of exploitation into a tool to speed up their economic development, foreign trade of newly–independent countries continues to be a major channel for Western industrial nations to redistribute the wealth in the world market economy to their advantage.

Industrial nations are making every effort to perpetuate the "trade terms" which are advantageous for them, in other words to maintain a certain ratio of export prices in commerical transactions with developing countries. Most of the Western products are manufactured by industries with a high productivity of labour, where as most of the commodities imported

[17]C/C Brief, September 1973, p. 3.

[18]*Opiniao*, 11 de julio de 1976.

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by Western nations from developing countries are produced by industries with a low productivity of labour.

The growing gap between the levels of labour productivity lays the groundwork for an increasingly inequitable trade on the world market between the two groups of nations. As a result, the losses developing countries sustain on the world market keep growing. It is precisely the inequitable sell–and–purchase act done on the basis of national cost values that reflects inequitable trade in the strict and literal sense of the word.

Added to the difference between the national and international costs of the traded commodities appropriated by industrial nations, are the losses incurred on developing countries by the control of the world market by transnational corporations. This finds its expression in a stable and glaring disparity in world prices for raw materials and manufactured goods: the former are naturally lower than the real value of raw materials, and the latter are higher than the value of manufactured goods. The price discrepancy that emerges in this way is chiefly responsible for the deteriorating trade terms that have been imposed on developing nations over the last 35 years. As a result, according to UNCTAD estimates, developing countries, because of the above price discrepancy were losing some $ 2 billion in the 1961–1970 period annually.

True, in 1973 the trend towards worsening trade terms of a small group of oil–exporting countries was stopped thanks to a sharp rise in world raw material prices. However, the position of most of the developing nations, primarily oil–importing countries plus the entire group of the so–called least developed countries, significantly deteriorated. Their current account deficit sharply increased from $ 6.7 billion in 1973 to $ 43.1 billion in 1979.[19] Corporations of leading Western states are taking advantage of the rapidly growing prices for raw materials and above all of the soaring oil prices to boost prices for their own manufactured goods in an attempt to lay the burden of the growing production costs on the consumer, including developing countries. There are numerous difficulties on the way to assessing the accurate losses suffered by Third World countries from the growing price discrepancy (because of the impact of supply and demand, and Government and inter–Government regulations on price fluctuations and of the fact that a large share of their foreign trade turnover is accounted for by intra–firm trade). And

[19]World Bank, Annual Report, 1980, Washington, p. 19.

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yet estimates can be made with a margin of accuracy that may allow to determine at least approximately the extent of exploi-tation to which developing countries are subjected through this channel of inequitable commodity trade. Because the growing price discrepancy is applied to manufactured goods and to most raw materials to benefit the former, developing nations were losing from $ 3.5 to $ 4 billion annually through the 1974–1979 period.

The monopoly established by Western countries on export-import transactions, while removing outside competitors, has allowed transnational corporations to dictate their own terms in that area. The quota system set up by cartel agreements serves to divide export and import markets among various cor-porations. The transnationals that are in control of most of the world trade in raw materials and fuel arbitrartily determine the flow, the scale and the terms of foreign trade transactions. Taking advantage of the subsidiaries operating in developing countries, Western industrial nations are importing goods from developing countries clearly at reduced prices. As if this were not enough, they make one more saving in the process by playing low tariffs.

This practice is part of a far more wider pricing system used by Western corporations and known as "transfer prices". In the context of an internationalised world production, Western corporations are more and more frequently taking advantage of transfer prices to increase exploitation of developing nations. These prices are fixed for the products circulating between subsidiaries and head companies based in different countries. Commodities pass through countries with different trade and political regimes, with different tax legislations ,and this is bound to affect prices. In countries where taxes are high corporations deliberately bring down transfer prices for the imported commodities, while in the countries where taxes are low they deliberately raise them. As a result, corporations net considerably higher profits.

Taking advantage of transfer prices, transnational corporations have been able to keep prices for many raw materials and foods exported by developing countries at an extremely low level in the past two decades. Thus, the export earnings received by developing countries from exporting raw materials (with the exception of oil) in the mid 1970s amounted on an average to 15 percent of the final price paid by the consumer of those

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commodities in Western industrial nations.[20] Moreover, recent years have seen many cases when this share considerably shrank, severely damaging the economies of developing nations and giving transnational corporations huge profits. The actual profits derived by corporations are, as a rule, much higher than officially declared. Even estimates made by Western economists show that the losses suffered by developing nations from manipulations with transfer prices by foreign companies are staggering. Thus, in the 1965–1975 period these losses are estimated to have totalled $ 175 billion. The trend to use transfer prices to raise transnational profits in developing countries has continued in recent years.

Industrial nations are exploiting developing countries in the field of foreign trade through other channels as well. While paying lip–service to their readiness to contribute to the development of national production capacities in Third World countries, Western nations raise formidable restrictive barriers to prevent the latter from exporting manufactured goods. They deliberately lower prices for products of developing nations by introducing, on a permanent or temporary basis, protectionist tariffs, import quotas, various non–tariff restrictions and so on. As a result of this protectionist policy of Western states, developing nations lost $ 5 billion in 1976 and about $ 6 billion in 1978.[21]

Industrial nations and transnational corporations have at their disposal other instruments with which to exploit developing countries. The point is that foreign trade transactions are controlled by commercial firms, shipping and insurance companies of those Western nations which dictate their terms to newly–independent countries. At a time when they load 61.3 percent and unload only 18.9 percent of all the world imported commodities developing countries account for a meagre 9.7 percent of the world merchant fleet tonnage.[22]

Most of the cargoes arriving in and leaving developing countries are carried by the ships of Liner Conference of Western monopolies or by some sort of ship–owners cartels whose tariffs by far exceed world market rates. The liner tariff system, as a

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[20] International Solidarity for a New Economic Order. Towards the 9th World Trade Union Congress, London 1978.

[21] UNCTAD, TD/B/SR. Trade and Development Board, N.Y. 1979 p. 3.

[22] Handbook on International Trade and Development Statistics, 1979, N.Y. 1979 pp. 650-651.

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system of monopoly prices, allows ship-owners not only to offset the unproductive costs arising when ships are underloaded. but to make high profits. Besides, transnational corporations often ship raw materials on the high seas, using a system of subsidiary shipping companies registered, as a rule, under a "flag of convenience" at rates dictated from their head offices. "Flags of convenience" are taken advantage of by corporations in order to apply pressure on the open freight markets, and in the process to raise freight rates and cargo insurance costs which developing countries have to pay and bear. According to UNCTAD estimates, shipping costs account for 20 to 50 percent of raw material prices whereas in prices for manufactured goods for 1 to 2 percent. The world energy and raw material crisis have sharply boosted freight costs. As a result, the total annual losses suffered by developing nations from rising freight rates in the second half of the 1970s were estimated at $ 4 to $ 5 billion.

Exploitation in the scientific, technical and technologica field has become a new form of exploitation of developing nations, which is closely associated with the operations of transnational corporations. The fact that the technology market is highly monopolized serves to intensify this exploitation still further. The inequitable status of developing nations on the technology market, the inadequate information they have about alternative sources of technology, as well as their traditional ties with the former metropolises significantly narrow the circle of potential technology suppliers and largely limit the chances of those countries to do business on more favourale terms for themselves. At the same time these factors enable transnational corporations to dictate technology prices and to derive high profits. Thus, the direct payments made by developing nations for technology transfers (patents, licences, know-how, commodity pattern signs, management and technical services) totalled $ 1.1 billion in 1975[23] and $ 3.5 to $ 4 billion in 1980, growing by about 20 percent a year. It has been estimated that by the year 2,000 (considering the growing economic development requirements) these payments may grow 15 to 20 times, thus becoming a financial burden practically unbearable for most of the countries of Asia, Africa and Latin Americal to shoulder in practical terms.

[23]Transnational Corporations in World Development: A Re-examination, N.Y. 1978, p. 71.

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However, the above figures do not show all the financial costs that developing countries have to bear, since all kinds of payments which had to be made to receive technologies (payments for additional equipment, industrial materials and semi-manufactured goods to be supplied to technology suppliers, payments for various services etc.), were estimated at some $ 20 billion in the late 1970s.[24] Technology transfers are naturally followed up by selling patents and licences to developing nations. Thus, the exorbitant interest rates which developing countries have to pay to industrial nations, various restrictions and strings attached to the purchases of additional equipment have an adverse effect on the balance of payments of developing nations. According to UNCTAD estimates, the losses suffered by Third World countries from technology transfers in the late 1970s totalled $ 14 to $ 15 billion annually.

The so-called "brain-drain" to Western industrial nations, known in scientific literature as "the reverse technology transfer", also painfully hits the economies of many newly-independent states.

Although there are virtually no complete statistical data concerning this problem for recent years, it is obvious that the "brain-drain" from developing nations has acquired frightening proportions, becoming a real national disaster for many of them. Asian countries, primarily India, Pakistan and Philippines are the ones which lose skilled personnel most of all. According to estimates made by the UNCTAD Secretariat, in the 1961-1976 period some 420,000 experts left developing countries for industrial nations to stay there, of whom over 300,000 are staying in three countries—the United States, the United Kingdom and Canada.[25] In the late 1970s from 23,000 to 25,000 specialists were emigrating from developing countries to industrial nations annually.

The benefits that the US and other industrial nations of the West receive from the "brain drain" from developing countries are huge and estimated at billions of dollars. For instance, according to the Committee on Foreign Affairs, House of Representatives, US Congress, the money saved by the US during the 1971-1972 period on training immigrant specialists

[24]*Le Monde Diplomatique*, mars 1975, p. 35.

[25]UNCTAD V. Technology: Development Aspects of the Reverse Transfer of Technology, Manila, 1979, p. 3.

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reached almost $ 2 billion. Even the US press has admitted that the figuie is undoubtedly understated. An apparently more realistic estimate has been made by the UNCTAD, which shows that the net gains made by three nations alone (the US, the UK and Canada) from the "brain drain" in the 1961–1972 period totalled $ 46 billicn or $ 3.8 billion a year.[26] (These estimates roughly correspond to the overall Govrnment–to–Government economic development assistance outlay of the US, the UK and Canada in the same period.[27] In the late 1970s the net profit received by industrial nations from the "brain drain" from developing countries was maintained roughly at the same level as it was in the early 1970s reaching some $ 3.5 billion a year. Thus, the exploitation of natural resources and cheap labour directly in developing countries is accompanied by a systematic drain and exploitation of foreign intellectual resources. This system has become one of the pillars of what has now come to be known as "technological imperialism".

In their economic relations with developing countries industrial nations attach special importance to using national funds of Third World countries transferred to US, Swiss and other EEC banks to promote their own selfish interests. In recent years a significant share of the accumulated financial resources has been annually transferred from developing nations in an attempt to invest the money more profitably and safely in industrial nations banks. Large sums "escape" abroad very often through "black market" channels, because of the fear that they may be nationalised or because of inflation. For instance $ 10 to $ 12 billion of private capital of Latin American countries have been transferred abroad. The assets of Asian countries deposited in US and British banks had exceeded $ 20 billion in the early 1970s.[28]

This trend began to grow very rapidly following the energy and raw material crisis, when the overwhelming share of money earnings made by oil exporting countries invariably found its way to industrial nations of the West, what means a recycling of dollars. These funds, are, as a rule, invested in Government–owned and private banks, or used to buy assets of major industrial, commercial and insurance companies. For instance, according

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[26]The Reverse Transfer of Technology : Its Dimension Economic Effects and Policy Implications, UNCTAD TD/B/C/6/7.

[27]*The Financial Times*, September 8, 1972.

[28]*The Financial Times*, September 9, 1972.

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to US Treasury Department estimates $ 51 billion were deposited in the United States in early 1980, including $ 32 billion in deposits in private banks that were transferred from OPEC countries. All in all, in the 1974–1979 period OPEC countries transferred $ 156 billion to the industrial nations and $ 10 billion to world financial organisations.[29] In 1979 alone OPEC countries transferred to industrial nations $ 47 billions, including $ 7 billion to the United States, $ 2 billion to the United Kingdom and $ 38 billion to European money markets. It is clear that it is very profitable for industrial nations, both financially and economically, to receive back such enormous funds. Besides, the money belonging to oil–exporting countries is actively used to involve developing countries more deeper in a new system of neo–colonialist dependence of Third World countries, which the West is out to set up, and to make it more difficult for developing countries to win economic independence.

The on–going restructuring of the world monetary system has brought about an unfavourable situation for developing countries. The introduction of "floating currencies" to replace the fixed currency exchange rates with a view to regulating somewhat economic relations among industrial nations has at the same time destabilised the monetary system, with third World countries being hardest hit.

It is much more difficult for developing countries than it is for industrial ones to cover the losses from some transactions by the gains they receive from others. Because of the narrow range of their foreign relations newly–independent countries are the ones which suffer most from the ups and downs of the market. Many of them still belong to monetary zones of Western countries—the US dollar zone, the Pound zone, the French Franc zone, the Japanese yen zone and zones of other leading currencies. In 1973 alone the dollar assets of developing countries were devalued by $ 1.5 billion because of the changing exchange rates of the leading currencies.

The devaluation of the leading currencies coupled with a declining share of gold in the gold and currency reserves leads

[29] Hearings before the Sub-Committee on International Trade, Investment and Monetary Policy of the Committee on Banking, Finance and Urban affairs, 96th Congress, Second Session, Washington 1980, p. 406.

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to a devaluation of hard currency reserves. The gold share of the money reserves in developing countries shrunk almost ten fold from 27.3 percent to 2.8 percent during the 1960–1978 period. This index for industrial nations exceeds 21 per cent. A selling or a revaluation of gold reserves of industrial nations at market prices would boost these reserves almost twice, whereas the assets of developing countries from such an operation would barely grow by 12 to 13 percent.

The energy crisis followed by a "revolution" in oil prices has resulted in a significant growth of gold and currency reserves of oil-exporting countries. This has notably strengthened their currencies, many of which now have higher exchange rates than the nominal ones. At the same time the same developments coupled with inflation have led to a manifold growth of the balance of payments deficits of most of the oil-importing countries, weakening their national monetary units.

Serious problems have been raised for developing nations by a host of monetary troubles of the West closely entangled with inflation which effects world economic relations largely through the pricing machanism. In 1975 inflation reduced the real earnings of OPEC member states by 30 percent as against the previous year. They totalled $ 11.5 billion.[30] Inflation also devalues the deposits which developing countries have in the banks of Western industrial nations. According to the documents of the Eleventh Special Session of the UN General Assembly held in August 1980, the losses sustained by developing countries from growing inflation in the West had reached during the 1974–1976 period $ 51 billion or over $10 billion a year. In the 1979–1980 period the total losses were estimated at $ 28 billion or at $ 13 to $ 14 billion a year, which further aggravated growing balance of payments deficits of developing countries.

The "escape" of capital coupled with the transfer of profits results in a situation where the outflow of capital from Third World countries by far exceeds the inflow of capital. In other words, it is not industrial nations which are contributing to the economic development of countries of Asia, Africa and Latin America. On the contrary the transfer of capital through all channels from those countries continues to serve as a source of financing Western economics.

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[30] *Middle East International,* May 1978, p. 24.

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The breakdown of the total outflow of capital from developing nations to industrial countries in 1979 reveals the following picture:

		(in billion dollars)
1.	Debt repayments by developing nations	71—73
2.	Transfer of profits on transnational direct investments at the actual profit rates	17—18
3.	Outflow of national private capital to US, Swiss and EEC countries banks	40—41
4.	Losses from "transfer" prices, adverse trade terms and protectionist barriers	24—26
5.	Monopoly profits from shipping and insurance transactions	4—5
6.	Losses through the technology transfer and the "brain-drain"	16—18
7.	Losses from the use by Corporations' subsidiaries of the funds mobilized on local markets	3—4
8.	Losses from monetary fluctuations in the West and from inflation	12—14
	Total	187—199
	All transfers to developing nations from industrial countries in 1979	71
	Grand total deficit of developing countries	116—128

Thus, as a result of financial and economic exploitation developing nations were robbed in 1979 of a huge sum ranging from $ 116 to $ 128 billion, which is about one third of their total exports or 8 to 10 percent of their GNP. Putting an end to such a staggering outflow of funds would enable developing nations at least to double their investments in their own economies, contributing to a radical solution of the problem of financing their social and economic development programs.

In evaluating the scale of the exploitation of some developing countries by certain Western industrial nations, apart from what has been mentioned, the following should also be taken into account:

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[a] the so–called "idle export capacities"—the slowing rates of the growth of the physical volume of foreign trade of a developing nation with one industrial nation as against a more or less stable and relatively rapidly growing foreign trade with other industrial nations ;

[b] smuggling from Western countries ;

[c] losses from ' international tourism" ;

[d] losses from world monetary fluctuations.

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CHAPTER III

PRIVATE CAPITAL : GROWING EXPORTS

INFILTRATION INTO ECONOMIES OF DEVELOPING COUNTRIES : Capital exporting is a characteristic feature of our time. The transfer of capital by industrial market economy nations to developing countries lays the economic foundation for foreign business to entrench itself in the national economies of other nations, to create a system designed to make the dependence of the developing world on Western nations grow and to intensify the financial exploitation of Third World countries. The pattern of capital transfers to developing countries has undergone significant changes in recent years. Thus, some 12 or 15 years ago Government–owned capital was predominant in capital exports to developing countries, whereas ever since the 1970s world monopolies have been steadily accelerating the rates and boosting the volume of exports of their private capital. Private capital in the financial inflow of Third World countries accounted for 68 per cent in the 1975–1978 period, while Government–owned capital, which was called upon to play a major role in achieving strategic goals of neo–colonialism under the disguise of economic assistance accounted for 32 percent.[1] Taking advantage of the support of their Governments which have an interest in tying up the countries of Asia, Africa and Latin America to the world market economy, Western corporations are getting access to the economies of the former primarily by making direct capital investments. This form is most advantageous, since it provides for the investor the highest profits, financial and administrative control and the best opportunities to exercise economic and political influence.

In the form of direct investment capital is exported, as a rule, by the largest monopolies, operating far beyond their national boundaries. These gigantic monopolies have come to be known as transnational corporations (TNCs). In 1976 there were 422 major transnational corporations in the world with an

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[1]World Bank, 1979, Annual Report, Washington, p. 19.

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average annual capital turnover of over $ one billion each and subsidiaries operating in more than 20 countries.[2] Total trade of foreignbased subsidiaries of those corporations is estimated as $ 380 billion, which equals aggregate GNP of the developing countries except OPEC member states.[3] So huge is the size of some transnational corporations that they are compared not just to individual companies but to individual states. And not without reason. The turnover of each of the 10 largest transnational corpoiations exceeds GNP of 80 developing nations. Huge financial resources and a sophisticated scientific and technological potential have enabled the transnational corporations to entrench themselves deeply in the economies of developing nations. Suffice it to say that transnationals accounted for 90 percent of the total private exports in the late 1970s. Having enormous opportunities, they are expanding into the countries of Asia, Africa and Latin America. By participating in the management of or directly buying enterprises, by signing cooperation agreements and patent and licence treaties, transnational corporations take over the most promising sources of raw materials and industries in the "cultivated Land"s Thus, American Texaco and Gulf Oil owned 4 million hectare. of oil–rich land in Ecuador, American Anshuts received the concession right to prospect for oil in 40 percent of the territory of Paraguay, while West German OTRAG has concessions in several provinces of Zaire. In 1975 transnationals controlled 28 percent of the production capacities of the processing industries in Mexico, 31 percent in Argentina, 46 percent in Peru, 49 percent in Brazil, 50 percent in Malaysia and 70 percent in Nigeria.[4] Foreign business decides what is to be produced, how much, where and at what prices the products are to be sold and raw materials and semi–manufactured goods are to be bought.

The United States is the chief capital exporter, far ahead of all other industrial nations by the size of direct private investments it has made abroad. In the 1970–1979 period alone the American direct private investments in the countries of Asia, Africa and Latin America grew 2.5 times, totalling $ 47.8

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[2]Transnational Corporation in World Development: A Re-examination. N. Y. 1978, pp. 35, 311.

[3]North-South : A Programme for Survival, London 1980, p. 187.

[4]UNIDO, Industrialisation for year 2,000, New Dimensions, Vienna, 1979, p. 55.

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billion.[5] Of course, other industrial nations do not overlook developing countries in their search for strategic raw materials and superprofits. In recent years the share of Japanese, West German and French monopolies in direct private capital exports have notably grown. For example, Japanese private investment in the economies of Third World countries in 1978 were more than 4 times higher than the 1965 level, exceeding $ 8 billion whereas West German direct investments in developing nations in the 1970–1977 period grew more than 2.5 times, reaching $ 7.7 billion.[6] The total figures conceal a very uneven geographical distribution of the capital flow. Foreign private investments in developing countries range from a "freezing" point or even declining total foreign investments in some countries and regions to an intensive inflow to others. As a rule, investments are made primarily in the countries with "stable" political regimes. Indonesia and Brazil is one place: foreign business goes in there willingly. But the Middle East countries is another matter. Direct foreign investments account for less than 10 percent in the processing industries there.

Western corporations pursue a selective policy towards developing countries. They pump direct investments primarily into more developed countries of the Third World which have relatively large home markets, rich mineral resources and are advantageous geographically. At the same time they choose to bypass the least developed countries. Aa a result of such a policy more than 50 percent of foreign private investments have been made only in 10 out of the 19 developing countries. In the countries with an annual per capita income of $ 1,000 and more foreign business accounts for 49.5 percent of GNP, while in the countries with an annual per capital income of less than $ 200 for only 14.9 percent of GNP.[7] It is clear that such an investment policy only serves to exacerbate the already highly uneven trend of development of those countries. Although industrial market economy nations are out to boost their foreign investments, they are nevertheless trying to zero in on a small number of countries which is explained by the remaining colonial pattern of their economies and the ties the former colonies and

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[5]Survey of Current Business, August 1980, P. 24.

[6]Bulletin der Dresdener Bank, 1878, No. 10.

[7]Transnational Corporations in World Development: A Re-examination N. Y. 1978, p. 254.

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semi–colonies still maintain with their former metropolises. In other words, what is maintained are exactly the ties that in the past more often than not imposed a monocultural economic pattern on the colonies which were tightly bound to the metropolis' market. Thus, in the total foreign investments Great Britain accounts in Zambia for 87 percent, in Sierra Leone for 84.4 percent; France accounts in Niger for 95 percent, in Senegal for 87.4 percent, in Ivory Coast for 80 percent; the US accounts in the Phillipines for 84.4 percent with Belgium accounting for 87.8 percent in Zaire and for 86.6 percent in Rwanda.[8]

By concentrating their investments, international monopolies seek to entrench themselves in the key and most profitable industries. American monopolies are in control of some processing industries in Latin American countries. It should be pointed out that Latin America strongly attracts foreign investments. It has become a kind of "happy hunting–ground" for instance, for major automobile giants which are locked in a fierce competition on the continent. American Chrysler, General Motors, Ford Motors have their subsidiaries operating in most of the Latin American countries. West German Volkswagenwerk has investments in Mexico and Brazil, French Renault, Peugeot, Italian Fiat have firmly entrenched themselves in the automobile industries primarily in Argentina and Brazil. Brazil—the largest Latin American country—attracts most of the direct foreign investments in various industries from the United States and other industrial nations. In 1979 this country accounted for $ 7.6 billion or 16 percent of the US total direct investments in developing countries. By way of comparison, we shall only say that this sum exceeds the investments the US has made in Italy and equals the sum it has invested in France.

Such transnational corporations as ITT, Kawasaki Steel Singer, United States Steel, General Motors, Philips, Siemens, Ford Motors and others control over 50 percent of Brazil's foreign trade, 80 percent of her pharmaceutical industry and almost 50 percent of her chemical industry, 59 percent of her machine building and almost 50 percent of her aluminium production.[9] Such a high concentration of foreign investments in Brazil is due to the stable profits received as a result of the exploitation of very cheap labour there. Besides, the Government has extended

[8]Multinational Corporations in World Development, N. Y. 1973, p. 172.

[9]Revista de planeacoin y dessarrollo, Bogota, 1977, No. 1.

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ot foreign corporations very attractive benefits tax–free investment guarantees, investments premia, the right to transfer profits etc. The same, only to a lesser extent, is going on in Argentina. In 1977 of the 100 major enterprises operating in the country 65 were controlled by foreign monopolies. There are 44 subsidiaries of powerful transnational corporations operating in Panama. In Chile, after the military junta came to power foreign monopolies have regained their power on the basis of a new foreign investment legislation and as a result of the denationalisation of government–owned enterprises.

Foreign business has firmly entrenched itself in the major industries of the economies of Asian countries. Indonesia provides a striking example in this respect. The foreign investment law of 1967 has swung all the doors open wide for foreign monopolies. Japanese and US business is most active there. West German business has also improved its position in Indonesia. Foreign monopolies are making investments in the mining industry and forestry. Guided basically by their own interests, they hamper the growth of the local processing industries. This policy is profitable for Western corporations, since Indonesia will thus continue to provide a market for manufactured goods of industrial nations. Foreign business is powerfully placed in the Malaysian economy. Transnational corporations control 55 percent of the palm oil production, 46 percent of the total cocoa bean production, 25 per cent of natural rubber production and 65 percent of the country's foreign trade transactions.[10] There are some 150 foreign companies operating in South Korea, which control the major industries of the country exploiting the country's national resources and local labour. In Singapore foreign monopolies own 70 percent of the stockholdings.

The data concerning Africa are extremely scanty, although there too foreign private business has far–flung and rather strong positions. Thus, in the mid–1970s in Nigeria, Zaire and Ghana foreign corporations accounted for 70, 60 and 59 percent of stockholdings in the processing industries respectively. In some processing industries they controlled up to 80--97 percent of stock–holdings.[11] In Kenya British monopolies have taken over 80 percent of industries, in Morocco French business controls half of the Industrial assets and some 60 percent of the

[10]Economic Report 1979-1980, *Business Times* March 22, 1979.

[11]TransnationalCorporations in World Development: A Re-examination, N. Y. 1978, pp. 263, 272.

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country's economy, as a whole, while in Swaziland transnational subsidiaries are in control of 87 percent of the industrial production.

A growing financial business activity is due to a growing internationalisation of economic activities and a rapid expansion of transnational corporations, on the hand, and to a growing rivalry in world credit and banking business in the other. The internationalisation of banking activity of industrial nations is going on very rapidly, indeed. In 1971, 50 major banking monopolies alone had 968 foreign–based affiliates operating in developing countries, whereas in 1976 their number grew to 1,573.[12] The largest ones are operating in Singapore, Hong Kong, Panama, Beirut, the Bahamas and the Cayman Islands. Thus, these banks are operating for beyond the borders of their host countries. There are 76 (mostly foreign – owned) banks operating now in Panama, a country with a population slightly over 1.5 million. Their assets total $ 12 billion, of which only 7 percent belong to Panama. These banks serve the interests mainly of transnational corporatoins operating in Latin America. In doing so, they receive huge profits but are in no hurry to make investments in Panama's economic development projects. A similar picture emerges in the Middle East too. For Instance, there are over 20 foreign bank affiliates actively operating in Egypt, They have the right to transfer freely their profits abroad. By March 1977 160 million Egyptian pounds had been transferred to US and West European banks, at a time when fixed capital of Western banks there did not exceed 26 million Egyptian pounds. Instead of becoming centers to attract foreign investments to Egypt, the Western banks, have turned into centers to transfer capital from the country.

A growing banking activity of the United States and other industrial nations in developing countries a growing involvements of Western banking business in the plundering of the peoples of these countries. In many developing nations Western monopolies have begun to "develop" several processing industries. In the past foreign investments were made largely in the mining and plantation industries of developing countries. Today, however, there is a growing trend to invest more money in the processing industries. For instance, in 1965 direct American investments in the processing industries of developing countries

[12]Transnational Corporations in World Development: A Re-examination, N. Y. 1978, p. 215.

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accounted for 22.5 percent, whereas in 1979 the figure grew to 34 percent.[13] Of the total direct investments West German corporations made in developing countries in the 1974–1976 period, 80 percent went to the processing industries and services. The share of direct British investments in the processing industries of the countries of Asia, Africa and Latin America has grown to 39.1 percent.[14] The policy of the US and other industrial nations' monopolies is aimed at setting up in developing countries "peripheral" industry projects controlled by Western industrial centers, at transferring the most labour–consuming industries there (considering the cheap local labour) as well as "dirty" or polluting industries. Thus, American Bethlehem Steel, Kaiser Aluminium and Chemicals, Marcona are building metallurgical and petrochemical plants in Saudi Arabia. In several regions there are projects under way to produce iron ore nodules (Liberia, the Ivory Coast), as well as oil refinery projects (Arab countries, Pakistan, Indonesia), copper refining projects (Zambia, Peru, Chile), steel projects (Brazil, Taiwan, Turkey) and others.[15] The construction of energy and material consuming any "dirty" projects in Third World countries oriented towards serving the markets of industrial nations brings transnational corporations handsome profits.

Western corporations also set up a wide–ranging network of inter–industrial and even intra–industrial specialisation and cooperation between industrial and developing nations. Where it is economically profitable, monopolies set up modern kinds of production projects, for instance, to manufacture radio and electronic equipment, chemicals and other products basically to be exported to industrial countries, Such production projects have been built in Hong Kong, Mexico, Singapore, Taiwan, South Korea. However, such a sysem, as a rule, does not meet the priority tasks of restructuring and modernising the national economies of developing countries. These projects are built up in a manner that turns them into isolated enterprises very often even with an incomplete technological cycle. Developing countries are thus deliberately and systematically turned into subordinated links of world production, the key elements of which are based in industrial nations. Thus, foreign private business, which in the past used to hamper industrial development

[13]Survey of Current Business, September 1966, p. 19 ; August 1980, p. 27.

[14]Trade and Industry, June 9, 1978.

[15]*Financial Times*, March 16, 1977 ; March 24, 1977 ; April 13, 1977.

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of economically backward countries, is now shaping their industrial development to promote its own interests. The process of a lop–sided industrialisation, wherever it is under way, is controlled by monopolies. By transferring capital into the countries of special interest to them and making investments in key industries there, transnational corporations impose on the countries of Asia, Africa and Latin America a certain type of industrialization and economic specialisation While leading to some economic development this policy not only fails to eliminate their dependence within the framework of world economic relationships but rather prepetuates it in a new way. Therefore, the growing transnational penetration in the economies of developing countries poses a grave threat to their sovereignty.

HOW PROFITS ARE MAXIMISED: The collapse of direct colonial exploitation called for the need for foreign business to devise a more flexible strategy that would help it to penetrate successfully in the economies of developing nations and control certain fields of investments there. To get access to developing countries, transnational corporations take advantage primarily of their big capital and up–to–date technology. At the same time they try to mobilize in every possible way the resources of newly–independent countries themselves. According to American economists R. Barnet and R. Muller, at one time or another US Corporations financed over 80 percent of their transactions in Latin American countries with local money and investments.[16] The attempt to control local economies and with the help of local money at that, is very reminiscent of the colonial ways of the past. But monopolies have devised new techniques too.

One of the new techniques used by transnationals to penetrate in the economies of developing countries is to involve local enterpreneurs and politicians in financial deals. By selling them a limited number of stocks at an agreeable price, transnationals thus create powerful economic and political lobbies of their own in Third World countries. They also set up special companies to finance small and medium–size business. As a result, some local enterpreneurs find themselves bound hand and foot to the world market economy. The setting up of the so–called mixed companies or joint ventures is another technique used by transnational corporations to get access to the economies of the countries of Asia, Africa and Latin America,

[16]Barnet R., Muller R. The Global Rich, Washington, 1974, P. 78.

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Both private and Government-owned local business is attracted to participating in such ventures. The main task of such companies is to insure monopoly capital from possible nationalisation and to prevent additional taxation or other measures taken by the Governments of developing nations to curb foreign business activity. To involve national business in their operations is not merely a measure taken by transnationals to protect their own capital. This is a technique they used to win allies from among the local enterpreneurs. This is how American *Business Week* magazine put it bluntly when it wrote: "A stake in the business is a better deterrent to expropriation than any number of gunboats".[17]

It would, of course, be wrong to deny the fact that a considerable growth in the number of joint ventures has been brought about by a growing competition in a bid to take over economic positions in developing countries. In the last 15 years West European and Japanese companies have made American monopolies to retreat visibly in many places, including Latin America. For instance, over 250 West German firms are currently operating in Brazil. By 1976 Japan had outstripped the United States in investments made in South Korea and the Philippines. In that context American companies have had to take local conditions into account more carefully and, among other things, to set up mixed companies with a greater share of stock owned by local partners. In the 1971–1975 period alone US transnational corporations set up 130 mixed companies in the processing industries of developing nations.[18] The American corporations have the largest number of joint ventures in Latin America, primarily in Brazil, Columbia, Mexico and Argentina. British, West German, Japanese and French monopolies are widely resorting to this technique, In India alone British monopolies have set up over 700 and West German monopolies 460 joint ventures. In the mid–1970s Japan had 613 mixed companies in developing countries, mainly in South West Asia.

Foreign monopolies, which participate in joint ventures, have an opportunity to get additional profits, since some privileges available to national enterprises are applied to joint ventures as well. For instance, under the law on the so-called

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[17] *Business Week*, February 5, 1972, p. 80.

[18] Transnational Corporations in World Development: A Re-examination N. Y. 1978, p. 228.

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"mexicanization" of the mining industries adopted in 1973 by the Mexican government the companies with a local business participation of over 51 percent are to pay 50 percent less taxes. are entitled to Government subsidies and other benefits.[19] Foreign monopolies have succeeded in having these benefits made available to all joint ventures in the mining indusries with a foreign business participation of less than 51 percent. As a result, mixed with a substantial foreign business participation are treated as though they were local companies. This allows foreign business to get easy access to the key industries of Mexico, to entrench itself in and control major industries there. Western economists sometimes rather candidly list the advantages of joint ventures as against companies that are entirely foreign owned. Thus, American economist Kolde admits that it is far easier to exploit peoples of developing countries through joint ventures.[20] He points out that managers of mixed companies, first, are in a position to bargain with local trade unions without running the risk of provoking anti–American demonstrations and srikes, which the subsidiaries of American-owned corporations very often have to deal with. Secondly, joint ventures are not obligated to make public the comparative statistics of wages and salaries paid to the local and foreign personnel, which would reveal that the local labour is grossly discriminated against. Thirdly, foreign business is attracted to participating in joint ventures in developing countries by cheap local labour. Thus, the wages paid to workers in Singapore are five times lower than those paid to West German workers and three times lower than those paid to Japanese workers. Still lower wages are paid to the workers in the Philippines and Indonesia. In Malaysia workers employed at enterprises producing electronic gear receive wages thirty times lower than those paid at comparable enterprises in the United States.[21]. At the same time the working day at those enterprises is, as a rule, longer. In Singapore, for example, it is 18 percent longer than in the United States and in South Korea 24 percent longer. As a result, labour costs per unit of prodution are minimal. At steel mills in South East Asia they amount to only 8 percent of those in North America and reach 20 percent in Mexico.

[19]Comercio exterior, 1976, No. 7, Suplementario p. 31.

[20]E. J. Kolde, International Business Enterprise, New Jersey, 1968.

[21]Private Investments and International Transactions in Asian and South Pacific Countries, N.Y., 1975, p. 527.

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The penetration of foreign business in joint ventures is accompained with by licence arrangements, agreements on management of local enterprises on a subcontract basis, and treaties to provide technical assistance. This results in a situation where foreign monopolies without even holding a controlling share of local enterprises may actually own them. Indeed, in some mixed companies operating in the extractive industries set up, for instance, by the Burmese Government jointly with British monopolies, there is a rule that the British partners are to hold key administrative posts. More often than not foreign managers have the "veto" right in deciding major problems of the Company's activities. Transnational corporations rather willingly accept as partners those local enterpreneurs who, as is known in advance, would be unlikely to resist their control and would themselves entirely depend on them. Thus, in setting up a chain of gas stations in various parts of the world US oil monopolies agreed to attract local partners, since the latter controlled the sources of supply of oil products needed by these gas stations. There is another example. A few years ago American businessmen came to agreement with local entrepreneurs in Pakistan to set up a joint venture to produce nitric fertilizers. A new company was registered as Daywood Hercules Chemicals and both the American and Pakistani partners got 40 percent of the stock each. The remaining 10 percent was given to the International Financial Corporation (IFC), which is an IBRD affiliate, and still another 10 percent were distributed among small Pakistani businessmen. The company was allowed to defer tariff payments for raw material and equipment imports for 5 years . In addition, it received large loans from the IBRD and the Agency for International Development (AID) of the United States. It is obvious that under such an arrangement (some shareholdings belong to an American-controlled international organisation while others are distributed among small shareholders) Dayood Hercules Chemicals is controlled by the Americans with all the ensuing consequences.

Western economic analysts maintain that joint ventures represent exactly the transitional form, which would help developing countries to take control of many industries. However, the technological and economic gap between industrial and developing countries keep growing, and no matter how widely spread they may be joint ventures can hardly remedy the situation. This means that transnationals will keep being firmly

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in control, while mixed companies, as a new form of foreign business participation in the economies of developing countries, will be taken advantage of largely to intensify the exploitation of Third World countries. While adapting itself to the new emerging situation in the world, foreign business seeks to take advantage of such objective economic processes going on in developing countries, as industrialisation and economic integration. Through selective investments, transnational corporations encourage regional associations to set up both exporting industries oriented towards servicing world markets and enterprises that are to be merely an extension of major foreign industries. In doing so, transnational corporations create ample opportunities to market their products and in the process tie up local economies more strongly to transnational manufacturing conglomerates. This practice is typical of foreign monopolies, operating in countries members of the Association of South East Asian Nations (ASEAN), the Central American Common Market (CACM) and the Latin American Free Trade Association (LAFTA). The economies of most of the states members of those regional groupings are largely controlled by transnational corporations, whose positions keep growing stronger. For instance, US direct investments in ASEAN member states more than trebled in the 1970–1978 period, reaching $ 4.4 billion,[22] which constitutes 33 percent of the foreign investments made in the countries of that regional grouping, while Japanese investments in the 1967–1978 period grew more than sixfold, reaching $ 3.1 billion, which is 23 percent of the total foreign investments made in the ASEAN member states.[23] Taking advantage of the reduced tariffs and eased currency restrictions in regional groupings, transnational corporations are thus in a position to bolster their grip over industries, trade and banking in states members of those associations.

Foreign business activity in the Central American Common Market provides an example of how regional groupings may be taken advantage of to promote transnational interests. In late 1968 American Goodyear Tyre and Rubber bought GINSA, a Guatemalan firm, which is the major producer of tyres and tubes within that grouping and has the status of the chief supplier

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[22]Economic Bulletin, December 1978, p. 16.

[23]Rolfe S., Transnational Corporations in World Development: A Re-examination, N. Y. 1978, pp. 247, 257 : International Financial Statistics vol. XXXII, No. 1, January 1979, p. 243.

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in the entire regional grouping. This status gives the company the right to protect itself from both local and foreign competition. Under this arrangement, GINSA was protected with a single high tariff on the imports of products identical to those manufactured by it and a right to trade duty–free within the grouping. Any outsider, wishing to do business in the region, would have to pay a 10 percent tariff. By buying this local company, Goodyear Tyre and Rubber has become the monopoly producer of auto tubes and tyres in the Central American Common Market.

The Inter–American Development Bank (IDB) is an important instrument used by foreign primarily, American business to shape the economic integration of Latin American countries: The bank is an ostensibly international but actually. American institution, playing a major role in Latin American integration. The bank is operating largely along the following three lines: investment preceding surveys, regional projects and the promotion of inter–American exports.[24] The first line of operation, that is the selection of and technical and economic feasibility surveys for integration projects to be subsequently financed is of top priority and is controlled by the United States. In determining the priority of financing various projects the bank is guided not only by the latter's economic significance but by political expediency, as well. The major line of IDB operation in the field of integration in Latin America is to finance international infrastructural projects. The United States considers these projects as a major incentive to attract private foreign investments. Such an inflow of investments provides a favourable setting for American business to penetrate regional and subregional markets. What kind of credit "assistance" is provided by the bank can be illustrated by the Acaray river hydroelectrical project in Paraguay, where the per capita power generation and consumption is one of the lowest on the Latin American continent.[25] When the design power output was reached power generation in the country trebled and the power price was reduced by half. And yet the people of Paraguay had hardly benefitted from it. Those, who profited most, were the American corporations,

[24]Banco Interamericano de Desarrollo, Informe annual 1977, Washington, 1977, pp. 30-38.

[25]Discurso pronunciado Felipe Herrera, Presidente del Banco Interamericano de Desarrollo en la Inauguracion de la planta hidroelecrica del Acaray, 16 de deciembre de 1968, BID, p. 2.

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operating in industry and agriculture of not only Paraguay but in border areas in Argentina and Brazil: the power price reductions helped them to cut back production costs and thus to bolster their positions on the Latin American market. Thus, the IDB financing of multinational integration projects is above all aimed at financing the foreign economic expansion of US monopoly business. Taking advantage of the IDB crediting lever, the US shapes the political climate and supports the Governments, which do not interfere with the private business mechanism but on the contrary assure the safety of foreign investments, encouraging a wide-scale penetration of foreign business in the economies of Latin American countries.

More often than not industrial nations hamper the integration of developing countries by resorting to economic and political leverage. For instance, the US reacted negatively when the Latin American Economic System — a new regional economic grouping – was set up in 1975 joined by all Latin American countries without exception. Moreover Washington exerted frantic efforts to prevent the creation of this organisation.[26] With this aim in mind, it sought, among other things, to play up the differences among Latin American countries. Although it failed in its efforts, Washington is constantly seeking to hamper the activity of the new Latin American grouping. Whether opposed to an integration of developing countries or not, the entire activities of transnational corporations and the techniques they use are objectively aimed against a regional integration, which would open up before developing countries a future prospect of growing stronger economically, of pursuing an independent policy course and exercising control over their own national resources.

The Middle East is an object of active foreign economic efforts of industrial nations in a bid to control the oil-rich Arab countries to promote their own interests and to integrate the key OPEC memberstates into the world market economy. The policy pursued by foreign corporations in Iran is very indicative in this respect. In a quarter of a century (from 1952 to 1977) the world petroleum consortium (American companies own 40 percent of its stock) exported over two and a half billion tons of oil. The Government under the Shah helped the consortium to run the show. Most of the earnings received from Iranian oil sales went to oil monopolies in the form of profits from

[26] *The New York Times*, October 12, 1975.

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investments, remunerations to American experts and payments for sophisticated arms and ammunition supplies to Iran. In five years (1974–1978) Iran spent $ 18.6 billion to buy from the United States all sorts of weapons thus largely covering the US costs of buying Iranian oil.[27] To control the oil profits received by Arab countries is a major goal of the current foreign economic expansion practiced by the corporations of Western industrial nations. Big OPEC price boosts in 1974 increased their profits and bank deposits. Despite the growing outlays of money for economic development projects (and the unprecedented growth of imports brought about by this: from $ 11.5 billion in 1971 to $ 103.3 billion in 1979), as well as the large spendings to buy costly weapon systems to modernize armed forces, the Middle East oil exporting countries still have huge currency funds left at their disposal.[28] Western states take advantage of this situation, trying to put those funds into circulation.

According to a US Treasury Department estimate, oil–exporting countries helped by industrial nations invested $ 154 billion in Western Europe and the US in the 1974–1979 period.[29] This recycling of capital from oil–exporting countries to industrial nations makes it difficult for developing nations to fight for their economic independence. Currency investments made by the Middle East oil–producing countries in industrial nations may take on various forms, but, as practice has indicated, none of the latter can assure the safety of those assets. A telling blow to the policy of making currency investments in industrial nations, primarily in the United States, was made in November 1979. A growing US–Iranian confrontation and a sharp worsening of their Government–to–Government relations did not only curtail the economic ties between Iran and the United States, including oil trade, but led to a "freezing" of all the Iranian Government assets deposited in the US banks and their affiliates abroad estimated at $ 6 to $ 8 billion. The US Administration's decision to block the Iranian assets has set a dangerous precedent, indicating that the Americans under various political or economic pretexts may deny to oil–producing countries access to their own funds deposited in US banks.

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[27] *Armed Forces Journal International*, January 1979, p. 28.

[28] *Monthly Bulletin of Statistics*, May 1980, pp. 108-109.

[29] Hearings before the subcommittee on International Trade, Investment and Monetary Policy of the Committee on Banking, Finance and Urban Affairs, 96th Congress, Washington, 1980, p. 406.

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The creation of multinational banking institutions also facilitates the use of currency funds of oil–exporting countries to promote the interests of Western nations. These include mainly Arab–American and Arab–European banking associations set up in the first half of the 1970s. London–based International Maritime Banking Co., opened an affiliate in Beirut to provide banking services for Middle East countries. Morgan Guarantee Trust bought a controlling share of Beirut–based bank. A banking consortium Union de Banques Arabes et Francaises (UBAF) set up by Credit Lyonnais of Paris and by 22 leading Arab banks opened affiliates in London, Luxemburg, Hong Kong, Tokyo and Rome. Biblos Arab Financing Bank was set up in Beirut by Biblos Bank of Lebanon and some Japanese banks and companies. All in all, by mid–1980 there were set up some 20 banking associations with the participation of Arab, American , West German and Japanese business. Banking monopolies count on them in their bid to control the growing financial resources of oil–producing countries, this relegating the latter to playing the role of a nominal owner of "oil money". In an attempt to establish control over national resources of developing nations transnational corporations seek to prevent them from being used to promote economic development of developing countries. Speaking of the need to prevent the "oversaturation" of oil markets, ARAMCO managers concealed for a long time the existence of oil deposits in Oman and other Persian Gulf emirates. Exxon, Texaco, and Mobil Oil—all foreign companies—ceased on many occasions in the past to extract "their share" of oil in Iran or blocked oil extraction altogether which deprived Iran of sizeable earnings, Blackmail, political and economic pressure were used by oil corporations in Venezuela, Indonesia, Ecuador, Algeria and some other oil–producing countries.

Cartels of major monopoly groupings seek to force national companies of newly–independent states, that pose a threat to the economic interests of the alliance of monopolies to go out of business. Thus, the international quinine cartel sought to stop the operation of a special factory in Bandung (Indonesia) and to disrupt quinine exports from the Congo, because that might have brought down monopoly prices for quinine. In Brazil, Swiss Brown–Bovery, West German Siemens and AEG, Japanese Toshiba and Hitachi, American General Electric, Italian Hercule Marconi and Belgian ACEC Charleroi sought in every possible

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way to force the local electronic industry to go out of business. With this aim in mind they would dump prices for their own products, suspend deliveries and even ship bad–quality products that would cause accidents.[30] Transnational corporations have not abondoned their attempts to wreck the growing national industries in Algeria, which is indicated by the numerous delays and cancellations of the commissioning of industrial projects undertaken with the participation of French and West German firms such as Berlis, Diag and others.

Guided by a profit motive, transnational corporations often damage the environment and the economies of developing countries. Thus, in Puerto Rico the damage caused by American transnationals to the sugar cane and fishing industries of the island by discharging petrochemical waste by far exceeds the profits derived from the petrochemical industry set up in the country. In Ecuador oil transnationals produced large amounts of oil outside their Government–granted concession territory. In the Philippines the felling of valuable kinds of trees 9 times exceeded the annual forest growth rate. A similar practice is used by transnational corporations operating in forestry in Indonesia and Malaysia.[31] Among such acts committed by transnationals that have been proved American scientist R. Vernon lists their desire for hegemony, pollution, growing inequality and neglect of the consumer's interests.[32] In an attempt to get the highest possible profits, transnational corporations seek to create everywhere the most favourable setting to achieve that goal. With this aim in mind, trans–nationals resort both to economic and political warfare. Their arsenal ranges from directly financing coup d'etats to providing subsidies for repressive regimes to bringing up undemocratic elite who loyally serves monopoly business. The role played by American transnational corporations in the tragedy that befell Chile is an open secret.[33] In 1975

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[30]*Der Spiegel*, 1974, No. 21. S. 54.

[31]*Business Times*, August 10, 1979.

[32]Vernon R. Storm Over Multinationals. The Real Issues, Cambridge 1977, p. 14.

[33]The International Telephone and Telegraph Company and Chille, 1970-1971, Report to the Committee of Foreign Relations, United States Senate, by the Subcommittee on Multinational Corporations, June 21, 1973, Washington 1974, pp. 14-15.

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US banana companies established a $ 5 million fund in Central American countries to destabilise the Governments in Panama, Honduras and Costa Rica after they had imposed a banana export taxation. In the course of the "banana war" the US corporations hatched out a plot which led to the assassination of the head of the Governemt of Panama, General Omar Torrijos. In Venezuela foreign corporations attempted to prevent the nationalisation of the oil industry. In Madagascar French Compagnie Mareyeuse de Madagascar was found guilty of haveing passed money to the conspirators who assassinated President R. Ratsimandrava. The military coup in Niger in 1974 was backed by French Pechiney Ugine–Kuhlmann, a French company, the Rothschild house and Franco–West German Sommer group, which then succeeded in obtaining easy–term access to the country's phosphate, uranium and oil deposits. The list is never ending.

Small wonder, then, that transnational operations in Third World countries, despite the latter's urgent need in investments and technologies, have caused concern and anxiety, disappointment and irritation on a mass scale. The early 1970s saw a wide–scale nationalisation of transnational assets in the Third World. Demands to bring them under control were formally endorsed in major international documents adopted by newly–independent states, including the declarations adopted in Algiers, Dakar, Manila, Colombo, in the documents passed by the United Nations such as the Programme to establish a New International Economic Order and the Charter of Economic Rights and Duties of States. In this context transnational corporations try to adapt themselves to the changing circumstances, while Western Governments agree to work out international arrangements to regulate operations of those monopolies as an alternative to unilateral National measures adopted by some states.[34] Thus, the United Nations Commission on Transnational Corporations is elaborating an universal code of behaviour of such corporations, which is to cover their activities in politics, economics, competition, social relations, relationships with consumers, accountability, etc. Developing nations regard the elaboration of all those documents as an integral part of efforts to restructure international economic relations on an equitable and democratic basis.

IMPLICATIONS OF FOREIGN BUSINESS ACTIVITY. The investments transnational corporations make in the economies

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[34]GIST, August 1977, p. 1 : Transnational Corporations in World Development: A Re-examination, N. Y. 1978, p. 75.

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of developing countries are a source of monopoly superprofits. Unlike the loans, which are to be repaid before a certain and final deadline, profits from direct private investments are transferred abroad even after the investments have been totally paid off. This imposes a heavy long–term burden on the already limited accumulation of home capital in developing countries and on their balances of payments. As a result, already now the inflow of new private investments to developing countries accounts for only 30 percent of the profits received from earlier investments and transferred abroad. Monopolies, as a rule, carefully conceal the data showing the profits they receive, And yet the information revealing the size of such profits sometimes does find way into the press. Thus, according to the official data made public by the US Department of Commerce, US corporations transferred in 1970–1979 period from the countries of Asia, Africa and Latin America $ 48.8 billion in profits alone, while investing only $ 12.6 billion,[35] that is, the outflow of capital was 3.8 times higher than the inflow of investments. In the 1961–1973 period foreign monopolies invested 1.3 billion Turkish lires in the economy of Turkey, whereas foreign oil monopolies alone transferred 2.3 billion lires in profits in the same period. In other developing countries the size of transferred profits compared to the inflow of foreign resources looks really fantastic. For instance, $ 2.8 billion were transferred in foreign investment interest rates, commission fees and profits from Argentina in the period between 1966 and 1975, which exceeded several dozens times the inflow of new investments made in the same period.

The yearly transfers of dividends and profits from foreign private investments cause losses of billions of dollars in developing countries. According to the data made public by West German magazine *Intereconomics*, which analyses the circulation of capital in the light of the Western claims of "aid" given to the countries of Asia, Africa and Latin America, the real picture is strickingly different from the one which has been presented by the Organisation of Economic Cooperation and Development (OECD). The magazine points out that in the 1964–1966 period the annual average transfers of profits on foreign investments from developing countries were estimated at $ 5.4 billion, whereas in the 1973–1975 period they jumped to $ 8.7 billion. According to UNCTAD estimates in 1980 the total profits transferred

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[35] *Survey of Current Business*, 1980, pp. 24-25.

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abroad exceeded $ 20 billion. Thus, the foreign monopolies' control of the leading and most profitable industries in ther economies of developing countries causes huge financial losses and growing disparities in their economies, ruins local enterpreneurs and aggravates the economic hardships of the population.

Besides, the activities of the corporations lead to another unfortunate result, that is to the exploitation of the natural resources, which cannot be replenished disregarding the current or future needs of developing countries in raw materials. As a result of the 33–year long uncontrolled domination by British and American monopolies of the copper mining industry in Zambia the average copper metal content in copper ores has been considerably reduced, because foreign concession aires drained above all the rich and conveniently located copper deposits. In those years some 89 million tons of copper ore were mined and exported abroad. Another example of the plundering and exploitation of raw material resources of the developing world is provided by the activities of Western corporations in Argentina. There, it is not the national interests of the host country that are taken as a yardstick to determine the attitude towards national resources, but rather the level of profits derived by corporations. As a result Argentina continues to depend heavily on industrial nations, remaining country with a top–sided economy, which gives rise to irrational methods of running the economy. Thus, Argentina gets over 85 percent of generated power by burning oil and gas, although the country is very rich in hydroresources, which have been put to use only recently, because of the resistance from transnational corporations. The country's needs in raw materials are largely met by imports, because western corporations have sabotaged the exploration of her rich mineral deposits.

And this at a time when the future needs of developing countries themselves have been grossly ignored. Although their needs have not yet been fully assessed, one thing is clear; if the current rates of the exploitation of natural resources continue, the raw material basis of many countries of Asia, Africa and Latin America will peter out well before the time when they will be in a position to build diversified economies of their own. This prospect spells out a disaster for the countries with monocultural economies. Thus, the petering out of iron ore deposits in Sierra Leone has cut her export earnings by 10 percent. As a result, her 1974–1979

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economic development plan was in jeopardy. Only a fraction of the earnings developing nations receive from marketing their raw materials throughout the world gets their way into the budgets of developing countries and even then, as a rule, it goes to repay loans received from foreign monopolies. Estimates seem to indicate that the customers in industrial nations pay $ 200 billion for raw materials coming from developing nations each year, while the exporting countries recieve only $ 30 billion, or only 15 percent of their real value. Referring to transnational corporations, UN experts wrote that host countries show concern and anxiety over the fact that transnational corporations increasingly take over property and control of the key industries of their economies, interfering in their internal affairs, outrageously transferring profits and making a negative impact on the entire set of national, social and cultural values.[36] This refutes the allegations of Western economists, claiming that foreign business leaves a "healthy impact" on the economies of the countries of Asia, Africa and Latin America. The gradual control that transnational corporations establish in those states results, in a loss of funds needed by the latter to boost their economic development, on the one hand, and in a growing economic dependence, on the other.

Thus, the West is still exploiting developing contries, just as it did before. Only the coarse and brutal techniques of the colonial era, that included foreign economic enforcement measures have been replaced with more refined and subtle economic techniques of exploitation. Political considerations sometimes force Western nations to agree to extend to developing countries somewhat easier terms of trade, but the costs of such concessions are more than offset later on by a growing exploitation of labour and natural resources of those countries and by an application of new techniques to appropriate profits.

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[36]U. N. Doc. E/5500/Rev. 1, Part 1, p. 26.

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CHAPTER IV

THE TRANSFER OF GOVERNMENT-OWNED CAPITAL AS A NEO-COLONIALIST TECHNIQUE

The current rates of the internal accumulation of capital, as the experience of the economic development of most of the developing nations seems to indicate, have proved insufficient to settle economic problems on a nation–wide scale. The need to attract foreign financial resources is dictated by an acute shortage of funds. At present, a great many developing countries place high stakes on foreign resources in their plans to finance their long–term economic and social development programs. The so–called economic assistance from market economy countries is an important component of foreign financial resources. The forms of that assistance vary. It may be given in loans and credits, commodity and food supplies, technical assistance, etc. But no matter what those forms may be the assistance always serves as an instrument which helps monopolies of industrial nations to get access to the economies of Asian, African and Latin American countries.

GOVERNMENT PROMOTION OF EXPORT OF CAPITAL

By giving funds to a developing country, Western states thus contribute to the activities of their monopolies there. Whether this is explicitly agreed on or not, when assistance is granted that does not change the heart of the matter. In the process a receipient country is bound to the world market economy by various strings attached to the economic assistance. Assistance, therefore, takes on the form of an instrument for monopolies to promote their economic expansion. The Western economic assistance to developing nations is sizeable, and reached $ 96.7 billion in the 1976–1980 period. The funds came primarily from five leading industrial nations: the U.S., Great Britain. France, West Germany and Japan, which accounted for 71.5 percent of the transferred Government–owned capital.[1] The

[1]World Development Report 1980, The World Bank, August 1980, Washington, p. 140.

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United States provided most of these funds in that period—$ 23.9 billion or 24.7 percent of the total economic assistance extended by industrial nations. It should be pointed out that the real value of that assistance declined because of inflation and a sharp fall of the dollar. These losses alone were estimated at 40 percent of the declared assistance funds in the 1970s. Moreover, the share of the economic assistance extended by all industrial nations vis–a–vis aggregate GNP of Western countries dropped from 0.51 percent of their GNP in 1960 to 0.34 percent in 1980.[2] And yet the funds given in economic assistance to developing countries are more than enough to keep on the leash the recipient countries. Industrial nations offset the relative decline in economic aid to developing countries by applying more flexible forms and techniques to promote their economic expansion in developng countries. They seek to take advantage of assistance in order to create effective leverage that would help them to make the economies of those countries serve the needs of the world market economy. For every American dollar they receive in economic aid, developing nations spend 8 dollar–worth of their own resources. And this means that industrial nations are in a position to channel large financial and material resources of the countries of Asia, Africa and Latin America precisely to those industries whose development would meet the long–term interests of economy market states.

The strategic goal of economic assistance, and of the overall neo–colonialistic policy for that matter, is to perpetuate the position of developing countries in the world market economy as an object of exploitation and to use their resources to bolstər the positions of industrial nations. In this respect it is very indicative how the West German magazine *Der Spegel* described the economic assistance policy pursued by West Gernany and gave detailed analysis of the negotiations and actions of senior Bonn officials in developing countries. When it comes to economic aid to developing countries, wrote the magazine, a world–wide battle for market coupled with the promotion of one's own exports still remains the main political commandment. The mercenary nature of the economic assistance given by industrial nations to developing countries has become growingly evident. The French *Le Monde* admitted that many leaders of developing nations are disappointed with the Western economic assistance. They point to the political strings attached to that aid, saying

[2] Ibid.

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that the aid is incoherent and overstretched, that it is insignificant and insufficiently effective in contributing to economic progress.[3] What is the beneficial impact of the Western economic assistance on the economies of developing countries one can speak of if, the aid is extended to achieve goals that have nothing to do with the economic interests of Third World countries. Thus, for example, an operational report of the Agency for International Development for 1973 shows about 35 percent of its budget was given in military assistance, over 20 percent in police assistance and about 45 percent in economic aid.[4]

It is frequently the case when strings are attached to the Western economic assistance that infringe on the sovereignty of developing nations. Funds are granted more often than not on condition that political and economic information is to be provided, that national currency is to be devalued and that foreign trade and currency transaction controls are to be eased. The US administration conditions American economic assistance to the agreement of the recipient country to promote private business activity (of both local and foreign entrepreneurs). This is unacceptable to many developing countries, primarily to those which have embarked upon a road of independent social and economic development. The inequitable nature of relations between donor and recipient countries glaringly manifests itself in the "linkage" attached to economic assistance, that is to say, when a recipient country is obligated to spend the assistance funds in the donor country. No wonder that the development aid in the form it is given by Western states has long ceased to be economically attractive to developing countries having raised before them the problem of a growing foreign debt. It does not encourage economic progress of the countries of Asia, Africa and Latin America. Nor does it bring about radical changes for the better in the national economies of those countries or has anything to do with contributing to progressive social, economic and cultural reforms.

This assistance serves to widen the gap between the rich and the poor, making the rich richer and the poor poorer. All that gives rise to special stresses and acute social conflicts in society. It is no accident that economic development projects offered by the West totally ignore the positive impact that social reforms may have on economic progress and are, therefore,

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[3] *Le Monde*, le 23 de Novembre 1974.

[4] Operational Report, AID, Washington, 1973 pp. 16, 26.

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growingly rejected by the progressive forces of developing nations. Facts provide convincing evidence to show that the economic assistance extended by industrial nations has failed to narrow the gap between the poor and the rich countries. Far from it. What is more, this gap, as a rule, has tended to grow. The assistance given by Western nations has led to a situation where many economic development programs of newly–independent states hinge on foreign financial resources and consequently depend on foreign business. Industrial nations provide economic assistance, as a rule, on condition that the granted funds are to be used to buy commodities in the donor country. Such conditions deny to developing countries the option to choose the most acceptable (commercially) commodity supplies, while allowing the monopolies of industrial countries to market their products at artificially boosted prices. The systematically and deliberately raised prices for commodities imported against the economic assistance devalue the assistance funds by 15 to 20 percent. Moreover, a receipient country has to buy not the best equipment that is available on the world market but that manufactured in the donor country.

Here is a very typical example. In 1978, 85 percent of the funds received by developing countries in US economic assist–ance were spent to buy commodities and services in the United States.[5] American Paris–based *International Herald Tribune* wrote that the US assistance program enables American producers to sell their commodities at an annual sum of $ one billion, providing for US companies about one fourth of all shipping business they do and giving various R & D agencies contracts abroad to calling almost $ 600 million.[6] One should bear in mind, however, that a significant share of orders coming from abroad again went to foreign subsidiaries of the American corporations. This is the practice used by other Western countries in undertaking development projects. Thus, according to an estimate made by the British Overseas Development Ministry, about two thirds of the financial aid extended on a bilateral basis go to buy commodities and services directly in Great Britain.[7] On the whole, over three fifths of all the Western commodity supplies to the newly–independent nations of Asia, Africa and Latin America, according to a UNCTAD assessment,

[5]*Business America* March 26, 1979 p. 5.

[6]*International Herald Tribune* (Paris), November 4, 1971.

[7]What is British Aid, London, 1976, p. 4.

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until recently have had to come from the donor countries. Because of the deliberately raised prices for the commodities to be supplied against the "linked" assistance, the real value of such aid tended to drop by no less than 20 percent.[8] Moreover, when signing financial assistance agreements developing countries, as a rule have to accept a provision under which the commodities to be bought against the "linked aid" are to be carried only by the ships belonging to Western countries. For their part, shipping companies raise freight and insurance rates so high that the overall losses suffered by developing countries run into billions of dollars each year.[9]

Government–owned funds given by industrial nations in economic aid through international economic organisations also provide a major channel to subsidize Western exports. Speaking, among other things, of the benefits which American corporations receive from the US membership in international organisations Secretary of State C. Vance, in his address before the house of Representatives of the US Congress on May 1, 1978 said: "Our economy benefits substantially as aid dollars are spent here (in the US) to buy commodities and services. For example, for every dollar we have paid into such organisations as the World Bank and the regional development banks for Latin America, Asia and Africa about $ 2 has been spent in the US economy".[10] Thus, the US aid, just as is the case with the aid given by other Western industrial nations through international organisations (and its annual size was at the $ 5 to $ 6 billion level in the latter half of the 1970s) has increasingly become a significant source of financing supplies of transnational corpora– tions. It has become a common practice over the last few years to attach stringent ties to Government loans and credits, and espe– cially Government export credits. Thus, the interest rate of the US Export–Import Bank grew from 5.5 percent to 8.5 percent in the 1970–1979 period.[11] Because the United States is the chief creditor of Government loans, growing interest rates on American credits boosted the international credit costs from 5.3 percent to 7.9 percent in the 1970–1978 period, with the average repayment period having been reduced in the same period from 18.2 to

[8]Finance and Development, Vol. 6, Washington, 1969 pp. 9—15.

[9]UNCTAD. The Terms, Quality and Effectiveness of Financial Flows and Problems of Debt, (T/TD/B/C. 3/35) p. 17.

[10]*Department of State Bulletin*, June 1978, p. 14.

[11]*Wall Street Journal*, April 27, 1979.

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14.7 years.[12] And this trend continues. The raising of interest rates by a tenth of one per cent means that the debt of developing countries will grow by tens and hundreds of millions of dollars.

The debt of developing countries has jumped in recent years. In the 1974–1979 period alone the total foreign debt of the countries of Asia, Africa and Latin America grew from $ 64.1 billion to $ 376 billion. The figures comprise the public debt which grew from $ 35.3 billion to $ 138 billion greatly exacer–bating their debt repayment problem. The point is that a growing share of hard currency earnings, which are badly needed to buy means of production, goes to pay interest rates and to repay the basic debt accrued under the earlier agreements. Thus, the instalments for developing countries to pay interest rates alone trebled in the 1974–1978 period, reaching $ 12.4 billion. The total debt repayments in the 1974–1978 period accounted for over two thirds of all the credits and loans received through Government–to–Government and private channels. It transpires, therefore, that the aid granted by industrial nations now goes not so much to finance development projects of the newly–independent countries but rather to refinance the repayment of their current debt. In other words, it makes the already huge foreign debt of developing countries grow still higher without expanding the material and technical basis of production. The growing burden of those debt repayments has begun literally to eat up the scarce currency reserves of most of the developing countries. For example, in Senegal one third of the 1979/80 FY budget, or 30.6 billion African francs, went to cover such payments. In many developing countries credit and loan repayments reach as high as 30 to 40 percent and in some cases 50 percent of their earnings from commodity and service exports. In 1978, for instance, in Mexico they accounted for 59.6 percent of her export earnings, in Bolivia for 48.7 percent, in Uruguay for 45.7 percent, in Chile for 38.2 percent, in Zaire for 31.3 percent and in Egypt for 22.2 percent.[13] This trend when foreign debt repayment rates outstrip the export growth rates sharply devalues the real earnings of developing countreis with all the ensuing negative consequences.

In this context developing countries have absolutely every ground to demand from industrial nations a general

[12]World Bank, Annual Report 1980, Washington, p. 141.

[13]World Bank, Annual Report, 1980, Washington, pp. 138—137.

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postponement of their debt repayments and better terms for new credits. The US and other industrial nations, however, reject these demands. The clash of interests came to a head especially at the Conference on International Economic Cooperation (CIEC) held in Paris (December 1975—July 1977). The Conference was widely publicised as a forum of equitable partnership. Developing countries pinned great hopes on it. But in vain. The parties failed to agree on the problem of debts of developing countries, with the differences between the two groups of states growing ever more acute. The promotion of private business expansion is another major line of the Western economic assistance policy. As has already been mentioned above, economic aid agreements are often conditioned to an obligation on the part of recipient countries to create a favourable climate for an inflow of foreign investments, to insure them from nationalisation and other economic and political risks, and so on. The Western aid is mostly channelled to setting up an economic infrastructure.

A characteristic example is provided by the activities of the European Development Fund (EDF) which was set up under the EEC auspices to extend economic aid to 56 developing countries—African, Caribbean and Pacific states (ACP)—which were associated with the Common Market under the Lome Convention of 1975. The EDF allocates sizeable funds to set up a transportation infrastructures in the associated member states. What is significant is that the guiding criteria in selecting future projects to be built are not the economic needs of developing countries but rather the interests of foreign mining companies, because this would save the latter part of the unproductive costs. For example, the EDF granted $ 2 million to build a pier in Nuakshot, Mauritania. After the project was completed, Micuma, an international conglomerate, started mining copper ore deposits. In Senegal, large funds were used, on the EDF explicit insistence, to replace the railroad track running from the Ties station to Tivuan. After that was done, heavy freight trains could carry phosphates mined by Compagnie Senegaleze de Phosphate de Taiba, in which French and East German busines are leading partners, to the sea coast. At the same time EEC leaders often hamper the development of the transportation facilities which developing countries need so badly. Thus, the Common Market leadership have failed to pay "heed" to the request from Upper Volta to finance an oil

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pipeline construction project that would lay an oil pipeline from the Sahara to West Africa and whose completion would help the West African countries to make sizeable savings of their hard currency reserves currently used to bring oil by sea. Thus, the "assistance" policy pursued by the Western powers serves largely the interests of Western monopolies, operating in developing countries and seeking only their own selfish goals.

American economist Rosenstein–Rodan has put this in specific terms as follows: every $ 100 million transferred to developing nations in aid on a Government–to–Government basis, creates favourable opportunities for private investments of $30 to $ 40 million. [14] The former IBRD President, E. Black, had this to say: "Our foreign assistance programmes are a new course of profit for the businessmen. . . ." Spelling out his thesis, he singled out three points: 1. Foreign assistance immediately opens major markets for American commodities and services. 2. Foreign assistance promotes the emergency of new foreign markets for American companies. 3. It encourages in recipient countries free enterprise under whose aegis American companies get an opportunity to prosper.[15] Thus, assistance acts as an instrument of neo–colonialist expansion. Technical assistance plays a major role in promoting this expansion in developing countries. Industrial nations take advantage of the fact that the countries of Asia, Africa and Latin America are naturally attracted by the latest achievements of science and technology. Growing technical assistance only serves to increase their dependence on Western nations and transnational corporations, accelerating the latter's export growth rates and expanding the areas where they may invest at a profit. In recent years industrial nations have notably increased their technical Assistance to developing countries. Its share in the total economic assistance given to the countries of Asia, Africa and Latin America grew in ten years 2.6 times totalling $ 4.5 billion in 1979. [16]

The Western propaganda mill is trying to present the activities of industrial nations in the sphere of scientific and technological relations with developing countries as charity. However, the facts show that there is nothing farther from the truth. The term "technical assistance", which sounds so attractive, does

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[14]Multinational Investment in the Economic Development and Integration in Latin America, Bogota, April 1969, p. 46.

[15]*La Revolucion Africaine*, No. 225, 1968, p. 46.

[16]*The OECD Observer*, No. 105, July 1980, p. 25.

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not at all mean that it represents the concern of industrial nations over the technical modernisation of the economy and the raising of living standards in developing countries. "The standard of living is not an aim of our development programme," said candidly D. Bell, the former Administrator of the US Agency for International Development. The French weekly *Paris–Match* stated not without reason that the US could not name a single country, where social conditions had improved as a result of the American assistance.[17] According to official statistics, only 38 percent of the AID appropriations for technical assistance to developing countries have gone to the sphere of production.[18] The remaining 62 percent were spent on other spheres of life, namely to set up a social and political infrastructure in developing countries which would bind them to industrial nations, with the former's political course being tailored to meet the interests of Western nations. Among other things, the money is used to train local cadres of Government officials and policemen and to brainwash various social groups of local population and for other similar purposes.

The training of national cadres for developing nations is a major form of technical assistance extended by industrial countries. The goal of the training is to create cadres loyal to and needed by the West. This is recognized for example, in a report of the Foreign Relations Committee of the French National Assembly where it is pointed out that the most unselfish ventures are not necessarily the most unprofitable. The French assistance in training cadres for developing countries, the report went on to say, creates an environment conducive to the spreading of French technology and marketing of French–made products.[19] In recent years the training of technical personnel in developing countries has assumed inpressive proportions. Over 107,000 foreign citizens were trained from 1960 to 1980 in the United States alone, half of them being from Asia, one third from Latin American countries and the rest from Africa. [20] It showed that

[17]*Paris-Match* le 29 de Ferrier 1964.

[18]Operations Report, AID, Washington, 1973, p. 29; Foreign Assistance and Related Agencies Appropriations for 1979, 95th Congress, Part 2, Washington pp. 448-452.

[19]Rapport sur le Budget, Annex No. 3, Affaires Etrangeres, Paris, 1967, p. 39.

[20]Operations Report, AID, Washington, 1973, p. 101; Foreign Assistance and Related Agencies Appropriations for 1979. 95th Congress, Part, 2, Washington, p. 920.

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about two thirds of those experts were to become Government employees, trade union bosses and ideologists. It is these experts who are called upon to see to it that the Western connection grows stronger primarily, through Government-to-Government channels. The question of the specificity of the training of personnel should be discussed at some length. The point is that the training is confined to a short–term advanced training or on–the–job training of national experts. Although these forms of training are cheap, their effect is appreciable since short–term advance training usually covers those who already hold responsible posts, often including people who were educated in the West. In most cases many local specialists, when they are through with their training in the United States or in any other industrial nation, become advocates of the Western forms of Government and the Western way of life they have come to know so well. They willingly use the technologies and the equipment they were trained to handle in an industrial country. There is one more specific trait worth mentioning. Subsidiaries of foreign monopolies often employ local personnel, paying much less than they would otherwise be paying to citizens from industrial nations.

It is appropriate also to analyse such a major form of technical assistance as posting experts from industrial nations of the West in developing countries, In 1975 there were over 80,000 such experts posted aboad, including, almost 50,000 in Africa, 19,000 in Asia and some 7,000 in Latin America, the rest staying in Oceanian Countries. As a rule, there are various Government officials and private businessmen. People from American monopolies account for more than one third of the total number of those specialists posted in developing countries under US technical assistance programs. Foreign experts often act as advisers to senior Government officials or at enterprises of the private and public sectors. They shape economy, science, technology and foreign policy of the host countries. The *New New York Herald Tribune* put bluntly when it wrote that the US was acting on the assumption that under–developed nations needed not only money and machinery—they had to be convinced that the American philosophy was right and Americans should be sent there to do the Job.[21] Foreign specialists often hold key posts and are thus in a position to take part in or to influence directly the policy making of the hos

[21]*The New Herald Tribune*, March 5, 1969.

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country. In the mid–1970s French specialists accounted for over 50 percent of all the officials in Ivory Coast. A large number of foreign specialists are working as Government employees in Gabon, Egypt, Rwanda and some Latin American countries. Foreign specialists, as a rule, contribute in every possible way to the promotion of private enterprise, actively helping foreign business to get access to the countries of their stay. It was not without the assistance of American experts posted under technical assistance programs that taxation and tariffs were considerably eased for foreign companies in Thailand, that a law was passed to encourage the private sector and favourable conditions were provided for foreign business to operate in the mining and petrochemical industries in Brazil, that a law on capital investments, which, foreign enterpreneurs believe, is the most favourable for them on the entire African continent, was passed in the Republic of Zaire.

Various types of equipment as a form of technical assistance are supplied primarily to research and vocational training centres, health organisations and educational institutions in developing countries. Scientific equipment and other materials supplied are usually in the custody of Western experts staying in the host country and are used as a technical basis to build this or that project. At the same time this form of technical assistance is used by transnational corporations to directly boost their exports in the process. Some 20 percent of the Government funds spent for technical assistance (which means $ 700 to $ 800 million a year) go to buy commodities in Western countries (grain, and agricultural machinery, means of transportation, medical equipment, training appliances etc.). Operating under the disguise of technical assistance are not only the US Peace Corps (ACTION) and the German Development Service, but also the French Volunteers of Progress, the Alliance of Japanese Volunteers to cooperate with foreign organisations and many others. All those "crops' and "alliances" are nothing but instruments which help Western nations to get access to developing countries. The ACTION activities are especially characteristic in this respect. It now numbers over 7,000 and had its emissaries staying in 64 developing countries in 1979. The US Government appropriations for the ACTION activities totalled $ 100.1 million in 1979.[22] The US is using ACTION

[22]Foreign Assistance and Related Agencies Appropriations for 1979, 95th Congress, Part 2, Washington, p. 669.

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to control many spheres of social and public life of developing countries and to promote the expansion of US monopolies. Small wonder, then that ACTION volunteers have been repeatedly expelled from developing countries, because their activities were incompatible with the official status of the organisation. In recent years Western countries have been increasingly resorting to the practice of suing international economic organisations as an instrument of collective neo–colonialism. The manoeuvre is designed to guard against the risk associated with extending economic or other kinds of assistance, to scatter possible losses and to blunt somewhat the fierce competition. Acting in a united front, industrial nations are in a position to wrest from developing countries maximum possible concessions in response to their demands.

In the 1970s industrial nations boosted their assistance given through international organisations. In the 1970–1979 period that assistance grew more than five times, totalling $ 6.6 billion.[23] The International Bank for Reconstruction and Development and its affiliates, the International Monetary Fund and regional development banks are playing the leading role. The International Monetary Fund (IMF) is a major instrument used to bring neo–colonialist pressure to bear on developing nations. Controlled largely by the US Government, which owns over one fifth of all its assets, the IMF is today the chief regulator of the crediting and financing mechanism of the Western world.[24] Its recommendations concerning the solvency and the overall economic policy of a developing country are the crucial guidelines, which other international financial organisations and private banks follow in deciding whether or not to extend credits to it. The IMF activities are also aimed at "stabilising" the economies of developing countries in the interests of the Western neo–colonialist policy. The aim of such a "stabilisation" is to see to it that loans are repaid and profits from transnational investments are transferred abroad. It shoud be pointed out that the credits granted by the Fund lead to a growing exploitation of the working people of the recipient countries. Thus, in April 1977 the Government of Mexico approached the IMF requesting loans to overcome her financial and currency problems. The IMF agreed to give financial

[23]*The OECD Observer*, No. 105, July 1980, p. 25.

[24]International Monetary Fund, Annual Report, 1980, Washington pp. 146-148.

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assistance on condition that the Mexican Government freeze the wages and salaries, stop making investments in the industries of the public sector, restrict industrial imports and, finally, give private business—both local and foreign—a free ride. To accept the IMF terms was to doom all the Mexican plans for social and economic reforms and to give foreign, primarily American, business wider access to Mexico. At that time Mexico had to accept those harsh conditions.

The IMF statute emphasizes that the Fund has no authority to control the home policies of recipient countries. The Fund, however, disregards this clause of the statute. The example of the IMF assistance to Jamaica is very revealing in this respect. The country signed two agreements with the Fund. Under the first one signed in June 1977 Jamaica was to receive $ 75 million in economic assistance stretched over a 2–year period. However, the agreement had been in effect for less than six months, when it was replaced in May 1978 with another 3–year–long agreement under which $ 429 million were to be granted to Jamaica with a view to "easing the balance of payments problem and improving the economy". Loans were conditioned to a devaluation of the Jamaican dollar, a wage freeze, incentives to be given to private business by lifting price controls and guaranteeing 20 percent profit rates, a curb on social spendings. In addition, a system of checks and reports was to be introduced to bring pressure to bear on the Government, because the granting of the next loan instalment was to be determined by IMF officials, depending on whether certain economic growth indices have been reached. Taking advantage of this provision, the IMF suspended those agreements and, as a result, Jamaica has received only $ 194 million out of the $ 504 million originally promised. According to West German *Der Spiegel* magazine the IMF "is becoming a world economic policy policeman". The role played by the Fund, as the coordinator of an overall economic policy of the Western world, say Western observers, is constantly growing. This means that the United States and other industrial nations have a growingly powerful leverage to bring pressure to bear on the policies of weaker partners and are in a position to bind them stronger to their own economic chariot and to utilise unilaterally all the benefits from a world division of labour.

The International Bank for Reconstruction and Development (IBRD) is operating in the same spirit of candid collective

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neo-colonialism. It was established in 1945 under the US aegis. The IBRD was called upon, as the Western press widely claimed, "to ease the financial burdens of developing nations". In reality, however, the bank has been operating mainly to promote the interests of a relatively small number of West European states, which are the chief investors. For instance, notwithstanding its membership of 135 states the IBRD takes all the major decisions through a board of 20 Executive Directors, where the Directors representing 5 nations (the US, Great Britain, West Germany, France and Japan) have 45 percent of the votes.[25] The IBRD never fully finances a single project or a single program. Instead, it attracts loans from private banks of industrial nations, thus helping the latter to get access to developing countries and insuring them the right to profit sharing. It also sees to it that the credits granted to the countries of Asia, Africa and Latin America are used to buy commodities in Western countries. By financing or refusing to finance projects as it sees fit, the IBRD thus leaves a visible imprint on the nature and the way of development of the recipient countries. The bank does not hesitate to impose its own control over the outlaws of the extended credits.

Thus, in 1977 the bank signed an agreement with Egypt to extend a $ 50 million credit to the Suez Canal Company with the following strings attached: all the experts and financial staff of the company are to be appointed with the bank's consent: the management is obligated to assist the bank's representatives in exercising control. over its entire activities and property, both personal and immovable; the bank is to audit the company's financial accounts each year; the necessary financial accounts and information are to be submitted on short notice; the company is not to seek credits from other sources without the bank's explicit consent. The agreement is guaranteed by the Government of Egypt which is obligated to pay off all of the bank's spendings and interest rates, should the need arise. Thus, the Suez canal is again actually placed under the control of the "International Authority" which happens to be the IBRD. The Government of Morocco has signed with the IBRD a $ 45-million credit agreement to build a cement plant in an Eastern province on similar humiliating terms. The agreement, among other things, has formalized the bank's right to fix cement prices and prohibit the construction of more cement plants in the country. Thus,

[25]World Bank, Annual Report, 1980, Washington, p. 197.

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it is fairly safe to say that, although industrial nations and international crediting organisations do give sizeable financial resources to developing countries, which to a certain extent contribute to the latter's development, nevertheless, this assistance is profitable above all for the donor states. Guided by transnational interests, industrial nations give aid on certain not only economic but basically political terms, which infringe upon the sovereignty and damage the economies of develepigg countries. Only through a hard struggle and with determination to break the shackles of the economic exploitation and political subjugation can Third World countries somewhat alleviate the oppressing burden of the "assistance" from the industrial nations of the West.

GROWING POLITICISED ASSISTANCE

Designed to tackle economic development problems, economic assistance has also some political functions to perform. Often this aspect is not even concealed. Thus, in his interview on April 22, 1976, the then US President Gerald Ford said that assistance should be granted not only on humanitarian grounds but should promote the US foreign policy aims as well. The political thrust of the assistance given by industrial nations is determined by their overall strategy to prepetuate the existing system of neo–colonialist relations and to prevent developing countries from breaking away from it. The aid extended by industrial countries is often used to exert direct and active political influence on the countries of Asia, Africa and Latin America. The assistance funds are frequently given out in reward for a "good behaviour", to back Governments that are prepared to toe the US policy line, to prevent the movements of national liberation from growing stronger. It is very often the case when assistance is used to bribe the ruling elite and some social groups, both directly and indirectly. And in all cases the assistance, whatever its form, is given above all to promote the interests of the United States and other industrial nations of the West.

The US is the major donor which gave $ 41 billion in economic assistance or 30 percent of the total "development aid", to developing countries in the 1971–1980 period.[26] The data on the geographical distribution of this assistance indicate that

[26]Economic Report of the President. Transmitted to the Congress in January 1976, Washington, 1976, p. 169; World Development Report 1980, The World Bank August 1980, Washington p. 140.

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it is guided not by humanitarian considerations, but rather by the US political and strategic interests. For instance, South Korea received aid almost three times as large as was given to all the African nations south of Sahara taken together, although the population of that African region is ten times larger than that of South Korea.[27] The US assistance policy is invariably guided by political and strategic considerations, which has been most graphically demonstrated in the Middle East. For dozens of years Washington has been generously financing the aggressive actions of Israeli Zionists. It is hard to establish the exact size of the American assistance, which includes grants, arms supplies, credits, loans, indirect receipts, support for international speculations in the interests of Tel Aviv and many other things. US assistance literally flooded Tel Aviv, following the signing of the notorious peace treaty between Egypt and Israel in March 1979.

Less spectacular but none the less very impressive assistance was given to Egypt after its Government led by President Anwar Sadat embarked upon the policy of outright surrender, betraying the Arab world. A sharp rise in US economic assistance, not to mention military aid was also registered, following the signing of a separate peace treaty between Israel and Egypt. In 1979 the US appropriated $ 956.7 million in economic aid to Egypt, which was much higher than the US economic assistance appropriations for all the countries of Africa and Latin America taken together.[28] According to estimates made by American economists, the US total financial and military aid appropriations for Israel and Egypt are to reach some $ 6 billion in the 1979–1981 period. The so–called "special financial assistance", which the US Government urgently asked the Congress to give to Israel and Egypt shortly after the peace treaty was signed is to amount to $ 4.8 billion. Of these $ 3 billion are earmarked for Israel. Why all this spectacular generosity of Washington ? The reason is simple. By setting up a Tel Aviv–Cairo military strategic bloc, the US seeks to regain its control over the Arab region in a bid to offset the huge political, military and economic damage, which the US has sustained, following the victorious

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[27]US Overseas Loans and Grants and Assistance from International Organisations, July 1, 1945; September 30, 1978; Washington, 1979, pp. 78, 87.

[28]Foreign Assistance and Related Agencies Appropriations for 1979, 95th Congress, part 2, Washington 1978, p. 669.

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revolution in Iran in 1979 and the disintegration of the Central Treaty Organisation. The US is out to forestall any radical revolutionary changes in the countries of Asia and Africa, to hamper the anti–Zionist struggle waged by the Arab nation and the struggle to the people of Palestine to uphold their rights and to set up a state of their own. A striking example of the real political thrust of the Western economic assistance is provided by the fact that the West German Government has increased several times over its economic assistance to Somalia after she attacked Ethiopia in January 1978.

Here is an example of a different kind, of how foreign aid is used as an instrument of political pressure. Displeased with the progressive policy of the Government of the People's National Party of Jamaica led by M. Manley, the United States sharply cut back its economic aid to that country in the 1978–1979 period. At the same time the US administration brought pressure to bear on American private commericl banks with a view to making them stop granting any more loans to that nation, which the National Security Council, as A. Young, the former US Ambassador to the United Nations admitted, was coordinating a plan to destabilise the situation in Jamaica by constantly exacerbating economic stresses and provoking political unrest. In March 1981 the Reagan administration repudiated the previous American commitment to extend economic aid to Nicaragua with a view to forcing the leadership of the country to change the nation's course of social and economic development.

Such examples are plentiful, However, this is not the point. What really matters is the specific features of the second half of the 1970s which is that from haphazard efforts exerted in that field the Western nations are going over to a coherent strategy based on the growing application of economic assistance as an instrument of political pressure. For instance, the US has now conditioned its economic aid to developing countries directly to the latter's readiness to support the US policy in international organisations. With this aim in mind in January 1976 the US State Department set up a special desk to analyse the voting record of developing countries in the United Nations. The decisions on granting US economic and military assistance to foreign countries are taken on the basis of recommendations made by the desk. The US administration decided to cut off economic assistance to Tanzania and Guyana when they voted in favour of the UN resolution denouncing Zionism. At the

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same time it sharply expanded the US economic development programs in Malawi, the Ivory Coast, Zaire and some other countries that back the US position in the United Nations. Small nations, such as Cyprus, Chad, Benin, Jamaica and others that are not in a position to retaliate, very often become targets of US political pressure. This does not mean that the United States does not apply economic "sanctions" against major developing countries, such as India or Bangladesh. In February 1976, the US, for example, cancelled the economic assistance program for India that had already been adopted by Congress.

Food supplies under economic assistance programs are also frequently used as a cynical weapon of political pressure. In the second half of the 1970s industrial nations were supplying some 7 million tons of foods to newly–independent countries of which the American food supplies under Public Law 480 (on the promotion of trade and assistance in agricultural products) accounted for 80–85 percent. The economic development of several newly–independent countries strongly depended on those supplies. The US ruling circles are frequently using these countries' dependence on food supplies to exert direct political pressure on them. Thus, in the 1969s the US repeatedly suspended food supplies to India, Indonesia, Ghana and other countries. In December 1975 *Business Week*, a publication of the American business circles, put it candidly when it wrote: "The development of American food power is the focus of a serious policy debate now under way in Washington. Nearly everyone agrees that in a world of hunger and overpopulation, the US can apply its tremendous agricultural capacity as a lever on foreign countries to adopt policies beneficial to this nation".[29] US administration officials regard food supplies as a "trump card", a "big stick" that enables Washington in some cases to dictate its will. A CIA report on potential trends in world population, food production and climate says that even under favourable cimatic conditions a large number of developing countries will be growingly dependent on food supplies from the United States. If weather conditions deteriorate, then ..... Washington would acquire virtual life and death power over the fate of multitudes of the needy. . . . "

Thus, in the field of food aid, too, the United States is guided by its selfish interests. It is well–known that it is US food supplies that played a notable role in propping up the

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[29] *Business Week*, December 15, 1975, p. 54.

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pro–American regimes in Chile, South Korea and Taiwan. It is equally known that food supplies to India were drastically cut back after her Government officials denounced the US barbaric bombings of Vietnam. Sri Lanka was taught a "lesson" in much the same fashion when its Government nationalized the US oil companies there. Food supplies to the starving population of Bangladesh were suspended because the country had sold jute to the Republic of Cuba. With a view to forcing it to change the way of its social and economic development, the US refused to give Nicaragua the food aid that had been promised earlier. The new Reagan administration is making this policy still tougher. While attaching political strings to its food assistance the United States is giving aid to a limited number of countries whose leaders and Governments are most reactionary and closely associated with the policy followed by the US Administration. Most of the developing countries will receive American aid on condition that they accept the American policy and, in particular, that they support the so–called campaign to fight "world terrorism". In short, there is more stick and less carrot in the new American assistance policy.

However, it should be pointed out that such an abuse of economic aid as an instrument of pressure and diktat will eventually wreck the US positions in developing countries. The peoples of those countries have come to realize from their own bitter experience that in the long term any type of aid only serves to cut back and hamper economic and social progress. On the one hand, even generous American grants are unlikely to save the regimes whose very existence constitutes the main barrier on the way to economic progress. This point has been raised in the West, as well. Thus, addressing an international food seminar held in Tampere, Finland, in April 1976, Swedish economist P. Vallenstine said, among other things, that of the 14 US allies to which the United States were giving aid to prop up the regimes there, in four countries (South Vietnam, Thailand, Portugal and Greece) the pro–American regimes had been toppled by 1976 and in three more countries opp sition to the existing regimes had sharply grown.[30] An analysis of the US food assistance is bound to conclude that it cannot prevent national struggles that lead to the downfall of reactionary regimes.

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[30]Political Economy of Food, Proceedings of an International Seminar, Tampere Peace Research Institute, 1976, pp. 54-90.

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CHAPTER V

INEQUITABLE TRADE

FOREIGN TRADE TECHNIQUES OF NEOCOLONIALISM

Trade with developing nations figures prominently in the foreign economic policy of industrial nations. Having taken over key positions in the economies and markets of most of the developing countries, having a monopoly on merchant and tanker fleets and maintaining world–wide foreign trade relations, industrial nations have thus turned trade into an instrument they use to systematically exploit newly–independent states. Western powers continue to dominate both the exports and imports of most of the nations of Asia, Africa and Latin America. In the latter half of the 1970s they accounted for 90 per cent of the machinery and industrial equipment, for about 80 percent of other industrial products, for over 60 prcent of food supplies and for over 50 percent of raw materials imported by developing countries.[1] Industrial nations account for a large share of the exports of developing countries. It should be pointed out that in the world division of labour brought about by transnational corporations the economies of newly–independent countries are not merely confined to agricultural and raw material production but are essentially monocultural. Thus, in 28 out of 35 African nations one of three export items give 70 percent of their export earnings, in eight out of 15 Asian nations and in 17 out 22 Latin American nations—69 percent.[2] Taking into account the basically monocultural pattern of exports of developing countries and their dependence on the imported machinery and equipment, industrial countries are trading with those countries on terms which are, as a rule, unfavourable for the latter. The difference between the national and international cost of the exchanged commodities, which is appropriated by industrial countries on "legal grounds", so to speak, is coupled with the losses incurred on developing countries by the control exercised

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[1] Monthly Bulletin of Statistics, November 1980 pp. XXXIV—LII.

[2] Ibid.

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by transnational corporations over the world market. Resorting to such techniques as a refusal to sell their own machinery, equipment and other commodities to and to buy products from developing countries, tansnational corporations thus force those nations to sell at cheaper and buy at higher prices. As a result of the price discrepancy developing countries suffer losses of billions of dollars each year.

Thus, in the 1950–1970 period prices for industrial products exported by developing nations to the countries of Latin America grew by 24 percent, whereas prices for raw materials of the latter grew by only 3 percent.[3] This trend persisted in subsequent years, as well. Thus, in five years alone, from 1966 to 1972, developing nations suffered losses of over $ 10 billion, because of the unfavourable ratio of exporting and importing prices. In 1973–1974 because of the temporary changes in supply and demand prices for raw materials and foods exported to developing countries grew considerably. The short–term gains in prices, which the countries of Asia, Africa and Latin America had received in the first half of the 1970s, were more than offset by the sharp fall of raw material prices and the rise of prices of industrial products imported by developing nations in subsequent years. As a result, their balance of payments deficits sharply grew from $ 6 billion in 1973 to $ 37.5 billion in 1975.[4] Corporations of leading industrial countries took advantage of the growing prices for raw materials to boost prices for manufactured goods. In doing so they unloaded the growing production costs on the consumers, including developing countries. The growth of prices for primary products was largely offset by the fall of the American dollar. The estimates made by experts from the Economic Commission for Latin America (ECLA) show that the real purchasing power (that is to say, the capacity to buy the required products in the West on the money received from raw materials sales) of several Latin American countries not only failed to grow but actually somewhat declined. Thus, the capacity of an equivalent exchange of iron ore in 1974 shrank more than twice as against the 1951–1955 period of coffee and bananas by 45 percent, of wool by almost one third.[5]

[3] Les Multinationales, Lausanne, 1977, p. 114.

[4] Banco Interamericano de Desarrollo. Anales Undecima Reunion de la Assamblea de Gobernadores, Punta del Este, 1970, p. 44.

[5] The External Economic Relations of Latin America and the International Situation, E/CEPAL/981. Add 2, Port of Spain, 1975 p. 49.

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Besides, there was a sharp rise in prices for the commodities imported by Latin American countries which largely deprived the latter of the gains they received from an export prices growth.

In the context of monocultural exports by most of the developing countries price fluctuations upset the development programmes of newly–independent states, totally destabilizing their economies. For example, the fall of tin prices during a single year shock the economies of Malaysia and Indonesia. Sri Lanka suffered losses of 45 million pounds from a decline of tea prices. As a result, in the late 1970s developing countries had to export raw materials two to three times more in order to receive sufficinet financial resources to buy the same amount of commodities they could buy in the early 1970s. The Tanzanian President said in 1976 that a sisal price fall in the 1970s meant for Tanzania a good deal. Before 1976 the construction of a factory by Western companies cost the country 7,000 tons of sisal, in 1976 in cost 24,000 tons. According to ECLA estimates, in the mid–1960s it was enough to sell 19 bags of coffee to buy a car, whereas in the mid–1970s 40 bags had to be sold. All that continues to have an adverse effect on the economies of developing countries. Their trade balance deficit (except OPEC member states) totalled $ 178.8 billion in the 1974–1979 period.[6] The deplorable balance of foreign trade of those countries had been further exacerbated by galloping inflation. There is no doubt that with the passage of time the inflation whipped up by the policy pursued by corporations, will "eat up" the temporary, gains which individual developing countries might have had, while the trade terms will keep growing worse for developing countries over the long period.

Nevertheless, the raw material resources of the countries of Asia, Africa and Latin America play a growing role in the production cycle in industrial nations of the West. The dependence of Western states and Japan on raw material and fuel supplies from developing countries is growing. Now almost one half of the oil consumption in the United Stats is covered by oil imports. This forces Washington to modify its "oil" diplomacy: the US is going over from "confrontation" with oil producing countries to "co–operation" with them. To a certain extent, this "cooperation" is to be explained by the desire to wreck the Organisation of Petroleum Exporting Countries (OPEC) from within and to divide oil producing countries. The US leans basi–

[6]Monthly Bulletin of Statistics, May 1980 pp. 108, 109.

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cally on Saudi Arabia in following this tactical line. The British *International Currency Review* magazine reported, for example, the existence of a secret agreement signed by the US and Saudi Arabia as far back as 1975. Under the agreement Saudi Arabia promised to keep an oil price hike below five percent a year and to provide an uninterrupted oil supply for the United States. Washington, for its part, undertook to help Saudi Arabia to modernise her armed forces by supplying sophisticated weaponry and sending military and technical personnel to service it. The oil price freeze in the last half of 1977 led to a growing practice of giving oil price discounts informally. For example, Nigeria made her initial oil deals in 1978 at prices five per cent lower than the prices officially set by OPEC; Algeria and Libya by 20 percent lower and so on.[7] This trend serves to intensify the competition within the OPEC. Washington was pinning great hopes on Iran, too. However, the Iranian revolution of 1979 confused the American plans. The American tactical line at "cooperation" failed in Iran. But Washington has not abandoned it. It has staked on the Tel Aviv–Cairo axis.

At the same time, the US and other industrial nations have not abandoned their plans to commit the most developed of the oil producing countries to the world market economy system as strongly as possible. The West is growingly realizing hat neo–colonialist dependence is ineffective and weak in comparison with the relations based on economic involvement. It is in the system of such relationships that industrial nations count on establishing their control to determine the future course of the economic and political development of the former colonies and semi–colonies. A major role in perpetuating the inequitable commercial and economic relations between Western nations and newly–independent countries is played by the European Economic Community (EEC) a major regional grouping of European countries. The Second Lome Convention, which came into force on March 1, 1980, is a typical example of how industrial nations are trying to adapt themselves to the changing circumstances. The convention provides for easing somewhat the terms on which tropical products of some developing countries can be marketed in the EEC, although the EEC has preserved the exclusive right to regulate the inflow of agricultural products from developing nations that compete with similar

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[7] *Middle East Economist Digest*, January 2, 1978.

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products of the nine. The agreement contains a reservation which allows the EEC under certain circumstances to resort to the so–called "protective measures". On the insistence of the EEC the new convention contains a provision which stipulates that African, Caribbean and Pacific states give to the EEC countries the most–favoured–nation status. What is more, the EEC members have won practically free access to the raw materials of developing countries.

The convention also contains a clause to bring up to date the mechanism designed to stabilze export earnings. It is the so–called fund to stabilize earnings from exports of some agricultural products and raw materials, which has come to be known as STABEX. Credits from that fund ensure to the supplying nations an average level of profits from exports regardless of fluctuations in prices as well as in supply and demand. But here, too, there are some unfavourable consequences for African, Caribbean and Pacific countries: the compensation for the losses, provided by the STABEX system is quite insignificant considering its limited funds. At the same time the EEC is in a position to offset its own losses due to the import of cheap raw materials from those countries and the difference in commodity prices on the EEC and on the world markets. Some concessions that have been made by the EEC countries in signing the Second Lome Convention indicate that West European countries, if subjected to some pressure, can afford the "luxury" of moderating somewhat the predatory character of their "trade" at least by accepting offset financing. They do this in order to preserve the foundations of the entire mechanism of commercial and economic exploitation of developing countries. However, developing countries are fully aware of the drawbacks and scantiness of the Second Lome Convention, that the President of Togo admitted at the signing ceremony.[8]

To protect the huge profits corporations receive even in those industries which are less competitive than the similar ones in developing countries, the Governments of Industrial nations are pursuing a protectionist policy against many commodities they import from newly–independent countries. This policy includes both tariff restrictions (primarily import duties) and not–tariff barriers (import quotas, a customs assessment system, additional duties levied on imported

[8] *Christian Science Monitor, September* 7, 1980.

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commodities, discriminatory regulations, etc.) High tariff rates constitute a formidable obstacle on the way to expanding the foreign trade of developing countries, whose commodities often fail to compete successfully on the world market. In the meantime, given a monocultural character of export of most of the developing countries, tarriffs levied on their commodities leave an adverse effect on the economies of those states. Thus, in 1980, the US substantially raised tariffs on some Indian industrial export items and on textiles, leather footwear and industrial fasteners. As a result, commercial contracts had to be cancelled and the Indian companies involved suffered sizeable losses. The subsequent US–Indian negotiations to normalise trade relations between the two countries broke down, because US officials demanded that the Indian Government should stop subsidizing Indian exports. Here is one more example of the Western discriminatory policies. When the US raised sugar tariffs by 50 percent in 1977, this had a disastrous effect on the economies of several sugar producing countries primarily 13 Latin Ameican states (they account for more than half of the sugar imports of the United States). For instance the Dominican Republic lost $ 28 billion a year from the higher sugar tariffs imposed by the United States, which strongly upset the country's economy. According to some estimates, following "operation sugar", the losses suffered by Latin American countries exceeded $ 55 million as early as 1978. The US unilateral action was strongly criticised by Latin American countries, which regarded it as "a new act of economic aggression against developing countries".

The Western arsenal of weapons designed to perpetuate the inequitable position of developing countries within the framework of world trade includes a selective protectionist policy, which allows raw materials to reach Western markets practically duty free, whereas the semi–manufactured and manufactured goods imported by developing nations have to overcome barriers in the form of rising tariffs. (A simllar situation exists in trade between industrial nations, although there is no doubt that as a result of this policy the economically weaker newly–independent developing states are hardest hit). The tariff rates in the United States and the EEC for instance, rise one and a half times or twice as the degree of processing of exported commodities goes higher. The application of non–tariff restrictions has been notably growing over the last few years, seriously preventing the commodity exports from

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developing countries. Unlike tariff and other direct import restrictions, imposed by legislation, non–tariff restrictions are often imposed on the basis of decisions made by various federal or local authorities. It is very often the case when non–tariff restrictions practically bar various foreign–made commodities. Industrial nations have acquired new instruments to regulate trade and to protect markets, instruments which are less conspicuous and formal than was the case in the past. Direct enforcement quotas, just like tariffs, are losing their effectiveness, whereas what is coming to the fore nowadays are various forms of Government subsidies and, when it comes to direct import controls, the so–called market agreements, which are nominally "voluntary" agreements between an exporter and an importer on "orderly marketing arrangements", on "voluntary export restraints" and on various "minimal import prices" and compensation fees.

Industrial nations have been repeatedly stating over the last few years their intention to accord several trade benefits to developing countries within the framework of new international trade agreements, However, several agreements, specifying the terms and the procedure of the application of some non–tariff barriers signed in 1979, following the multilateral trade negotiations within the GATT framework, which came to be known as the "Tokyo Round", clearly indicated lack of desire on the part of the West to meet even the minimal demands of developing countries.[9] As regards tariffs, the benefits granted to developing countries have proved very marginal, indeed. Since most of the tariff concessions apply to manufactured goods, the cuts in tariffs for commodities exported by the countries of Asia, Africa and Latin America averaged 25 per cent compared to the overall tariff rates cuts by 32 percent. Moreover, as a result of the "Tokyo Round", those states sustained very sizeable losses caused by the erosion of preferences on their exports of manufactured and semi–manufactured goods.[10] Tariff cuts under the most–favoured–nation treatment arrangement is bound to devalue preferences by reducing the average difference between the preferential duties and tariffs from 8 percent in 1979 to 4.7 per cent in

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[9] *Financial Times*, November 8, 1979.

[10] The New International Economic Order: A US Response, New York. 1979, p. 68.

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1980.[11] Concessions made on tropical goods have not brought about any tangible results either, because the easing of their exports to the United States and other industrial nations has not affected the non–tariff barriers and is to be applied not only to newly–independent states, but also to the exports of similar goods from Western nations, for instance, Italian oranges, American pineapples and tobacco and other tropical goods. The non–tariff agreements proposed by industrial nations equally ignore the interests of developing countries, while formalizing the protectionist policies of industrial nations.[12] Thus, several provisions of the code on subsidies and compensatory tariffs and the code on a customs evaluation of commodities are damaging to the export interests of developing countries and will help transnational corporations to transfer their profits from those countries through transfer prices.

Protectionism has been clearly on the rise over the past few years. Speaking at the Fifth UNCTAD session, the Indonesian Coordinating Minister for Economy, Finance and Industry, said that the rising restrictive barriers affect not only trade but services as well. The "new type" of protectionism is exemplified, in his words, by Australia, which is planning for *Quotas* flights to Europe without stopping over in ASEAN airports. Thus, it may be pointed out that the trade policy of industrial nations has laid more emphasis on expanding discrimination and raising non–customs barriers. Moreover, the wave of protectionism is sweeping across a growing number of Western nations. In 1979 over 46 percent of total trade was controlled by Governments through tariffs, quotas and other barriers, as against 40 percent in 1974.[13] Even IDB experts have admitted that the trade policy of industrial nations raises a multitude of obstacles hampering the growth of export earnings of lesser developed countries. According to their estimates, in 1975 alone developing countries lost $ 14 billion from worsening trade terms, which exceeds one and a half times the total assistance given by Western nations to those countries in the same year.

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[11]The Tokyo Round of Multinational Trade Negotiations, GATT, Geneva 1979, pp. 118-120.

[12]*Journal de Geneve,* le 26 de decembre 1980.

[13]*Wall Street Journal,* March 12, 1980.

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The neo-colonialist exploitation in foreign trade has manifested itself in less conspicuous forms, which can be illustrated by a restrictive business practice. The restrictive business practice implies that a set of methods and techniques is used by corporations controlling a market to overcome the competition and impose on their partners inequitable trade terms. So, this practice is one of the basic instruments transnational corporations use to establish their economic control and to derive monopoly profits. That is why it is widely resorted to in the world market economy including developing countries. The restrictive business practice manifests itself most clearly in the monopoly pricing practice. This is brought about by the very nature and scale of the operation of transnational corporations, whose subsidiaries are still in control of the economies of developing countries both in production and in distribution, including transportation, processing and marketing. Corporations directly export the commodities produced by their subsidiaries operating in the mining and processing industries, with developing countries receiving not the total value of the exported raw materials, but merely compensation for granting concession. Taking advantage of their status of monopoly brokers, transnational corporations either buy up some types of products from individual producers in developing countries, or sell the imported commodities to individual consumers. For example, American Del Monte controls the production and marketing of fruits and vegetables grown in Central America and Africa, British Brooke Bond Liebig of East African tea, American General Foods of Colombian coffee. Japanese brokers buy all the fish catches from Maldive fishermen, who have neither refrigerator ships, nor basic processing facilities. Anglo-Dutch Unilever buys 25 percent of oil seeds crops in Western Africa. As a result, according to an UNCTAD estimate, the producing countries regularly receive only 10 percent of the export growth rate earnings.

On the contrary, retail trade in oil products in most of the Asian and African countries, just like wholesale trade in medicines, is controlled by a handful of corporations of industrial nations. Small wonder that in this context corporations are manipulating prices as they find fit, prices which unlike world market prices, are fixed at the highest possible level while marketing and at the lowest level while buying. A special technique practiced by transnational corporations is to fix internal or transfer prices,

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which are used in paying for the supplies of commodities between the head offices of transnational corporations and their subsidiaries. Corporation managers may fix them in an absolutely arbitrary manner. The prices may as a rule be lower than the world prices while exporting and higher while importing, a practice from which corporations benefit and developing countries lose. A survey of Colombia done by Andean Group countries has revealed that prices had been substantially lowered for commodities in forestry and the fishing industry as well as for cut precious stones when exported by subsidiaries to head companies. This practice was also used by US automobile corporations at their assembly plants in Indonesia, Thailand and the Philippines. On the contrary, while importing, prices are often deliberately inflated. Surveys conducted over the past few years have established that foreign companies in making intra–firm deliveries, which account for a substantial share of world trade, pay to their head companies prices for the commodities they receive one and a half times or twice and even thrice as high as world prices, thus depriving developing countries part of the currency receipts they might have otherwise had. For instance, in Colombia subsidiaries of pharmaceutical and chemical transnational corporations were marketing tetracycline at prices 10 times higher than world prices, ampimicine twice as higher while cellulose nitrate prices were raised by 59 percent and shellac prices by 34 percent. At the same time, a comparison of import prices for similar commodities in Ecuador and Colombia revealed that foreign subsidiaries operating in Ecuador paid to their head companies for the commodities they had delivered prices by 72 percent to 200 percent higher than their counterparts did in Colombia. As a result, according to American economist P. Muller, Latin American countries are short charged while making payments for exports and overcharged while making payments for imports by 50 percent of the world market prices.

With the help of transfer prices transnational corporations have succeeded in keeping at a very low level the prices for many raw materials and foods exported by developing countries. A survey conducted by the UNCTAD Secretariat revealed that until 1973 earnings of the countries of Asia, Africa and Latin America from exporting raw materials had averaged 25 percent of the final price paid for those commodities by the consumers in industrial nations. What is more, in many cases over the last two decades this share significantly has shrunk, causing

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an enormous damage to the economies of developing countries. This means that developing countries now count their losses in billions of dollars, whereas the very inequitable trade through the monopoly price formation has become the main channel of their exploitation by the West. This way of doing things so typical of monopolies and used by transnational corporations in many spheres of the economies of developing nations is now more and more frequently resorted to in transportation. Transnational corporations carry shipments of raw materials by sea through a system of subsidiary shipping companies registered, as a rule, under a "flag of convenience" at freight rates dictated from their head offices. With the help of the "flags of convenience" corporations bring pressure to bear on the open freight markets. They thus exacerbate the depression in the sphere of raw material shipments by sea only to use it later on as a leverage to oppose the creation of "wasteful" national fleets of developing countries. We have not cited all the aspects of the discrimination and inequality existing in the trade between Western countries and newly-independent states. But what has been said seems to be more than enough to show the techniques currently used by industrial nations in carrying out their trade policies.

THE PREFERENTIAL SYSTEM : AIMS AND ESSENCE

Industrial nations are taking advantage in every possible way of the foreign trade problems faced by developing countries, especially when it comes to exporting their manufactured goods, in order to promote their own selfish interests. The newly-independent states of Asia, Africa and Latin America have set themselves the task of producing no less than 25 percent of world industrial products by the year 2,000, in other words, to raise their share in world industrial production almost four-fold, as against 1975. But most of them have narrow home markets (the population of each of the 60 newly-independent states is less than 5 million). It is impossible to build up modern mass producing industrial capacities, leaning on such a limited market. Therefore, it is necessary to seek to expand industrial exports. To achieve this goal, the exports should grow by no less than 18 percent a year. The task is difficult. To overcome this formidable problem, aid and assistance should be forthcoming. But what is actually happening is the reverse. Industrial nations represent the major markets for manufactured and semi-manufactured goods of developing countries. However,

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high tariffs, which industrial nations impose on the commodities exported by developing countries, seriously prevent their exports from growing. One of the major claims put forward by developing countries in the 1970s was the demand to lift tariffs on their exports of manufactured goods and to extend to them a preferential tariffs treatment. Following a hard struggle, 18 industrial nations of the West had been forced in the mid–1970s to extend tariff preferences to manufactured goods exported by developing nations.[14] The easing of tariffs provided for developing countries some favourable opportunities to market their manufactured goods in industrial nations. However, one should not overestimate the role played by those benefits in solving economic development problems faced by the newly–independent states. The importance of tariffs as a factor determining the size of exports to industrial countries in the context of growing control,exercised by transnational corporations has significantly declined. That is why a reduction of tariffs does not necessarily mean growing exports for developing countries. Besides, the reductions of tariffs that have been carried out do not always cover the products developing countries would like to sell in the West. Thus industrial nations are using the reduced tariffs to promote their aims.

A typical example of utilizing tariff benefits with a view to pursuing a neo–colonialist policy is the Trade Reform Act passed by the US Congress in December 1974. It includes a section, which extended to developing countries (as of January 1, 1976) tariff preferences to the manufactured goods they export to the United States. However, several substantial reservations that have been tagged on to the tariff benefits strongly curb the application of the Act and make it inequitable for many countries. This Act stipulates that the United States may pursue a selective foreign trade policy towards American trade partners. In other words, trade is to be used as an instrument to apply direct political and economic pressure. It is no accident that the adoption of the new Trade Act has been an object of stinging criticism on the part of developing countries. Let us consider the document at some length. Under the Trade Reform Act the United States is not to extend preferences to a nation which is, let us say, a member of OPEC or any other foreign association.[15] Clearly directed against

[14]The New International Economic Order: A U S Response, New York, 1979, pp. 66, 67.

[15]Trade Reform Act, January 3, 1975, p. 90.

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oil producing countries, this section may be equally applied against countries, exporting copper, bauxities, etc. that is to say, against the countries which jointly protect their raw materials resources. In other words, the reservation contained in the Act can be used against any state which will choose to join an association as a means to oppose American corporations. Besides, the Act denies tariff benefits to those developing countries which have accorded a perferential treatment to other states but not to the United States. This implies primarily to the 57 countries of Africa, the Caribbean and the Pacific associated with the EEC. This section of the Act is in fact an attempt to disintegrate the EEC's emerging economic periphery that is based on the Common Market's association with developing countries. Tariff benefits are also denied to the countries which have nationalised American property or investments without an appropriate compensation. This section aroused violent protests. *Mercurio*, an Ecuadorian daily, pointed out that the undisguised US intention to force developing countries, using brutal pressure, to abandon their policy to protect their national resources, posed a grave danger to the cause of peace throughout the world and ran counter to the principles of international cooperation.[16] President C. A. Perez of Venezuela called the Trade Reform Act a clear act of economic aggression and political pressure, urging the remaining Latin American nations not to reconcile themselves to such discrimination.[17] Many of the commodities, whose exports bring profits to some developing countries, have been excluded from the preferential list because they have already been included in the list of restrictive quotas or are subjected to high tariffs (textiles, steel products, household electronic gadgets, watches). This reservation covers developing countries' exports estimated at $ 7 billion or approximately two thirds of the exports of all tariff–due commodities exported by those countries. The Reform Trade Act also provides for measures to restrict easy–term imports from developing nations on the basis of the "competitiveness" criterion. The application of this criterion barred 337 categories of commodities (whose imports were estimated at $ 3.9 billion) from being imported duty–free in 1978. This provision is discriminatory against those industrial products of developing countries, whose

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[16]Comercio, 6 de enero de 1975.

[17]*The Washington Post*, January 6, 1975.

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production contributes to their industrial development, helping them to stop being merely raw material appendices. And last but not least, the Act gives rather broad powers to the President who can terminate, suspend or restrict the application of the preference treatment with regard to any country or any commodity by invoking the supreme national interest of the United States. What is more, the US Congress, too, is in a position to take some protectionist actions.

The Western press has written extensively about economic effectiveness of preferences for developing nations. It has been pointed out that as a result of the tariff benefits the newly–independent nations may expect growing currency earnings and other benefits, However, they have failed to make any substantial gains. Thus, in 1978 within the Generalised System of Preference (GSP) commodities worth $ 5.25 billion were exported to the United States which accounted for about 3 percent of the total US exports or 7.5 percent of imports from developing countries. At the same time the introduction of the system of preferences deprive tariff benefits from a large group of newly–independent states which served to undermine the competitiveness of their commodities. For example, the new Act has been applied to some 30 percent of the Philippines' exports to the United States, and an annual damage to the country's economy is estimated at $ 53 billion.[18] According to the data of an ad–hoc committee on consultations and negotiations of the Organisation of American States, in 1979 the Latin American countries, which enjoy the preferential treatment, sustained losses that accounted for 45 percent of their total export earnings as a result of the application of the competitiveness criterion. Preferences of industrial nations are applied chiefly to a small group of more developed countries of Asia, Africa and Latin America (for examples, about 75 percent of the US preferential imports fall on 7 countries). As for the other developing nations they are only nominal parties to the new preferential system, because they do not export industrial products while the agricultural products they supply to the world makret are only marginally covered by tariff benefits. The introduction of preferences means for industrial nations not so much concessions on their part to newly–independent states (although the Western press is embellishing in every possible manner this allegedly generous

[18] Industrial Philippines, January 20, 1975.

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gesture) but rather a measure designed to bolster the economic positions of transnational corporations in the developing world. A prospect of making some extraneous gains was undoubtedly a major consideration that pushed the United States and other industrial nations to agree to some concessions, political and economic, to benefit developing countries. The same considera–tion was taken into account during the elaboration of specific terms of extending tariff benefits. By introducing the Generalised System of Preferences, the US and other Western countries expect that it will pay off politically. Guided by selfish interests, they have a stake in modernising to some extent the production mechanism in developing countries and in adopting it to meet the needs of the world economy. Growing economic ties with developing countries are being taken advantage of to make their dependence on industrial nations grow. Besides, Western states draw various economic benefits from preferences : the somewhat growing exports from developing countries are used to pay off the latter's huge foreign debt, whereas their growing import capacities help Western nations to market their commodities.[19]

Finally, it is the subsidiaries of transnational corporations, operating in developing countries, which are primarily the ones who enjoy the tariff benefits to manufactured and semi–manufactured goods exported from developing countries. Although the commodities manufactured by the subsidiaries of those corporations tend to boost the exports of the suppliers, they do not result in growing exports earnings of the latter. The Western press keeps silent on this, strongly emphasising "the importance of world monopolies in the development of newly–independent states" instead. The US is taking advantage of its concessions to developing countries in order to solve also some of its internal economic problems, not only the current but long–term problems. By allowing developing countries to sell relatively large quantities of their industrial manual labour consuming commodities on the US market, which are labour–consuming, the US is thus in a position to switch over its own production apparatus to manufacturing sophisticated modern products, which in the long run helps to increase the productivity of labour and raise American profits. As a result of inequitable trade the gap between the United States and developing countries is likely to grow still wider in the long

[19] International Economic Report of the President, Washington, 1973, p. 37

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term, since newly–independent countries will remain the object of exploitation by and a source of growing profits for the United States. The foreign trade policy of industrial nations is characterised by a differentiated approach to developing nations, which is exemplified by the generalized system of tariff preferences. Being a neo–colonialist instrument, they allow industrial nations to respond flexibly to the on–going developments in the world, to "encourage" some, to punish others and to bring pressure to bear on still others.

THE WEST AND THE FOOD PROBLEM

The world food problem grew acute in the 1970s, which affected many market economy countries, especially developing ones. In this connection it is worth analysing the food assistance given by the West to the countries of Asia, Africa and Latin America and the impact it left on the social and economic processes in those regions. The United States exports massive shipments of grain and food, which strongly affect the economies of developing countries. This is done on the basis of the so–called Public Law 480 adopted by the US Congress in 1954, which has become an effective instrument to stimulate the growth of the American agricultural exports. The US propaganda machine has been praising the law to the sky as a "humanitarian" act. In fact, however, it serves exclusively the interests of American monopolies. With the help of Public Law 480 the United States has stepped up its efforts in a bid to take over markets in developing countries and to control their economies. Besides, the law helped to market a Government huge surplus of agricultural produce which had piled up as a result of government–supported prices on the home market.[20]

Despite all their ostensible attractiveness, food supplies to Asian, African and Latin American countries on the basis of Public Law 480, were fraught with grave danger for newly–independent states. Not only did they fail to spare developing nations hardships and problems, but on the contrary, gave rise to new problems, disorganising their markets and making undesirable changes in their economies. This is well illustrated by the example of India. As is known, India was forced to import grain (wheat, rice and corn) from the United States in 1951 when the grain and food prices began to grow sharply

[20]US food and Agricultural Policy in the World Economy, Congress. of the United States, Washington, April 26, pp. 30—34.

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due to a crop failure. Ever since 1960 American grain supplies to India have been maintained at an annual level of 3 to 4 billion tons. As a result there has been a further grain price rise which served to aggravate India's dependence on American grain supplies. Large agricultural supplies to India have enabled US corporations to bolster their positions in the private sector of the country with their tentacles reaching out to her finances. The earnings from maketing those products were controlled by the US Embassy in India, which provided an opportunity to interfere in the internal affairs of the country. This happened, according to the Indian press, during the Parliamentary elections of 1967.[21] By and large the US supplies of agricultural produce have resulted in a stagnation of its production in India, ruining millions of peasants, disorganising the home market, heavily draining the Government budget and boosting inflation because of growing grain prices.[22] As if this were not enough, these supplies were instrumental in US business attempts to control the economic and financial spheres of India. That is why in 1971 the Indian Government having fully tasted the bitter fruits of the American assistance, refused to renew the agreements with the United States on grain and food supplies under Public Law 480.

A similar situation was brought about by the US food assistance in other developing nations as well. Following his tour of Latin American countries Sen. Iken (R–Vt) admitted that by dumping foods on their markets the US was seriously undermining their agricultural production. Wheat crops dropped in some Latin American countries, said the senator, primarily because of the exports of American wheat to those nations and American efforts to cut back the local wheat production.[23] The French paper *Le Monde* Diplomatique wrote that as a result of the operations of American farm exports, Colombia began to grow other crops to replace wheat, and at present this Latin American nation meets over 85 percent of her wheat requirements by importing grain from the United States. In Mexico vegetables and fruits, which are to be exported, now grow on lands previously used to raise 12 local crops which are incidentally far more rich in protein. As a result, the prices

[21] *The Indian Express*, March 30, 1967.

[22] Shenoy B. R. PL 480 Aid and India's Food Problem, New Delhi, 1974, p. 48.

[23] *The New York Times*, November 2, 1966.

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for traditional products are soaring ! The effects of PL 480 were equally disastrous for other developing countries. In Turkey, for example, food supplies under the food assistance program painfully hit the dairy farmers, in Liberia many rice producers had to abandon their plots. "Many countries feel that they neglected the development of their agriculture to a certain extent, owing to demobilising effect of food imports",—wrote the American magazine Foreign Affairs.[24] A report prepared by the Congressional Budget Office admitted "that food aid, by depressing recipient country food prices, has discouraged local food production and thereby forestalled development, rather than accelerated it".[25]

Despite a generally increased agricultural production in developing countries, the food problems there became more acute in the 1970s. The growth of crops was not enough and, projected to a per capita production, even dropped in the first half of the 1970s. In African countries it dropped by 13 percent, in the Middle East by almost 6 percent, in Latin America by 3 percent. In the end developing countries became far more dependent on food supplies from industrial nations, primarily, from the United States, which is the chief grain exporter from among industrial nations. Ever since 1973 rhe United States taking advantage of the plight of developing countries and a sharp rise in export food prices (they trebled in the 1970–1974 period), has ceased grain supplies under PL 480 in exchanging for local currencies.[26] Commenting in that decision, Earl Butz the then US Secretary for Agriculture cynically said that hunger is a relative thing and if someone's coffer is empty, then all you could do was to tighten the belt. At the same time US agricultural supplies to developing countries in exchange for US dollars and other convertible currencies had doubled by 1979 totalling—0.8 billion.[27] Thus it is not humanitarian considerations but rather a profit motive, a desire to take advantage

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[24]Foreign Affairs, January 1976, p. 299.

[25]US food and Agriculture Policy in the World Economy, Washington, April 26, 1976, p. 58.

[26]US Overseas Loans and Grants and Assistance from Internationa Organisations, July 1, 1945—September 30, 1976. Washington, 1977, p. 6.

[27]Foreign Agricultural Trade of the United States, June 1977, p. 77.

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of the aggravating world food problem, which are in fact the driving force behind the food policy of industrial countries and primarily of the United States. This policy designed to boost the dependence of food importing countries on food supplies and to perpetuate international monopolies' control of the world market, only serves to disorganize that market and to aggravate the critical food situation in developing countries. The increasing protectionism, the deteriorating trade terms, the growing discrimination and artificial barriers in the world trade provide an irrefutable proof to show that the doctrine of "partnership ",between different groups of states proclaimed by Western ideologues has no leg to stand on. Small wonder, then, that, the attitude of Asian, African and Latin American countries towards such a partnership is becoming more and more negative. UN experts have stated: "The majority of developing countries feel disappointed in the very essence of relations".

This is also confirmed by the results of the five previous UNCTAD sessions, where developing nations urgenlty called for better trade terms. For example, during the fifth session held in the Philippines' capital of Manila in May 1979, delegates of many developing countries were strongly advocating the elimination of the inequitable economic relations as a vestige of colonialism. They were demanding a radical improvement in trade terms especially in raw material trade, an end to the discriminatory policy and a removal protectionist barriers. Besides, they were insisting on expanding the controls over the operations of transnational corporations and urging an easing of the burden of debt brought about, among other things by the need to repay foreign trade credits.

The session rejected the attempts of Western industrial nations to force developing countries "to honour the status quo" in world economic relations. Industrial nations had to retreat on a number of questions and the session adopted resolutions that have opened up the way to businesslike negotiations. At the same time the session revealed a clear desire of industrial nations to dodge the discussion and solution of basic issues, while replacing them with widely publicised assurances to provide funds for various projects. Thus, the Western leading states demonstrated that the interesrs of big business are much more important for them than desires and

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aspirations of newly–independent states. They exposed their own policy and that is a major result of the session. It is no accident, therefore, that *Daily Express*, a Filippino daily, stressed the need for the fighting nations to get together in a joint effort to get rid of poverty and backwardness.[28]

[28]*Daily Express,* May 17, 1979.

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CHAPTER VI

TECHNOLOGICAL NEO-COLONIALISM

TECHNOLOGY TRANSFERS: AIMS AND TECHNIQUES

Western industrial nations take advantage of the scientific and technological revolution to bind developing countries to the Western economic system. Monopolies often find it unprofitable to hamper technological progress in developing nations, since they are out to get maximum profits and accelerate exploitation rates in those countries. This can be attained only, if the latter are helped to make some technological progress. They also take into account the fact that forced checking of technological progress in newly–independent countries is fraught with social and political problems. It is only natural that while helping to modernize some industries of developing nations, Western industrial countries do it in a manner so as to widen rather than to bridge the gap between developing and industrial nations. The per capita Research and Development (R & D) ratio is now 140 to 1 in favour of industrial nations. For each 10,000 people there are 22 scientists and engineers in Asia, 6 in Africa, 69 in Latin America as against 112 in industrial nations. This clearly serves to make developing nations grow more dependent on the imports of technology used by transnational coporations to extract handsome profits.

Technological dependence is now becoming one of the major techniques used by industrial market economy nations to exploit developing countries. Transnational corporations receive huge funds from developing countries in exchange for the scientific and technological knowledge they share with them. According to the UNCTAD secretariat, direct payment made by developing countries (in transfers and royalties) for the technologies transfered to them (patents, licences, trade marks and other documents and services) total $ 3 to $ 5 billion annually.[1] According to some forecasts, these payments may

[1]Doc. UNCTAD TD/183, 14 April 1976, p. 61.

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grow 20 to 25 times by the early next century. As a rule,most of the funds go to the bank accounts of American transnational corporations which have a large number for subsidiaries operating in developing countries. If we consider Mexico's spendings to buy imported technologies for her processing industries in the 1968–1974 period, we shall see that they trebled, reaching $ 2.6 billion. The largest profits transnational corporations get in the chemical and pharmaceutical industries, since a technological monopoly allows those corporations to establish in an arbitrary manner exorbitant prices for chemical products and medicines. "Besides oil companies", wrote *The Guardian*, a British daily, "there is not any group of the transnational corporations which cause so much public suspicion as pharmaceutical giants do". Those suspicions have not come about by accident. Today the production of medicines has become an internationalized business, but not for the sake of a reasonable division of labour, of a joint use of raw materials, or of coordinating efforts of physicians and scientists of various countries. This has been done largely for the sake of bypassing taxation and other restrictions, for the sake of arbitrarily raising prices and making superprofits. Most of the developing countries have a limited number of pharmaceutical enterprises of their own, so they naturally have to import or to buy large stocks of medicines from transnational corporations, operating there. According to the World Health Organisation, in Africa alone up to 40 to 50 percent of its scarce resources allocated by Government budgets for health appropriations go to buy medicines. For examp,e, Tanzania spends over $ 5 million a year for this purpose. In an attempt to sell their commodities at high prices and in large quantities, Western firms have flooded drug–stores and hospitals with large stocks of seldom used medicines or medicines that have a similar effect but bear different trade marks. Hundreds of agents of pharmaceutical monopolies besiege Health Ministries, Hospitals, sanitary services forcing their commodities, often resorting to bribery and other frauds.

In 1976 alone a hundred Western corporations sold their medicines to various developing countries a sum exceeding $ 7 billion. A paradoxical situation frequently arises: there is a great variety of medicines except those which are really needed. A health service manager in Tanzania wrote in the *Daily News* that hospitals and clinics of the country urgently needed medicines to combat malaria, TB, stomach diseases, malnutrition.

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Besides, medicines are very expensive. Sometimes a one week's wage of a common working man is barely enough bo buy ordinary pills in a drug–store in Kinshasa or Lusaka. Small wonder that pharmaceutical companies spend just as much money on advertising, as on their R & D projects. It is very profitable to advertise "panaceas" from headacbe or nervous breakdown, illnesses that have become so wide spread nowdays. An analysis of licence agreement seems to be of special interest. In the context of a scientific and technological revolution growing licence trade is an important feature of economic expansion of industrial nations. Foreign companies used licence agreements to control the enterprises of developing nations and bolster their positions on foreign markets. It is a matter of great significance nowadays that transnational corporations artificially boost rates of payments for licenses, technical assistance and services, as well as for the deliveries of semi–manufactured goods, units and spare parts. When a Council of Andean Group analyzed this practice at the request of the UNCTAD secretariat, it transpired that, for instance, in the pharmaceutical industry prices for semi–manufactured commodities and units supplied by head companies to their subsidiaries grew in the early 1970s by 155 percent in Colombia, by 300 percent in Peru and by 500 percent in Chile. The pharmaceutical industry is no exception. Nor are the Andean Group countries. Similar facts have surfaced in India, Nigeria, in the chemical, electrotechnical and electronical industries of other developing countries. Before signing agreements to sell technologies to developing countries transnational corporations seek to include various reservations and restrictions which would give them profits and control over the recipients of technologies. For instance, technologies are sold only under an explicit obligation that the raw materials, equipment and spare parts are to be supplied by a company specified by the licence holder. The agreement is very often to enter into force only if the exports of manufactured goods are partially or totally banned when the licence holder may find such exports undesirable for commercial reasons.

The number of such restrictions grow as foreign monopolies lose the leverage to control the operations of local enterprises. Thus, according to the Reserve Bank of India, of the 1,041 technical cooperation agreements signed by Indian and foreign firms 455 have a provision restricting the exports of manufactured goods produced under the licence; 154 a provision restricting

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the number of countries that may become potential suppliers of equipment or raw materials and 65 specify the quotas of products to be manufactured under the licence.[2] In the Philippines of the 72 licence agreements signed by national enterprises 57 contained restrictive clauses. More often than not licence deals turn a local firm into a foreign company subsidiary without receiving substantial investment and in circumvention of local legislation regulating the operations of foreign business. The obligation imposed on a local company to turn for technical assistance, management consultations and so on exclusively to a foreign company, which owns the technology. is a variety of forced restrictions. Because of such commitments Pakistan, for instance, had sometimes to spend $ 100 million a year, or more than one percent of its GNP, for the services rendered by foreign consultants. These restrictions emerge as a formidable obstacle which developing countries have to overcome on the way to industrialising their economies boosting their exports or winning access to world markets. Western corporations ofen pursue a policy deliberately designed to reduce the home market of developing nations. Thus, some agreements ban the production of licensed equipment over and above specified quotas, the manufacturing and marketing of competing products, by a local company, which is the licence–holder, the employment by the company of designated travelling salesmen and so on. Such restrictions have been included in licence agreements registered in the Philippines, India, Thailand, Singapore, Iran.

In an attempt to overcome their economic backwardness through the use of modern technology, developing countries sometimes accept licence agreements on terms which are much more burdensome compared to those practiced in agreements between industrial nations themselves. Thus, with rare exceptions, remuneration fees, even in selling licenses for similar inventions are fixed at a higher level than in licence trade between industrial nations. American Richardson Scale Co., for example, sold scaling equipment to a British company on a condition that 5 percent of the overall sales will be trasferred in fees to the company, while a Brazilian firm, which bought the same equipment, had to transfer 10 percent in fees. Remuneration fees for the licence use also grow because of the growing amount of technical assistance provided. To some extent the growth of this assistance

[2] Doc. UNCTAD TD/B/AC. 11/10/Rev. 1. 22 April 1974, p. 25.

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is indeed justified, although Western companies often expand their technical assistance far beyond any reasonable limits. They refuse to employ local technical personnel and research and development organisations, attracting their own experts to complete almost entire projects. Thus, even carpenters were brought to India from West Germany when West German companies were building a steel mill in Rourkela. This practice results in a situation when, even after projects have been completed local companies still continue to depend on technical assistance of the technology supplying companies for a long time to come. In relations between companies of industrial nations a payment for technical assistance usually takes on the form of a single payment, whereas in developing countries payments are often made in instalments stretched out over many years. Thus, for example, American Firestone Company in addition to a single payment of $ 300,000 for the technical assistance provided for an Indian company to operate a production of styrol and butadiene received annually $ 285,000 more during the subsequent 10 years. Italian Olivetti provided technical assistance in starting the production of typewriters in India on condition that it would receive $ 250,000 annually for the subsequent 10 years. So a seemingly common deal—to import scientific and technical information by buying licences—in the contex of the economic backwardness of developing countries servet for Western monopolies as a tool of pressure and profit makings

The policy pursued by transnational corporations in the field of technology transfers raises other problems, as well. There are cases when under various pretexts newly–independent states are given limited access to the technologies they need to process their own raw materials on the spot, which serves to perpetuate the agrarian and raw material nature of their economies. Thus, for a long time transnational corporations refused to build oil refineries in Nigeria, As a result, the country had to export large quantities of crude oil only to be frequently left without gasoline. Liberia, which is one of the few rubber producing countries on the African continent, has no tyre plant. While mining diamonds in Tanzania, foreign companies refuse to build up at least a rudimentary diamond cutting capacity on the spot. The construction of cement plants in Benim had been delayed for over fifteen years, although the country has a good raw materials basis. Guided by profit motivation, Western corporations often practice selling the same technologies to

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differenet companies in a given country, which boosts their remuneration fees many times over. It is now a growing common practice when monopolies sell technologies of only parts of production processes. This policy is explained by the desire to build developing industries of the newly–independent states to their own production cycle and thus make them dependent on supplies. Technology transfer agreements often contain provisions which are only remotely associated with the production process. These are usually requirements for certain standards of advertising, marketing and other operations that are only a corollary to the marketing of the products and only serve to raise the prices of the imported technologies.

Foreign monopolies are now frequently setting up industrial companies which are either totally owned by foreign business or partially controlled by it. They refuse to build and equip new enterprises and to hand them subsequently over to a newly–independent state. It is to the companies, which are virtually Western subsidiaries, that the main technology flow is directed. Technology transfers are seldom followed up by assistance provided to set up research and development laboratories with a view to subsequently modernizing those technologies. After some time a developing country is forced to purchase the next generation of technologies. In this way transistory access to new technologies is followed by periods of stagnation. Finally despite the notable growth of technology transfers to developing nations transnational corporations are in firm control of changes to be introduced into modern science and technology consuming production processes. The American monopolies, whose production processes represent the latest achievements of science and technology, have especially succeeded in this respect. Following the Second World War the ratio between the new basic processes, which the American transnational corporations used only in intra–firm transactions, and those they made available on the licence markets was 1 to 9. Today, according to the American magazine *Fortune*, this ratio has been totally reversed and is now 9 to 1. "Actually", wrote the magazine, "for the last 20 years using the channels of intra–firm transactions American transnational corporations managed to decrease the transfer of technical and commercial knowledge to other countries".

The patents policy of industrial nations has become a major instrument used by transnational corporations to bolster their

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economic positions in developing countries. The patent expansion is growingly becoming a tool for restructuring, often invisibly, the spheres of influence in the world market economy. The patents policy of industrial nations is dictated primarily by the desire of international monopolies to obtain exclusive rights in developing countries in exchange for patented technological inventions. This serves to strengthen the hand of foreign business in competition against national companies, helping it to retain control of many key areas in the economies of developing countries. These plans have been graphically described by H. Winter, who was in charge of a US State Department desk. The Government of the United States, he said, has bluntly told developing nations that a change of legislation with a view to curbing or easing patent controls may damage the attraction power of the country vis–a–vis foreign investments and make technical assistance more difficult to extend to that country.[3]

Western corporations interest in "transferring" patents to developing nations is understandable. Of the 3.5 million patents currently registered in the world only 6 percent, or 210,000 patents, have been registered in newly–independent states of Asia, Africa and Latin America. However only one sixth of those patents (25,000) belong to citizens of developing nations, while the overwhelming part of the patents there (175,000) is controlled by foreign firms.[4] It should be pointed out that major US, West German, Swiss, British and French monopolies control the technology market far more tighter than they control commodity markets. In the mid–1970s they accounted for four fifths of all the patents used in developing nations. American patent holders play a leading role as the experts of technological achievements to developing countries. For example, they are making every possible effort to prevent their West European and Japanese competitors from getting access to the Latin American market. American interests in the field of patents are widely represented in the South East Asian countries too. And they are persistently trying to get a foothold in the former British and French colonies in Africa. It is a rare case when foreign corporations integrate a patent into the local production or sell it to a local firm as a licence. According to an UNCTAD survey, patents owned by foreign firms are only marginally

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[3]H. Winter, *Die Internationale patentpolitik der Regieruing von USA Internationaler Teil,* 1966.

[4]*Horizont,* 1980 No. 4.

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(from 5 to 10 percent) integrated into production in developing countries and in some countries even to a lesser extent. For instance, in Peru 1.1 percent of foreign-owned patents are used, in Columbia 0.6 percent, in Tanzania only 0.3 percent. Thus, it shows that patents often not only fail to contribute to technological thought.

There is plenty of evidence to show that enterprises built under Western licences sometimes work well below capacity. In some cases this is brought about by the fact that the applied technology has been originally adapted to service production capacities of industrial nations, while in others by the fact that the aggregate capacities of a given industry built up in competition by far exceed the market capacity. This results in a situation where investments made by developing countries often do not pay off. For example, in Mexico, a significant number of light industry projects, which use imported technologies, are operating at only 40 to 70 percent of their capacities. The pharmaceutical industry in Columbia, which is 74 percent controlled by foreign business, is operating on a one-shift basis, using only 40 percent of its capacities. National firms of Latin America have stated that in the absence of a foreign patents they would have been in a position to produce independently and more economically 90 percent of the existing variety of commodities. Thus, technology transfers, which are the main form of spreading achievements of science and technology in developing countries, serve to bolster the positions of transnational corporations to the detriment of the former, contributing to the expansion of economic activity of monopolies and aggravating the unstable and lop-sided development of the economies of newly-independent states.

SOPHISTICATED MANAGEMENT TECHNIQUES

The persistent spreading of Western management techniques is a new and growing form of transferring scientific and technological knowledge with a view to controlling developing nations. The United States of America is most active in this field. The practice of signing management contracts between transnational corporations and local companies in developing countries, in which they have no ownership rights, has been growingly spreading over the last few years. This is "capital-free enterprise", trade in knowledge and experience in that field. This new form of business acrivity has been brought about by

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both the growing role of management in an area of the science and technology and by the declining foreign investments in many developing countries, as well as by the fear that Western monopolies may one day be nationalised which more and more often becomes a fact of life nowadays. As the American *Havard Business Review* magazine wrote way back in 1972, "As a traditional form of activity abroad direct investment do not correspond to reality of changed correlation of forces and , . . . it is necessary to pass from the quick deriving of profits under the danger of political risk to less profitable, but safe forms— such as service contracts.[5]

This form of relations of transnational corporations with developing countries proves very profitable for the corporations. In addition to profits from doing the main job, management contracts bring to a contracting company profits from equipment sales to a new enterprise where the recommended management pattern is to be introduced, from access to various sources of raw materials etc. In doing so, the contracting company, running an enterprise it does not formally own, is in a position to control its operations without running the risk associated with investments. This practice allows Western corporations to get access to the economies of developing countries and is now widely spread in the oil and mining industries of those nations.[6] Consulting companies represent another well–known form of deriving profits from marketing scientific and technological knowledge. The nature and the results of such activities are demonstrated by the practice of Arthur D. Little, Inc., which covers various spheres : long–term planning, labour organisation analysing, ABM marketing programming, finances, personnel recruitment, R & D. For years this company has been conducting a survey of various industries and agriculture of Nigeria. When the survey was done, the company handed over to the Nigerian Government reports on those industries together with recommen– dations, which, the experts believed, were to be acted upon to develop these industries successfully. The recommendations emphasised, among other things, the need to cooperate with major foreign investors who have the necessary technical experience and money to set up a production infrastructure

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[5] *Harvard Business Review,* December 1972.

[6] UNCTAD, *La function del sistema de patentes en la transmission de tecnologia a los paises an desarollo,* TD/B/AC, 19 de Noviembre de 1974.

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and to assist in training skilled personnel. The company has undertaken similar research and consulting projects in some other developing countries.

A special role in the US "management expansion" is played by the International Executive Service Corps set up in 1964, The main task of the Corps is to use the extensive experience of American managers to establish management patterns at enterprises of developing countries. The Corps has permanent offices in 29 newly–independent states. It employs 8,500 American consultants who provide various types of assistance for private firms, operating in newly–independent countries, helping to establish and cultivate contacts between American monopolies and local businessmen, giving advice as possible sources of investments. The Corps activities are financed by private organisations and from the US Federal budget, although the enterprises which receive assistance from it are to cover at least part of the consultation fees.[7] The Corps completed over 5,500 projects in 60 countries in fifteen years from 1965 to 1979. In addition to the examples of the "visible" exports of American management techniques considered above, there is a multitude of "invisible" forms of such exports. First of all, these include a transfer of management knowledge and experience to experts from newly–independent states who come to the United States to get a training or to attend advance training courses. Over 100 American Universities, institutes and colleges accept foreigners to train them to receive MA or Ph.D. degrees in business management. US organisations and specialists play a major role in the activities of most of the foreign–based management centres. The participation of American specialists in setting up and operating foreign training and research management centres not only brings them high profits but gives them a unique opportunity to get acquainted with strong and weak points of the economies of developing countries and to train pro–Western management personnel.

REVERSE TECHNOLOGY TRANSFERS

A systematic luring of scientists and technicians from Asian, African and Latin American countries to industrial nations is another form of neo–colonialist exploitation. The process, which has become known in science literature as the "brain drain", started in the mid–1950s. It was at that time that individual

[7]The Department of States Bulletin, July 25, 1977, p. 129.

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cases of emigration of scientists to industrial nations were first registered. In the early 1970s Asian, African and Latin American countries were "supplying" on an average over 30,000 skilled personnel to industrial nations each year.[8] By luring skilled personnel, Western countries cause enormous damage to developing countries, whose size it is hard to assess. Direct financial expenses paid by newly-independent states to train experts to replace those who have left the country are estimated at $ 100 to $ 150 million a year. More tangible are indirect economic losses brought about by the emigration of cadres : such as declining rates of economic growth of developing countries, ashortage of scientific and technical personnel, a growing technological gap. Because of the "brain drain" Nigeria, for example, is losing half of her specialists each year, who are needed to ensure the planned economic growth. Pakistan has failed to open up several research centres because capable scientists who might have been in charge have left the country. Discussing this phenomenon, well-known British scientist Bernal wrote about the unscrupulous personnel recruitment which has now reached proportions involving all the scientists in various parts of the world—in Africa, Latin America and Asia—who are practically lost for their own countries, which need them most of all.[9]

The "brain drain" impact on the social and economic processes appears especially devasting against the background of the tremendous efforts which peoples of developing nations are exerting to overcome the hard colonial heritage and to eliminate their economic, scientific and technological backwardness. It is a paradox that newly-independent states have to resort to the services of foreign experts, who have a poor knowledge of the conditions of those countries, at a time when thousands qualified specialists, whose training costs a lot of money, are emigrating to work in Western countries. In the last 10 to 15 years on an average, 100,000 to 120,000 foreign experts and consultants from industrial nations were working in developing countries receiving $ 4 to $5 billion each year. At the same time a no lesser number of qualified specialists, who had left their native lands at one time or another, were staying in Western countries. One can hardly accept at face value the assertion made by Western sociologists about the spontaneous nature

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[8]Science and Technology for Department, Washington 1979, p. 16.

Doc. UNCTAD TD/183, 14 April 1976, p. 88.

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of the "brain drain". Of course, there is an element of spontaneity. No doubt about that, but it determines neither the character, nor the size of the phenomenon in question. In reality the "brain drain" is a well–organized, regulated and sometimes even a planned venture. As the former US Secretary of State, Dean Rusk, put it: "Our country is lucky because it has an opportunity to enlist the services of foreign immigrants who are notable for abilities and high intellects. Being well managed, immigration might be one of our important natural resources".

The "brain drain" is carried out both on the basis of an immigration policy pursued by industrial nations and through the unseemly techniques used by Western monopolies to directly lure and buy specialists. Suffice it to trace the evolution of immigration legislation adopted in industrial countries to realize that what is involved here are absolutely deliberate attempts to attract on an ever growing scale qualified experts immigrating from the former colonies and semi–colonies. All those amendments made in the immigration legislation of the United States, Britain and some other industrial states in the last 10 to 15 years boils down to one thing, namely, to give top priority to attracting highly qualified experts, while curbing the immigration of people, who have no such skills. The results of these amendments have not been long in coming; the number of highly qualified specialists emigrating to Western states from developing countries began to grow rapidly.

Developing countries of Asia, Africa and Latin America have become the major suppliers of personnel for the United States, Britain, France, Canada and Australia, Although there are practically no reliable statistical data on that score, it is obvious that the "brain drain" from developing countries has acquired meanacing proportions, having become a virtual national disaster for many of them. According to UNCTAD secretariat estimates, 284,500 scientists, physicians and engineers emigrated from developing countries to the United States. Canada and Great Britain from 1961 through 1975 alone, with about 50 percent of them coming from Asia.[10] The United States rates first among the importers of skilled labour. The number of scientists, engineers and physicians who immigrated to the United States from 1961 to 1978 reached 150,000 most of whom being highly qualified specialists. For instance, experts having doctorate degrees

[10]UNCTAD V. *Technology: Development*r *Aspects of the Reverse Transfer of Technology*, Manila, Kay 1979, 00. 5-7.

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account for 63 percent of the scientists who have immigrated from developing countries. In the United States the immigrants from developing countries accounted for 7, 16 and 27 percent in an annual growth rate of the number of scientists, engineers and physicians respectively in the 1965–1969 period, whereas in the 1971–1972 period these figure had grown to 11, 26, and 51 percent respectively.[11] The chief suppliers of experts to the United States are Asian countries, and first of all India (from 4,000 to 4,500 a year) These are mainly physicians, engineers and scientists. According to the Indian information service, from 25 to 30 percent of the physicians and engineers annually trained by Indian institutions of higher learning are now working in industrial nations. The emigration of skilled personnel has caused serious damage to the country, hampering her economic development. The Philippines is the second largest supplier of experts to the United States, mostly medical personnel. Physicians come to the United States from Thailand, as well. There were more Thai physicians working in New York alone in the early 1970s than in all the rural areas of Thailand. Besides, the US accepts a large number of qualified personnel immigrating from Pakistan, South Korea, Turkey, Colombia, Mexico, Nigeria. The "brain drain" from other developing countries to the United States is so far numerically insignificant. However, the danger is that with social and economic progress under way those countries are likely to increase their supply of personnel.

The United States is receiving great advantages from the "brain drain", saving a lot of money on training its own experts. For instance, over 50 percent of the total number of immigran physicians come to the United States from developing nations.[12] with India on the top of the list. Presently one out of five physicians in the United States is a foreigner. Prof. C. West of the Medical School of Oklohama University believes that the United States would have had to build 12 large modern colleges to tarin as many physicians as the United States lures from developing countries each year. The benefits which the United States and other industrial nations derive from the "brain drain" from foreign countries are enormous. According to UNCTAD estimates, the profits made in this way totalled $ 46 billion in the 1961 to 1972 period or $ 3.8 billion a year for the United States, Canada

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[11] *Le Monde*, March 25, 1975.

[21] UNCTAD V. *Technology: Development Aspects of the Reverse Transfer of Technology*, Manila, 1979. p. 6.

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and Great Britain.[13] Still greater benefits industrial nations receive by employing qualified experts from developing countries. The potential value of a highly qualified expert, American scientists believe, is 20 times higher than the costs of his training. According to a survey conducted by UNCTAD experts, the potential "value" of a physician immigrating to the United States is $ 642,000, of a scientist $ 237,000 and of an engineer $ 272,000. On the basis of these estimates the above survey calculated a potential "value" of qualified personnel who had immigrated to the United States from developing countries in the 1961–1972 period, which totalled $ 33.9 billion.[14] According to UN statistics, in 1974 alone, the United States received over $ 3.5 billion in net profits from exploiting foreign personnel. And yet even these estimates do not show the exact figures.

Thus, the relations that have currently come to exist between industrial nations and developing countries in the field of "tech–nological trade off" do not help the latter to solve the poblem of overcoming their economic backwardness and eliminating their unilateral dependence on the West historically as shortly as possible. On the contrary a monopoly of modern knowledge and technology helps industrial nations to perpetuate their overwhelming superiority in that field.

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[13] *Horizont*, 1980 No. 4.

[14] *The Reverse Transfer of Technology: Its Dimensions, Economic Effects and Policy Implications, UNCTAD*, 1975, p. 20.

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CONCLUSION

We have dealt with nearly all aspects of the economic relationships between the industrial nations and the developing countries. It will be seen that after the attainment of political independence and the initial progress achieved in building up their national economies, developing countries have not ceased to be an object of exploitation by industrial Western countries. Because most of the Asian, African and Latin American countries still maintain the bulk of their foreign economic ties within the framework of the world market economy, their exploitation by industrial nations is in full swing, although adopted to the changing circumstances and acquiring new forms and even growing more intensified.

In this context the topmost priority must be given to the complicated and responsible problem of how to resist the techniques currently used by industrial nations to perpetuate the subordinate position of developing countries and to entangle them in a new and finer but nonetheless very strong net of dependence and exploitation. Developing countries rightfully see the way towards the solution of the problem primarily in uniting their own efforts. These aims were explicitly declared in several development program documents adopted by developing nations in the second half of the 1970s and, specifically, in the Manila and Arusha declarations, in the declarations of the 5th and 6th Conferences of the Heads of State and Governments of the non–aligned countries. These documents call on the developing countries to strengthen their unity and to take advantage of their collective influence in negotiations to establish a New International Economic Order as well as to use more effectively the opportunities of mutual economic cooperation in the financial, technical, trade, industrial and other fields,

Progress on that road will largely determine the real outcome of the continued struggle to win national and social freedom. Of course, developing countries are in various stages of this struggle, which sees a clash of heterogeneous political forces. But, despite their multiplicity and the heterogenous social environments, differenct levels of industrial development, despite

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the contradictions of their home and foreign policies, all the developing nations face the need to do away once and for all with the political pressure, which is brought to bear on them, to eliminate economic dependence and to win an equitable status in the framework of international economic relations.

From this point of view developing countries have made a great leap forward in the last 10 to 15 years in an effort to strengthen their sovereignty. Their role in the world economy and politics has notably grown and the decisions they take have to be reckoned with when major problems are taken up for discussion. Unless developing countries of Asia, Africa and Latin America further intensify their struggle against all forms of inequality and subjugation on the part of industrial nations in an attempt to wrest from them further concessions, they will not be able to emancipate themselves.

Industrial nations of the West are resorting and will continue to resort to various techniques in order to integrate developing nations into the world market economy in every possible way. The neo-colonialist policy still has at its disposal a great variety of tools to control newly-independent states economically, considering their backwardness, the acute shortage of foreign investment resources, and the urgent need to take advantage of scientific and technological progress. However, the framework of the exploitation of developing countries is shrinking with every passing day. Life has prov.ded irrefutable evidence to show that through their own joint efforts developing countries can make substantial progress in their flight to win economic independence and to restructure international economic relations on the basis of equality and justice.

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