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## From confrontation toward negotiation

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that they have a lever of crucial importance for the establishment of an enduring change in the economic world order in their hands in that they can create the indispensable internal prerequisites to economic development. In most developing countries there are many opportunities for increasing the output of the economy without huge investments, e.g. by encouraging initiative and enterprise, through organisational measures, etc. The PR China has shown by its example what can be done. Other indispensable prerequisites are the deployment of idle productive forces on essential infrastructural measures, establishment of an efficient administration, the curbing of corruption. Where these prerequisites are lacking developing countries cannot be integrated with a viable world economy by any transfer process, redistribution or indexation. The stress laid by all countries on their right to autonomy shows beyond all doubt where the ultimate responsibility lies.

It is probably immensely difficult to translate this responsibility in principle into practical policies. Without local revolu-

tions it may well be impossible. It is inherent in the historic process outlined earlier that so-called "bridgeheads" are formed when existing static forms of life are penetrated by ascending dynamic civilisations. This does not spring from any deliberate strategy but corresponds to the law governing dynamic societies and economies.

Nobody can say today what the old autochthonous forms of life in the developing countries of today would look like had they not been penetrated by western civilisation. They would certainly look "different" but it would be idle to speculate on the "how". Two centuries are far too short a span of time in the history of mankind to allow us to assume that the archaic societies of most of the developing countries of today would have chanced on the same course of development, at least in the sense in which they desire it today, had they not come into contact with western civilisation. There is a strong probability that the glaring "differences in development" would have manifested themselves in any case although the clash of static and dynamic forms of so-

ciety has undoubtedly created and aggravated many problems. Such daydreaming however is futile. No problem of the contemporary world has yet been brought a step nearer a solution by meditating on what would have happened if incapable historic developments had not taken place.

For reasons intrinsic in all development the world economy of the future is likely to be a system of regionally differentiated focal points rather than one of global division of labour<sup>2</sup>. For a time the "autocentric development strategy" may even be more appropriate than the road towards the global integration of all component parts pursued until now.

The "Old Order" certainly needs improving and is capable of being improved. The great venture of a "New Order" as often conceived is a phantom. In the postulated form it can never take shape. The mistaken belief however that it can be accomplished may easily play havoc with the "Old Order" as well as the "New Order".

<sup>2</sup> Cf. A. Lemper, *Handel in einer dynamischen Weltwirtschaft* (Trade in a Dynamic World Economy), Munich (Weltforum-Verlag), 1974.

## From Confrontation toward Negotiation

by Dr Otto G. Mayer, Hamburg \*

The concept of a New International Economic Order (NIEO) is expected to play a central role in the debates of the Seventh Special Session of the UN-General Assembly which meets in New York from September 1 to 12. The search for a NIEO or a reform of the existing world economy, respectively, as expressed by the demands in the Declaration on the Establish-

ment of a New International Economic Order<sup>1</sup> or the Charter of Economic Rights and Duties of States<sup>2</sup> has several and justified reasons — above all the widening gap between developing and industrialised countries

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<sup>1</sup> General Assembly resolution 3201 (S-VI) adopted by the Sixth Special Session of the General Assembly on May 1, 1974.

<sup>2</sup> Adopted by the Twenty-ninth UN-General Assembly on December 12, 1974.

alongside with two decades of frustrated dialogue between rich nations and poor nations as well as the sudden and measurable reversal in political power relationships since the oil crisis. In the opinion of the developing countries a NIEO is necessary because in the present economic order they see hardly any chances for overcoming their underdevelopment.

The developing countries' demands, that during the last two years have been presented more and more aggressively from conference to conference, in industrial countries met with strong or even intransigent rejection, because the latter see "free world trade" threatened by major elements of these demands, accompanied with corresponding repercussions on their political and economic systems.

This intransigence of the industrial countries, that, however, so far did not result in the elaboration of common counter-proposals, exacerbated the political climate. Since no coordinated counter-proposals, but only bilateral uncoordinated concessions were made on individual elements of the proposed NIEO, which again other industrial nations opposed, negotiations were also impossible. The verbal quarrels culminated finally in the question: cooperation or confrontation? which we are facing on principle still today.

### Reasons for Avoiding Confrontation

But for several reasons a confrontation should be avoided<sup>3</sup>:

□ Firstly, few industrialised countries believe earnestly that reforms in favour of developing countries are unnecessary.

□ Secondly, it cannot be assumed unconditionally that the group of developing countries will disrupt in case of a confrontation.

□ Thirdly, the economic costs of disruption, of developing alternative sources of supply, of adjusting domestic policies to meet new costs and new employment losses are high.

□ Fourthly, economic confrontation may regionally lead to such serious consequences that political changes, even wars might occur together with the corresponding repercussions on the western industrialised countries.

□ In the fifth place, the individual nations' apprehensions concerning the continuance of the market economy order and anticipations of an administrated world economy should be grossly exaggerated. For, an analysis of the aggregate demands justifies the opinion that — apart from few exceptions — they either intend to accomplish at last a breaking forth of market economy principles or else — as is customary in industrial states within their national framework — to abolish excesses and undesirable developments of the market mechanism.

If this thesis is right, a common basis for negotiations and cooperation is available, enabling the examination of individual measures as to their practicability, their compatibility with individual national interests and their consistency mutually and with long-term target conceptions<sup>4</sup>.

In two decisive spheres it is shown that the developing countries' demands orientate themselves toward the basic principles of a "free world trade" and related concepts, respectively<sup>5</sup>:

□ i.e. the idea of a liberalised world trade and the aimed at type of international division of labour and

□ the development programmes as introduced in the documents.

To the first topic belongs above all the criticism that the

developing countries, owing to tariff and non-tariff barriers, suffer export and with that income losses which would not occur in a truly liberalised world trade, and the resulting demands for a progressive removal of tariff and non-tariff barriers and restrictive business practices. To this belong the demands for a reduction of protective measures and maintenance subsidies for industries which, even in the opinion of the industrialised countries, according to the principle of comparative costs, could find favourable locations in the developing countries<sup>6</sup>. And where the latter's products compete with domestic production in the developed countries, they demand expansion by each developed country of imports from developing nations and provision of a fair and reasonable opportunity to the developing countries to share in the growth market.

The developing countries' demands for securing production and sales of their raw materials and for an increased local processing demonstrate that the aimed at type of division of labour — to use a simplified formulation — consists in a forward projection of the traditional usages<sup>7</sup>: thus what is still aimed at — although on a slightly higher level — is an exchange of raw materials and commodities for industrial goods. The demands for formation of producer's associations, for joint marketing arrangements, orderly commodity trading, etc., in this view finally represent — just the same as the demand for an indexation of raw material prices,

<sup>3</sup> See also R. H. Green and H. W. Singer: Toward a Rational and Equitable New International Economic Order: A Case for Negotiated Structural Changes, in: World Development, No. 6 (June 1975), p. 428.

<sup>4</sup> See R. H. Green and H. W. Singer, op. cit., p. 430.

<sup>5</sup> See Dieter Senghaas: Der Weltwirtschaftsordnung neue Kleider (The New Clothes of the World Economic Order), in: WIRTSCHAFTSDIENST, 55th year (1975), No. 5, p. 230.

<sup>6</sup> See: Gerhard Fels, Internationale Umverteilung der Einkommen. Ansätze zu einer neuen weltwirtschaftlichen Arbeitsteilung (International Redistribution of Incomes. Approaches to a New World Economic Division of Labour), in: Europa-Archiv, No. 2, 1975; and: Der Wandel der Branchenstrukturen in der Bundesrepublik (The Change of the Structures of Trades in the Federal Republic of Germany), in: Blick durch die Wirtschaft, No. 171, July 28, 1975, p. 3.

<sup>7</sup> See Dieter Senghaas: Der Weltwirtschaftsordnung neue Kleider, op. cit., p. 230.

linked to those of imported industrial products — only a protection against the hitherto negative effects of this division of labour. Apart from the fact that producer's associations and joint marketing arrangements may be judged quite positively under market economy aspects, if they are established as "countervailing power" vis-à-vis powerful buyer's organisations abroad and not as a political weapon<sup>8</sup>, the industrial countries have only one alternative, i.e. to arrange otherwise — through capital aid or some kind of stabilisation funds — for the developing countries' income required for their development — if the existing system and this type of division of labour are to be maintained or developed further. This applies the more so as all these demands orient themselves towards the traditional development strategy of "Aid by Trade" or "Development by Trade", i.e. that the export sector is to serve as development generator<sup>9</sup>.

### Possible Ways

If, therefore, no serious dissent is to be found between the developing and the industrialised countries' concepts as regards the fundamental approaches which are the basis of demands for a NIEO, the problem proper "reduces" itself mainly to the question of the practicability of the proposed measures and their consistency mutually and with the mentioned fundamental approaches.

The word "reduces" is written between quotation marks because it is here where the problems proper are to be found. An example from the raw material market may illustrate this

shortly and in a simplified fashion. Within the framework of the traditional development strategy the developing countries depend on income from abroad for their investments. As shown by most countries' degree of indebtedness, capital aid in its present form has at best a stop-gap function in future. If this income bases on proceeds from raw material exports, they must be safe in the first place, and, secondly, sufficient for guaranteeing the establishment of other export industries (export diversification). Two alternatives offer themselves for realising such a development:

Firstly, the industrial countries commit themselves to purchase certain quantities at fixed and indexed prices for a certain period. The objections against such a procedure are obvious: high administrative costs, abolition of the market principle and misallocation of resources, obstruction of technical progress, etc., without making sure that a diversification — due to lacking incentives — actually takes place.

Secondly, raw material agreements have a certain duration, sufficient for enabling the establishment of processing and alternative industries. For the creation of the necessary incentives a procedure should be chosen that secures the total of export proceeds and not those from certain products and in the course of time reactivates the free market principle. In the industrial countries such adaptation processes are known as regards their structural policy and are pursued by corresponding measures. Analogically, raw material agreements would thus be conceivable: firstly, the fixed minimum prices, guaranteed by a stabilisation fund for a period — let's say — of ten years would have to be worked out progressively, allowing for an inflation premium. And secondly, these

raw material agreements would oblige the industrialised countries to reduce successively, during the same period, their maintenance subsidies and protective measures for those industries that compete with newly established industries in developing countries.

This example elucidates already that at the initial stage a stronger administration of market transactions cannot be avoided and that the industrial countries will have to face substantial internal adaptation problems. But just the latter raises doubts about the political practicability. Therefore the apprehension is justified that the industrialised countries prefer to choose a variant of the first way, i.e. to pay more and to tolerate more inefficiency in order to avoid the internal political troubles that would be caused by the required adaptations.

Similar difficulties, namely to find practicable ways, compatible with the basic concepts of international cooperation, leading to an — at least temporary — protection of the developing countries' industrialisation against the trend of market economy systems to given trade, power and development structures, are also to be found with other problems. Hereto belong problems of indexation, the relationship between synthetic and natural products, etc., — in connexion with which the problem whether indexation will be necessary at all in the case of adequate raw material agreements is an open question.

It should, however, be possible to find adequate ways if one is aware of the common fundamentals and long-term objectives. But so far one has the impression that an aphorism of Albert Einstein seems to prove right: "The intellect has a sharp eye for methods and tools, but it is blind to objectives and values".

<sup>8</sup> See Hajo Hasenpflug: Plädoyer für eine gerechte Weltwirtschaft (Pleading for a Just World Economy), in: WIRTSCHAFTSDIENST, 55th year (1975), No. 5, pp. 228/229.

<sup>9</sup> Dieter Senghaas: Der Weltwirtschaftsordnung neue Kleider, op. cit., p. 230.