

The New International Economic Order (NIEO): A Review

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I. Introduction

It is now over a decade since the idea of a New International Economic Order (NIEO) has been proposed and gained considerable recognition in the international community. It was an idea which in all its dimensions, embody prescriptions for the various ailments of the world economy as well as providing genuine basis for its future consolidation and development. However, despite the general recognition of the need for the restructuring of the world economy in view of its continuous deterioration and the aggravation of poverty in the developing countries little progress has been made in the implementation of the proposals of the NIEO. Consequently, the hopes about its role and positive contribution to the world economy are rapidly fading.

The NIEO which basically seek the restructuring of the pattern of international trade and the flow of capital and technology so that their benefits could be more equitably distributed to the developing countries has naturally raised an entire array of basic questions. Among them: (1) The question of cost and benefit. Who will have to bear the burden of instituting NIEO and will the results be worth the sacrifices? Will benefits really accrue to the poor people to help them fulfill their basic needs and will developing countries be made truly more self-reliant? Will the developed countries also benefit from NIEO (a positive-sum game) or will it mainly mean the redistribution of the current stock of wealth from them to the developing countries (a zero-sum game)? (2) The question of morality. Do the developed countries have a moral obligation to help the developing countries and does this responsibility extend to those countries who had no historical part in the underdevelopment of the developing countries? (3) The question of legitimacy. Is there free market, the basic mechanism of world trade and the best vehicle of economic development or is it merely a convenient fiction to cover up the current unjust manipulations of the developed countries?

The NIEO without much emphasis covers a wide range of international economic issues. However, this paper in the light of the several questions mentioned above, will attempt at drawing attention to the central problems on the basic issues of the NIEO programme and to show how these could be resolved. For this purpose therefore, this paper will be divided into four Parts. Part I is the introduction. Part II a discussion of the origin and development of the NIEO. Part III deals with the progress and problems of the NIEO especially in the areas of money and finance, integrated programme and terms of trade, technology and Transnational Enterprises (TNEs), sovereignty and equal rights and cooperation among developing countries. And Part IV the conclusion on the basic issues.

II. Origin and Development

The uninterrupted series of economic imbalances accompanied by severe economic and political crisis in the countries that make up the contemporary market economies had led to a challenge to today's international economic order and the proposed restructuring of the current system.

The entire array of historical events that set the stage for the NIEO began at the end of World War II. While these events arose from their own historical antecedents they themselves produced the setting for the breakdown of the post-war economic system and the widening gap between developed and developing

countries.

The mid-term review of the achievement of the Second Development Decade's goals showed mixed results. The greatest disappointment came in the area of agricultural production and official development aid. On the average, the United Nations (UN) official development and targets have not been half achieved. At the same time, service charges on past loans began to put enormous pressures on developing countries' balance of payments and world poverty showed no signs of abating. There was insufficient progress in commodity trade, inadequate access to the markets of developed countries particularly for agricultural products, tariffs have escalated, especially for semi-processed and processed products and new tariff and non-tariff restrictions were introduced by many developed countries on a number of items including textiles and leather goods. The plight of the least developed, island and landlocked developing countries, gave rise to additional concern. While some progress was achieved preferences by the developed countries and the proposal of the Tokyo Declaration concerning multilateral trade negotiations, the negative developments weighed more heavily in the balance and created widespread dissatisfaction in the developing countries.

Another set of factors came into play as well. This was the sudden and unexpected rise of developing countries' economic and political power. The Middle East oil embargo of 1972-1973 and subsequent four-fold increase in the price of oil created a world energy crisis. It affected all oil importing countries. It also exhibited the dependence of the developed countries on the developing countries for several major natural resources and proved the ability of the developing countries to wield economic and political power effectively. The consequences include rises in the price of food due to the increase in the cost of chemical fertilizers, and further tensions between producers and consumers of raw materials. But the Organization of Petroleum Exporting Countries (OPEC) exercise of developing countries economic and political power proved unable to improve the condition of the developing countries as a whole. Despite significantly higher gross resource flows from the oil-exporting to the oil-importing developing countries, the economic plight of the latter worsened due to the higher cost of energy. Developed countries found themselves beset by economic problems of their own including not only higher Oil prices but inflation, unemployment and unused industrial capacity.

Compounding the economic difficulties of the developed countries were signs of breakdown in the international monetary system which affected all countries. Amidst growing tensions between the United States of America (USA), Japan and European Community over matters of trade, the Bretton Woods System of floating exchange rates. The value of the US dollar began to erode, creating serious difficulties for those countries which held their reserves in dollars. The creation of Special Drawing Rights (SDRs) provided some access to foreign exchange independently of dollar holdings, but such access favoured the countries already developed and the rest remained seriously dissatisfied with the workings of the international monetary system. Hence, it became evident that some of the basic tenets of the post-war world economy were being called into question.

It was in this context that Algeria's President Boumedienne in 1973 in his capacity as chairman of the Non-Aligned Movement directed a request to the Secretary-General of the UN that a Special Session of the General Assembly should be convened to study raw materials and economic development problems. And as this initiative immediately received widespread support it led to the convening in May 1974, of the Sixth Special Session of the UN General Assembly which adopted the "Programme of Action on the Establishment of a New International Economic Order" which was indeed the full text of "Action Programme for Economic Co-operation" adopted in the Non-Aligned Countries summit in Algiers in September 1973. The NIEO programme distinguishes itself from earlier international economic programmes by virtue of its objectives which are not merely to improve the functioning of existing international economic system but rather to expand its purpose. The purpose to be added to the existing

ones is economic development. Given the special situation of the developing countries, the acceptance of this additional purpose involves the acceptance of a number of principles. They include the following:

- a) orientation of the international monetary system toward the interests of the developing countries;
- b) production cartels along the lines of OPEC;
- c) commodity agreements to regulate prices and quantities;
- d) linkage of export prices in the developing countries to the prices in the developed countries to the prices they have to pay for imports (under the general heading of "indexation");
- e) extension of preferential treatment in trade;
- f) recognition of developing countries' permanent sovereignty over their natural resources, covering also the issue of exploiting the ocean floor and related question of territorial waters;
- g) transfer of advanced technology to the developing countries on preferential terms - to some extent without a *quid pro quo* but with guarantees by governments.

Albeit, the problem is not so much the acceptance of these principles (most countries have done this) but their translation into changes in the mechanisms governing the developed and developing countries. Most developed countries have indicated that they have major reservations about the demands. In their view, meeting all of them would imply a dismantling of the market-based international economic system and its replacement by a largely dirigistic structure. Furthermore, it has also been argued that a change of this kind would particularly affect two groups of countries adversely: the poorest of the developing countries, especially those without their own raw materials and countries with extensive foreign economic involvement, such as the Federal Republic of Germany (FRG). Other groups with large natural resources and smaller external economic involvement would definitely benefit; for instance, the Soviet Union, which possesses considerable reserves of oil and other raw materials and are less integrated into the world economy.

Indeed, the reservations of the USA one of the countries that matter most have been very clear on this issue. The assumption of the USA's government is that the principal cause of the developing countries poverty is not external but internal. The drawback to adequate internal mobilization of resources for economic development, for example, is said to be the political ideology of Fabian socialism. Governments of developing countries having taken the domestic position that equitable distribution of wealth and income is right and necessary are described as turning to the international arena to fulfill their pledges.

Thus, although the NIEO may have emerged as a sound proposal to deal with a seemingly intractable global economic problems, nevertheless, the reservations of the developed countries about the circumstances leading to its formation and the assumed "far-reaching" effects taken together with the firm assumption that the critical factors in the underdevelopment of the developing countries are internal inevitably suggests progress in the implementation of the NIEO proposals are bound to be difficult. Let us now proceed to examine the progress made so far.

III. Progress and Problems

No significant progress has been made in the demands that have been listed as contributing to the NIEO that go very much to the heart of the present system: money and finance; integrated programme and terms of trade; technology and TNEs; sovereignty and equal rights; and co-operation among developing countries as long as the basic issues are not resolved and a consensus does not emerge concerning them.

(a) Money and Finance

So far, very little progress has been made in the implementation of the General Assembly's recommendations in the area of international monetary reform and development finance. The effort to establish a link the creation of SDRs and the provision of additional development finance had so far been frustrated. No agreement was reached as regards development finance, compensatory financing, alleviation of the debt burden of developing countries or the reform of the international monetary system.

Developing countries' prospect for debt or other financial relief have continued to recede inasmuch as its foreign debts have doubled or tripled during these past years with higher rates of interest shorter terms of maturity and more onerous conditions of debt management. Canada and some small European countries have unilaterally cancelled the debts of a few poor developing countries, but the USA's government has not and has no intention of a blanket or a significant write-off of loans to some poor countries even if such a step is given legislative approval. The developing countries with the largest debts, Brazil and Mexico, have themselves opposed all consideration of debt moratoria for fear of damaging their own credit rating, which they need to get new loans to pay off old ones.

The dollar has been devalued three times reducing the real value of the dollar debt but also the developing countries' dollar reserves; and weakened dollar has caused an effective devaluation of those developing countries currencies that are pegged to it. These real monetary changes have of course occurred without the slightest consideration of the interests of the developing countries. Moreover, the developing countries and their populations have clearly suffered the most as a result of these changes if only because they are the most defenseless against the world-wide inflation, particularly in prices of manufactures that is fed by the reckless printing of devalued dollars by the USA. The supposed measure to demonetize gold and to replace it by SDRs or some similar universal reverse currency have led, on the one hand, to the strengthening and price increase of gold to the disadvantage of developing countries which have little or no gold mines or stocks. On the other hand of the SDRs and other funds created by the International Monetary Fund (IMF) and other financial institutions, only the equivalent of US \$2.5 billion has been destined for non-oil producing developing countries. This amount is equivalent to about one percent of their current foreign debt and a very small share of total additional funds almost all of which thus went to the developed countries. The "link" that the developing countries demanded between additional money and development finance has been effectively denied.

Thus, it remains to be seen whether states will muster the political will and skill to establish a new monetary order and to manage the system with new rules and procedures. The agenda of reform is long and complex. The political process of reform is fraught with difficulties. Although monetary power is now more widely dispersed but is not equally dispersed. The USA remains the most powerful monetary actor. Unless and until the USA assumes an active role, reform will be impossible.

(b) Integrated Programme and Terms of Trade

In the area of integrated programme or producers' association, there "has been to date some successful maintenance of OPEC unity and prices, providing the impulse toward the remaining demands for NIEO. However, the effective price of oil was again eroded to an equivalent of US \$7 per barrel by world inflation and dollar devaluation before the price was again raised sharply in 1979. For a time, the OPEC countries were not sufficiently united (in view of Saudi Arabia's effective veto power) to raise the oil price again given their common fears of rocking the world economic boat on its current crisis journey. Although the oil-producing countries - inside and outside OPEC - increased the price of oil again in late 1978 and in 1979 they did so more out of disunity than unity, each charging the "spot price" that its market will bear. If market demand declines due to recession, so will the price of oil. Be that as it may, most of the effective cost of the oil price hikes has also been passed on to the non-oil producing countries of the developing countries. Meanwhile, the industrial countries have increased exports to the OPEC

countries and have recycled the remaining OPEC surplus through their banks. Several other raw material - producer associations have been formed or strengthened; however these associations and their price stabilization efforts have been unable to prosper much against the opposition of developed raw material-producing countries and low world market prices in years of recession and times of crisis. Other raw material producers do not have the relative monopoly power of OPEC, and prospects for their independent successful action through stabilization let alone "solidarity" funds are dim.

Common action with raw-material importing industrial countries is limited by the later's own interests which may admit some stabilization of supply and price but more in favour of consuming than of producing countries. In any event, although the terms of trade for non-oil producing developing countries, raw material-exporting countries improved briefly between 1972 and 1974, they on balance declined again with the 1973-1975 world recession and the post 1975 mild recovery. For non-oil-exporting countries in the developing countries, the terms of trade have fallen by more than 10 percent since 1970 and suffered an "unprecedented" deterioration in the balance of trade of US 532 billion between 1970 and 1975; of this, the sum of US \$5 billion can be attributed to changes in volume, and US 527 billion to changes in prices of the goods traded. In turn, of this US \$27 billion deficit caused by price changes, US \$8 billion can be attributed to international inflation and US 59 billion to unfavourable changes in the terms of trade. The developing countries terms of trade declined by 4.7 percent in 1975, rose by 3.7 percent in 1976, remained unchanged in 1977 and declined by 11.2 percent in 1978. There has not been any significant improvement in the developing countries terms of trade since 1979.

Even then, the prospect for foreign trade expansion of the developing countries had been dampened since the increase in manufactures for export had not been complemented with reduced protectionism by developed countries. On the contrary, the demand of some local capital and labour in the latter faced with competition and unemployment in the current crisis had been for protection: the European Common Market, its member countries and the USA have moved to increase tariffs and to impose quotas on the import of manufactures from developing countries. Examples include provision for increased protection in the Multifibre Agreement negotiated at the end of 1977 and USA's restrictions on the import of shoes, textiles, television sets, etc.

Thus, so long as there is instability in the prices of raw materials as a result of the failures of the producer associations most developing countries would continue to experience fluctuating foreign exchange earnings. And to the extent that this is so would be incapacitated in the execution of their development plans. In the same vein substantial increase in foreign exchange earnings are not in the pipe line the more the present world economic crisis remains unabated and most developed countries are confronted with increasing unemployment to which in most cases national solutions are considered most appropriate.

(c) *Technology and Transnational Enterprises (TNEs)*

The developed countries have agreed to talk about codes for transfer of technology and for conduct of TNEs. However, the real-life conduct of both continues to be just as determined by the global interests of TNEs as before. The developed sector contributes all too little toward the self reliance of developing countries through the selection of more appropriate technology, and still less through its development in the developing countries itself. In fact, the latter's technological dependence on the TNEs in particular and on the developed countries generally increases day by day. Moreover, while the developing countries talk about collective codes of conduct most of these countries are individually reducing or even eliminating the few restrictive provisions on TNEs and technological transfer that they had imposed nationally or regionally in the late 1960s and early 1970s. Thus, Argentina, Chile, Mexico and other countries are all busily engaged in relaxing controls on foreign enterprises and are competing with each other to grant greater concessions to international capital. It would be too long and tedious to document this trend in

each individual case (some of this documentation is already provided in, the developing countries) but the Business Weekly may be quoted: "There is good news coming out of Latin America for USA and other foreign companies with a stake in this vast region. Major countries are opening their doors wide to private enterprise. Multinational executives consider the region to be one of the world's major opportunities.

(d) *Sovereignty and Equal Rights*

The developing countries are achieving formal equality among unequals where it counts least. For example in the UN General Assembly and The Security Council, but the UN specialized agencies remain under the near exclusive control of the larger developed states. International financial agencies, such as the World Bank and the IMF remain under the control of the USA (with IMF partially controlled by West Europe); and if these institutions admit any developing countries to their boards they do so more to co-opt them to permit them to help steer world financial affairs in a different direction. Collectively, the developing countries are admitted to the conference bargaining tables. However, the developing countries have no power to negate in practice even the little that they were moved to in principle. Individually, the developing countries use their sovereignty more often than not to compete with each other in ever greater concessions to international capital and growing repression of their own populations without outside interferences.

(e) *Co-operation among Developing Countries*

Technical co-operation among developing countries certainly does not mean the development or use of "indigenous" technology to promote economic and political self-reliance for the masses of their people. If such co-operation means anything it partially protects capital in some developing countries from competition by metropolitan capital and opens some markets in certain parts of the developing countries to capital from certain others. For example, Brazil, Mexico and India with the participation of TNEs have been selling advanced technology and sophisticated know-how to petrochemical and machine-building industries and to several Arab countries. In the meantime, although the Arab states have found it politically convenient to present a united political front with the developing countries, Arab capital has flowed into the banks of New York, London and Zurich. Seeking the economic and political guarantees of imperialism, Arab capital thus found protection for its profitable investments in Europe and North America and its loans to other developing countries through the Eurocredit market. There has been hardly any Arab investment in, let alone solidarity with the developing countries.

In addition to these, it will not be an over emphasis to state that the inadequacies of the negotiation framework hindered the implementation of the NIEO programme. United Nations Conference on Trade and Development (UNCTAD) and many other fora have been moulded by the Group system, which comprises three Groups of countries the 77, Group Band D - as well as China. The Group 77 (which now has 117 members) consists of developing countries and Group D of East European countries. This' division has consolidated itself as a pattern of alignment and the Group of 77 represents the solidarity of developing countries which is of historic importance enabling them to present a common stand and bring to bear their combined strength in "North-South" negotiations. The Group system has its merits in deliberations where the developing countries has needed to articulate and publicize its problems and position.

However, such deliberations have often ended in resolutions which exhort everyone, without binding or committing any of the parties; the differences are drafted away to create an appearance of agreement they persist in reality. One result of this process is that the language of international resolutions has become in bred, specialized and coded.

Genuine progress in international relations depends on painstaking negotiations to reach agreed principle or legal instruments, only these processes can produce a common language to provide a basis for action. In this context, Group system has been criticized as tending to crystallize extreme positions on either side which delays and sometimes defeats practical progress in resolving conflicting interests. The process of reconciling differences within each Group has often led to extreme position driving out moderate ones: maximum demands eliciting minimum offers. It has become necessary to carry each Group along as a whole at every stage without neglecting differences, so that the negotiating process becomes unwieldy, cumbersome and time consuming. The time has come to examine whether a negotiating format can be devised which is more functional, while fully respecting the concerns of the developing countries for maintaining their solidarity.

IV. Conclusion

The progress toward the creation of the NIEO as has been observed is generally slow as a result of the reticence of the developed countries apprehensive of the disruption in the long established world economic mechanism which has thus far given them considerable benefits and enhanced their advantageous position. But the deterioration in the economic situation of most developing countries is not likely to be arrested as long as permanent solutions remain elusive to the problems in the expansion of their foreign trade and payments and to the inflow of foreign financial and technological assistance. For example, the reduction of protectionism, both tariff and non-tariff, on the exports, both in agricultural and manufactured goods of the developing countries, represents a critical factor for the latter's trade expansion and sustained economic development.

The lack of progress toward the creation of the NIEO however does not necessarily indicate that it should be completely abandoned, rather it calls for renewed efforts. Demands for changes in the mechanisms governing the economic relationships between the developed and the developing countries have been made as far back as the mid 1960s in the area of international trade and aid. But, the little results thus far secured for these demands had not meant a complete loss of hope. So long as the present world economic recession remains unabated, the NIEO demands will continue to feature prominently in all agenda of discussions of world problems in all international fora. The NIEO can be achieved once it is perceived that its benefits are universal and can reach all segments of the world's population, that its costs do not outweigh its benefits, that its regulatory mechanisms are legitimate, there is real sense of moral responsibility among states and there is sufficient political support for its measures nationally and internationally.