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The New International Economic Order: a View from the Socialist Corner

by Leon Zurawicki, Warsaw*

The attitude towards development aid of the socialist countries of Eastern Europe, who recently made themselves conspicuous once more by their absence from the Cancún summit, has come under increasing attack from the Third World. Our author takes a critical look at the socialist countries' position and explains why it would serve their own interests to take a different stand.

Without the active participation of the East the mere North-South dialogue loses considerably in political and economic significance. The centrally planned economies have developed rapidly in the post-war era. Their experience and resources have proved useful for aiding in the industrialization of other countries which have adopted a socialist system such as Cuba, or a quasi-socialist system such as Algeria, or even India. It must also be noted that generally speaking the socialist countries now occupy a middle position between the West and the South in that they have based their development on the import of Western technology and credits, and, in addition, in that they find advantageous outlets for their industrial products in Third World markets.

For this reason alone the socialist countries should take a more active and firm position towards the NIEO. The issue is becoming more and more urgent because of the fact that even the modest concessions granted by the West to the developing countries – one can e. g. quote the provisions of the Lomé II agreement – leave the Eastern countries in a certain isolation and limit their influence in the Third World. Moreover, as a result of this the socialist states have difficulty in gaining access to the markets of the developed West. On the other hand one can infer that the Third World adopts rather unyielding tactics vis-à-vis the socialist countries in order to ensure that its interests in the West are not burdened by the application of reduced tariffs and other preferences to the East.

It appears, however, that the whole problem of claims addressed to the socialist countries by the Third World and the question of the correct response to them is additionally complicated. It might, namely, be argued that, as far as general economic mechanisms are concerned, there are more similarities between the socialist countries and the developing countries than between the East and the West – similarities, e. g. in the

gap between social demand and insufficient productive capacities. One cannot ignore the fact that both types of economy usually operate in a situation where no idle capacities exist. Therefore, in contrast to the differences between the systems in West and South, certain similarities between East and South must be taken into account in order to ascertain the most efficient and feasible way in which the socialist countries could assist the Third World. Also, generally speaking, the aims and targets formulated by the socialist and Third World countries are very similar – they both strive for better access to world markets and want to have a higher stake in international trade; (of course for the developing countries the rapid expansion of their own production is a precondition for this). This expresses itself in a struggle to overcome protectionist barriers in the markets of the developed capitalist countries. On the other hand, in the present international situation the aims of East and South may prove contradictory to one another as the available openings on the world markets are limited.

Until now the socialist countries have not yet presented their own global programme for the regulation of international economic relations, merely restricting themselves to the elaboration of certain mechanisms for regional integration. However, the value of the latter is limited to countries with similar socio-political systems. Generally speaking, the East expresses a great deal of criticism concerning the imperfections of presently operating foreign trade mechanisms, and at the same time observes a lack of constructive proposals for real improvements, including the NIEO.

To come to the main point, it could be emphasised that the appealing slogan of joint responsibility for the fate of the world economy and politics requires that the socialist countries, too, bear their share of the international aid burden. The question arises, however, – and this argument is repeatedly quoted by socialist state officials – as to whether the East, since it is not

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responsible for the historical past of the Third World (or in any case much less responsible than the West), should be held responsible – in financial terms – for the future of the developing world to the same extent as the West is. Does the inseparability of the political and economic factor reach so far? One can justifiably argue that a superpower like the USSR, which devotes considerable funds to military expenditure, has in fact considerable potential resources for increasing its economic aid to the Third World¹.

Passive Attitude

During the seventies the socialist countries adopted a rather passive wait-and-see attitude as far as the NIEO was concerned. This attitude was motivated by the conviction that the North-South issue proved still to be much more important for the Third World than East-South relations, and that in addition to this the West would, in general, reject those claims put forward by the developing countries, which are also unacceptable to the socialist countries.

This approach exposes the socialist countries themselves to a certain danger. The risk is also increased somewhat by the view mentioned above, according to which economic aid to the Third World should in the first instance be considered as a means of clearing accounts for the losses incurred years ago by the former colonies and as compensation for present neo-colonial exploitation. By taking such a position the socialist countries leave the question of Third World development to the West and in a sense “attach” the developing countries to the industrialized capitalist countries. However, it is too easily forgotten in the socialist bloc that such a policy on the part of the East in fact means full acceptance of the reinforcement of the links between the Third World and the most developed market economies. The question arises as to whether such a trend is also advantageous to the East.

The socialist countries strongly emphasize the significance of their cooperation with the Third World along the lines of the model of bilateral country-to-country relations assuring equal treatment and mutual benefits. However, the developing countries in general

clearly reject this point of view. This results quite logically from their strategy of aiming at the achievement of a privileged position in world trade and of observing the negative effects of protectionism in international trade only from their own point of view.

In any case one should note that within the Eastern bloc attitudes toward the claims of the South in general and the NIEO in particular may vary. For instance, the Soviet Union is least dependent upon trade with the outside world. This country should also, in the author's opinion, be potentially interested in the proposals for regulating the markets of raw materials and price indexation. For that reason the position of the USSR towards the NIEO is earmarked by political rather than economic considerations – the role of superpower responsible for the world's future is also important.

One can presume that those socialist countries which depend to a greater extent on imports of raw materials and fuels (e. g. Czechoslovakia, Hungary, GDR) should, for purely economic reasons, take a more critical view of at least some of the stipulations of the developing countries. This is in fact the case, particularly as far as Hungary is concerned.

Further objections to the NIEO may question whether it is really of such an anti-imperialist nature as some comments originally claimed. Of course one cannot deny its radical character, but nevertheless some of the stipulations which it contains may suggest that instead of introducing a truly new order the proposal of the developing countries in fact rather tends towards making the old regime more tolerable to the Third World. Maybe this is just the natural and inevitable course of events. However, this situation must have repercussions on the reaction of the East.

Underdeveloped Socialist Countries

Another and still more interesting problem results from the fact that some of the socialist countries are also to be considered as underdeveloped (including several Soviet Union republics). These countries, such as Cuba, Vietnam, Mongolia and, in Eastern Europe, Romania, face the following dilemma: whether to champion the interests of the non-aligned developing countries in their relations with the richer socialist countries or, on the contrary, to defend the interests of the socialist bloc vis-à-vis the remaining developing countries. Although with rare exceptions the latter attitude prevails, the question still remains open. On the other hand the fact that both the poorer and the richer socialist countries are members of one organisation (CMEA) does not help much to solve the problem.

¹ Also, China's departure from virtual isolation from the external world has created a new element in international economic relations. This is the more significant since, although this is neither the time nor the place to resolve the question as to what extent the Sino-Soviet conflict illustrates the contradictions between North and South within the socialist bloc, one cannot ignore the resemblance between Maoist ideology and the position taken by the Third World as a whole. According to both of them the antagonists of the developing countries are the rich industrialized countries, including East European socialist states. This reasoning, however, does not take into account either the different social systems or the discrepancies in the standard of living within a North thus defined.

All in all, it ought to be borne in mind that for the socialist countries the question of development assistance to the Third World should be considered not only as a human obligation but as a problem of maintaining the precarious world political and economic balance. This must be taken into account not just in moral but in, so to say, real terms, if one is going to analyze the crucial issue of the transformation of international economic relations. The problem is namely to determine who should render the economic assistance, to whom and to what extent. The question as to the willingness to grant specific aid up to a given amount should in any case precede the question as to which methods will prove helpful in restructuring the global economic system in favour of the developing countries. Only when the costs incurred by any one country or group of countries by specific reforms on a world scale have been realized is it possible to take a proper stand.

Notwithstanding the necessity of assisting the developing countries, it seems indispensable also to discuss the problem of the distribution of this aid from the point of view of the socialist economies. One of the most difficult and delicate issues is to distinguish on a global scale between the potential benefactors and beneficiaries of international aid flows. As is commonly known, the developing countries often stick to the oversimplified distinction between North and South, thereby including the socialist countries in the former group. Their image as successful economies which the European socialist countries have in the eyes of the Third World cannot be overlooked in this context. By emphasizing their economic achievements the socialist countries have themselves helped to strengthen this impression. No wonder then that the poor developing countries, in asking the East for aid, point to the fact that they are addressing their appeal to countries which in their own economic development have been successful enough to be able to share some of the results with others. Indeed, from the point of view of a starving Indian, the discussion on the income gap between the average Swede and the average Hungarian earner is a worthless intellectual exercise as what both have in common is that they can eat their fill. However, as we have mentioned previously – and we shall draw on this observation below – this dichotomy is unacceptable.

Income per Capita as Aid Criterion

If, therefore, the complex changes to be implemented in the world economic system are not only to be treated as a life-line thrown to the underdeveloped countries in order to secure world-wide political stabilization, but are intended to perform an even more ambitious role, then

some further provisions should be kept in mind. If one is looking for a programme to guarantee the working people all over the world a certain level of well-being, then one has to take into account aspirations to raise the present prevailing standard of living in all countries.

When applying this reasoning directly to the societies in Eastern Europe, it might be observed that despite the economic achievements during the post-war period these countries are still far from assuring their citizens the living conditions corresponding to socialist ideals. What is more, if expressed in absolute terms, the discrepancy between per capita income in West and East has widened. And it is also self-evident that the level of welfare and the differences resulting therefrom are not only determined by current incomes but also by the accumulated wealth derived from past income.

This leads to the question of development aid criteria, as can be seen quite clearly with respect to the so-called "development tax" (in the form of official development aid) for supplying funds for direct and continuous assistance to the Third World. The acceptance of a rate which is equal and consequently proportionate to the country's GNP (be it 0.7 % or 1 % or whatever percentage of GNP) appears to be fair, for this principle provides that each country listed among the "rich" should render a certain quota corresponding to its possibilities.

However, in order to complete the analysis it is necessary to consider the upper limit, expressed e. g. in terms of per capita national income, up to which a given country will be eligible – at least from the moral point of view – for international aid. According to this procedure one can also single out a group of countries which are in a position to continue development by their own means. Yet these criteria still appear to be too scant to help in deciding who should be obliged by the world community to grant aid to the poor countries if the entire issue is to be regarded as being a drive for general harmony. This approach ought, in the author's opinion, to be contrasted with the motives behind international philanthropy or with the philosophy according to which the rich should pay dues to make the present rules of the game less harmful to the poor.

One should also beware of a certain automaticity, namely that all countries which by virtue of their present income cannot expect to receive foreign aid, are in turn obliged to grant assistance to others. The fundamental question is: what is – in the foreseeable future – the ultimate welfare level, when is it going to be achieved, which way is the process of "catching up" with the rich of the world to take place? Difficult as they are, these are

the key issues. And it seems that it is in the best interest of the socialist countries to draw international attention to the problem. It appears that the present rules regulating the scope and character of international development aid are still quite arbitrary. Hence the elaboration and the general acceptance of guidelines appropriate to the complex economic situation of different regions is of utmost importance. Only in that way can the duties of the socialist countries concerning development aid be determined accurately and objectively. Following this, the fulfilment of these obligations can be verified by the world community.

Medium-income Countries

Let us now consider the specific position of the countries with a medium level of income. The question involves not only the European socialist countries but also some of the countries classified as developing ones (e. g. Brazil, Argentina, some of the South Asian states). The purpose of these remarks, however, is not to prove that the medium-income countries – the boundaries of this group of countries still remain to be determined precisely – should be exempted from any development aid, but to emphasize that the natural course of events is that the main bulk of this aid, in absolute as well as in relative terms, should be carried by the richest countries of the world. This reasoning might be supplemented by the argument that the lower the income level of the donor country the more difficult it is to spare even a small proportion of GNP for development assistance. It implies that some sort of graduated scale regarding the rate of development aid in relation to the GNP of the donor state ought to be advocated.

Still another paramount question needs to be answered, namely whether, and if so in what proportion to the per capita GNP of the poor countries, the scope of the foreign aid granted should be adjusted². At this moment it should be kept in mind that the non-European socialist countries (except for China) obtain external foreign aid predominantly, if not exclusively, from the developed socialist states. This phenomenon deserves mentioning here not only to give evidence of the involvement of the socialist countries in the development of the poor regions, but also to point to the fact that in practice various forms of discrimination (or preference) take place in the realm of development assistance in the divided world.

² According to UNCTAD the per capita aid receipts of the least developed countries are astonishingly enough not the highest among the Third World, although nobody questions that these countries are the weakest and the poorest.

³ According to the World Bank, the 60 % of the population of the developing countries which belong to the poorest social strata benefit from only 25 % of the growth of national income.

Domestic Situation

It goes perhaps without saying that for both the donor and the recipient countries the main preoccupation is how foreign aid can be used most effectively. For that reason spending for military purposes is contrary to the concept of development aid. It is therefore regrettable that in the present day situation armaments usually accompany the economic growth of poor countries.

Still other important question marks appear. One cannot, namely, neglect the dilemma as to whether a country whose government has wasted the aid granted previously should still compete on equal terms with other countries for new assistance. How should it be decided which country should be helped first? Whether temporarily provoked by world inflation or due to some long-term factors acting in the same direction, increasingly tight credit terms are forcing the developing countries to improve the economic effectiveness of investment decision-making. This applies not only to individual projects but increasingly to the *modus operandi* of the entire economy.

The socialist countries have argued on many occasions that the rapid economic growth initiated in the low income countries requires some sort of national planning, restriction of the monopoly power of foreign and local capital and possibly the state management of the means of production. As practical experience seems in many cases to confirm this thesis the question of the distribution of international development aid is becoming more acute.

Finally one of the clinching arguments, put forward not only by the Eastern European governments but also by other socialist-oriented groupings and organizations such as the free trade unions, is that there is a fundamental contradiction between the demands of the Third World for the closing of the welfare gap between the rich and the poor regions of the world on the one hand and the unwillingness to adopt a similar policy regarding the local situation within particular countries on the other. These seemingly local problems cannot, however, be considered to be purely domestic issues in view of Third World demands for new international aid³.

Another conclusion to be drawn is that it is very naive to expect that aid and cooperation with the Third World be freed from ideological struggle. In this context the idealistic approach and wishful thinking of some reformers, including the Brandt-Commission, might be pointed out. Ideological rivalry starts at the moment when an alternative source of aid appears, different lifestyles are widespread, and varying principles of income distribution adopted. It is quite evident that these factors

can have a strong impact upon the effectiveness of the utilization of foreign aid.

The Third World constitutes an area where different ideological and economic concepts compete with each other. This rivalry is not limited only to the model typical of the industrialized capitalist countries on the one hand and the socialist states on the other. Equally important is the influence of extra-European religions and philosophies such as Islam or Buddhism. Therefore one can witness a significant transfer to the Third World not only of material aid but, parallel to this, of experience and modes of economic administration. Which of them finally appeals most to the developing countries depends upon two criteria: the result achieved previously by the states representing a given socio-economic system, and the degree to which a given country considers itself ripe to introduce appropriate reforms. It is, in any case, interesting to note that the socialist countries do, at least theoretically, put at the Third World's disposal a model based upon the principle of internal economic equality.

Structure of Aid

Certainly in view of the major problem – the scale of global development assistance, its sources and distribution – the question of the structure of this aid and its organizational framework is of secondary importance. Nevertheless this topic is also worth discussing from the point of view of the socialist countries. For various reasons the socialist countries might prefer – which does not mean that the developed capitalist countries need take the opposite stand – to render development aid in kind rather than in the form of financial flows.

This approach seems at first, because of the foreign exchange and payment problems of the socialist countries themselves, to correspond better to their possibilities, extending the scope of aid to be rendered. Secondly, it cannot be overlooked that, as opposed to purely financial aid, it may prove quite difficult to “process” aid in kind into luxury estates, armaments and other non- or less productive channels. Finally, and this may also constitute an important element, in all those cases where grants and credits are “tied” financial aid may only be utilized for purchases of goods produced by the donor country. One can, however, observe in passing that this in turn may in fact promote the sales of goods offered at inflated prices. In particular circumstances such a policy may even incur some losses for the recipient country, as is already the case with credits bearing low interest rates. Inflationary trends can also be strengthened by such practices.

Further, from the point of view of the socialist countries all initiatives aiming at the elimination of monopoly practices in international economic relations and leading to the stabilization of world market prices should be supported. Of course, the question still remains open as to how to achieve this aim as the demands for new regulations cannot always be enforced in view of real power relations. For instance it proves quite difficult for the Third World to control the transnational corporations to any great extent at the moment when they still seem to be of some use, be it because of their financial means, monopoly of technology or organizational and managerial skills. It might also be noted that a substantial part of the trade between the socialist and the developing countries is conducted via the transnational corporations. Mere declarations of goodwill are simply insufficient to reverse this tendency. Appropriate attempts to create a new organizational trade framework, at least as far as East-South relations are concerned, seem imperative.

East-South Trade

For the moment the share of the developing countries in the total imports of Eastern Europe is very modest, as is the corresponding share of Eastern Europe in the total exports of the Third World. What is more, the balance of mutual trade is negative for the developing countries. The developing countries are insisting on the expansion of their trade with the East. At first glance it is precisely the socialist countries which, by virtue of their national planning and management system, are in a position to adjust their production structure to leave room for the inflow of industrial products made in the Third World. This re-arrangement would up to a point anticipate the inevitable course of events and the growing competitiveness of Third World manufacturers in some branches.

At the same time, an appropriate policy on the part of the socialist countries in this field might counterbalance the stipulations of direct financial and material aid, which for the practical reasons mentioned above can hardly be met by the East. However, this constitutes a pretty difficult task. The structural changes in socialist industry will certainly take time. In particular, it seems imperative to re-orient the foreign trade of the socialist countries to ensure that it not only serves their own economic needs as far as investment processes and inputs to current production (raw materials, components, semi-products etc.) are concerned, but also proves directly beneficial to the growth of individual consumption at home.

This reveals another interesting facet of East-South economic relations as seen against a broader

background. Namely, whereas within the framework of the market economy of the developed capitalist countries the maximum commercial benefits for developing countries consist of granting them preferential access to markets, the socialist system offers, as we have mentioned, another alternative. The socialist countries are able in fact consciously to make room in their economic plans for direct purchases in the Third World⁴. This indicates that there is much at stake in East-South relations. But at the same time for this reason and because of the differences between the systems in East and West the character of the possible East-South agreement and the ways of reaching it must differ from the North-South dialogue.

It can be noted that because of their lack of excess productive capacity both the socialist and the developing countries must beware of disturbing the delicate balance of supply and demand in their domestic markets as a result of growing demand from abroad. This is perhaps less obvious with respect to the one-dimensionally specialized and export-oriented economies of some of the Third World countries. However, as far as the East is concerned this factor plays a crucial role.

One of the consequences is that a more dynamic growth of East-South trade is conditioned on the Eastern side by the stipulation of profitability and careful selection of balanced trade flows. However, when the necessary equilibrium cannot be achieved on a bilateral East-South basis, the scheme of tripartite East-West-South trade and cooperation could be fully accepted and maybe even advocated by the socialist partners.

Support for Third World Demands

In order to be able to impose new rules on the world economic order the developing countries obviously need an ally. A strong resistance on the part of the developed market economies has been manifested, or can be expected to manifest itself in the future with respect to numerous stipulations. Accordingly, the socialist countries may support some of the Third World demands, especially those addressed directly to the West.

The socialist countries are themselves looking for a proper position on the world economic stage. The problem is that while the NIEO seems to satisfy neither the developing nor the developed capitalist countries fully, it does not correspond to the priorities of the socialist countries either. On the other hand, the latter as

a group are to a large extent self-sufficient and for that reason partly protected from the business cycles typical of world markets. Furthermore, the fact that Eastern Europe is considered by the Third World to constitute a part of the rich North does not help to encourage Eastern Europe's involvement in the reform of international economic mechanisms.

However, it is quite obvious that the socialist countries must meet the challenge and put forward their point of view on future principles for regulating relations between states with differing levels of development, the more so as the socialist countries expect that in the course of time more and more developing countries will evolve towards the socialist system.

The developing countries continue to negotiate and campaign for the NIEO within the framework of the specialized UN agencies (e. g. UNCTAD) where the Third World holds the majority. At the same time the developed capitalist states with a certain logic seek to continue discussing within the framework of financial institutions such as IMF and the World Bank where capital participation has a decisive influence on decision-making and where the Western states have a majority stake in the organization's funds. Similar attempts aiming in the same direction are being made to bring negotiations to the forum of the General Agreement on Tariffs and Trade, an institution which is supposed to contribute to the liberalization of world trade. Finally, significant efforts are being undertaken to encourage direct North-South conferences outside the UN system.

In view of the fact that the socialist countries do not participate in the above-mentioned banking institutions (although some of them are considering such a possibility) and because, moreover, those Eastern states which belong to GATT perform a rather passive role there, they find themselves in a difficult position for joining in on the discussions on the NIEO. The significance of this issue may prove far greater than it might at first appear. While the developing countries are urgently, and with ever increasing pressure and conviction, demanding the creation of a new institutional framework responsible for the regulation of international trade and finance, the industrialized capitalist countries are responding with declarations of changes within the existing organizational structure. Naturally, it is not only up to the South and West to find a way to get the East directly involved and represented in the development debate. The socialist countries must therefore not only specify their own considered doctrine on the NIEO and similar questions, but also suggest a forum where these ideas could be discussed.

⁴ One may note in passing that the Third World countries are quite aware of this possibility and this awareness is partly reflected in the demands they address to the East.