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Topic- The Evolution of the

International Economic System

# **New International Economic Order: Origin & Objectives**

## **Origin of New International Economic Order (NIEO):**

The concept of new international economic order was although initially projected by Raul Prebisch and some other economists in the 1950's and 1960's, yet the first formal endorsement to it was received in April 1974, when the United Nations General Assembly at its sixth special session committed itself "to work urgently for the establishment of a new international economic order based on equity, sovereign equality, common interest and co-operation among all States, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations." This UN commitment recognises that the existing economic order was unjust, wicked and immoral and that there was the necessity to create a new and healthy international economic order based on justice and co-operation.

## **Objectives of New International Economic Order (NIEO):**

The nature of new international economic order is made explicit through the structure outlined by the UN documents and resolutions. The key objectives stated in these resolutions can be put into four major categories.

### **These are as follows:**

#### **1. Issues Related to Assistance:**

The foundation for a just world economic order can be laid if there is sympathetic understanding on the part of developed countries towards the aid requirements of the LDC's. A greater measure of co-operation from them can assist in the removal of poverty and in the achievement of balanced regional growth.

In this connection, the advanced countries are required to extend an untied and continuously expanding aid to the LDC's for the achievement of assistance target of a minimum of 0.7 percent of the GNP of the former. In the matter of technical assistance, the U.N. specified that the international community should continue and expand the operational programmes including vocational training and development of national personnel and management.

The reverse transfer of technology from LDC's to the advanced countries through brain drain should be stemmed. There should be negotiations of debt schedules of the underdeveloped world. There is the urgent need for undertaking special measures to assist land-locked, least developed and island countries. The

continued efforts should be made to realise the objective of total international disarmament. That would release substantial additional resources that can be utilised for meeting the development needs of the poor countries.

## **2. Issues Related to Trade:**

Apart from greater co-operation in the field of aid, the essence of the new international economic order (NIEO) lies in the improvement of the conditions related to the international trade such that the less developed countries find progressively expanding opportunities to enlarge their exports. It can enable them to get hold of export earnings sufficient to overcome their chronic balance of payments deficits and achieve a steady state growth.

The NIEO must be guided by such trade-related goals as improving the terms of trade for the LDC's adoption of integrated commodity programmes, development of international food programme, diversification and enlargement of the export potential of the LDC's, improvement and strengthening of trade relations between countries having different social and economic set up, strengthening of economic and technical co-operation among the LDC's, reform in the existing international monetary system ensuring greater participation of LDC's in the IMF decision-making and larger transfer of real resources from the bodies like World Bank and IMF.

### **3. Issues Related to Industrialisation and Technology:**

One of the significant objectives specified by the United Nations, having an important bearing upon the new international economic order, is a change in approach to industrialisation and technology. In this regard, the United Nations stressed upon the redeployment of industrial productive capacity to developing countries. The developed and developing countries should enter into negotiations about the possible shifting of the industrial capacity of the developed countries to the Third World.

#### **The possible areas of shifting of industrial capacity may include:**

- (a) The industries having high labour content,
- (b) The natural resource based-industries, and
- (c) The industries processing locally available raw materials.

The NIEO also has the objective of establishing mechanisms for the transfer of technology. The NIEO calls for greater access of the LDC's to the advanced technologies of the developed countries through a review of international patents, facilitating access to patented and non-patented technology, greater assistance to the LDC's for expansion of research and development programmes within their own countries and a greater control over the import of technology.

In this regard, the UN also proposed the regulation and supervision of the activities of transnational corporations and improvement in the competitiveness of natural resources facing competition from synthetic

substitutes. The NIEO also calls for, according to United Nations, equitable distribution of the benefits derived from exploration and for an international treaty to this effect because the oceans and sea beds are the common heritage of mankind.

#### **4. Social Issues:**

The NIEO has also the objective of dealing with the social issues faced by the international community through the mutual co-operation of the developed and less developed countries.

##### **The social issues or objectives identified by the United Nations include:**

- a. The achievement of a more equitable distribution of income and raising the level of employment;
- b. Provision of health services, education, higher cultural standards and qualifications for the work force;
- c. Integration of women in development; assurance of the well-being of children;
- d. Full recognition of the sovereignty of States over natural resources and the right to control their exploitation and right to their nationalisation;
- e. Provision of compensation for adverse effects on the resources of the states on account of foreign occupation, colonial domination or apartheid;
- f. Establishment of a system of consultation to promote industrial development, and
- g. Restructuring of the economic and social sections of the United Nations.

The outlines of NIEO, as suggested by the United Nations, reflect the aspirations and needs of the less developed world. The ushering in of such a world order based upon mutual trust and co-operation can certainly

assure the optimal utilisation of world resources, enlargement of international trade and investment flow and acceleration of the process of economic and social transformation of the world system.

### **North-South Dialogue and NIEO:**

The most fundamental requisite of a new and constructive international economic order is that the developed and LDC's should have close and co-operative economic relations among themselves. After the United Nations General Assembly passed resolution in April 1974 committing itself "to work urgently for the establishment of a new international economic order", there was the launching of negotiations between the developed countries (termed as the 'North') and the less developed countries (termed as the 'South'). Since 1960's the developed and less developed countries have carried the process of negotiations on the economic issues faced by each of the two groups. They have discussed these issues at the UNCTAD meets, GATT negotiations and at almost every world economic forum. This on-going process of negotiations between the rich and the poor countries is generally called as the North-South dialogue.

### **The main issues in this dialogue are as follows:**

- (i) Lowering of tariff structure
- (ii) Flow of financial assistance operation.
- (iii) Market access establishment of a NIEO.
- (iv) Terms of trade
- (v) Stabilisation of prices of primary products
- (vi) Transfer of technology

- (vii) Problem of international debt burden
- (viii) Reforms in the international monetary system
- (ix) Role of government in economic activity, and
- (x) Role of private sector.

Both the groups of countries have stuck rigidly to their respective viewpoints. Consequently, the North-South dialogue exposed more of confrontation rather than co-operation. This does not auger well for the establishment of a NIEO.

Although some limited progress was made on the issue of lowering of tariffs, preferences to the products of LDC's stabilization funds and debt relief arrangements, but on all other issues the situation has remained disappointing from the viewpoint of the LDC's. The advanced countries have invariably linked economic and trade concessions with political and other extraneous considerations.

Unless the North-South dialogue is perused in the spirit of accommodation and mutuality of interests at WTO meeting and appropriate economic forums, both the groups expect the ushering in of NIEO.

### **Advancement towards NIEO:**

The endorsement of the concept of New International Economic Order (NIEO) created high hopes and expectations among the LDCs. The outlines of its economic and social objectives set by the United Nations created a strong feeling among them that the world was close to assist in a positive manner for the removal of the problems of the impoverished and exploited less developed regions of the globe. It is important to review how far the world has made an advance towards the goal



of establishing a just and exploitation-free new world economic order.

**The assessment has to be made on the basis of the following main points concerning NIEO programme for action:**

**1. Development Assistance Target:**

The United Nations has set out one of the objectives of NIEO as that the advanced countries should progressively expand their development assistance for the LDCs upto the limit of 0.7 percent of their GNP. Moreover, the goal of development assistance also specifies that the aid should be untied and be provided on a long term and continuing basis. It is also stressed that the assistance should be on easy and concessional terms. By 1981, only Netherlands, Norway, Sweden, Denmark and France could meet 0.7 percent GNP target.

The other advanced countries have stubbornly refused to accept the target for development assistance. There has been strong opposition by them to the aid target at the North-South dialogue and the international fora including UNCTAD and GATT. Even in the Uruguay Round of GATT negotiations, which were concluded through the agreement signed in December 1993, the advanced countries have not acceded to raising the development assistance upto 0.7 percent GNP target.

The average of assistance rendered by all the developed countries presently ranged between 0.3 to 0.4 percent of their GNP. It is far short of the target. The stonewalling by the advanced countries on this matter has caused

much disappointment and frustration among the less developed countries.

## **2. Trade Preferences:**

The LDCs have generally rejected the GATT principle of the reduction of trade barriers on a non-discriminatory and reciprocal basis. Their prime concern has throughout been with securing preferential access to the markets of the developed countries. Such a demand from the LDCs was justified on account of the fact that they are at disadvantage vis-a-vis the advanced countries in the area of manufacturing, in addition, they have to protect their infant industries. Consequently, they cannot fully observe the principle of reciprocity in the matter of trade.

The easier access to the markets of advanced countries is justified also on the ground that the LDC can thereby rely more on trade than aid. The trade-creation will be quite beneficial also for the developed countries. In this direction some progress was achieved in the early 1970's when the Generalised System of Preferences (GSP) came into force.

Under this arrangement, the advanced countries allowed tariff concessions on the import of a range of manufactured products from the LDCs. The GSP suffered from serious weaknesses related to limited coverage of products, limited beneficiary countries, arbitrary rules of origin and escape clauses etc.

The progress in this area got restricted also on account of the clash in interests among the LDCs. 50 African, Caribbean and Pacific countries concluded in 1975 and

agreement with the EC called as Lome Agreement. It provided greater access to the markets of EC for their manufactured products and almost 90 percent of their agricultural products. There was also the provision of funds for the stabilisation of earnings from key commodities.

This brought about disunity in ranks of the countries of the South and they slackened the pressure of demand for a better regime of global trade preferences. In the wake of recession in many developed countries during 1970's and 1980's, there was a trend towards increased protectionism. They started substituting non-tariff barriers for tariff barriers. This has been an unfortunate negative development and is a negation of the endeavors to pave the path of NIEO.

### **3. Commodity Stabilisation Funds:**

The deteriorating terms of trade for the LDCs and losses in their export earnings have remained problems of serious concern for them. They insisted that the NIEO should protect them from continuous erosion in their export earnings through making an appropriate arrangement for the stabilisation of the prices of primary products. To achieve this objective, they asked for the institution of commodity stabilisation funds. Such a common fund could be utilised by the LDCs for financing the buffer stocks operations in the primary commodities.

This proposal was accepted by the UNCTAD IV in 1976. It provided for the buffer stocks operations to regulate the prices of 18 commodities. The commodities such as cocoa, coffee, tin, copper, jute, sugar, fibres, tea, rubber

and cotton were called as core commodities and eight commodities were called as other commodities. These included iron ore, bauxite, manganese, phosphates, bananas, timber, vegetable oil and oilseeds and meat.

The notable exclusions were petroleum and cereals. In June 1980, an agreement was reached with industrialised countries to set up a common fund under the integrated programme for commodities. It provided for 750 million dollars to assist the LDCs to stabilise the prices of primary products and promote their trade. 101 countries, including the USA, have entered into this agreement. The fund was partly subscribed by the members and partly by the release of buffer stocks. Although the agreement was far below the expectations of less developed countries as they had demanded initially \$ 6 billion for stabilisation, yet it was still a welcome development.

Whatever development took place in this field was not prompted by any genuine concern on the part of the advanced countries for the worsening trade conditions for the exporters of the primary products. It became possible on account of the situation created by OPEC in 1970's.

A fear grew among the developed countries about the possibility of similar organised actions by LDCs in respect of other raw materials. No doubt, the potential for replicating OPECs example in other commodities was extremely limited but still the fear of it afforded the primary producing south some limited relief from serious fluctuations in the international prices of primary products.

#### **4. Reform of International Monetary System:**

One of the major complaints of the less developed world against the existing international monetary system has been that it is inadequate to meet their development requirements. They believed that the IMF and other financial institutions were structured in the way that could serve essentially the requirements of the advanced countries.

The LDCs had although generally approved the monetary reforms that took place in 1970's under the auspices of the Committee of Twenty, yet they continued to press for monetary reforms including the revision of IMF quotas, change in the basis of quota allocation from the GNP to the per capita income, linking of Special Drawing Rights to the development needs, compensatory financing schemes and relaxation of stiff IMF conditionality.

Out of the above demands for international monetary reforms raised by the LDCs, the one related to compensatory financing schemes was well received by the advanced countries. They have accepted that the financial transfers to LDCs may be allowed in the event of shortfall in their export earnings below a specific long term norm. IMF compensatory financing scheme makes provision for assistance when the export earnings of less developed countries fall below a 5-yearly moving average.

LDCs have also generally welcomed compensatory financing arrangements but with two qualifications. First, these schemes should not be considered as a substitute for trade preferences and international

commodity agreement because they cannot redress the long term difficulties of the LDCs.

Second, the conditions under which the compensatory financing arrangements that have been worked out are needed to be relaxed. In short, the LDCs want long term arrangement that should provide an automatic access to finance without any conditionality or strings attached.

Since 1960's although IMF has adopted several reforms including the revision of assistance quotas, creation of diverse credit facilities and introduction of the revolutionary innovation of Special Drawing Rights, yet there are several issues which continue to bother greatly the poor countries. Not much headway has been made in the matters of reallocation of IMF quotas on the basis of per capita income criterion, establishment of link between SDRs and development assistance and liberalisation of conditionality.

Although these issues have been repeatedly raised at the North-South dialogue and UNCTAD meets, no progress has so far been made. Some moderation in the attitude of the advanced countries on these international monetary reforms can inspire greater international co-operation among the developed and the LDCs.

