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BRAVE NEW THIRD WORLD?

Strategies for Survival in the Global Economy

Walden Bello

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Walden Bello

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FOOD FIRST DEVELOPMENT REPORT SERIES

The Institute for Food and Development Policy, long known for its seminal work on international development, inaugurated this report series to offer lay people, specialists, academics, civic activists, and policymakers unique analyses of subjects of ongoing critical importance—internationally as well as nationally. The subjects in this series are as wide ranging as U.S. economic assistance, foreign policy, population, militarization, trade, and the environment. Each report will both pinpoint arguments central to current debate and recommend steps to generate positive action.

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WFB

ONE

SUMMARY

In 1955, the third world came together for the first time at Bandung to express a vision of "friendly cooperation" that would "help bring about the common prosperity and well being of all."[1] Thirty-five years later, the question for most third world countries is not how to attain common prosperity but how to arrest their descent into a common misery.

Optimism is a rare commodity in the third world today, and at the root of the volatile mixture of anger, frustration, and hopelessness that one encounters everywhere is a world economic order that systematically ensures that, as Fidel Castro put it, "the price we pay as neo-colonies is much higher than the price we paid when we were colonies."[2]

The 1980s have been marked by a sharp increase in poverty and inequality throughout the third world. Accompanying this free-fall in living standards has been the erosion of economic sovereignty. Increasing poverty and declining sovereignty are manifestations of a disturbing process at work globally: the relationship of significant areas of the third world to the international economy is being transformed from one of dependence or unequal integration to one of exclusion or marginalization.

This essay explores selected dimensions of this contemporary crisis of economic development in the third world, focusing on the vital intersection of internal policies and international economic trends.

We begin with an overview of the extent of the erosion of living standards throughout the South. Next we look at the sharp decline in national sovereignty that has accompanied this process of impoverishment, and discuss five factors that have greatly con-

tributed to the erosion of sovereignty: the debt crisis, transnational corporations, the growing cost-effectiveness of labor-saving manufacturing processes, depressed commodity prices, and aggressive protectionist policies on the part of the United States and other advanced industrial states.

Chapter four takes a close look at recent attempts to break out of underdevelopment in the Philippines, Vietnam, South Korea, and Taiwan. Although these countries (or province, in the case of Taiwan) belong to the same region, each took a distinct path to development. The comparison underlines the decisive importance of the interaction of the domestic economic strategy and the international economy. It attempts to draw out both the unique consequences of each strategy and the common constraints or opportunities encountered by all, especially in their relation to the international economy.

The fifth chapter focuses on key dimensions of the collective struggle of third world countries to reshape the international economy over the last three decades via negotiation and confrontation with the Northern powers. It documents the failure of the South to alter the power equation with the North on almost all significant fronts. Also discussed is the impact of growing differentiation of interests among third world countries on this central confrontation.

The sixth chapter studies the implications for the third world of the emergence of protectionist "superblocs" in the North. The thrust of the analysis is that significant sections of the third world will see their status moving from dependency or unequal integration within a liberal international economic regime to marginalization or exclusion from an international economy characterized by superblocs.

The final chapter is devoted to sketching out the key elements of a strategy that might enable third world countries not only to

ensure their survival as viable economic entities but also to embark on sustained development in the midst of a harsh international economic climate: the creation of regional blocs around particularly dynamic third world economies. Essential to the success of this enterprise, however, would be the setting aside of national rivalries, the promotion of cooperation in trade, investment, and technology, and the spread of democratic decision making in politics, in access to resources and in the process of production.

TWO

A DECADE OF REVERSAL

After registering some economic growth in the sixties and seventies, most third world countries have experienced a massive reversal in the eighties.

Africa faces veritable collapse. Between 1980 and 1985, the economies of nine African states shrank, while those of eleven registered hardly any growth. After rising in the sixties and seventies, per capita income will have dropped by 1990 to its level at independence in the 1960s! All the plagues of underdevelopment appear to have come together in a merciless fashion in the past decade. Drought, deforestation, desertification created by inappropriate agricultural practices, sharp drops in export prices, massive indebtedness, skewed development priorities, and civil war have combined to make Africans the world's hungriest and most malnourished people.

Not even Nigeria, subSaharan Africa's biggest economy, has been able to escape the economic Armageddon: in just two years, 1985–1987, annual per capita income in this country of 107 million dropped by more than half, from $800 to $380, prompting the World Bank to reclassify it from a middle-income to a low-income country.[3]

A United Nations advisory group reports that throughout the continent "health systems are collapsing for lack of medicines, schools have no books and universities suffer from a debilitating shortage of library and laboratory facilities."[4] But scarce resources diverted from health and education are being channeled, not to feeding the hungry, but to servicing the continent's $138 billion external debt.

If Africa has lost thirty years of development, Latin America has

lost a decade. By 1990, says the Economic Commission on Latin America, regional per capita income will barely reach the levels of 1980.[5] The millstone dragging down the continent is its crushing debt of over $400 billion. For many countries, like Mexico and Brazil, which received the accolade of having wrought "economic miracles" in the 1970s, it is as if a car traveling at sixty miles per hour suddenly has been thrown into reverse. The boom of the late sixties and seventies—which saw Brazil, for instance, growing at some 10 percent a year—was followed by no mere bust but by a depression worse than that of the thirties. Austerity programs designed to squeeze out the resources for debt repayment forced a savage 10 percent decline in regional gross national product in just two-years' time, in 1983 and 1984. Over the past few years some 5 to 10 percent of many countries' income has been routinely transferred abroad in the form of debt service payments, with the result that from 1984 to 1988 the net transfer of resources for the region has been negative to the tune of $100 billion. And this figure does not include capital flight instigated by local businessmen, which averaged, according to one estimate, about $13 billion yearly between 1980 and 1985.[6]

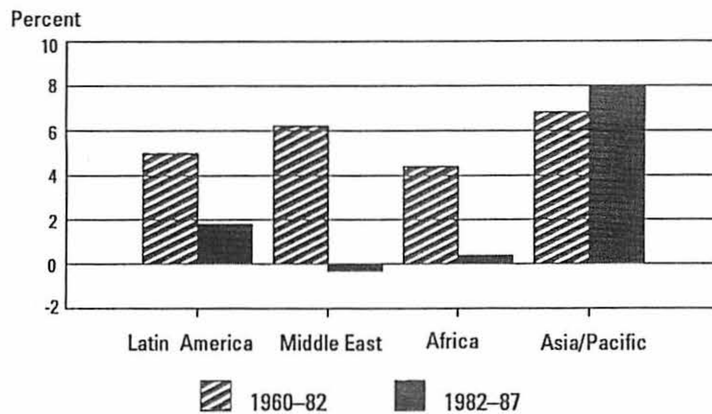
This massive transfer of resources, which recalls the colonial plunder of the sixteenth and seventeenth centuries, is creating tremendous human suffering. We have not yet seen starvation on an African scale, but its precursors—malnutrition, infant mortality, and disease—are on the rise. In Brazil, real wages fell by 33 percent between 1981 and 1985, while infant mortality shot up from 66 per thousand to 74 per thousand in just two years. In Bolivia, many poor families are giving away their children to better-off families. Tuberculosis, a by-product of malnutrition, is back with a vengeance in Peru; while in the Dominican Republic, one of the most indebted countries in per capita terms, unemployment now afflicts a quarter of the work force, and some people have resorted to eating rats to survive.[7] Indeed, unless the debt burden is lifted, it is within the realm of the possible that Latin America will face an African-type collapse in the 1990s.

While the picture in Africa and Latin America is almost uniformly bleak, Southeast Asia presents a contrast between booming Singapore and Thailand, which are regarded as newly industrializing countries (NICs) or near-NICs, and stagnating Philippines, Indonesia, and Malaysia. The latter, heavily dependent on primary-product exports, have been plagued by a Latin America–type squeeze created by plunging commodity export prices, escalating debt, capital flight, worsening income distribution, and corrupt or ineffective management of the economy.

The Philippines exemplifies the crisis of the resource-based Southeast Asian economy. Regarded in the early sixties as the most industrially advanced country in East Asia with the exception of Japan, the Philippines failed to make the breakthrough to sustained industrialization and is now the sick man of the region. With 10 percent of the country's gross national product now going to service the foreign debt and with the economy futher plagued by the free-fall of the international price of sugar and coconut, the percentage of Filipino families living under the poverty line has risen to 60 percent, with large pockets of the population facing starvation or severe malnutrition.

Turning to the Asian heartland, the third world's two largest countries, India and China (who between them have 1.8 billion people or almost 40 percent of the world's population), posted respectable GNP growth rates of five percent and ten percent respectively between 1980 and 1985. The lessons of their sound performance in the midst of the generalized reversal of their neighbors are: limit dependence on international trade, and borrow as little as possible from the Western banks. But the gains from relative independence are being eroded by the two countries' continuing high population growth rates[8] and, in the case of China, by the strategic choice of rapid and massive integration into the world capitalist economy. The coastal development policy adopted by the Chinese leadership consciously sacrifices the development of the interior provinces to the rapid growth of

FIGURE 1: Average Annual Real Growth of Domestic Product of Third World Countries



SOURCE: KPMG, *The Asia-Pacific Region: Economic and Business Prospects* (Amsterdam, 1988), 4.

the coastal regions and has already created inequalities between and within regions of a vast country that once flamed as a beacon of the strategy of self-reliance.[9]

In the 1970s the OPEC countries and the NICs were regarded as the success stories of the South. Today OPEC has lost its luster. With oil prices dropping by about 50 percent since 1982, many of the oil exporting countries have gone from feast to famine. The less prosperous, like Nigeria and Venezuela, have faced negative growth rates and escalating indebtedness to commercial banks. For the more prosperous, moderately populated countries like the United Arab Emirates, Saudi Arabia, and Kuwait, misguided spending priorities and sheer profligacy on the part of the elite have combined with the steep drop in oil revenues to stymie the

creation of a stable manufacturing base to depend on when the oil runs out—and the hour is late.

Many would say that the star performers in the third world arena in the last decade have been the NICs of East Asia: Singapore, Taiwan, South Korea, and Hong Kong. (Although Taiwan and Hong Kong are not countries, but parts of countries, we shall refer to them as NICs.) With few natural resources, these economies have grown by feverishly exporting manufactured goods to the United States. In 1987, East Asian "tiger economies" collectively posted an impressive 11 percent rate of growth.

But the glittering statistics cannot hide a development that is striking at the very heart of the NICs' strategy of export-oriented industrialization: the swift closing up of the vast U.S. market that for two decades spurred on their development.

In sum, four decades after the beginning of the postwar decolonization process, the third world scene is bleak. There is more poverty, more inequality, and less hope than during the so-called "springtime of freedom" in the sixties. A few East Asian NICs provide a counterpoint to the dismal scene. But like the OPEC countries in the seventies, the NICs may dazzle the rest with their current relative prosperity, but they face an unenviable future of trade warfare with their main markets in the West.

THREE

THE ASSAULT ON SOVEREIGNTY

There is growing sentiment in many liberal and progressive circles that the specter of nuclear war and transborder disasters like the greenhouse effect have rendered national sovereignty obsolete. There is no doubt that greater restraints on the sovereign power of the nation-states of the North are overdue. The question of sovereignty in the third world, however, has to be seen in a different context. Although abuses of sovereignty have indeed occurred with one third world nation assaulting another, as in the Iran-Iraq War, for the most part the problem has been the opposite: third world countries tend to suffer not from a surfeit but from a lack of effective sovereignty.

For two decades beginning in the early sixties, third world peoples made significant strides in fortifying their economic sovereignty. The high point was probably the period that saw the successful Arab oil embargo in 1973, the declaration of the New International Economic Order at the 1974 UN Special Session; and the successful march of national independence movements in Mozambique, Angola, Guinea-Bissau, Vietnam, Laos, Kampuchea, Nicaragua, Iran, and Zimbabwe from 1974 to 1980.

Since 1982, however, we have seen a shocking, extensive surrender of economic sovereignty by scores of third world countries. Leading the assault have been the U.S. commercial banks and the International Monetary Fund (IMF). Also instrumental have been transnational corporations, the growing cost-effectiveness of labor-saving manufacturing technology, the systematic bias of the world trading system against primary products, and aggressive, protectionist Western governments.

A "Classic Mugging"

It is ironic that foreign loans, once regarded as congenial to economic independence, ultimately became the instrument for the new subjugation. In the 1970s, third world reaction to abusive practices by multinational corporations and the commercial banks' intense competition for new profitable outlets for their OPEC deposits made bank loans the chief channel of capital to the third world. Dealing with the bankers gave third world government officials the illusion of sovereignty. The emergence of this false sense of calling the shots is aptly described by Feinberg:

> The rise of the commercial banks as the chief channel for capital transfer alleviated many...problems. In the past, LDCs [less-developed countries] were at a disadvantage in bargaining with MNCs [multinational corporations] because LDCs had to compete against each other in offering a favorable investment climate. With the arrival of the banks, the tables turned. Central bankers in the Third World could afford to leave executives waiting in anterooms, as the bankers bid against one another to "sell" their money.[10]

But with the Mexican debt crisis of 1982, the tables turned again, this time against the heavily indebted third world governments. The commercial banks formed a cartel and appointed the International Monetary Fund to be their negotiator, bill collector, and enforcer. The problem was how to keep interest payments coming in and thus report paper profits to stockholders. The solution was to offer the nearly bankrupt countries new money to pay the interest coming due, but only on condition that they accept an IMF-devised structural adjustment program consisting of sharp devaluation of currency, cutbacks in social expenditure, elimination of subsidies for basic commodities, and wage cuts. The theory was that this bitter medicine would force the "sick" economies to become efficient exporters, earning the foreign exchange necessary to service their debt. Most submitted—including Nigeria,

TABLE 1: Net Transfer of Financial Resources to Developing Countries (In Billions of Dollars)

1982	1983	1984	1985	1986	1987	1988
18.2	4.6	-10.2	-22.9	-28.7	-38.1	-43.0

SOURCE: World Bank, *World Debt Tables*, vol. 1 (Washington, D.C., World Bank, 1988), xii.

which elected to preserve the fiction of sovereignty by rejecting the IMF loan while unilaterally imposing a harsh adjustment program that won plaudits from the fund.

The result, says MIT debt expert Rudiger Dornbusch, was akin to a "classic mugging," as countries transferred massive amounts of their income abroad.[11] But the costs could not be counted just in terms of outflow of resources. Countries practically surrendered the instruments of fiscal and monetary policy to fund advisers and gave up development planning altogether as debt repayment replaced development as the raison d'être of economic growth.

Given the immense suffering involved and the hot and heavy rhetoric calling for an end to "debt slavery," one would have expected rebellions in the form of debt repudiation. What is astonishing is that not a single penny of debt has been formally repudiated by third world debtors since 1982. The first case in which the commercial banks declared a country in default occurred in August 1987, and, as Robert Wood notes, "the relatively small debtor involved, North Korea, quickly backed down and quickly came to terms with its creditors."[12]

There have, however, been unilateral acts that stopped short of outright repudiation, such as Peru's decision to allocate only 10 percent of its export earnings to debt service and Brazil's suspen-

sion of interest payments in February 1987. The confrontation between the banks and Brazil, the third world's biggest debtor and supposedly one of its most powerful countries, provided an object lesson in the power of international finance capital vis-à-vis the nation-state. When President José Sarney told the banks in February 1987 that Brazil was suspending interest payments, the banks were stunned. When they saw, however, that Mexico and Argentina, the second and third largest debtors, were simply going to stand on the sidelines, the banks regained their bearings. Their response was the equivalent of a medieval siege: no concessions, starve the bastards! Short-term trade credits to Brazil were choked off, and in May 1987, Citibank, the country's biggest creditor, announced that it was going to take a $1 billion loss by setting aside $3 billion as loan-loss reserves. The other New York banks that had loaned extensively to Brazil followed Citibank's lead and set aside billions in loan-loss reserves. The reserves were intended to cover losses to depositors and stockholders that would be incurred should Brazil or other third world debtors default on or repudiate their debt. Brazil was effectively isolated.

A year later, the Brazilian government surrendered and began negotiations to impose a domestic austerity program. The terms of capitulation were summarized in an August 1988 IMF press release announcing a Stand-by Arrangement with Brazil:

> Structural reforms...being undertaken are part of a program of modernization that would allow market forces to play a larger role in the economy. The reforms emphasize a redefinition of the role of the state, including narrowing the scope of government regulation and the privatization of state enterprises. In addition, the modernization program contemplates a new industrial policy, the liberalization of foreign trade and reforms in the financial system.[13]

In short, the fund was given the power to veto, if not actively determine, policy in nearly all the key sectors of the Brazilian

economy. In administering a crushing defeat to Brazil, the commercial banks were supremely aware that they were also teaching a lesson to the other indebted countries.

The Transnationals Rebound

While the banks have gained the image of being callous extortionists, it is the transnationals that have devised more sophisticated ways of circumventing the sovereignty of third world states. While the power of the resource-based transnationals —the so-called "dinosaurs," like mining corporations Anaconda and Kennecott—has certainly declined as more and more extractive activities have been nationalized or more tightly controlled by host governments, the leverage of the more versatile conglomerates has increased vis-à-vis the third world. Transnationals now prefer less visibility, spread their operations in many countries to reduce the risk of expropriation, welcome joint-venture arrangements, and have proven willing to accomodate government requirements to use local inputs for their products or export part of their production. As one analyst has noted, "the multinationals have been able to turn each successive set of demands, even those that at first appeared onerous or prohibitive, into advantages."[14] One example of the transnationals' new sophistication was Exxon's response to an offer of 100 percent ownership of a large copper complex presented by General Augusto Pinochet of Chile after the overthrow of the Allende government: the transnational suggested that the Chilean government come in as a joint partner![15]

Though complete data are not yet available, it appears that there have been fewer nationalizations of foreign enterprises since the midseventies compared to previous decades. This is likely to be a result not so much of the fear of destabilization of the kind that destroyed the Allende government but of the greater fear of losing capital. Third world countries have realized that they lose a great deal of leverage once they allow themselves to become part of the

transnationals' global operations. The transnationals' often implicit threat to leave an area if wages go higher makes governments—be they capitalist, nationalist, or socialist—fall into line. Even militant nationalist labor organizations have seen their power with the rank and file undercut by the multinationals' threat to pack up and leave or not even enter at all. Thus, the Aquino government has effectively used the specter of foreign investors skirting the Philippines to scare workers and reduce the number of strikes, much to the chagrin of leaders of the militant May First Movement.[16]

The zeitgeist, at least from the transnationals' perspective, is captured in a recent article in the *Harvard Business Review*, which gloats that the 1970s "are far behind us, and much has changed. Commodity prices are no longer expected to soar. The metals market is fragmented. And third world countries now have few of the financing options they drew on so heavily in the past."[17] As a result, "host countries are often granting concessions that would have been unthinkable even five years earlier."[18] These concessions include the scrapping of mandates on export targets and on the use of local inputs, guarantees of access to earning even in the face of restrictions on hard-currency payments, accelerated depreciation and amortization, tax breaks, special rates on electricity, and reduced tax rates on corporate income.

Among the model investment codes cited are the revised, liberal laws of Ghana and Indonesia. But not to be outdone is socialist Vietnam, whose investment code, approved in December 1987, is said to be one of the most liberal in Southeast Asia, to make up for "being late in the game," as one top adviser to the government put it.[19] Among other benefits for multinationals, the Vietnamese code encourages foreign investment in all areas except national defense and prohibits nationalization of foreign property.[20]

Indeed, the entry of Vietnam, China, and other socialist countries into the competition to provide the best conditions for multina-

tional investment has greatly reduced the bargaining power of the whole third world vis-à-vis transnational actors. Ironically, conservative regimes in Southeast Asia no longer fear China for "exporting communism" but for its ability to draw capital away from them. With its great reserves of labor and the unparalleled labor discipline provided by the Communist party apparatus, China in particular is capable of beating all comers at keeping down the price of labor while turning out quality products in demand in the West.[21] Indeed, who would have expected just a few years ago that Chinese workers seeking state assistance in winning disputes with foreign firms would be told by the authorities that "it will be beneficial for workers to respect and protect the interests of capital, and accept exploitation, because economic development will help the country"?[22]

With commercial bank credits drying up, the third world countries have come full circle: they are being told to rely once again on transnational corporate investment for capital inflows. The commercial banks are only too willing to yield the territory to the transnationals. The banks' desire to reduce their exposure and the transnationals' search for good deals have created one of the most effective instruments now being employed to undercut economic sovereignty: the debt-equity swap.

Under this scheme, a transnational or local firm or consortium buys a portion of a bank's third world debt at a discount, then exchanges the debt at a country's central bank for the local currency equivalent of the original debt. This is then invested as equity in local firms. Between 1983 and 1987, over $17.2 billion worth of developing country debt was retired in this manner.[23]

The impact of debt-equity deals on sovereignty is illustrated by Nissan Motor Company's purchase of $60 million of Citibank's Mexican debt for $40 million in order to invest in expanding its subsidiary in the country. To accomodate the deal, Mexico had to relax its foreign investment rules, including the requirement that

Mexicans should have controlling interest in transnational subsidiaries.[24]

With the debtor countries pressed to privatize and denationalize key sectors of their economy by IMF structural adjustment programs and with local business starved for capital, the debt-equity swap will increasingly present itself to more and more transnationals as an attractive and effective mechanism to snap up money-losing strategic or vital industries at bargain-basement prices. For instance, in the eighteen months it was in operation, the $2 billion worth of swaps engineered with foreign and local firms under the Mexican program represented 70 percent of new investments.[25]

Flexible Automation Versus Low-Cost Labor

Profound changes in the production process are reducing the attractiveness of low wages in the investment decisions of the transnationals, adding immensely to the power of transnational corporations, while futher diminishing the leverage on the part of third world countries. In the past twenty years, the share of direct labor cost in the total production costs of U.S. industry has declined from between 25 to 30 percent to between 10 to 15 percent.[26] Indeed, in some industries, like electronics, labor costs now come to only 5 to 10 percent of total cost.[27] The shrinking cost of labor stems from advances in flexible automation via robots and computer-aided design and manufacturing.[28] Transnationals are therefore turning their attention away from reducing labor costs toward cutting costs in other areas, such as reducing inventories and transport costs and managing time more efficiently.[29]

In short, comparative advantage is shifting from production based on cheap labor to capital-intensive automated production processes. Moving to the third world to take advantage of cheap wages is becoming less attractive—and doubly so when protectionist

barriers are on the rise in the United States and Europe—with the upshot being declining rates of foreign investment in manufacturing in some third world regions, if not the outright return of production processes to the developed countries. For instance, Fairchild Semiconductors, one of the pioneers of the move to offshore manufacturing, has returned its assembly operations back to the United States after automating the welding of semiconductor chips and the inventory tracking system.[30]

Electronics is not the only industry that is revising its production strategy. Textiles and garments—traditionally the "locomotive" industries for countries in the early phase of the industrialization process—are also being revolutionized by the application of microelectronic technology. Flexible automation of certain phases of the production process is making production in the United States and Europe competitive with production in Asian countries. A popular strategy with U.S. and European textile and garment manufacturers, as Ashoka Mody and David Wheeler, two experts on the industry, point out, is one of automating some phases of the production process in the United States while making use of cheap labor in nearby countries for those phases still resistant to automation:

> U.S. producers have shown a recent tendency to perform the capital-intensive tasks in the United States, while taking advantage of low wages in the Caribbean for the assembly and post-assembly stages. This allows low production costs and a quick turn around time. West European firms have also tended to invest in (or source from) Mediterranean Basin locations close to the domestic market.[31]

The implication of these developments is that, with the exception of a few countries like China, which has combined low wages with high quality standards, most countries that did not participate in the previous round of export-led growth in textile and garments are again likely to be left out. Mody and Wheeler add that "even

the Caribbean and Mediterranean countries are likely to experience a very precarious development of their garment industry; only a few stages of the garment will be processed in these areas and most of the entrepreneurship is likely to be of foreign origin."[32]

The consequences of the shift in cost-effectiveness from low wages to flexible automation may not be fully evident in the short term. To offset the impact of the rapid appreciation of the yen, which has significantly raised the cost of manufacturing in Japan, many Japanese firms have relocated some of their operations to Southeast Asia. Capital expenditures by U.S. overseas affiliates climbed from $12 billion in 1978 to $17 billion in 1986.[33] Relocating overseas continues to be an attractive option for manufacturers who have not yet mastered how to minimize labor costs via efficient flexible automation.

But the spearhead of the new countertrend is evident in the more than 600 Japanese manufacturing plants that have opened up in the United States in the last few years, many of which are in the vanguard of cost-effective automated production.[34] In fact, if one looks at foreign investment activity beyond selected areas like Mexico, East Asia, and the Caribbean, the declining attractiveness of foreign investment in the third world is evident. In Africa, foreign direct investment fell from $1.5 billion in 1981 to only about $400 million annually since 1984.[35] In Latin America, foreign direct investment declined from an annual average of $6.3 billion from 1979 to 1981 to an average of $3.4 billion from 1983 to 1986.[36]

The "Iron Law" of Commodity Prices and Its Consequences

Perhaps at least as damaging to third world sovereignty as the banks, the transnationals, and the shift in comparative advantage to automation has been the working of one of the most vicious

TABLE 2: Leading Export as Percentage of Total Exports for Selected Countries in SubSaharan Africa

Country	Leading Export	% of Total Exports
Uganda	Coffee	94.8
Nigeria	Crude petroleum	94.6
Guinea	Ores and concentrates	90.6
Zambia	Copper	90.0
Angola	Crude petroleum	88.7
Congo	Crude petroleum	82.6
Burundi	Coffee	81.5
Rwanda	Coffee	80.8
Botswana	Diamonds	77.7
Somalia	Live animals	76.5
Niger	Ores and concentrates	73.8
Gabon	Crude petroleum	69.0
Chad	Cotton	68.9
Mauritius	Sugar and honey	64.9
Liberia	Iron ore	64.5
Ethiopia	Coffee	61.8
Malawi	Tobacco	57.1
Mauritania	Iron ore	50.1

SOURCE: *Financing Africa's Recovery* (New York, United Nations, 1988), annex table 3.

trends in the world market: the deteriorating terms of trade of third world commodity exports, or the decline of real primary-commodity prices in terms of their capacity to purchase manufactured imports from the developed countries.

Ironically, commodity prices promised to be the key to greater sovereignty and development in the midseventies, when a natural resource scarcity was expected. OPEC provided, at that time, a scintillating example of how commodity prices could be brought up to what was regarded as their true—and just—level. Thus third

world nations producing copper, tin, bauxite, mercury, tungsten, phosphate, coffee, bananas, and even peanuts tried to set up or strengthen cartels to raise or to steady prices. Commodity power turned out to be a mirage. By the early eighties, international trade was littered with the carcasses of failed agreements and the prices of many commodities were down to their lowest level since the 1930s; and since then they have not substantially recovered. With many countries dependent on one or two commodities to gain foreign exchange, the drop in prices has meant a severely constrained ability to perform the triple tasks of importing industrial goods, paying for imported food now needed by starving or malnourished populations, and servicing the mounting debt. Moreover, with the prices of their products falling, many countries have been forced to export a greater volume of commodities, with the concomitant long-term damage to lands and environment caused by the superexploitation of resources.

As the most commodity-dependent region in the world, sub-Saharan Africa has probably been the hardest hit by the deteriorating terms of trade.[37] Coffee, for instance, accounts for over 90 percent of the export receipts of Uganda, and Nigeria and Angola derive a similar proportion of their export revenue from oil.[38]

But perhaps the most dramatic decline was that of OPEC, the great power that the third world had seen as the spearhead of the New International Economic Order in the midseventies. By the mideighties, OPEC had been reduced to a skeleton of its former self—the victim of new oil from non-OPEC areas like the North Sea, energy conservation, substitution, oil stockpiling, strategic disagreements among cartel members, and, last but not least, war between Iran and Iraq.

With the price of oil plunging by over 50 percent since 1982, OPEC has been shown to be no exception to the profound bias of the current international trade regime against primary producers.

The richer, moderately populated Arab countries saw their oil revenue plunge from $200 billion in 1980 to $60 billion in 1986. Saudi Arabia, rich as it is, has been forced to fiscal austerity, resulting in substantial bankruptcies and credit difficulties throughout the kingdom.[39] The situation of the less privileged members of the cartel is worse. During their glory days, many OPEC countries borrowed huge sums from the Western banks with the expectation of being able to repay them with massive export earnings. But with the drop in oil prices from $40 to $15 per barrel, the mounting debt became as much of an albatross to OPEC members like Nigeria ($19 billion), Algeria ($16 billion), and Venezuela ($32 billion) as to non-oil-exporting developing countries. The result has been an erosion of sovereignty as these countries become less capable of resisting demands for austerity measures from the IMF. Nigeria and Algeria's adoption of wrenching "austerity with adjustment" policies without IMF standby programs—while knowing full well they are being monitored by the IMF— reveals the extent to which falling prices and escalating debt have robbed two once powerful OPEC countries of their sovereignty.

Hand in hand with economic dislocation and the erosion of sovereignty has been a loss of legitimacy of key third world political regimes dependent on oil. This loss stems directly from the inability of the state to sustain the subsidies, salaries, and welfare systems that the ruling parties had built up with oil revenues. While the IMF and its local allies have generated pressure for privatization from the right, populist movements have emerged on the left, protesting the destruction of the social compact that had channeled part of the wealth generated by oil to selected sectors of the masses.

Algeria and Mexico are two oil-exporting states that have seen the legitimacy of institutionalized populist governments with well-developed patronage systems decline drastically as a direct impact of the decline in oil prices and the consequences of foreign

indebtedness. In Algeria, the drop in oil revenues from $13 billion in 1985 to $8.5 billion in 1987 sparked the bloody October 1988 riots, which have deeply shaken the National Liberation Front, a governing elite that had staked its legitimacy on winning the independence struggle and building one of the third world's few welfare states.[40] In Mexico, the Institutionalized Revolutionary party (PRI), a ruling group that derives its legitimacy from the 1910 Revolution and the reputation of having built a massive patronage system, has recently seen its monopoly of power shattered by an insurgent populist electoral movement offering a return to the revolutionary social compact.[41]

But perhaps even more serious than the loss of sovereignty and the erosion of political legitimacy is the threat of marginalization in the world market due to weakening demand for many third world resources in the North. In recent years, breakthroughs in substitutes for raw materials have had shattering consequences in the third world. For instance, the international price of sugar fell from $630 per metric ton in 1980 to $89 per metric ton in 1985. This steep drop in price was directly related to the fact that Coca Cola, which used to be the world's largest consumer of sugar, and other Western food and beverage producers have been shifting from sugar to corn syrup, a sweetener produced within the industrial countries.[42]

Now the combination of automated production and advances in biotechnology threatens to accelerate the displacement. As Gerd Junne, a specialist on the international division of labor, has pointed out:

> Computer-aided design will lead to less waste of raw materials, and zero-defect strategies will lead to fewer faulty products that have to be thrown away. The next wave of technological development, the application of biotechnology, probably will contribute even more to economizing raw materials; biotechnological production processes that can substitute for many

chemical processes will need less raw material and fuel. Local resources in industrialized countries eventually will be exploited more extensively, and recycling techniques probably will improve. As a consequence, not only exports of manufactured products ultimately may be threatened by automation and the application of other new technologies, but exports of primary products as well.[43]

Turning on the NICs

In addition to the banks, the corporations, the growing cost-effectiveness of labor-saving technology, and the world market, the Western governments have been a key factor in reducing the sovereignty of third world states in the last decade. Washington, in particular, has been desperately moving to recapture its pre–Vietnam War international economic hegemony. Ironically, the United States' most concerted assault in years has been directed not at OPEC or countries with a reputation for economic nationalism but at some of its closest ideological allies in the third world: Singapore, Hong Kong, South Korea, and Taiwan.

In his State of the Union Address in February 1985, President Ronald Reagan proudly held up the East Asian NICs as proof of the success of the free-enterprise formula:

> America's economic success...can be repeated a hundred times in a hundred nations. Many countries in East Asia and the Pacific have few resources other than the enterprise of their own people. But through low tax rates and free markets, they've soared ahead of centralized economies.[44]

Yet, scarcely three years later, the United States was waging full-scale economic warfare on Reagan's paragons of economic virtue, with David Mulford of the Treasury Department issuing the declaration of war in San Francisco:

> Although the NICs may be regarded as 'tigers' because they are strong, ferocious traders, the analogy has a darker side. Tigers live in the jungle, and by the law of the jungle. They are a shrinking population. To survive, tigers—and the NICs—must adapt; and adaptation will require cooperative, not predatory behavior.[45]

The multipronged U.S. assault has included ending tariff-free entry of NIC goods to the United States under the Generalized System of Preferences (GSP), forcing the appreciation of NIC currencies, and prying open NIC markets to American imports, including cigarettes, the domestic market of which is being steadily reduced by antismoking initiatives.

Having lost comparative advantage to the NICs on a wide range of manufactured goods on account of the NICs' ability to super-exploit labor, the United States is now trying to regain it by coercion. The success of this economic counterrevolution has been dubious. But both the NICs and the would-be NICs are learning a hard lesson: not even third world countries willing to play by the rules of the Western-dominated international economic system and follow the World Bank–prescribed path of export-oriented, foreign-capital-dependent development are guaranteed visas to cross the border from South to North.

FOUR

ATTEMPTED ESCAPES FROM UNDERDEVELOPMENT IN EAST ASIA

Before the massive reversal of the eighties, third world countries attempted to break out of underdevelopment via different paths. One of the key lessons that has emerged is that sustained development is greatly dependent on a decisive and effective linkage of internal economic change and external strategy. There is, however, no pat formula. Strategies successful for some countries during some periods may not work for other countries at other periods. Moreover, the pace of change in both internal economies and the international economy has quickened, affording planners a very slim margin of error. This section will examine the character and consequences of the relationship of these dimensions of development strategy in four East Asian economies: the Philippines, Vietnam, Taiwan, and South Korea.

From Import-Substitution to Export-Oriented Industrialization: the Philippine Experience

Import-substitution industrialization is associated mainly with some Latin American countries in the Southern Cone. Export-oriented industrialization, on the other hand, is associated with the successful East Asian NICs. The Philippines tried both strategies for extended lengths of time. The Philippine economic experience, in fact, reflects that of many Latin American and Asian countries that tried the two paths without laying the necessary conditions for the success of either, thus saddling the country

largely with the negative aspects of both strategies.

From the late 1940s to the 1960s, the Philippines had its golden age of manufacturing. Industrialization came almost by accident to this Southeast Asian country, whose economy was previously dominated by agriculture. In response to a drain of foreign exchange, the Philippine government instituted import and foreign exchange controls that discriminated against "nonessential" manufactured imports. These controls spawned a vibrant consumer goods industry that filled the demand for scarce light-manufactured goods, such as processed food, textiles, and shoes. Supplemented by a tariff system in the late fifties, the controls spurred a rate of industrial growth that averaged 12 percent annually between 1950 and 1957. By 1960, almost 20 percent of the country's net national product originated in manufacturing, and an industrial elite, or national bourgeoisie, with a vital stake in maintaining the protected Philippine market had emerged.

But by the late sixties, Philippine manufacturing was stagnating and the limited development it had brought about appeared to have had but a marginal impact on most of the population. For one thing, the failure to accompany protectionist measures with nationalist controls on investment had ensured that a significant part of the benefits of development accrued to foreign firms. Many U.S. corporations, in particular food processors like Procter and Gamble and pharmaceutical manufacturers like Mead Johnson, had set up Philippine subsidiaries, and by doing so, they were also protected by import controls and tariffs from their competitors in the United States and Europe. Indeed, investing in the Philippine market was so lucrative that U.S. assets in the manufacturing sector totaled at least $520 million by the late sixties and U.S. firms were deriving over $3.50 for every dollar they invested.[46]

The most critical problem, however, seemed to be that import-substitution industrialization appeared to have reached its limits. Perhaps the key aspect of this crisis was the fact that the manufac-

turing sector consisted mainly of firms specializing in the production of light manufactures like garments and footwear. Intermediate industries were slight and basic industries were virtually nonexistent. Many economists pointed out that the need to import intermediate and capital goods to produce light manufactures for domestic consumption created an imbalance in the country's relations with the international economy. While imports and exports were roughly in balance in 1960, by 1969 the trade deficit came to over $250 million as machinery and vehicle imports rose by 100 percent.[47]

The external imbalance was, however, a symptom of a greater problem, which was that heavily capitalized intermediate and basic goods sectors could not develop because of the limited size of the internal market. And the market was limited because of a highly skewed distribution of income. With a mere 5 percent of the population controlling as much as 25 percent of the national income, income inequality in the Philippines in 1970 was the worst in Southeast Asia.[48] What this meant was that in a country where 70 percent of the population lived in the countryside, genuine land reform was essential to create a prosperous internal market, which could act as the locomotive of industrialization in the intermediate and basic goods sectors. This created a dilemma for the new industrialist class: while they were definitely interested in a larger market, they were more fearful of the radical redistribution of wealth that was necessary to bring this about. In effect, these fears made them the allies of the landlord class, from which many of them had come in the first place.

The country was at the crossroads of its economic development strategy when Ferdinand Marcos declared martial law in 1972 and, with World Bank approval, centralized economic decision making in the executive branch. But instead of taking the bull by the horns and undertaking genuine land reform and other income redistribution measures needed to create a larger internal market, Marcos opted for the World Bank prescription of hitching economic

growth to Western markets by using cheap labor to produce labor-intensive manufactured exports like textiles, garments, and semiconductors. To create the infrastructure for this development strategy, the regime again took the easy way out: instead of taxing the elite, it resorted to massive borrowing at floating rates of interest from commercial banks looking for profitable outlets for their massive deposits of OPEC cash.

But by the time the Philippines went for export oriented-industrialization in the midseventies, world trade was slowing down and protectionism against third world manufactures had begun its inexorable rise in the North, largely as a reaction to the success of the NICs that the Philippines was trying to imitate. However, since the regime had taken no measures to improve the distribution of wealth, the domestic market could not serve as a substitute for economic growth when the full force of the recession savaged the country's export markets in the early eighties. With exports plunging, interest rates shooting upward, and the domestic economy contracting by 10 percent in just two years, the development process came apart in the mideighties.

Faced with tough options all around, the regime succumbed to the commercial banks' and IMF's demand that repaying the $26 billion foreign debt—much of which had gone to line the pockets of Marcos and his cronies instead of building infrastructure—be given top priority. This concession merely succeeded in divesting the dictatorship of what little legitimacy it had left in the eyes of the people.

In sum, the main blocks to sustained growth in the Philippines were the government's unwillingness to undertake fundamental agrarian reform and to tax the upper classes. Such measures would have expanded internal markets and generated capital for the development of heavy and medium industry. Instead, the Marcos government made foreign markets and foreign loans the focus of its development strategy, and the conjunction of weaker world

trade, rising protectionism in the key markets, and rising interest rates on the foreign debt led not to development but to economic disaster.

Vietnam and the Dilemmas of Socialist Development

In many progressive circles, there is the impression that Vietnam's current economic problems stem primarily from the trade and aid blockade imposed by the United States. Undoubtedly the blockade has been partly responsible for Vietnam's economic woes. It is not, however, the principal culprit. As in the Philippines, wrong decisions on the strategy for domestic development have been largely to blame. If in the Philippines the main block to sustained growth was the unwillingness to undertake land reform and fundamental income redistribution, in Vietnam the problem appeared to be the doctrinaire management of the process of agrarian and industrial transformation by a government committed to basic change.

In 1976, a year after the historic victory over the United States, the Fourth Congress of the Communist party decreed a broad-front advance toward socialism. Key elements of this approach included rapid industrialization, with most investment directed toward heavy industry; swift extension of central planning and socialist forms of ownership in the now unified economy; and rapid collectivization of agricultural land in the south. In 1978, partly as a response to growing conflict with China, the government clamped down hard on the free market in the South, which was dominated by ethnic Chinese, nationalizing most of the remaining small private enteprises and virtually eliminating the middlemen.

Vietnam's approach to economic development combined innovative and orthodox socialist elements. One new element was the expectation that part of the capital for industrialization was to come from foreign aid, including multilateral aid from the World

Bank and the prospective $3 billion in reconstruction aid promised by the United States during the Paris Peace Agreements in 1973. Most of the capital, however, was to be derived from the higher productivity of collectivized agriculture. The drive to form cooperatives in the Mekong Delta, the country's traditional rice bowl, "was frankly motivated by a desire to raise procurement dramatically."[49] Whereas individual land-holdings were taxed only 10 percent of the harvest, cooperative units were expected to turn over 30 to 40 percent.[50]

Natural disasters, wars with Kampuchea and with China, the trade and investment blockade imposed by the United States and the Association of Southeast Asian Nations (ASEAN), and a universal desire for a less Spartan life after the rigors of more than thirty years of constant warfare contributed to the unraveling of the strategy of rapid socialization. But the most decisive factor was the application of what Marxist theorists describe as a "voluntarist" approach to a resistant social structure, that is, an overreliance on political will to transform economic realities. "In the excitement of victory—the scope of which came rather unexpectedly," noted one Communist party intellectual, "we rather lost sight of realities. Everything seemed possible and close at hand."[51]

Particularly impervious to voluntarism was a class that the Bolsheviks, in roughly similar circumstances in the Soviet Union in the 1920s termed, in frustration and fear, the "petty bourgeois sea."[52] This social stratum in Vietnam included private peasants, artisans, small traders, petty capitalists, all of whom "weigh heavily on the national economy."[53]

The peasants in the Mekong Delta had been the beneficiaries of past land reforms decreed by both the National Liberation Front (NLF) and the defunct government of South Vietnam. But as the Vietnamese government moved to incorporate them into more socialized forms of production, the peasants staged what one visitor described as a "passive revolt against cooperatives" as well

as against low grain-procurement prices and the shortage of consumer goods against which to exchange farm products.[54] Peasants reduced their crop output rather than produce greater surpluses for the state. Even in the northern part of the newly reunified state, where agricultural production had been based on cooperatives for nearly two decades, large numbers of peasants were disenchanted with increases in the size of cooperatives and greater central control of planning and production. While in the countryside grain production was dropping drastically, in the cities the drive to socialize industry led to supply bottlenecks, shortages, and a 15 percent drop in industrial production in just two years.

In 1979, the authorities sounded a full retreat, coming up with a reform program that was the Vietnamese equivalent of Lenin's New Economic Policy. The centerpiece was a contract system that allowed peasants to sell their surpluses in the free market after they had fulfilled quotas set with their cooperative. The contract system, liberalized over the years, stimulated grain production and became the mainstay of agricultural policy.

To activate industry, the authorities relied on the release of long-suppressed market forces. The retreat from socialism went from the piecemeal dismantling of the more or less egalitarian wage system to the sanctioning of the reemergence of small private enterprises in 1986.

At this juncture planners knew that market forces and consumer demand could revive industry. But they wanted to derive the capital for a qualitative expansion of the industrial structure, not via Stalinist methods of "soaking the peasantry," but from the outside. In the emerging reformist perspective, the main resources for rapid industrialization were to come in the form of foreign exchange from trade, foreign credit, and foreign investment. This reorientation from an inward-looking to an outward oriented development strategy was due, in great part, to the influence of the IMF, which had made several loans to Vietnam. In a key 1982

staff report, the fund said: "It is important that investments be directed to quick-yielding [export-oriented] projects that will directly benefit the balance-of-payments."[55] Not only was the export sector to be the leading sector, and production for the domestic market to take a back seat to export production but the IMF in fact cautioned against competition from domestic demand: "the higher purchasing power of both farmers and state employees that has resulted from the price and salary measures...will increase the domestic demand of consumer goods, thereby jeopardizing the achievement of...export targets that have been set for these goods."[56]

Complaining that few investors were attracted by Vietnam's 1977 investment code, the fund also advised Vietnam to show greater willingness to accept "foreign investment and the attendant transfers of capital, and technical, managerial and marketing skills."[57] Fund pressure was instrumental in the enactment in 1987 of the very liberal foreign investment code that was described by National Asssemblyman Nguyen Xuan Oanh, a former fund staffer who had helped draft it, as "one of the best ways of opening up our economy to the rest of the world."[58]

Vietnam needs a judicious policy of developing exports and attracting foreign capital. What is problematic, however, is the priority that the export sector and foreign investment are receiving, especially in this critical period of transition in the world economy. Vietnam is opening up to the world economy at an inauspicious time and might be setting itself up for massive disappointment. It is in direct competition with China and other Southeast Asian countries, which have much better infrastructures and more skilled labor forces. And the commodities and manufactures it hopes to export face formidable protectionist markets in those Western countries that have indicated they will no longer serve as locomotives for the growth of new NICs.

Vietnam's proposed path out of underdevelopment is not, of

course, unique among developing socialist countries. Though it is widely reported in the press that Fidel Castro is hostile to many aspects of Gorbachev's *perestroika*, or economic reconstruction, Castro has underlined the importance of restructuring Cuba's relations to the world economy. As he sees it, Cuba is now confronted with hard choices. Maintenance of the country's impressive social welfare policies has been greatly dependent on Soviet aid and purchases of Cuban sugar; but since dependence on massive aid is no longer viable, Cuba will have to come to terms with the world capitalist market. Henceforth, Castro has said, "the first order of priority would have to be export promotion to hard currency [capitalist] areas. The next priority would be export promotion to socialist countries. The third priority would have to be import substituting production to save both hard and soft foreign exchange."[59]

Vietnam, Cuba, China, and now even as massive and developed a socialist country as the Soviet Union, have apparently come to the common conclusion that dynamic internal growth can only come with active integration into the world capitalist economy, and largely on the latter's terms. Needless to say, many egalitarian internal policies that have been assumed by socialist citizens as their birthright—like the right to a steady job— might have to be dismantled under the discipline of the world market. Castro, indeed, has warned his fellow Cubans that "the last priority would be to save the minimum necessary welfare state services. Everything else, including many other welfare services, would henceforth have to be sacrificed."[60]

Whether Vietnam and the other socialist economies are better positioned to tame and cultivate for their own purposes a world economic system that has consistently foiled similar attempts by other third world countries remains to be seen. Some light on their prospects might be shed by a brief investigation of the current state of a set of countries that have gained the reputation of having

successfully harnessed the world market for their development: the East Asian NICs.

The Rise and Crisis of the NICs

Unlike the Philippines, governments in Taiwan and South Korea, under U.S. pressure, enacted land reforms in the early fifties, largely to secure the loyalty of the peasantry in the face of formidable competition from the communist regimes of China and North Korea. The less skewed distribution of income created by land reform initially stimulated the local consumer goods industries which were protected by high tariff walls. And controls on the price of grain subsidized the food costs of the growing industrial work force and thus helped maintain low wages. The list of internal preconditions for development in Taiwan and South Korea would not be complete, however, without reference to the presence of a repressive, interventionist state that controlled agricultural prices, kept wages low, prevented workers from organizing, and firmly placed the economy on the path of export-oriented industrialization.

But the NICs' successful export-led growth cannot be understood without taking into consideration a unique concatenation of external factors. First, the NICs had relatively easy access to the most prosperous market on earth at a time when the United States was still committed to a liberal international trading order. Second, the status of South Korea and Taiwan as frontline allies in the struggle against communism entitled them to an Asian version of the Marshall Plan. Between 1951 and 1965, the United States pumped about $1.5 billion into Taiwan (in addition to billions of dollars in military aid). U.S. aid financed the equivalent of 95 percent of Taiwan's trade deficit in the 1950s.[61] Economic aid to South Korea was even larger, coming to almost $6 billion between 1945 and 1978—almost as much as the total aid provided to all African countries during the same period.[62] More than 80

percent of Korean imports in the 1950s were financed by U.S. economic assistance.[63]

Another prerogative of frontline ally-status was that the United States benignly overlooked the protected markets of Taiwan and South Korea, even as the International Monetary Fund, the World Bank, and GATT (General Agreement on Tariffs and Trade)—institutions dominated by the United States—were telling the rest of the third world to end their restrictions on imports.[64]

Finally, there was the Vietnam War, which was to the Taiwanese and South Korean economies what the Korean War was a decade earlier to the Japanese economy: a vital stimulus to economic takeoff. Vietnam provided what Taiwan expert Thomas Gold describes as an "incalculable boost" to the Taiwanese economy, in the form of U.S. purchases of agricultural and industrial commodities, spending for "rest and recreation," and contract work for local firms in Vietnam.[65] The South Korean economy also benefited from U.S. purchases and recreational spending, but perhaps the most significant fallout came in the form of the big Vietnam-related construction contracts that firms like Hyundai were awarded as part of the offset arrangements under which the United States paid for the services of Korean troops in Vietnam. By the end of the war in 1975, overseas work contracts had reached a total of $850 million—accounting for almost 20 percent of Korean exports of goods and services.[66] The interaction of these internal and external conditions produced the NICs' exceptional average GNP growth rate of 8 to 10 percent in the 1960s and 1970s.

By the mideighties, however, the global atmosphere had changed as the United States gradually but inexorably abandoned the liberal free trading order it had set up in the postwar period. As noted earlier, the United States has employed a variety of weapons to combat competition from its grown-up wards. It has set quotas on their textile and garment imports. It has terminated duty-free

entry to NIC exports that had been granted under the Generalized System of Preferences (GSP). The United States is now successfully pulling down its barriers to agricultural exports like beef and turkey parts, thus further eroding the continued viability of the highly indebted farmers of South Korea and Taiwan who are now squeezed between high production costs and low prices.

But it is the U.S. assault on the formula for export success—the exchange rate—that is causing the most alarm. Unlike other third world countries that protected overvalued currencies, the NICs cherished their undervalued currencies because they enabled NIC products to win price wars abroad. This is no longer possible. The New Taiwan Dollar has appreciated by about 40 percent against the dollar since 1986, while the Korean won is expected to rise by 20 percent against the dollar in 1988. Taiwan's astonishing zero growth in industrial production in March 1988 is blamed on uncertainties caused by U.S. trade pressure. "We can absorb wage increases," one Korean textile manager told me during a recent trip to that country, "but we can't take any more appreciation."[67] This same textile manager speculated that by the end of 1988 the continuing won-dollar realignment will have driven 30 percent of South Korea's small and medium manufacturers to bankruptcy.

Yet U.S. trade pressure has merely aggravated stresses that were already present in the mideighties but were covered up in establishment economics' glorification of the NICs "successes." The fact is that if in the sixties and seventies the forces of the world market were in the NICs' favor, *by the mideighties, these very forces were turning against them*.

Perhaps most important, the NICs were losing their comparative advantage in cheap labor. Rising real wages were making the NICs' labor-intensive industries noncompetitive, encouraging manufacturers to search for cheap labor elsewhere. Thus Seagate, a big U.S. electronics multinational, moved some of its labor-intensive operations from the United States to Singapore, only to rebase

them in Thailand. Asahi Optical, which produces the famous Pentax camera, has shifted its parts-processing operations from Hong Kong to China's Shenzen Special Economic Zone. And Uniden, the Japanese telecommunications equipment manufacturer, has shifted its main factories from Taiwan and Hong-Kong to the Philippines and China. As noted earlier, relocation to low-wage areas remains an attractive option for firms that have not yet been able to reduce labor costs by efficiently applying advances in flexible automation.

Increasingly, criticism of "footloose" multinationals by economists, businessmen, and politicians is heard in Singapore. But the emigration of capital is not limited to Japanese and U.S. multinationals. An estimated $1.5 billion worth of Overseas Chinese capital has moved to China, where the average wage is one-tenth of that in Hong Kong or Taiwan. Even as the Kuomintang government continues to emit anticommunist propaganda, Taiwanese capitalists, ironically, now see the workers of a socialist society as the key to the continued profitability of their enterprises.

Currently, South Korea is considering moving capital to China and following Taiwanese and Hong Kong capital to other cheap labor havens like the Caribbean and Southeast Asia. Explaining his move to open a branch in Indonesia, the president of one of South Korea's most successful wood-processing firms told me: "We have no choice if we are to survive."[68]

To slow the erosion of the competitiveness of their labor-intensive industries, small and medium entrepreneurs in some of the NICs have resorted to importing cheap labor. Around Taipei some factories are now run largely with illegal foreign labor from the Philippines, Indonesia, and Thailand, while the government looks the other way. In Singapore, on the other hand, at least 20 percent of the labor force is foreign, with government blessings.

This trend has spawned its own set of problems. A labor system similar to the one developed in Europe in the sixties and seventies is quickly emerging: a two-tier labor force composed of poorly paid, unorganized "guest workers" and better-paid, organized indigenous workers. The foreign work force is used to dampen the wage demands of the local work force, while chauvinism is fanned among local workers to keep foreign workers in their place. This is a surefire recipe for intense friction between the two groups.

But in spite of attempts to delay the inevitable, economic planners in the NICs view their labor-intensive industries, especially the footwear and textile and apparel industries as "sunset industries." They have staked the future of their economies on their ability to move up to higher value-added high-tech, skill-intensive industries like computers, advanced consumer electronics, automobiles, and high fashion.

This is, however, easier said than done. For one thing, a significant sector of the labor force is employed in textiles and apparel. In South Korea, this traditionally militant sector of the working class is likely to resist the technocrats' plans for "structural transformation." Indeed, there are growing signs that labor as a whole, which is now rapidly organizing in Taiwan and Korea after decades of being repressed, may not share the goals of national development traditionally formulated by big government and big business. "We, the workers, will set our own agenda," a young Korean metalworker told me, expressing labor's growing rebellion not only against high corporate profits but also against "national goals" imposed from above by technocrats.[69]

An equally formidable problem in the high-tech strategy is the NICs' still minimal capability to produce and sustain the core technologies of capital-intensive and skill-intensive industries. As one of Korea's leading economists put it, "We still turn out cars with Mitsubishi engines and, let's face it, our electronics industry still largely consists of assembling Japanese components."[70]

The statistics are eloquent on this point. In 1987, while the focus of attention was on its trade surplus with the United States, South Korea had a deficit of $5.2 billion in its trade with Japan—mainly because of the importing of sophisticated electronic components, automobile parts, and machinery.[71] Japanese components account for an incredible 85 percent of the value of a Korean-made color television.[72] Despite their joint ventures with Korean *chaebol*, or conglomerates, like Hyundai, the Japanese corporate giants are tight-fisted when it comes to the transfer of core technologies. And now the Americans—having learned from the Japanese—are tightening up technology controls when dealing with their Korean "partners."

Two recent developments, in fact, have exposed the myth of the Korean car. Mitsubishi has decided to market the best-selling Hyundai Excel in the United States under its own brand name as the Precis. And General Motors, which owns 50 percent of Daewoo Motor Company, vetoed Daewoo's attempt to market its Lemans model in Eastern Europe, on the grounds that marketing the Lemans, the Korean version of GM's World Car model, was the jurisdiction of GM's European affiliates.[73]

In their strategy to ward off the stagnation that threatens, government planners are also emphasizing diversification of export markets and increasing reliance on their long-neglected domestic markets. But like the move to high tech, this transition will not be easy. Exports to Japan are up these days, but NIC entrepreneurs know that Japan's watchful protectionist bureaucrats will eventually limit the NICs' market share. And despite the hype in the Korean press these days about the markets in China, Eastern Europe, and the Soviet Union, few believe that demand from these socialist economies will ever amount to anything more than a fraction of the U.S. market.

This leaves the domestic market, and here the obstacles are not insignificant. To cultivate the domestic market, NICs must reverse

the trend of the past few years toward worsening distribution of income.[74] Planners will also have to convince Taiwanese and Korean manufacturers to stop moving to the cheap labor mecca that is China and become good Keynesians—that is, give local workers higher wages to create more purchasing power for domestic goods. Finally, the technocrats must somehow resolve the serious contradiction between plans to enlarge the domestic market and plans to move up to high-tech industries: making the transition from labor-intensive to capital and skill-intensive industries will involve shifting to technologies that absorb much less labor, which raises the specter of increased structural unemployment and stagnant markets.

The U.S. Central Intelligence Agency may be off in many of its predictions, but given the emerging problems in the NICs' relations with the world economy, it is difficult to disagree with an assessment the agency made in 1984 when these economies were at the height of their success. A change in the composition of the NICs, said the CIA, "will more likely be a result of a country falling from their ranks than advancing to the status of an industrial country."[75]

Which Way Development?

As we have seen above, the linkage of domestic economic strategies with the external economy has produced divergent results in the Philippines, Vietnam, and the NICs.

In the Philippines, import substitution policies were not complemented by land reform and other redistributive measures necessary to create a domestic market capable of sustaining the building of intermediate and heavy industries. In Vietnam, mistakes in agricultural policy, like accelerated collectivization, generated peasant resistance that eliminated the countryside as a dynamic market stimulating industry and as a source of capital for the

building of intermediate and basic industry. When the Philippines, in a major shift, moved to an export-oriented, foreign-capital-dependent strategy of growth in the 1970s, it came up against stagnating world trade and increasingly protected markets in the West. If anything, Vietnam is entering the contest for markets and foreign capital under even more difficult conditions in the late 1980s. The protectionist drive has gathered more momentum, and with the drying up of easy foreign credit, Vietnam must compete with China and other Southeast Asian countries for foreign investors, who are becoming quite selective in view of all the "wonderful options" available.

There are apparently two lessons here. One is that income redistribution and a pragmatic, nondoctrinaire approach to managing the internal economy are important conditions for sustained development. The other is that while the world market is definitely an important complement to the domestic market, it can never be a satisfactory substitute for it.

Unlike the Philippines, Taiwan and South Korea—the two biggest NICs—did redistribute land; and unlike Vietnam, they institutionalized rather than tried to break up small peasant ownership. The less uneven distribution of income (compared to other third world countries) made possible by agrarian reform provided the basis for early industrialization via an import-subsitution strategy. Also in contrast to the Philippines and Vietnam, external circumstances were more favorable to Taiwan and South Korea when they shifted their industrial strategy to export promotion in the midsixties: they began export-oriented industrialization at the height of the liberal postwar international economic order, when import barriers to the prosperous and gigantic U.S. market were still minimal.

But more than two decades later, the same world economy that sustained the NICs' growth now threatens to undo them. The liberal world economic order, Taiwan and South Korea are finding

out, can be a harsh system, where comparative advantage based on cheap labor is fleeting, capital is footloose, and the strong can exercise the option of breaking the rules when the system no longer functions fully to their advantage.

FIVE

NORTH-SOUTH NEGOTIATIONS: THE FAILURE OF REFORM

The previous section has underlined the lesson that an important precondition for development is internal structural reform. *Sustained* development, however, depends on the critical intersection of internal policy and external strategy.

External strategy is decisive. While the Philippines, Vietnam, South Korea, and Taiwan have followed diverse internal economic development strategies, they have nevertheless adopted a common goal in their relations to the world capitalist economy: integration. The same is true for most of the third world. Despite the arguments for "de-linking" from the world economy presented by such influential theorists as Samir Amin and André Gunder Frank,* few states have followed economic isolation as a policy except perhaps for China in the fifties and sixties, Kampuchea under the Khmer Rouge, and, until recently, Burma and North Korea.

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* Samir Amin is an Egyptian economist who has exercised significant influence on economic development theory arguing that integration into the world capitalist system makes autonomous or "autocentric" economic development difficult. His major work is *Accumulation on a World Scale* (New York: Monthly Review, 1974). His analysis has been interpreted by many as justifying a strategy of "de-linking" from the world economy.

André Gunder Frank, an influential theorist of development, in his major study *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review, 1967), proposes that integration into the world capitalist market underdevelops rather than develops a third world economy. Like Samir Amin, he has been regarded as a proponent of "de-linking" from the world economy.

But at the same time that they have sought integration into the world economy, the third world states have consistently pressed for better, more beneficial terms for their integration vis-à-vis the dominant Western economic powers. The demand for reform was first raised in Bandung in 1955 and achieved its most militant expression in the New International Economic Order (NIEO) adopted by the United Nations Special Session in 1974. Yet, the South's posture, though often expressed militantly, was essentially reformist all throughout. This was evident in the proposals adopted in 1983 at the Seventh Summit of the Non-Aligned Movement (NAM),which has been the main promoter of the NIEO agenda. These proposals reflect the essential posture of the movement more accurately than the fire and brimstone uttered by individual leaders like Libyan chief Muammar Quaddafi. The main demands were:

- a rise in official development assistance to 0.7 percent of the GNP of the developed countries
- the restructuring of the external debt of third world countries
- the substantial expansion of World Bank lending and the establishment of lending in the energy sector
- an increase in IMF quotas and the establishment of IMF financing for essential food supplies
- increased access to markets in developed countries for third world exports and the elimination of protectionism
- the calling of an international conference on money and finance for development, with universal participation.[76]

There is no call for debt repudiation here, nor for the dismantling of the IMF and the World Bank, nor for a revolutionary transformation of the world economic order along the lines of a socialist international division of labor. The market system is affirmed, with some mild intervention in stabilizing the price of commodities and giving preferential treatment to the South's manufactures. Indeed, the Brandt Commission went further in some respects, in its 1983 call for an automatic tax on the rich countries.[77] It is not surprising then that even establishment writers like Bernard Nossiter would claim that "despite its rhetoric, the New Order is a curiously conservative program.... The New Order is the present order, with extra helpings for the flag bearers in the South."[78]

The ambivalence of the NIEO program as expressed by NAM reflects the fact that despite rhetorical unity, the alliance that advanced this program was an uneasy one, composed of conservative, radical, and liberal states with divergent objectives. For status quo states like Mexico, world economic reform along NIEO lines was seen as a means to alleviate pressures for much-needed internal economic reforms and thus solidify the position of the ruling class. Also, waving the NIEO flag was a perfect ideological weapon to blunt criticism from forces for change within the country.[79] For countries like Cuba, on the other hand, reform of the world economy was seen as essential to complement radical internal reforms whose original dynamism had been spent. Broadness of membership was both the strength and, as we shall see later, the weakness of such formations as the Non-Aligned Movement.

The South has been characterized as taking "a trade union strategy in dealing with the capitalist nations of the world. It has essentially advanced a trade union bargaining process on to a global level."[80] This bargaining process has taken place in different arenas. The capitalist states have tried to confine the discussions and resolutions to the arena bounded by the IMF, the World Bank, and GATT, where superior economic resources, not individual states, are the basis of voting power. The third world states have, on the

other hand, sought to make the United Nations, with its one state–one vote system, and particularly the United Nations Conference on Trade and Development (UNCTAD) the locus of debate and decision. Aside from these formal bodies, strategies and counterstrategies have been formulated and debated in the exclusive club of the rich, the Group of Seven Summit, and in the "union halls" of the South, the Group of Seventy-Seven and the Non-Aligned Movement.

How has the South fared in this struggle to restructure the world economic order via negotiations with the rich? In an influential essay in 1981, Stephen Krasner, an expert on North-South relations, claimed that by using the opportunities offered by the postwar international economic regime, the third world

> has been able to turn institutions against their creators.... In a variety of issue areas the South has been able to alter principles, norms, rules, and procedures. It is difficult to imagine similar success in the absence of institutional structures that provided automatic access for developing countries. By taking advantage of the autonomy that the hegemonic power, the United States, was compelled to confer on international organizations during the period of regime formation at the conclusion of World War II, third world countries have been able to alter regime characteristics during the period of American hegemonic decline.[81]

To be sure, Krasner does not claim substantial change. But can we even speak of limited change in the balance of economic power? A closer look at four areas where the third world has claimed limited success in North-South relations—commodity price stabilization, trade preferences, the Law of the Sea, and aid flows—in fact reveals that many of the so-called gains have been marginal, if not illusory.

Commodity Price Stabilization

During the fourth conference of UNCTAD (UNCTAD IV) in Nairobi in 1976, agreement was reached, without dissent from the developed market economies, on the Integrated Program for Commodities (IPC). The IPC stipulated that agreements for eighteen specified commodities would be negotiated or renegotiated with the principal aim of avoiding excessive price fluctuations and stabilizing commodity prices at levels remunerative to the producers and equitable to consumers. It was also agreed to set up a Common Fund that would regulate prices when they either fell too far below or climbed too far above the negotiated target prices.

It soon became apparent, however, that the rich countries had rejected a confrontational approach in favor of a Fabian, or evasive, strategy of frustrating concrete agreements. More than ten years later, only one new agreement, for natural rubber, has been negotiated; an existing agreement on cocoa is not operative; and agreements on tin and sugar have collapsed.[82] For the thirteen other commodities in the IPC resolution, there have been no agreements at all.

Since virtually no agreements have been negotiated, the Common Fund has not gone into effect. But even if it had, its impact would likely have been minimal, since in the final agreement the original proposal from the South was watered down: the Common Fund was not provided with a central pool of funds to finance buffer stock operations of international commodity agreements; it could not intervene to support prices in emergency situations in commodity markets not subject to agreements; and 40 percent of voting power was granted to the rich countries enabling them to block decisions "with significant financial implications."[83] And the position of the South has not been helped by the fact that in the early eighties, as negotiations dragged on, the export prices of non-oil commodities produced by the third world dropped to their lowest point, in real terms, since the Second World War. By

TABLE 3: Increase in Partially Duty-Free Imports under Tariff Items 806 and 807.

Year	Value of 806 and 807 Imports (in millions of $)	% of Total U.S. Imports	% of Total Manufactured U.S. Imports
1966	953.0	3.7	6.4
1967	1035.1	3.8	6.5
1969	1838.8	5.1	8.0
1970	2208.2	5.5	8.5
1973	4247.1	6.0	9.4
1978	9735.3	5.5	9.1
1982	18275.5	7.4	12.1
1985	30535.1	9.0	12.3
1986	36469.9	9.9	12.4
1987	39820.1	10.0	12.9

SOURCE: Constantinos Markides and Norman Berg, "Manufacturing Abroad Is Bad Business," *Harvard Business Review* 88, no. 5 (September/October 1988): 115.

UNCTAD VI in Belgrade in 1983, the organization was said to have disowned the IPC agreement arrived at in Nairobi.[84]

Trade Preferences

After long resisting the idea as a violation of free trade, in the late sixties the Northern countries finally agreed to grant preferential treatment to a wide range of imports from the third world. Today, with about sixteen separate GSP schemes involving twenty-six developed countries, the Generalized System of Preferences is often pictured as a success story in the establishment press.

But is it? An UNCTAD study found that in 1982, of the $267 billion in imports from developing countries to OECD preference-giving countries, only $28.2 billion—or 11 percent—actually

received preferential treatment.[85] One report on the impact of the U.S. GSP system revealed another dimension: the concentration of its benefits on a relatively small group of countries. Of the $528 million in U.S. revenue foregone in 1979, the largest four recipients were the relatively more prosperous developing states of Taiwan, South Korea, Hong Kong and Mexico.[86]

That these areas are the key beneficiaries is not accidental, for they have served transnationals as platforms for the processing or assembly of imported U.S. components for reexport back to the United States. Duty-free entry of their products under the Generalized System of Preferences, in other words, has become one weapon in the strategy of U.S. corporations to increase profitability by shifting some phases of their production to selected countries.[87] Japanese and European corporations have also aggressively utilized GSP schemes in such a manner, leading many to the conclusion that the prime beneficiaries of the GSP are the corporations, not the countries.

Even more popular with U.S. corporations are provisions 806.30 and 807 of the U.S. tariff code, which allow the portion of the product made from U.S. components to enter the United States duty free. U.S. corporations have used these provisions to raise profit margins by having low-wage third world labor assemble components from their U.S. plants. As noted earlier, U.S. garment manufacturers perform preassembly tasks in the United States, send the materials to the Caribbean for the labor-intensive assembly and postassembly phases, then reship the garments to the United States under provisions 806 and 807. The value of 806 and 807 imports jumped from $953 million in 1966 to almost $40 billion in 1987. As a percentage of U.S. imports, they rose from 6.4 percent in 1966 to almost 13 percent by 1988.[88]

Despite the benefits to some U.S. corporations, preferential treatment for developing country exports is now under assault. Strong protectionist pressure from unions and threatened sectors of busi-

ness is now forcing the advanced industrial states to "graduate" the more successful developing country exporters. The recent forced graduation from the U.S. GSP of the four East Asian NICs and the suspension of South Korea from the European Common Market Generalized System of Preferences show how far the scheme has traveled from its initial use as a mechanism to assist development to its current use as an instrument of trade war against the NICs.[89]

Indeed, in the United States a countermove is afoot to extend the demand for reciprocity by seeking repeal of GATT provisions that have allowed third world countries to promote infant industries by temporarily sanctioning the enactment of import restrictions.[90] To show it means business, the United States has threatened to impose penalities against Brazilian imports in an effort to destroy the trade and investment barriers that have nurtured the data-processing industry, one the third world's most successful infant industries.[91]

Carving Up the Oceans

The Law of the Sea, negotiated over eight years and completed in 1982, has been termed "a signal exception to the record of frustration, stalemate, or marginal concession" in North-South negotiations.[92] The fact that it has been signed by 159 countries—and so far rejected by the United States—appears to bear out the assessment that it is a plus for the South. Many liberal nongovernmental organizations have launched campaigns favoring ratification, futher contributing to the Law of the Sea's reputation as a progressive document.

A closer examination of the document, however, does not bear this out. The heart of the treaty is the agreement to establish exclusive economic zones (EEZs) of up to 200 nautical miles "within which the coastal state may exercise sovereign rights with

TABLE 4: Development Assistance as Percentage of Gross National Product for 18 Member Countries of the Organization for Economic Cooperation and Development

Country	Official Development Assistance (in millions of $)	% of GNP
Norway	798	1.20
Netherlands	1740	1.01
Denmark	695	0.89
Sweden	1090	0.85
France	5105	0.72
Belgium	549	0.49
Canada	1695	0.48
Australia	752	0.47
Finland	313	0.45
West Germany	3832	0.43
Italy	2404	0.40
United Kingdom	1750	0.32
Switzerland	422	0.30
New Zealand	75	0.30
Japan	5634	0.29
Ireland	62	0.28
United States	9564	0.23
Austria	198	0.21
Total	36678	0.35

SOURCE: *Japan Economic Journal,* February 27, 1988, 2.

regard to the management of national resources, living and non-living, in the waters, sea-bed, and subsoil."[93] While this agreement removed 35 percent of the oceans as a source of conflict, "the clear winners," Bernard Nossiter observes, "were the rich."[94] Australia, Canada, the United States, Japan, Norway, and the Soviet Union, with 15 percent of the world's population, gained an estimated 44 percent of the new monopoly resource zones.[95] The landlocked

states, most of which were third world, derived hardly any benefits from this division of the richest parts of the sea. The landlocked states, and those with short coastlines or bounded by inland seas, were assured that the deep oceans, which cover 45 percent of the earth's surface, would be under the control of the International Seabed Authority, whose policy would be set by a one-nation, one-vote assembly. But this provision could not hide the fact that the exclusive economic zones contained, among other things, 90 percent of the fish and up to 95 percent of the offshore oil.[96] Despite gains for some third world states, the treaty was so flawed and biased toward the rich that the man known as its intellectual godfather, the Peruvian diplomat Arvid Pardo, ended up warning that "the partial division of ocean space now contemplated will...enormously increase present inequalities between states and consequently will give rise to acute tensions and conflicts which will not be easy to resolve."[97]

The Question of Aid

The quantity of aid provided by a donor country is not a measure of that aid's effectiveness. Indeed, in many cases, more aid goes hand in hand with greater economic dependency. However, the amount of aid does give a rough sense of a country's sympathy for third world development. Seen from this perspective, there is no doubt that the North-South dialogue on aid has been a dismal failure. While the rich countries have rhetorically endorsed the Brandt Commission's recommendation that they allocate at least 0.7 percent of their GNP as aid to the South, their combined allocations came to only 0.35 in 1986, with the United States far down the list at 0.23 percent.[98]

On the other hand, some observers point to the increasing importance of multilateral institutions, like the World Bank and the International Monetray Fund, as a step forward in the North-South aid relationship, away from what is regarded as the insidious

realpolitik that accompanies bilateral aid. How credible is this suggestion?

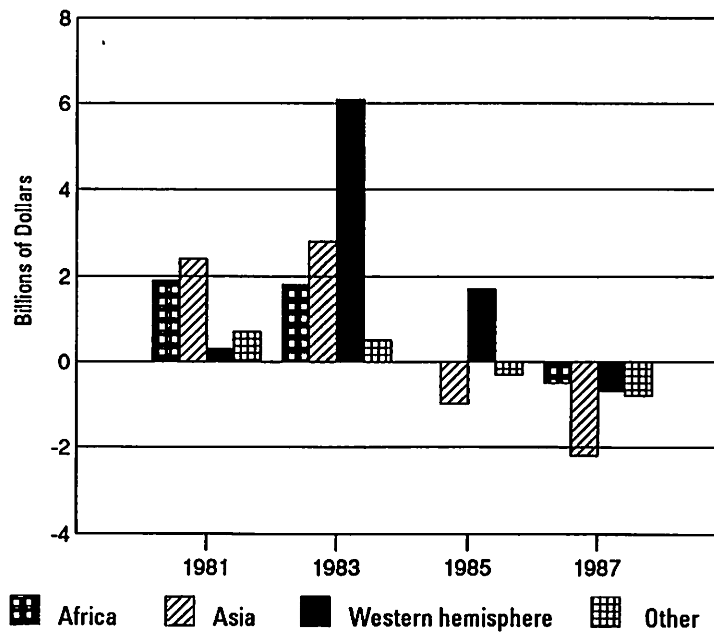
The South has a very ambivalent attitude towards the fund, which is expressed in its repeatedly calling for an expansion of the IMF's lending facilities while at the same time denouncing the fund as an instrument of Western imperialism.

Undoubtedly, the resources and facilities of the IMF for countries with balance-of-payments difficulties have increased. Over the past three decades, the IMF has developed about ten separate lending facilities, from the regular standby credit to the newest Structural Adjustment Facility providing concessional credit mainly for the desperate African countries.

The debt crisis has increased the centrality of the fund as lender of last resort for third world countries with balance of payment difficulties. In the space of just two years, at the height of the debt crisis, from 1982 to 1984, the fund put together a rescue package of $30 billion for more than sixty countries.[99] The fund has, indeed, kept countries from plunging into nominal bankruptcy—but by dragging them through a cure worse than the disease! Not only did the debt crisis put a halt to the modest steps toward liberalization the IMF was taking in the late seventies. As noted earlier, the harsh conditions it has since set for its loans are among the major forces that have snatched away what little leverage the South was able to gain in the previous two decades.

The fund was not the only multilateral lending organization that was delegitimized by the debt crisis. Until the eighties, the World Bank was held out to be the most liberal manifestation of the rich countries' concern for the poor. Though the bank's soft-loan window, the International Development Association (IDA), was in fact created as a a Western-controlled substitute for the Special United Nations Fund (SUNFED) proposed by the developing countries in the late fifties, it did provide in the 1960s and 1970s

Figure 2: Net Flow of International Monetary Fund Credit to Main Regions of the Third World
(In Billions of Dollars)



SOURCE: Department of International Economic and Social Affairs, *World Economic Survey 1988* (New York: United Nations, 1988), 57.

an ever increasing pool of funds lent at concessional rates of interest.

More attempts at reform came under the leadership of Robert McNamara, who raised World Bank lending to over $12 billion

by the time he left office in mid-1981. McNamara also assembled a policy planning staff that proposed the satisfaction of "basic needs" for the third world's hungry millions as the bank's guiding doctrine. "Basic needs," however, was hardly translated into actual, operational policy, which continued to focus on raising productivity and assuring profitability instead of on redistributing wealth and promoting a stable climate for U.S. economic interests.[100] And even this modest hint of a more liberal lending policy was snuffed out in the early eighties when the Reagan administration, for ideological reasons, cut its promised contribution to the sixth IDA replenishment by $300 million, and the IDA ended up with $1 billion less than it had originally expected.[101] Instead, the bank's management gave more and more attention to the new Structural Adjustment Loans or SALs, which had a high degree of conditionality.

To receive a SAL, a recipient had to agree to bank surveillance of trade and exchange rate policies, policies in energy, agriculture, and industry, national investment priorities, fiscal and monetary policies, and debt management.[102] Even as unradical a figure as Canada's former representative to the executive board was moved to complain that "macro-policy advice incorporated in the SALs touches the very core of the development policy process.... The rate and manner of growth and other related societal objectives of the recipient countries are the very stuff of that elusive but important concept called sovereignty."[103]

Not surprisingly, the SALs began to give the bank an image not too different from that of the fund. SALs were in fact meant to complement the IMF's Standby Facility or Extended Fund Facility (EFF) program, with the fund focusing on short-term balance-of-payments adjustment and the bank on long-term structural changes. SALs were increasingly directed at the key "middle-income" debtor countries, either to complement or substitute for EFFs. By the end of 1985, twelve of the fifteen debtors designated by then

U.S. Secretary of the Treasury Jim Baker as top priority debtors were subject to SALs.[104]

World Bank–International Monetary Fund cooperation to restructure third world economies has now been brought to a higher level with the establishment of the first jointly financed program, the Structural Adjustment Facility (SAF). Economic sovereignty is apparently not an issue that worries theses institutions, as the following official account of the workings of the new system reveals:

> A major innovation of the SAF is the requirement that a comprehensive three-year policy framework paper (PFP) be prepared by the national authorities, with the joint assistance of the staffs of the World Bank and the Fund. The PFP sets out macroeconomic and structural policy objectives of the authorities for the ensuing three-year period, the policy strategy and measures that will be employed, and estimates of the financing requirements associated with the adjustment program.[105]

As of July 1988, twenty-seven of the world's poorest countries were under a SAF arrangement, twenty-one of them in Africa.[106] Because these are also countries with very weak political structures, it is no exaggeration to say that under the guise of providing aid, an IMF–World Bank condominium has been imposed over much of subSaharan Africa. This state of affairs was reflected in the fact that in 1986 and 1987 the net transfer of resources from sub-Saharan Africa to the IMF was close to $1 billion.[107]

Breaking Ranks, Missing Opportunities

The postwar confrontation between the North and the South began with high hopes for reform. Those hopes have been dashed with the developments of the eighties: the expansion of absolute

poverty and the extensive erosion of the economic sovereignty of third world countries. However, in accounting for this tragedy, one cannot just point to the structural biases of the world capitalist economy against third world development or to concerted attempts by the rich countries and the commercial banks to reverse the flow of capital by using the IMF or the World Bank. In any just accounting, a great deal of blame must also be attached to the South's failure to back its demands with common action.

The OPEC Betrayal

Several instances stand out as missed opportunities, where a more united and coordinated Southern response could have led to major shifts in the North-South power equation. Probably the most important was OPEC's failure to take into consideration the impact of its oil-price policies on the non-oil developing countries and its refusal to use its leverage on oil to advance the South's program for stabilizing prices on a wide range of commodities.

The Conference on International Economic Cooperation (CIEC), which was requested by the industrialized countries in the wake of OPEC's price hikes in the midseventies, could have provided a historic breakthrough given the West's profound sense of vulnerability. Third world primary producers came to Paris with the expectation that the OPEC countries would stand with them in a unified front to demand a comprehensive deal on a wide range of commodities. Instead, the OPEC countries withdrew from an earlier position that oil would be negotiated along with other raw materials—a move that left the other raw material producers without a trump card.[108]

Under the leadership of Henry Kissinger, the United States managed to isolate the OPEC countries from the rest of the third world. U.S. authorities allowed Saudi Arabia, the key OPEC producer, to purchase U.S. treasury securities with the exact amounts kept secret.[109] In return for secure financial arrangements

such as these, the Saudis and the other Arab OPEC producers implicitly agreed not to allow oil to be used as a weapon in the commodity conflict. The unspoken working compromise was that the Saudis and the other Arab OPEC producers were "free to determine the price of oil so long as the supply of oil was not interrupted and oil revenues were not used to weaken the existing economic system."[110]

OPEC not only refused to allow oil to be used as a weapon in the primary producers' struggle for a new deal, it also failed to provide financial support for the establishment of the Common Fund, which would have stabilized commodity prices under the Integrated Program for Commodities.

But after two oil shocks and the ensuing debt crisis for developing countries who had borrowed heavily to pay for skyrocketing oil, the "veil of decency" that had covered discussion of the oil-price issue in developing country forums gave way to open criticism.[111] During the Non-Aligned Movement's New Delhi Summit in 1983, Fidel Castro, with his usual candor, told his peers that "OPEC policies, far from pioneering reformed North-South relations, had undermined third world economic solidarity and the NIEO."[112] Today there is an almost total distrust between the oil producers and the rest of the third world.

The Law of the Sea Scramble

Perhaps not as dramatic in its impact as OPEC's unilateral moves, but foreboding of negative consequences was the split in third world ranks during the negotiations over the Law of the Sea. What one establishment observer derides as the "synthetic unity" of the third world crumbled as states scrambled to stake their claims to 200-mile monopoly resource zones.[113] Alliances formed among the rich and poor coastal states against landlocked states and those with short coastlines. The cleavage between the coastal states and the landlocked split Latin America, Asia, and Africa. The assent

of the landlocked poor was finally secured with vague promises of access and sharing the returns from exploitation of the deep seas. But Ugandan delegate Ibrahim Wani probably captured the feelings of the poor inland states when he spoke of having been "betrayed by our fellow developing countries."[114]

Debts and Disunity

The third example of failure in third world solidarity greatly influenced the course of the debt crisis. On the principle that if you owe a bank a thousand bucks it controls you, but you if you owe a bank a *million* bucks *you* control it, a collective effort to withhold payments, exercised judiciously and at the appropriate time, can be a very powerful tool in debt negotiations. For this reason, the creditors have always refused, in principle, to deal with the debtors en masse even though they themselves operate as a cartel led by the IMF.

For the same reason, the Latin debtor governments trekked to Cartagena, Colombia, in 1984 to declare their intention to frame a common strategy against the banks. As the crisis has developed, the mathematics of such a strategy has become more compelling: while Citibank's $3 billion in loan-loss reserves might perhaps have allowed it to survive a default on the $4.6 billion that Brazil owed it in 1987, it could not have survived a simultaneous default on the $8.8 billion owed to it by Brazil, Mexico, and Argentina. Citibank and eight other New York money-center banks are, in a very real sense, hostage to these three countries, since the $40 billion loaned to them comes to 85 percent of the banks' capital. A working cartel among just the three huge debtors would have positive spinoffs in the rest of the third world since, as a Morgan Guaranty Trust official puts it, "if debt relief were offered to any one debtor, political realities would virtually dictate extension of relief to others."[115]

The ideal time to force the issue was probably when Brazil suspended paying interest on the bulk of its $108 billion foreign debt in February 1987. The IMF, discredited by the failure of its policies to end the debt crisis, could no longer provide strong leadership to the banks.[116] The U.S. government's attempt to move into the leadership vacuum failed as the big banks refused to commit fresh resources to third world debtors, as proposed by then U.S. Secretary of the Treasury Jim Baker. The vaunted bankers' united front was at its most fragile point in years, with different banks beginning to plot individual strategies to deal with their debt, including voluntary write-offs. Confronted with a unified stand from the big three, the banks' solidarity might have crumbled.

But the resolve to frame a common strategy expressed at Cartagena was revealed to be just a bluff: Argentina and Mexico tried to make their separate peace with the IMF and the banks while Brazil continued to defy its creditors throughout the year. Indeed, Mexico moved quickly to exploit international bankers' fear of the Brazilian moratorium to its own advantage. It obtained $7.7 billion in new loans at what was then the lowest interest-rate margin ever obtained by a third world debtor.[117] A great opportunity had vanished, perhaps never to return. Indeed, the confrontation pushed the U.S. government, the IMF, and the banks to regain their bearings and achieve a level of operational unity that they had not had in years.

Why has debtor unity remained at the level of the rhetorical? A key reason, says Rudiger Dornbusch, might be a perception on the part of governing elites that "any move on the external debt would potentially radicalize domestic politics of income distribution and property rights, perhaps beyond the precarious control of the present system."[118] But it was not only a fear of a "demonstration effect" on the domestic front that prevented debtor unity, said the late Jorge Sol, former IMF executive director for Central America: "The third world elites who borrowed the money...come from the

same class as those who lent it and as those who managed it at the IMF. They went to the same schools, belonged to the same clubs. They all profited greatly from the debt. They will not turn on those interests."[119]

Obviously, if broadness is one of the strengths of the Group of Seventy-Seven or the Non-Aligned Movement, it is also its Achilles heel. Indeed, third world solidarity is at its weakest today when it is most urgent. Even in the Non-Aligned Movement, there has emerged a bloc of countries headed by Singapore that speaks unabashedly for Western interests. There is, as Fred Halliday writes, a very real material basis for these increasing strategic divergences:

> The countries of the South are themselves, in the main, part of the capitalist market, and so are both disposed to compete with each other and to seek closer integration with the richer economies of the developed world.... The 1970s have seen substantial economic change in the third world, most vividly represented by OPEC and the NICs: but these changes have been brought about by breaking ranks with the rest of the world, not by the collective efforts of the NAM states.[120]

"A new international economic order has been created since 1973," he concludes correctly, "but it is a new, more viciously more competitive capitalist order, in which differentiation between Third World states has increased."[121]

SIX

THE BRAVE NEW WORLD ECONOMIC ORDER

The third world has lost ground in the past few years not only because of the conscious solidarity of the rich and its own fragile unity, but, perhaps more fundamentally, because of the systematic structural bias exercised against it by the world capitalist economy. As one observer puts it, the crisis of the South "is part of the working of the market, rather than of lack of political will."[122] *Dependencia*, though mitigated at times, continues inexorably as the essential feature of the North-South relationship, as even the NICs are now finding out. It is therefore ironic that in the midst of crisis and change it is representatives of countries that have been systematically marginalized by the liberal economic order that have now become its major defenders. Witness an official declaration from the Economic Commission for Latin America (ECLA), which is supposed to be a bastion of third world thinking:

> The existence of an open world economy and the establishment of an international division of labor that is harmonious with the capabilities of each country, large or small, has become an increasingly important prerequisite for the development of the Latin American countries. We are now even more greatly dependent on the functioning of a world economy based on an authentic interdependence.[123]

For their part, the countries of the North, via the IMF and the World Bank, continue to foist the "virtues" of the open international economy on the South, even as they abandon it as a standard for themselves. Quotas, voluntary export restraints (VERS), and other types of nontariff barriers to Japanese and third world manufactures and primary product exports have increased in Western economies, and such barriers continue to proliferate.

TABLE 5: Voluntary Export Restraints as of Late 1986[a]

Major Known VERS		Restrained Exporters[b] (by number of arrangements)	Protected Markets (by number of arrangements)
Steel	39	DCs (12); EC (4); OICs (12); Eastern Europe(11)	US (25); EC (14)
Agricultural products	17	DCs (6); ICs (6); Eastern Europe (5)	EC (16); Canada (1)
Automobiles and transport equipment	13	South Korea (2); Japan (11)	EC (9); US (1); OICs (3)
Textiles and clothing	11	South Korea (2); ODCs (9)	US (4); EC (3); OICs (4)
Electronic products	7	South Korea (1); Japan (6)	EC (6); US (1)
Footwear	5	South Korea (3); Taiwan (1); Japan (1)	EC (2); OICs (3)
Machine tools	3	Japan (3)	EC (2); US (1)
Other	4	South Korea (3); ICs (1)	EC (3); Norway (1)
Total	99	South Korea (14); Brazil (4); ODCs (21); Japan (24); OICs (20); Eastern Europe (16)	EC (55); US (32); Canada, Japan, Norway (12)

SOURCE: Clemens Boonekamp, "Voluntary Export Restraints," *Finance and Development* 24, no. 4 (December 1987): 4.

[a]Excludes bilateral agreements reached under the Multifiber Agreement.
[b]DCs are Developing Countries; ODCs are Other Developing Countries; EC is European Community; ICs are Industrialized Countries; OICs are Other Industrialized Countries.

For example, about 80 percent of textile and apparel imports into the United States are now restrained by thirty-four quota agreements, mostly with developing countries.[124] And at last count, there were about 160 voluntary export restraints in the United States and Europe, most of them directed at imports from Japan, the NICs, and third world countries.[125]

The North's flight from liberal economic behavior stems from the fact that like Frankenstein's creature—to borrow André Gunder Frank's image—the world economy is no longer subject to the control of its master, the United States.[126] Created in the late forties and fifties, the institutions of the liberal order served primarily the interests of the United States, which was then the hegemonic power. However, these institutions had to be granted some degree of autonomy to legitimize the hegemonic power's deriving disproportionate advantage from them. Legitimacy was essential, and "legitimacy cannot be promoted if the regime is perceived merely as an appendage of the hegemonic state."[127] But while free trade and unobstructed mobility of capital benefited the United States initially, these combined with the escalating cost of maintaining an armed force to safeguard the international capitalist order (7 to 10 percent annually of U.S. GNP), ultimately worked to the advantage of others, most notably Japan.

The economic and technological competition between the United States and Japan is the central force restructuring the world economy. The dominant trend is the passage of economic and technological primacy from the United States to Japan. For defenders of the postwar liberal regime, this handing over of the scepter is inevitable, and the important thing is, as Lawrence Krause of the Brookings Institution puts it, "that the transition go smoothly. The last transition of economic power was marked by the Great Depression in the 1930s. While we have learned much from that earlier experience, danger is still present."[128] Contrary to such advice, however, the United States is not going to go "gently into that good night," to borrow a line from Dylan

Thomas. What is clearly transpiring is that with a defensive United States leading the way, the postwar free trade system is increasingly giving way to a system of international trade protectionism similar to that of the 1930s.

Already protected by over sixty voluntary export restraints on key manufactures like garments, semiconductor chips, and automobiles, the United States took another giant leap toward market insulation with the recent passage of the new trade law, which gives the president broad powers to retaliate against countries that are running trade surpluses, if such countries are deemed to engage in unfair trade practices. Equally significant is the recent agreement between the United States and its biggest trading partner, Canada, to create a free trade area that will remove all significant trade barriers between the two neighbors while maintaining or raising barriers against third countries. It remains to be seen if protectionist sentiment will overcome racist and chauvinist attitudes toward Mexico, the third largest purchaser of U.S. exports, and allow it to join its two more prosperous neighbors in a unified market. At the same time, the United States is exerting a tremendous pressure on Japan and the NICs to adhere to international copyright and patent laws in an effort to create a technological maginot line to prevent the easy flow of technology, particularly in the crucial areas of information processing, electronics, biotechnology, and superconductors. The trend is unmistakable: even as it maintains its massive military presence internationally, the United States is retreating economically into an isolationist, continentalist "Fortress America."

Europe is not far behind. By 1992, the European Economic Community will have knocked down all significant barriers to the movement of people, goods, capital, and services, thereby creating the world's most prosperous single market, with 323 million people. European technocrats quite openly acknowledge that the creation of "Fortress Europe" is mainly motivated to repel the economic assault from Japan and the East Asian NICs, as

demonstrated by the EEC's recent suspension of South Korea from its list of developing countries entitled to Generalized System of Preferences benefits on unspecified charges of dumping commodities.

Not suprisingly, Japan is responding to these moves by creating its own economic zone of influence. In the past three years, as a strategy to offset the negative impact of the appreciating yen, Japanese corporations have been engaged in a massive movement of their manufacturing operations to China, Thailand, and other Southeast Asian countries. Not only have major manufacturers relocated their operations to Southeast Asia, but in addition "many of Japan's 470,000 subcontractors have been forced to move production offshore in order to continue serving their customers."[129] Cumulatively, in the postwar period, Japan has invested about $27 billion in the Asia-Pacific region.[130]

The massive movement of capital has been matched by Japan's (so far) benign posture toward rapidly increasing imports from the NICs and the Southeast Asian countries to the Japanese market, to make up for the U.S. market's closing up. And currently the Japanese are dispensing over $6 billion in economic aid to their Asian neighbors—hardly disinterestedly, for the resulting roads, bridges, and power plants are expected to eventually benefit Japanese corporations.[131]

The NIC-Southeast Asia complex, however, will probably be but one of the satellites revolving around the Japanese sun. Japanese capital is equally committed to penetrating China, with strong encouragement from the Chinese government, which has staked its future on a coastal development strategy fueled largely by Japanese capital and technology. Socialist Vietnam is also begging to be integrated into the Japanese zone, trying to offer more attractive terms for capital and technology transfer than its Chinese rival. And, of course, there is the Soviet Union, with its very tempting offer of joint development of Siberia's mineral

resources. It seems that only a political anachronism—the dispute over what Japan calls the Northern Islands—stands in the way of momentous developments in Japanese-Soviet relations.

Indeed, we might witness over the next decade the first stages of an East Asian division of labor centered on Japan, with China and Southeast Asia providing the cheap labor; the Soviet Union, China, and Southeast Asia the natural resources; and Japan and, to some degree, the NICs providing the markets, technology, and capital.[132] This geoeconomic revolution, needless to say, would have massive geopolitical consequences on the order of the fallout from the Sino-Soviet split in the 1960s. One of the the main consequences would be the acceleration of U.S. economic decline and the erosion of its anachronistic and alien military presence in the Asia-Pacific region.

SEVEN

OVERCOMING MARGINALIZATION: A SOUTHERN STRATEGY

The intensified economic and technological competition among the "superblocs" is likely to have contradictory effects on the third world. On the one hand, some regions, because of proximity and availability of cheap labor, might be integrated, though in a fragile fashion, to the competing centers. This might be the case with Southeast Asia relative to Japan, Mexico and the Caribbean with respect to the United States, and the third world countries in the Mediterranean basin vis-à-vis the European community.

More accurately, selected areas or strips in third world countries might be effectivley detached from their hinterlands and incorporated into the dynamic of the central economies; for instance, the coastal provinces of China, Mexico's northern border, and export-oriented economic zones in the Caribbean and Southeast Asia. This process is brilliantly described by Manuel Castells:

> By interconnecting economically and technologically valuable elements of each country at the world level, and disconnecting social groups, regions, cities, individuals, and sometimes entire countries that do not belong to the new, dynamic techno-economic system, the current process of restructuring is fragmenting the social fabric of the planet into pieces, and recomposing only some of them, into a structure that fits predominantly the interests of dominant governments and corporations, and of those areas and institutions for which they have a specific concern.[133]

But for most of the third world, marginalization or exclusion is the

likely future offered by the deadly combination of protectionism, the declining attractiveness of cheap third world labor owing to the increasing cost-effectiveness of labor-saving manufacturing technology, and the decreasing dependence on third world primary products brought about by the advances in synthetic substitution and biotechnology.

Given this grim prospect of the rich countries scrambling to form techno-economic blocs, the South should give up the hope that the old liberal economic order will soon be replaced by the New International Economic Order. But perhaps more important, the South should give up the even more dangerous illusion that the rich countries can be persuaded to return to the old liberal economic order by invoking the free-market doctrines of Adam Smith and David Ricardo.

In the face of superbloc economics, South-South cooperation is no longer just an option for development—it will be the only way for third world countries to survive as viable national economic entities in the next few decades. The chances for a successful Southern strategy are by no means bleak. As is well known, the volume of South-South trade has been growing steadily. But instead of promoting the unrealistic strategy of building economic associations based on simple proximity, like the Andean Pact or the Central American Common Market, regional cooperative schemes can be built on existing advantages, for instance around particularly dynamic industrial centers.

Brazil and India, with their industrial depth, technological competence, and potentially massive internal markets could serve as the locomotives for their respective regions.[134] They are, respectively, the ninth and tenth largest economies in the noncommunist world, outstripping Australia, Sweden, and many other developed European countries.

Brazil's role as a major arms supplier is to be criticized, but it does

indicate a formidable technological capability that could be applied to peaceful industrial enterprise. Brazil has developed a sophisticated computer industry in just a little over a decade. The "increasingly complex products" designed in the country, writes the Inter-American Development Bank, include microcomputers, serial printers, modems, minicomputers, Winchester disks, and banking automation systems.[135] In the area of microcomputers, "progress has entailed not only the incorporation of the technology of each generation of products (processors or peripherals) but also the design (and manufacture) of some advanced components that an infant industry would not be thought likely to carry out."[136] There are signs that the industry may go international: some Brazilian firms have won a contract to automate supermarkets in Portugal and one company is exploring the possibility of exporting to the United States.[137]

As for India, it is now a leader in the export of power-generation technology, steel mills, and machine tools. Moreover, the development of India's software industry has been impressive. Among those impressed are the many U.S. firms that have set up subsidiaries in India to tap into the technological talents fostered by the country's first-class engineering schools. Software exports now total $70 million a year and are growing by 45 percent a year.[138]

Alongside Brazil and India, one might include South Africa, whose massive industrial complex is well known. Under a new antiapartheid government, this complex could serve as the industrial engine of subSaharan Africa, with Nigeria and its markets and oil providing a complementary stimulus. Viewing the possibilities for Africa, C. M. Nyirabu, head of Tanzania's Central Bank, says that regionally oriented manufacturing would combine the efficiency associated with export promotion with the industrial deepening that comes with an import-substitution strategy:

> [Regionally-oriented industrialization] is by no means as cost-

> inefficient as is sometimes assumed. Tanzania's electrical transmission and switchgear factory has won several aid-financed orders in international tendering. Malawi, Botswana, and Zimbabwe have substantial manufactured exports that receive little protection against world sources and next to none against South African products.... Viewed regionally, collective import substitution is, in some cases, both more practicable and more cost-efficient than purely national import substitution. Viewed nationally, it is export promotion.... Exports to our neighbors are every bit as valuable as those to our traditional northern markets, and, for manufactures, often pose fewer taste, marketing, and transport-cost barriers.[139]

In Southeast Asia, the economic promise of the Association of Southeast Asian Nations continues to be blocked by political elites that have maintained it as an antiquated anticommunist alliance. Especially if the countries of Indochina were incorporated into it, ASEAN could provide a viable alternative to a Japanese-dominated regional economy. In Central America and the Caribbean, the economies of Mexico, Venezuela, and Cuba could become magnets for a regional development scheme that could serve as an alternative to permanent domination by the U.S.-Canada superbloc.

If such regionally oriented industrialization projects are to be effective, however, third world countries must summon up the political will to take certain decisive steps.

- Cooperation. Countries forming a bloc must set aside national rivalries and arrive at a rational and equitable division of industrial and agricultural specialization, based on intraregional comparative advantage. The consequences of the compact must be clear to all participants: the subordination of vital dimensions of national sovereignty to a regionally sovereign economic entity. The dominant core countries must be especially sensitive and accomodating to the concerns of their less developed or

smaller partners, and the foundation charter must incorporate strong checks to imperial behavior.

- Debt relief. Since the greatest drag on development, at least in the short term, is the South's trillion-dollar debt, third world countries must collectively formulate, either at a regional or international level, bold strategies of unilateral debt relief. Seven years after the emergence of the debt crisis, it is clear that the United States will not be moved to debt relief by mere pleading on the part of individual debtors. And without a decisive move in the near future, debt repayment will foreclose all possibilities for economic growth.

  Unified action on debt need not necessarily result in formal debt repudiation. The point is to gather the force necessary to compel the commercial and multilateral banks to go to the negotiating table and agree on a program of substantial debt relief. Negotiated debt relief may mean outright forgiveness of the total debt. More realistic might be a package that combined forgiveness of a third to half of the debt with a flexible scheme for repayment of the remainder, including fixed concessional interest rates, a protracted repayment schedule for the principal, and a ceiling on debt servicing established at no more than 10 percent of the country's foreign exchange earnings. However, unless the debtors unite firmly behind a stand of repudiating the debt should the bankers not come to the table, such equitable, pragmatic proposals will remain utopian.[140]

- Selective relations. The formation of regionally unified economic zones must not be regarded as a dogmatic closing up to the North à la Pol Pot. In fact, regional unification would endow third world countries with something that they never had as separate economic entities: a base of real power from which to pursue pragmatic policies aimed at achieving selective, reciprocal, and equitable agreements on trade, investment, and technology transfer with the North.

The emergence of the superblocs in the North means that coordination of economic policies among the advanced industrial countries is likely to become increasingly difficult. Third world blocs can take advantage of superbloc competition in their search for equitable deals. They can also pursue preferential agreements with Northern countries not integrated into the superblocs, like Sweden, Norway, and Finland.

Functioning regional blocs would also enhance the attractiveness of the South to the Soviet Union, China, and the Eastern European countries. The socialist countries would find that preferential economic ties with third world blocs would provide a healthy balance to their expanding economic ties with the West. The third world blocs, in turn, would derive the boost to independence that comes with diversification of their economic ties, as well as gain access on preferential terms to selected goods and technology. As one analyst has pointed out:

> It is [the] larger, middle-level developing countries that offer greatest promise of the kind of economic interaction that could help the Soviet economy become competitive. In fact, there is far greater economic complementarity between the Soviet Union and these countries than between the Soviet Union and the advanced industrialized countries. In other words, Moscow could offer a "tractors for T-shirts" strategy: trading Soviet capital goods for the light industrial and consumer goods that these more advanced developing states could provide.[141]

- **Redistribution of wealth.** Regional economic unification plans will amount to little if they involve nothing more than the joining together of markets composed of elite minorities and impoverished majorities with little effective purchasing power. Thus, countries must carry out massive redistributive economic programs to create the prosperous markets necessary for regional growth.

For one thing, there must be an end to regressive taxation, which reduces even further the purchasing power of the poor. Progressive taxation of the upper classes, coupled with strict controls on capital flight, would yield a significant portion of the resources needed for investment in infrastructure and industry. Land reform, particularly in core countries like Brazil and India, would be needed to transform the countryside from a desert of poverty, continually expelling refugees to swollen urban slums, to a fertile soil supporting industrial growth. It would also help bring about that balance between the industrial and agricultural sectors absent in most third world countries. In addition, land reform would reclaim the countryside from the domination of export agriculture and allow the expansion of production for domestic consumption, which is necessary to support an expanding urban work force without resorting to massive food imports.

Needless to say, South Africa must dismantle its apartheid system, not only because it is a moral abomination but also because it fetters the economic development of the whole continent.

- **Democratization of politics.** Regional economic integration will be extremely difficult to achieve between disparate political systems. Brazilians and Argentines, seeking to make their current fledgling democratic governments genuinely accountable will resist being yoked to Chile, where currently, the military regime spurns all accountability to the people. In Southeast Asia, authoritarian regimes wedded to U.S. and Japanese capital have been one of the greatest obstacles to realizing the promise of ASEAN. Thus, viable regional schemes must promote not only programs of income and wealth redistribution but also the democratization of politics and, eventually, of economic policymaking.

- **Environment and democracy.** Regionally oriented development must have as essential elements the protection of the environment and restraint in the use of natural resources.

Otherwise, industrialization might bring a higher standard of living to current generations of third world peoples only to make existence hellish for future generations. Technology policy must therefore put priority on the development of environmentally benign production processes. As an element of environmental planning, a serious commitment to family planning must be made—while remembering that one of the most effective checks to population growth is rising living standards brought about by greater equality in access to resources.[142]

All throughout the third world, awareness of environmental destruction is spreading and democratic political movements are incorporating the environment as a central issue in their programs. In Taiwan, for instance, a central issue in the opposition's effort to unseat the authoritarian Kuomintang government by democratic means is the devastation of the island's environment by unrestricted export-oriented growth. In Mexico, Cuauhtemoc Cardenas's popular insurgent electoral movement made the deadly pollution of Mexico City a key issue in the campaign against the ruling party. Ordinary people are aware of the environmental crisis, and only democratic discussion and choice will generate the national and regional political will to decisively deal with it.

- **Democratization of economic policy-making.** Regional development plans must steer clear of a doctrinal dichotomy between free enterprise and state socialism. In their effort to get the state out of production, the ideological right has called attention to the problems of socialism in the Soviet Union and other countries, which are real enough. What the right fails to mention is that strong state intervention, in the form of picking, subsidizing, and protecting "winners," has been decisive in the economic achievements of Japan, South Korea, and Taiwan. They do not point out that it has been intelligent state protectionist policy that has enabled Brazil to develop a sophisticated computer industry.

On the one hand, private enterprise must certainly be given ample play, but it must also be prevented, by law and by the state, from creating sharp disparities in wealth and power. On the other hand, state or worker ownership must be structurally endowed with incentives for good management and exposed to competition to reduce inefficiency and wasteful subsidies if they are to be effective systems of production.

Rather than be preoccupied with whether firms are owned privately or publicly, the guiding concern of economic planning should be democratic decision making by workers in the key areas of the production process—whether in private, state, employee-owned, or mixed enterprises. Elitist management, whether of the capitalist or socialist variety, has been shown to be inefficient and wasteful. Democratic management, on the other hand, is not only just; it may well be the most effective.

In sum, as the third world enters the nineties, its unequal integration into a liberal world economic order is giving way to its exclusion in a world of protectionist superblocs. Regionally oriented development presents an alternative to the gathering momentum of marginalization. Success in this difficult enterprise, however, will depend on more than just bringing down trade barriers between neighbors and sharing technology. It will depend on more than just expanding economic planning and implementation from a national to a regional scale.

Essential to success will be a determined effort to root out the entrenched structures of gross social and economic inequality that have long been the decisive barriers to sustained development. Democracy, in politics, in access to resources, and in the process of production, is likely to spell the difference between development and marginalization.

NOTES

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5. Ricardo Ávila, "Reclaiming a Lost Decade," *Worldpaper* (October 1986): 2.

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13. *IMF Survey* 17, no. 17 (August 29, 1988): 275.

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18. Ibid., 122.

19. "Hanoi Calls for Investments," *Sing Tao International* (San Francisco), October 19, 1988, 6.

20. "Letter of the Law," *Far Eastern Economic Review* (February 4, 1988): 78.

21. On China's competitiveness in textiles and garments, see Ashoka Mody and David Wheeler, "Towards a Vanishing Middle: Competition in the World Garment Industry," *World Development* 15, no. 10/11 (1987): 1272, 1281–1282.

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27. Constantinos Markides and Norman Berg, "Manufacturing Offshore Is Bad Business," *Harvard Business Review* 88, no. 5 (September/October 1988): 117.

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31. Mody and Wheeler, 1271.

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33. Markides and Berg, 115.

34. Ibid., 114.

35. United Nations, *Financing Africa's Recovery*, 13.

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GLOSSARY

Baker Plan—Plan proposed by then Secretary of the Treasury James Baker in 1985, which was intended to contain the third world debt crisis. The main components of the plan were the infusion of $20 billion in commercial bank loans and $9 billion in multilateral bank credits into fifteen highly indebted countries, in return for the latter's commitment to initiate market-oriented reforms.

Bandung Conference—Conference held in Bandung, Indonesia, in 1955 that was attended by twenty-nine newly independent countries from Asia and Africa. This was the first time that the third world came together to collectively express a distinct view of the world's problems. The conference is often regarded as the precursor of the Non-Aligned Movement.

Brandt Commission—Also known as the Independent Commission on International Development, this body was made up of eminent personalities and headed by former Prime Minister Willy Brandt of the Federal Republic of Germany. The commission came up with two very influential reports, *North-South: A Program for Survival* (Cambridge, Mass.: MIT Press, 1980) and *Common Crisis: North-South Cooperation for Recovery* (Cambridge, Mass.: MIT Press, 1983).

Common Fund—The central mechanism of the proposed Integrated Program for Commodities. Through buying or selling of commodity stocks ("buffer stock operations"), the fund would stabilize commodity prices, in periods of wild price fluctuations, at a level that would be remunerative to producing countries and fair to the consuming countries.

Comparative advantage—A controversial concept in neoclassical economics that claims that the greatest economic gains accrue to a country when it specializes in those products that it can produce at least cost, compared with other products, because of "natural endowments," like cheap labor. This concept has been attacked as

a conservative idea justifying the maintenance of third world countries as producers of primary products or low-value-added labor-intensive manufactured goods while reserving for the Northern countries the production of high-value-added manufactured goods.

Debt-equity swap—A method of retiring debt that consists of the following steps: a commercial bank sells a portion of the debt owed to it by a third world country *at a discount* to a corporation; the corporation exchanges the debt at the country's central bank for the local currency equivalent of the original debt; the sum is then invested as equity in local enterprises.

Deteriorating terms of trade—A downward trend in real commodity prices in terms of their capacity to buy manufactured goods. Another way of putting this is that over time a greater and greater amount of one's agricultural exports is needed to purchase the same amount of manufactured imports. For instance, assuming that the price of a U.S.- or Japanese-made stapler stays constant at $5 in 1982 and 1987, it would have taken about 19 kilograms of sugar to purchase a stapler in 1982, but about 31 kilograms in 1987, due to the sharp decline in the price of sugar in the intervening years.

Export-oriented industrialization—A policy of industrialization prescribed for third world countries by the World Bank that emphasizes production for export, through low-wage labor, of manufactures like garments and footwear.

Flexible automation—Introduction of computer-intensive production processes characterized by the use of reprogrammable machinery that can profitably produce a variety of products in limited quantities. At the cutting edge of flexible automation are robots, which are programmed for a variety of mechanical tasks.

Group of Seven—Name given to seven advanced industrial countries that meet regularly to try to coordinate their economic policies. The seven are the United States, Japan, West Germany, France, Italy, Britain and Canada.

Group of Seventy-Seven—Name given to the quasiofficial group of third world countries that loosely coordinate their stands in negotiations with the Western economic powers. Originally made up of seventy-seven members, this group now encompasses more than one hundred third world countries.

GSP—See trade preferences.

Higher value-added industries—Industries characterized by capital-intensive or skill-intensive production processes. These processes are said to add more value to a product per unit of labor compared to unskilled, labor-intensive production processes.

Import-substitution industrialization—A policy of industrial development that encourages the replacement of imports with locally manufactured goods by erecting tariff or nontariff barriers against selected imports. Thus, if a locally manufactured car sells for $10,000 and an imported model's selling price before entering the country is $8,000, a 100 percent tariff on the latter will raise its local price to $16,000, making the locally produced car substantially less expensive, in relative terms, that is.

Joint venture—A production arrangement between a transnational corporation and a local private or public corporation. The arrangement is sometimes in the form of shared ownership of equity stock in the enterprise in accordance with laws governing foreign investment in a country. Joint ventures are often seen by third world governments as a way to gain access to Western or Japanese technology.

Loan-loss reserves—Financial resources set aside by a commercial bank to cover possible losses to its depositors and shareholders of its assets in third world countries due to unilateral debt relief or debt repudiation. Setting aside loan-loss reserves involves an accounting procedure that subtracts the sum set aside from the income of the bank, so that the latter in many cases shows a loss in its yearly profit-and-loss statement. Thus, Citibank, which set aside $3 billion in reserves in 1987, took a $1 billion loss that year.

Net transfer of financial resources—A measure of the inflow or outflow of financial resources from a country. In terms of the external accounts of a country, the net transfer of financial resources is arrived at by subtracting the balance of profits and returns on external capital from the capital account balance.

OECD—Organization for Economic Cooperation and Development. Formal international economic organization made up of developed countries. Includes Japan, the Western European countries, Canada and the United States.

Perestroika—Mikhail Gorbachev's ambitious program of restructuring the Soviet economy via decentralization of economic decision making, introduction of limited forms of private ownership, and introduction of incentives for more efficient production at the enterprise level.

Standby Agreement—A short-term agreement with the International Monetary Fund in which the latter agrees to provide balance of payments support if a third world country experiencing external imbalances agrees to take certain steps, like devaluing its currency, cutting the budget deficit, eliminating subsidies, and restraining wage increases, the theory being that these steps will dampen domestic demand for imports and increase earnings from exports.

Structural Adjustment—A euphemism used for a program of wrenching change in a third world economy in return for loans from commercial banks, the World Bank, and the International Monetary Fund. Among the elements of structural adjustment are privatization of government enterprises, drastic reduction of the government budget deficit, devaluation of the currency, elimination of subsidies, elimination of price controls, dismantling of trade and investment barriers, and cuts or restraints on wages. The objective of structural adjustment programs is to shift much of production from the domestic market to export markets. Thus, structural adjustment programs have been attacked as thinly veiled attempts to raise foreign exchange earnings in order to pay off a country's debt.

Structural Unemployment—Unemployment created by elimination or marginalization of certain strata of the labor force, for instance, unemployment of significant numbers of unskilled workers as unskilled labor-intensive jobs are automated. Structural unemployment can also refer to unemployment created by the marginalization of an industry or groups of industries, for example, the loss of jobs resulting from the U.S. textile industry becoming less competitive against low-cost foreign textile producers.

Trade Preferences—As used here, this refers to a policy of reducing or eliminating tariffs on imports from third world countries while maintaining them at the same levels for imports from developed countries. In the U.S. tariff code, the section that covers this is known as the Generalized System of Preferences or GSP.

UNCTAD—The United Nations Conference on Trade and Development. A UN agency established in the early 1960s that is seen by the United States and other rich countries as promoting mainly a pro-third world economic agenda.

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