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Necessity of a New Development Policy

by Sartaj Aziz, Rome *

In the past two decades, several attempts have been made in the developed countries to outline and pursue a "new policy" for the less developed countries (LDCs). Today, the vision of this concept is no longer as vivid or hopeful as it seemed at the beginning. The meagre results achieved at the third UNCTAD have lent further weight to pessimistic predictions about the future of international cooperation as a major element in world affairs.

In a sense, the entire debate on international cooperation for development has reached a critical stage. Many independent observers have begun to advocate that the world as a whole is not yet ready to accept the realities and responsibilities of international cooperation for development. The developing countries should therefore discard their earlier expectations and become increasingly self-reliant by reducing their dependence on developed countries. Others, however, feel that this option is not open to every country — that the world is becoming increasingly interdependent, that it has the technological capacity to banish absolute poverty in a short time, and that it would at least be premature to give up hopes of a more meaningful partnership for development.

With such a wide gap in thinking on the choices involved, any attempt to identify or advocate a new policy framework for the less developed countries should be based on a careful evaluation of the efforts made so far to forge a pattern of international cooperation for the less developed countries, and to identify any elements that might still be valid and relevant.

Ideas of the 1960s

The most comprehensive attempt to define a new policy for LDCs was made by Dr Prebisch, the first Secretary General of UNCTAD, in 1964, in a report to the first UN Conference on Trade and Development, "Towards a new Trade Policy for Development"¹, which in effect pulled together most of the ideas and proposals mooted in the preceding decade. In this doctrine Dr Prebisch presented a very concise and penetrating review of international obstacles to the development of poor countries and stressed the urgency of reducing the "trade gap" which, he thought, seriously

undermined the economic development of LDCs. After spelling out the responsibilities of developing countries themselves, Dr Prebisch presented a package of proposals for international action to stimulate development.

The main features of this package were as follows:

□ Developing countries would face by 1970 a trade gap of about \$20 billion which must be filled if they are to finance their minimum imports of capital goods and material for industrialization and modernization, and to achieve their desired targets of growth and welfare;

□ This gap could be filled if: the developed countries provided at least one percent of their national income as aid to developing countries by reducing their expenditures on armaments; the developed countries adopted a more liberal trade policy towards developing countries; the international monetary reserves were created and operated in such a manner as to provide additional resources to developing countries;

□ A new trade policy for developing countries would have to be evolved by: establishing quantitative import targets and within these targets by allowing duty free entry for manufactured products from underdeveloped countries under a system of preferences; concluding commodity agreements to raise and stabilize the prices of food and raw material exports from the developed countries; providing international subsidy to countries whose export earnings are adversely affected, through schemes of supplementary financing and compensatory financing; promoting economic integration among the developing countries.

Another more recent attempt to outline a similar policy framework for the LDCs was made in 1969 by the Pearson Commission on International Development.² The recommendations in the report of the Commission were not new or origi-

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¹ Paul Prebisch: "Towards a New Trade Policy for Development", Extracts reproduced in the Proceedings of the 1st UN Conference on Trade and Development (N.Y. 1969) Vol. II pages 3-64.

² "Partners in Development": Report of the Pearson Commission on International Development. 1969.

nal, but the Commission presented a very refreshing assessment of development performance and prospects of developing countries, followed by a strong moral argument in support of international cooperation for development.

In addition to these two comprehensive attempts to suggest a policy framework for international development, a great deal has been written about specific proposals and topics, and international debates on the issues involved have already filled stacks of reports and documents. The cumulative results so far achieved, either in concrete terms or in psychological terms, however, are not very substantial.

UNCTAD I and II

At the first UNCTAD in 1964 the only significant measure accepted by the developed countries was that pertaining to the one percent target for transfer of financial resources. This target was refined further as one percent of GNP rather than national income with a sub target of 0.7 p.c. for official development assistance. At the second UNCTAD, the principle of the Generalized Scheme of Preferences was accepted by the majority of developed countries.

Agreement on these two important measures has been regarded as significant land marks, but their net impact on the import capacity of developing countries has not been very significant. In the field of foreign aid, for example, while in absolute terms the total flow of resources has increased from \$ 8 bn to \$ 15 bn between 1960 and 1970, the bulk of the increase has been in export credits and foreign private investment. Official development assistance has increased only from \$ 4.7 bn to \$ 6.8 bn and as a proportion of the GNP has declined from 0.52 to 0.34 p.c. Meanwhile the debt problem of many developing countries has become more serious.

The Generalized Scheme of Preferences has been adopted by a large number of countries but with many exceptions and reservations. The cumulative impact of the Scheme in increasing exports of manufactured goods from the developing countries has so far been limited. The United States has not yet adopted the Scheme largely because of controversies over reverse preferences. Even when the Scheme is fully implemented, it could increase the export of manufactures from developing countries by about \$ 1 bn a year, which will be less than 2 p.c. of their total export of \$ 52 bn in 1971. The potential gain will be even less if there is a further reduction of tariffs on trade between the developed countries.

Expectations surrounding UNCTAD III were heightened by several factors: It was the first con-

ference after the adoption of the International Strategy for the Second Development Decade in the UN and in a way constituted a test of the sincerity and willingness on the part of developed countries to implement the Strategy. It was generally agreed that lack of knowledge about the problems of developing countries and their solutions was no longer the real problem. The record of development in the assessment of independent authorities, like the Pearson Commission, was on the whole encouraging with reasonable prospects that the developing countries now knew more about development and, with assistance from the rich countries, could improve upon the performance of the preceding two decades.

Yet, the Conference failed to produce any major compromise or agreement on any of the issues before it. There was some progress on a few questions like associating developing countries with discussions on monetary reforms and in outlining measures for the least developed among developing countries. But in overall terms the Conference has been widely regarded as a major disappointment. Many important newspapers have lamented the meagre results achieved at the Conference. Some observers have blamed the timing of the Conference in view of impending changes in the world's economic and monetary system and the imminent enlargement of the EEC. Others feel, however, that the entire basis on which the "UNCTAD concept" of collective bargaining was launched has changed and prospects would not improve until a new basis is developed with a more meaningful rationale for international cooperation.

This then is the dismal background in which the search for a new policy has to begin.

Search for a New Policy

The search for a new policy must begin with a thorough but broad assessment of the political, psychological and economic factors which face the developed and the developing countries at the present time.

For the developed world, the framework of international politics is changing after two decades. First, the old framework based on spheres of influence and military pacts is being replaced hopefully by a more harmonious framework providing for joint efforts in areas of common interest rather than total confrontation all the way. China's isolation is ending and there is a widespread consensus in the desirability of reducing expenditures on armaments. This could release additional resources for other purposes. Second, the need for a major restructuring of the world economic system has now been recognized and serious negotia-

tions are about to begin for reforming the world's monetary system and rationalizing its restricted trading arrangements. Third, the technological and material capacity of the developed world to assist the developing world is today much greater than it was 20 years ago when the elements of an international policy for development were first conceived.

These are all encouraging factors but it would be premature to deduce that they in themselves will provide the basis for a comprehensive policy framework or another "grand design" for the developing countries. In fact, the end of the cold war phase in international politics could have a negative impact on the concept of international cooperation since the main stimulus for such cooperation was provided at least in part by the desire of the two sides to widen their respective spheres of influence. The moral or the humanitarian argument for helping the poor nations will have some residual force, but even that can disappear if the disillusionment of less developed countries leads to political antagonism between the "North" and "South".

Stages of Development

For the developing countries, their disillusionment with the concept of international cooperation coincides with a desperate search for a more meaningful concept of development. They are now beginning to realize that the problems of development are much more complex and that rapid economic growth does not by itself eliminate or reduce poverty. A great deal depends on what is produced, how it is shared, and what happens to employment, education, health and housing facilities. But even where certain countries do succeed in paying attention to these aspects and manage to eliminate absolute poverty, they cannot remove the sense of psychological deprivation which in a world of rapid communication rises faster in countries with rising incomes than in countries with stagnant incomes. There is consequently need for a social and economic pattern in which progress does not depend on prolonged sacrifices on the part of the lowest income groups and which can forestall and reduce the sense of psychological deprivation in the society. The right mixture of social and economic objectives for this purpose has to be chosen by each country in the light of its own political and social realities, but in general there has to be greater emphasis on rural development, employment and consumption planning, rather than investment planning for more production.

In terms of stages of development, developing countries would seem to fall in three broad cate-

gories. There are 15 to 20 countries where per capita incomes are higher than \$ 250 and which have the capacity to grow at annual rates of 6 p.c. or more. These countries do not suffer from widespread poverty and could graduate out of the category of "underdeveloped nations" within a decade or two. Their political and social problems are peculiar but more manageable, and their economic problems could be tackled within the existing mixed framework, provided they have adequate and growing trade opportunities.

The second category includes about 20 to 25 countries in middle rungs with per capita incomes ranging from \$ 100 to \$ 250. Their progress is slower but generally stable. These countries will require a much more conscious shift to employment and other social objectives, and a steady flow of financial resources. Expanding export opportunities could greatly facilitate the transition of most of these countries to self-sustaining growth in two or three decades.

At the end of the scale are 40 to 50 very poor countries with per capita incomes of less than \$ 100. Their problems are much more complex and cannot be solved by a little more aid and some more exports. They have virtually no option but to shift a pattern of development which is labour intensive, welfare oriented, austere and less dependent on aid and trade. Most of these countries would of course continue to need technical and financial assistance for a long period; the critical determinant of their future will be their ability to adjust their political, social and economic structure.

In this rapidly changing global perspective, the temptation to ignore or at least postpone some of the fundamental issues of development might be considerable. Motivation for international cooperation provided by the cold war politics is no longer active, preoccupation with internal problems in the United States and in Western Europe is growing and there does not seem to be any urgency of doing anything spectacular for the LDCs. There are certainly many individuals and policy makers in the developed world who believe strongly in the concept of international cooperation for development and would like to see a more equitable distribution of the world's resources, but there is as yet no international consensus on the questions involved.

In looking for a new policy framework it might be more prudent to give up the usual ambition of finding a grand and comprehensive vision. The world is not perhaps ready for such a vision. It might instead be more realistic to start with a "minimum consensus" and then proceed to iden-

tify some of the elements of a policy based on this consensus. These elements may or may not ultimately develop into a comprehensive framework or a "grand design" but should at least help a more concerted attack on the problems of development.

Elements of a New Policy

The starting point for such a consensus would be to accept the contention, in the words of Mr Lester B. Pearson, "that a planet cannot any more than a country survive, half slave, half free, half engulfed in misery, half careering along towards the supposed joys of almost unlimited consumption from unprecedented production with less work."

If the basic truth underlying this contention is sincerely accepted, irrespective of the lack of short term compulsions, then some of the elements of a new policy framework can be identified. These should include:

☐ A much better and clearer understanding of the objectives and goals of development. It is primarily for the developing countries to decide their own development policies and priorities, but the developed countries and international agencies can assist them in this important task by making their best available academic and intellectual contribution and by modifying the present narrowly conceived criteria for judging development performance;

☐ Greatly improved international machinery for joint action in the field of development. Present arrangements for bilateral and multilateral assistance are uncertain, unstable and politically dominated. At the same time there are many international and regional institutions like the World Bank, Regional Development Banks, the UN Development Programme, and UN Specialized Agencies, which have acquired vast professional and managerial capacity to serve as effective development agencies, but their performance and future role is affected by uncertain budgetary allocations and controversies over objectives and priorities. There is also a growing need for better coordination at the "apex". Perhaps the time has come for creating some kind of body like a "World Development Council", composed not only of country representatives but of heads of various international development agencies, such as the UN Secretary General, heads of the World Bank, Regional Development Banks and UN Specialized Agencies. These eminent persons with their institutional responsibilities and professional orientation, together with a few selected representatives of developed and developing countries could play a more effective coordinating role by prescribing broad policy goals, determining criteria for allo-

cating development assistance and monitoring overall performance;

☐ Creation and expansion of autonomous sources of development assistance. If the proposed "link" between the Special Drawing Rights and development assistance is accepted and implemented, it could provide an automatic and expanding source of development finance. The proposed "World Development Council", if created, could then be entrusted with the responsibility of allocating these resources between the World Bank, Regional Development Banks and the UN institutions and agencies. This could constitute an important step for the creation of a much needed "International Finance Ministry". Similarly, countries which do not regard political objectives of bilateral assistance of primary importance could transfer their contributions (hopefully up to 0.7 p.c. of GNP) to this multilateral pool of international resources controlled by this body. In this way, the transfer of resources to developing countries can gradually become more systematic and institutional, reducing political controversies and tensions inherent in bilateral programmes and shifting the task of promoting development to widely dispersed professional institutions. This could also make the UN system a more active instrument of world development;

☐ Accepting the need for special preferential arrangements to enable developing countries to receive an equitable and predetermined share out of future expansion in world trade. The evolution of such arrangements could be greatly facilitated by a general movement towards liberalization of world trade. In the past developed countries have been prepared to consider only those measures of trade liberalization which did not conflict with their own objective of protecting their traditional industries like textiles and agriculture. The forthcoming trade negotiations under GATT offer a valuable opportunity to remove serious impediments to trade, particularly in products of interest to developing countries. But trade liberalization in itself would not offer larger trade opportunities to developing countries in the absence of special preferential arrangements. The principle of tariff preferences has already been accepted for manufacture. It needs to be extended to non-tariff restrictions and to agricultural products. The increments which the developing countries need and expect in their trade are modest compared to the annual expansion of world trade, and the impact of such increments on the balance of trade of developed countries would be marginal. Once these two principles, viz. a minimum market share out of incremental trade and the need for preferential arrangements, are accepted, detailed negotiations on individual products or policies could become more manageable.