INTERDEPENDENCE, DISEQUILIBRIUM AND GROWTH

REFLECTIONS ON THE POLITICAL ECONOMY OF NORTH–SOUTH RELATIONS AT THE TURN OF THE CENTURY

JOHN LOXLEY

INTERNATIONAL POLITICAL ECONOMY SERIES
GENERAL EDITOR: TIMOTHY M. SHAW
Globalization has had a profound effect on North–South relations but has affected different regions and countries to different degrees. The extent of globalization has also been exaggerated. A handful of countries, largely in Southeast Asia, have enjoyed rapid growth based on the export of manufactures. International flows of private capital have been concentrated on only a handful of countries. Poorer countries have relied heavily on official borrowing and foreign aid. Debt problems have led to widespread imposition of structural adjustment programmes with ambiguous results. Four contemporary developments with potentially important implications for North–South relations are examined, viz: attempts to deal with the US fiscal and external deficits; the emergence of three regional trading blocs; the implementation of the Uruguay Round of GATT; and the collapse of the USSR and its satellites. Finally, the book examines a number of approaches to development which do not rely on growth, many originating in the South, and assesses their likely impact on North–South relations.

For a note on the author, please see the back flap
Interdependence, Disequilibrium and Growth

Reflections on the Political Economy of North–South Relations at the Turn of the Century

John Loxley
Professor of Economics
University of Manitoba
Winnipeg, Canada

in association with
INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
INTERNATIONAL POLITICAL ECONOMY SERIES

General Editor: Timothy M. Shaw, Professor of Political Science and International Development Studies, and Director of the Centre for Foreign Policy Studies, Dalhousie University, Halifax, Nova Scotia, Canada

Recent titles include:

Pradeep Agrawal, Subir V. Gokarn, Veena Mishra, Kirit S. Parikh and Kunal Sen
ECONOMIC RESTRUCTURING IN EAST ASIA AND INDIA: Perspectives on Policy Reform

Gavin Cawthra
SECURING SOUTH AFRICA'S DEMOCRACY: Defence, Development and Security in Transition

Steve Chan (editor)
FOREIGN DIRECT INVESTMENT IN A CHANGING GLOBAL POLITICAL ECONOMY

Jennifer Clapp
ADJUSTMENT AND AGRICULTURE IN AFRICA: Farmers, the State and the World Bank in Guinea

Seamus Cleary
THE ROLE OF NGOs UNDER AUTHORITARIAN POLITICAL SYSTEMS

Robert W. Cox (editor)
THE NEW REALISM: Perspectives on Multilateralism and World Order

Diane Ethier
ECONOMIC ADJUSTMENT IN NEW DEMOCRACIES: Lessons from Southern Europe

Stephen Gill (editor)
GLOBALIZATION, DEMOCRATIZATION AND MULTILATERALISM

Jacques Hersh and Johannes Dragsbaek Schmidt (editors)
THE AFTERMATH OF 'REAL EXISTING SOCIALISM' IN EASTERN EUROPE, Volume 1: Between Western Europe and East Asia

David Hulme and Michael Edwards (editors)
NGOs, STATES AND DONORS: Too Close for Comfort?

Staffan Lindberg and Árnì Sverrisson (editors)
SOCIAL MOVEMENTS IN DEVELOPMENT: The Challenge of Globalization and Democratization
Anne Lorentzen and Marianne Rostgaard (editors)
THE AFTERMATH OF 'REAL EXISTING SOCIALISM' IN EASTERN
EUROPE, Volume 2: People and Technology in the Process of Transition

Laura Macdonald
SUPPORTING CIVIL SOCIETY: The Political Role of Non-Governmental
Organizations in Central America

Stephen D. McDowell
GLOBALIZATION, LIBERALIZATION AND POLICY CHANGE: A Political
Economy of India's Communications Sector

Juan Antonio Morales and Gary McMahon (editors)
ECONOMIC POLICY AND THE TRANSITION TO DEMOCRACY: The Latin
American Experience

Ted Schrecker (editor)
SURVIVING GLOBALISM: The Social and Environmental Challenges

Ann Seidman, Robert B. Seidman and Janice Payne (editors)
LEGISLATIVE DRAFTING FOR MARKET REFORM: Some Lessons from
China

Kenneth P. Thomas
CAPITAL BEYOND BORDERS: States and Firms in the Auto Industry,
1960–94

Caroline Thomas and Peter Wilkin (editors)
GLOBALIZATION AND THE SOUTH

Geoffrey R. D. Underhill (editor)
THE NEW WORLD ORDER IN INTERNATIONAL FINANCE

Henry Veltmeyer, James Petras and Steve Vieux
NEOLIBERALISM AND CLASS CONFLICT IN LATIN AMERICA: A
Comparative Perspective on the Political Economy of Structural Adjustment

International Political Economy Series
(outside North America only)

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the title of the series and the ISBN quoted above.

Customer Services Department, Macmillan Distribution Ltd
Houndmills, Basingstoke, Hampshire RG21 6XS, England
This book is dedicated, with love, affection and gratitude, to my brothers and sisters: Betty, Mavis, June, Joan, Brian, Verna, Harold, Keith, Carol, Christine and David.
Contents

List of Tables ix
List of Acronyms x
Acknowledgements xii

1 Introduction 1

2 Global Expansion and Differential Integration: the End of the South? 7

3 Neo-Conservatism and the Growth of Global Disequilibrium 21
   A. Payments Imbalances in the South 21
   B. Managing Debt and Payment Imbalances in the 1980s 24
      (i) Managing the Debt of the Large Debtors to 1989 28
      (ii) Managing the Debt of the Large Debtors since 1989 31
      (iii) Managing the Debt Crisis of the Poorest Countries 33
   C. Foreign Aid in the 1980s 39
   D. Structural Adjustment Programmes 48

4 Reordering Global Relations: Threats to the South 65
   A. Dealing with the US Balance of Payments Deficit 66
   B. Regional Trading Blocs? 73
   C. The Uruguay Round of GATT and Its Implications for the Third World 93
   D. The Implications of Eastern Bloc Reform for South–North Relations 102

5 Alternative Paradigms: Peripheral Views and Views from the Periphery 116
A. Alternatives to the Growth Fetish: Peripheral Views from the Centre
   (i) The Stationary State 117
   (ii) The Steady-State Economy 119
   (iii) Entropy and the Myth of the Steady State 125
   (iv) Towards Homeostasis? 126
   (v) Reds, Greens and Sustainable Development 128
   (vi) Learning from the Hutterites: Asceticism with Growth 131
   (vii) The Aboriginal Concept of Stewardship and Enoughness 134
B. Alternative Paradigms: Views from the Periphery 136
   (i) The South Commission and South–South Cooperation 137
   (ii) Delinking 141
   (iii) Beyond Delinking: Autonomous, Ecological and Feminist Alternatives 143
      (a) Recognizing and Promoting the Autonomous Sector 143
      (b) Ecology and the Economics of Survival 149
      (c) A Feminist Approach to Development 153
C. Putting It All Together: An Alternative Vision 157

Bibliography 163
Index 176
List of Tables

2.1 World Trade Growth, Current Dollar Terms, 1950–92 10
2.2 World Trade Shares, 1950–92 10
2.3 World Trade: Volume and Terms of Trade, 1960–92 10
2.4 Growth of Export Earnings, 1980–92 11
2.5 Stocks of Foreign Direct Investment, 1980 and 1992 11
2.6 Distribution of Manufacturing Value Added, 1975–92 14
2.7 Real Income Per Capita, 1970–92 18
3.1 Balance of Payments, 1981–93 22
3.2 Real Imports, 1980–92 24
3.3 Debt, Debt Burden and Debt-Servicing Burden, 1981–92 25
3.4 External Financing, 1981–92 27
3.5 Aggregate Net Resource Flows, 1981–92 40
3.7 Direction of Aid, 1980/81–1991/92 42
3.8 World Prices and Outputs; Selected Commodities, 1980–92 56
4.1 Balance of Payments and Trade Balance, Industrial Countries, 1981–93 67
4.2 US Trade with the South, 1987 67
4.3 Value and Relative Importance of Regional Trade, 1990 75
4.4 Growth Rates of Inter- and Intra-Regional Trade, 1980–90 75
4.5 Regional Pattern of Reported Stocks of Direct Foreign Investment, 1975–92 76
4.6 Regional Trading Patterns and the Third World, 1991 81
4.7 Sources of Foreign Investment in the Third World, 1975–92 85
4.8 Regional Distribution of DAC Official Development Assistance, 1991–92 90
4.9 External Debt of Eastern Europe and USSR, 1992 104
4.10 World Military Spending, 1980–92 104
4.11 Direction of Trade: USSR and European CMEA Countries, 1986 112
4.12 Total Exports USSR and European CMEA, 1988 112
## List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean, Pacific low-income countries</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>CAP</td>
<td>Common Agricultural Programme of the EC</td>
</tr>
<tr>
<td>CARICOM</td>
<td>Caribbean Community</td>
</tr>
<tr>
<td>CBI</td>
<td>Caribbean Basin Initiative</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
</tr>
<tr>
<td>CMEA</td>
<td>Council for Mutual Economic Assistance</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee of the OECD</td>
</tr>
<tr>
<td>DAWN</td>
<td>Development Alternatives with Women for a New Era</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EEP</td>
<td>Export Enhancement Program of the USA</td>
</tr>
<tr>
<td>EFTA</td>
<td>European Free Trade Area</td>
</tr>
<tr>
<td>ESAF</td>
<td>Enhanced Structural Adjustment Facility</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Agreement (US and Canada)</td>
</tr>
<tr>
<td>GATS</td>
<td>General Agreement on Trade in Services</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GDR</td>
<td>German Democratic Republic (former East Germany)</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>GSP</td>
<td>General System of Protection</td>
</tr>
<tr>
<td>GSTP</td>
<td>Global System of Trade Preferences</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development (World Bank)</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFIs</td>
<td>International Financial Institutions (IMF and IBRD)</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Office</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>MAI</td>
<td>Multilateral Agreement on Investment</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>Southern Cone Common Market</td>
</tr>
<tr>
<td>MFA</td>
<td>Multi-Fibre Arrangement</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NIC</td>
<td>Newly Industrialized Country</td>
</tr>
<tr>
<td>NIDL</td>
<td>New International Division of Labour</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>ODF</td>
<td>Official Development Finance</td>
</tr>
<tr>
<td>ODI</td>
<td>Overseas Development Institute (UK)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
</tr>
<tr>
<td>SADCC</td>
<td>Southern African Development Coordination Conference</td>
</tr>
<tr>
<td>SAF</td>
<td>Structural Adjustment Facility</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Right</td>
</tr>
<tr>
<td>TRIMS</td>
<td>Trade Related Investment Measures</td>
</tr>
<tr>
<td>TRIPS</td>
<td>Trade Related Intellectual Property Rights</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations Children's Fund</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
</tr>
<tr>
<td>VERS</td>
<td>Voluntary Export Restraints</td>
</tr>
<tr>
<td>WED</td>
<td>Women, the Environment and Development</td>
</tr>
<tr>
<td>WID</td>
<td>Women in Development</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Acknowledgements

This book was commenced as part of a larger project of six studies on South–North Relations sponsored by the International Development Research Centre. The studies were conceived by and shepherded by the President of IDRC at that time, Ivan Head, whose own book, *On a Hinge of History: The Mutual Vulnerability of South and North* (University of Toronto Press, 1991), was an important product of the project. The assistance, advice and enthusiasm of Ivan Head throughout the long gestation of this work was a great help and is greatly appreciated. The support and patience of the staff of IDRC, especially Paz Buttedahl, Irina Pinkney and Bev Chataway was invaluable. Research and other supports were provided by the Hudson brothers, Ian, Mark and Brett who, when not being the backbone of the youth squad of CSSC, are fine researchers; by Haroun Akram-Lodhi, Carol-Anne O’Brien, Fidelis Harrison, Anthony Waterman, Caroline Lobson, Betty McGregor, Jean Wilson and Angel Busch. A special thanks to Aurelie, Raina and Matthew for their patience and understanding.
1 Introduction

Although focusing principally on the evolution of South–North economic interaction since the early 1980s, this work begins by examining structural changes in global patterns of production, trade and finance since the mid-1950s. It does this so as to situate, properly, the growing heterogeneity of the countries of the South and the importance of this for the way their economic activities articulate with those of the countries of the North. Distinguishing between different groups of countries is vital for a clear understanding of the implications of the policies of northern governments and northern-controlled international institutions for the people of the South, in the areas of trade, debt and aid. It is also necessary if differential patterns of growth and disequilibrium in the South are to be explained and the prospects for improvement assessed properly.

Rapid industrialization of a handful of countries in the South has led to a reconsideration of development theory, challenging the received wisdom of the dependency school, which sees relations with the North as a severe constraint on the ability of countries of the South to pursue independent capitalist development. In what follows, the importance of this industrialization will be assessed, as will be the ability of other countries of the South to replicate it. An examination will be made of how different groups of countries in the South have been affected by the increasing instability of the economies of the major capitalist powers since the 1970s. Shifts in export demand, in terms of trade and in capital flows, be they private or public, have had very different implications for different types of economy in the South, depending on their production structures and the degree and nature of their integration with the advanced economies. For many countries of the South, the debt crisis and subsequent imposition of structural adjustment programmes by the international financial institutions, acting as surrogates for the governments of advanced capitalist economies, suggest that it might have been premature to dismiss the less crude versions of the dependency theory.

The North, too, is highly heterogeneous and the huge imbalances of trade and payments between major capitalist countries serve as a reminder of the increasing rivalry between them. Yet, because of
economic interdependence, the particular solutions chosen to deal with these imbalances are of as much interest to the countries of the South as they are to those of the North. This book examines the likely implications for the South of the different solutions put forward to deal with the US balance of payments deficit on current account. It explores also the ramifications for the South of the possible emergence of strong regional trading blocs in the North, the implications for different groups of countries in the South of the liberalization of economic relations under the auspices of GATT, and the significance to the South of the collapse of the Soviet bloc.

Finally, and on a much more reflective level, questions are raised about the growth imperative underlying economic policy in both the North and the South, its desirability and its long-term feasibility. It is argued that the generalization of the northern hegemonic consumption model to the rest of the world is not compatible with ecological balance and the law of entropy. Alternative approaches to development from both the South and the intellectual fringes of the North provide some guide to future actions, and would have far-reaching implications for the future economic relations between Northern and Southern countries, in terms of trade, financial flows and movements of people. These approaches assume radical changes in the locus of political power, in the distribution of wealth and in the morality underlying economic and social behaviour. They challenge the need for and desirability of economic growth, our patriarchal, competitive and inequitable approach to economic organization, and the wisdom of prevailing views on a whole range of issues from development, poverty, the nature of the informal sector, the use of land and resources and free trade. With the passing of the bureaucratic, centrist and non-democratic form of Soviet and Eastern European communism, and the likely unsustainability of advanced capitalism, with its deeply imbedded inequities, instability and tendency to overaccumulation, the need to consider alternative forms of economic organization which are more stable, less acquisitive, more equitable and more sensitive to ecological constraints, will become paramount. Such alternatives would radically alter the economic inter-relationships between the countries of the North and those of the South.

The recent easing of East–West tensions provides a unique opportunity for transferring huge quantities of resources hitherto spent on military activities to the South – and East – without sacrificing northern income or consumption levels. Whether or not such ad-
justments take place will serve as a bell-weather for the likelihood of more enlightened approaches to development being adopted, in the North and the South, in the longer term.

This study focuses, therefore, mainly on the economic aspects of global interdependence, and does so quite deliberately and quite unapologetically. This emphasis is not because of any ideological predisposition against more interdisciplinary approaches to analysing global issues; on the contrary, the author’s biases are very much in the direction of interdisciplinary analysis. It is, rather, the context in which the study originated which explains its somewhat narrow focus. It was conceived as part of a series of studies on the theme of global interdependence and mutual vulnerability initiated by the International Development Research Centre, Ottawa, under the guidance of the then President, Ivan Head. As a collection, these studies dealt in depth with the multi-faceted dimensions of global reality, each concentrating on a single disciplinary area while recognizing the essentially overlapping nature of the enterprise. The authors met several times to exchange views and test ideas, so the individual volumes were influenced, inevitably, by the different disciplinary insights each author brought to the process (Hall and Hanson, 1992; Legault, 1992; Taylor and Taylor, 1992; Taylor, 1994; Nef, 1995). The wealth of material deriving from these studies was drawn upon in an overview work by Ivan Head (1991), a volume which went well beyond synthesis, offering its own insights into the current state and likely future course of global interdependence. What follows should be read, therefore, along with these other works if the rich complexity of North–South relations is to be properly appreciated.

The political dimension of North–South relations is explored more fully in Head (1991) and Nef (1995). In what follows, the political implications of structural adjustment are examined (Chapter 3D) as are the general political implications of moving to social systems driven by objectives other than the maximization of growth (Chapter 5). A more complete treatment of the political dimension would, however, address such questions as the growing strength of Asia in the world economy and its implications for diplomacy, peace and global governance. The politics of economic integration in Europe, Asia and North America, as well as those of smaller, more regionally focused groupings (such as SADCC, ECOWAS, ASEAN or MERCURSOR) are quite complex and render any narrowly economic analysis uncertain and speculative.
Pressures on the nation state are not, however, all 'upwards' from regionalization or globalization. Ethnicity and regionalism threaten to create smaller nation states or national collapse in many parts of the world, in both the North and the South. The breakup of the USSR and Yugoslavia has created national entities which, in some cases, are themselves unstable due to complex, long-standing ethnic disputes. Parts of West and Central Africa and the Horn are undergoing similar collapse accompanied by bloody civil war, but tragic as these situations are for the people caught in the middle of the instability and violence, they are not the norm and do not, as some would have us believe (e.g. Kaplan, 1994), necessarily define the future, either for Africa or for the rest of the Third World. Nor do the independence movements of Scotland, Quebec or Northern Italy appear to offer the prospect of violent anarchy. They do suggest, however, that political trends in the world economy are often complex and that nationalism is far from being redundant in an increasingly 'globalized' world. They also serve to underscore the point that country classifications for purposes of economic analysis, while often being an improvement over simple 'North-South' dichotomies, can themselves be ephemeral and problematic.

The mutual vulnerability of the North and South is readily apparent in the international transmission of disease. The global spread of TB and the very high incidence of diseases associated with poverty and the collapse of public health, such as cholera and malaria (Nef, 1995, pp. 30–3), pose enormous challenges to both domestic public policy and to international cooperation. The AIDS/HIV epidemic presents the greatest challenge in an era of international mobility (Head, 1991). It also emphasizes the enormous differentials in global living standards for, while 90 per cent of the estimated 17 million people infected with HIV in 1995 live in the South (UNDP, 1995, p. 15), drugs designed to mitigate the effects of the disease and, it could be argued, prophylaxes to prevent the spread of the disease, are too costly for all but the most wealthy in these countries. Africa, with over 11 million people estimated to be infected by HIV, 60 per cent of whom are women (ibid., p. 28), is the hardest hit and the least able to deal with the problem. The epidemic has the potential to alter the demographics of the continent, including the gender balance, to a degree not seen since the slave trade. South and Southeast Asia face similar problems but of a less daunting degree and with more resources.

Projecting the likely course of the epidemic is fraught with diffi-
culties and estimates vary greatly depending upon the assumptions made. On optimistic assumptions, the infection gradually dies out, having run its course; on the most pessimistic of models, world population growth is reduced to zero after 25 years and between 30 and 58 per cent of the population would be infected with HIV and 4 to 12 per cent would have full-blown AIDS (Cohen, 1995, pp. 340-51). UN estimates suggest that increased death rates from AIDS will not be high enough to off-set high fertility rates in countries suffering badly from the epidemic (in Sub-Saharan Africa) so that their populations will be only 4 per cent less in 2005 than they would have been without the infection and, more to the point, the population still more than doubles over a 25-year period. An official US forecast found that while population growth rates will be reduced in a similar sample of high incidence countries, they will not fall below 2 per cent per annum (ibid., p. 349). Nonetheless, the impact on the social fabric of those countries will be enormous, even on these relatively optimistic, and possibly erroneous, scenarios. Infant mortality rates are expected to almost double in countries such as Zambia and Zimbabwe and between 1 in 9 and 1 in 15 children under the age of 15 in the high incidence countries of Sub-Saharan Africa are likely to be orphaned before the end of the century (ibid., p. 350).

While deaths from AIDS in the African countries most affected pale into insignificance alongside those from TB (3 million a year) and malaria (1 to 2 million a year), there is a danger of these diseases interacting with catastrophic implications, not just for Africa but for the rest of the world too.

Solutions to the crisis are not at hand but would certainly require larger transfers of resources from industrialized countries to the South and more far-reaching restructuring of public health budgets in countries most affected than is the case at the moment.

Finally, the population and environmental aspects of international relations are dealt with in this work only in passing; in Chapter 3D in assessing the impact of structural adjustment programmes and in Chapter 5 when alternative paradigms to growth are examined. A more detailed analysis of these issues, and especially their empirical dimensions, are to be found in Hall and Hanson (1992), Taylor (1994), Taylor and Taylor (1992) and Nef (1995). The sustainability of the 'northern' pattern of production and consumption and its replicability elsewhere in the world are, perhaps, the most important 'economic' questions of our time. Yet economists rarely
address them and, indeed, are ill-equipped to address them, the tools of the profession being geared mainly to short run questions of efficiency. Ultimately, these questions are ones of ethics and of distribution, over space and time, between countries and regions and between classes and generations. They are, therefore, intrinsically highly political and cannot and must not be left, by default, to be answered by economists. Nor are international institutions dominated by the North and by the growth imperatives of capitalism likely to be capable of dealing with these long-term problems of sustainability and global equity. Just as the implementation of alternative paradigms will require new social systems of accumulation, so too will it require a structural transformation of international institutions so that they are more representative and better equipped to deal with the politics and diplomacy of managing the world's finite resources. Regrettably, this transformation is unlikely to evolve smoothly as the outcome of rational debate; more likely, if it happens at all, it will be the product of economic, social and political crises in the current structure of global accumulation.
2 Global Expansion and Differential Integration: The End of the South?

Since 1950, there has been a vast expansion of international trade, investment and bank lending. World trade has expanded sixtyfold in current dollar terms, sixfold or more in real terms (United Nations, WES, 1994, p. 2 and p. 42). Comparable data for international investment and credit flows are not available but between 1970 and 1986 US-owned assets, of all types, abroad rose 6.5 fold to $1.07 trillion while foreign-owned assets in the USA rose 12.5 times to $1.3 trillion (Fieleke, 1988). Stocks of foreign direct investment in the world as a whole appear to have risen from $68 billion in 1960, to $714 billion in 1985 (United Nations, 1988, p. 24), reaching at least $1.94 trillion in 1992 (United Nations, 1994, p. 19). Between 1973 and 1992, the foreign assets of deposit banks also rose 18.4 times to $6.9 trillion (IMF, IFS, 1993).

The growth of world trade was initially stimulated by the post-World War II recovery and by a stable exchange rate system. It was a central feature of the Bretton Woods arrangements that capital mobility was severely constrained in order to encourage orderly expansion of world trade and the protection of national discretion over domestic economic and social policy (Helleiner, E., 1994). With the decline in profit rates in the US in the late 1960s and an accompanying loss of confidence in the dollar, the Bretton Woods arrangements, underwritten by the dollar, collapsed to be replaced by a floating exchange rate regime. As its hegemonic position began to be eroded by the growing strength of the EC and Japan, the US government, spurred on by multinationals based in the US, began to press for more liberalized global arrangements governing trade and capital flows, believing this to be to its competitive advantage. In the trade field, this movement to liberalization was both selective and pragmatic, reflecting the diversity of pressures on the US state and, until very recently, did not cover agriculture. Major cuts in tariffs were introduced, however, on manufactured goods through the Kennedy Round (1963–67) and the Tokyo Round (1974–79) of
GATT (General Agreement on Tariffs and Trade) negotiations. These helped stimulate global expansion of trade in manufactures although, as we shall see in Chapter 4, the US has frequently resorted to non-tariff barriers to protect its interests.

Financial liberalization was also very much the result of a conscious shift in state policy, propelled by pressure from private capital and the ascendancy of neo-liberal economics at the expense of Keynesianism. The decision to abolish exchange controls in the US (1974) and Britain (1979) was crucial in this regard, paving the way for similar moves in Australia and New Zealand in 1984–5, in the European Community between the early 1980s and 1992, in Sweden, Norway and Finland in 1989–90 and, partially at least, in Japan throughout the 1980s. This was accompanied by the liberalization of banking, stock exchanges and financial activities generally. Though technical and conjunctural developments facilitated this process, such as the revolution in telecommunications, the oil surpluses of the 1970s and the need to protect and diversify financial assets in the context of a floating exchange rate regime, there is no doubt that without the sea-change in state policy, the massive expansion of capital flows would not have taken place (Helleiner, E., op. cit.). Industrialized capitalist countries were prepared, therefore, to forego exchange rate stability and a degree of discretion over domestic policy in return for what was considered to be a more efficient approach to capital movements. Underlying this were specific national aspirations such as the UK’s desire to maintain London as the Eurodollar centre and the USA’s desire to maintain the extensive international use of the dollar, thereby permitting it to continue running large balance of payments deficits.

As a result of financial liberalization, global capital flows have exploded so that by 1992, the daily turnover on the world’s major foreign exchange markets had reached $1.0 trillion, or about $250 trillion a year (IMF, April 1993, p. 24). This was equal to 33 times the total value of world trade in that year, adding exports and imports together, and represented a fourfold increase over turnover in 1986.

The benefits derived by Third World countries from the expansion of international trade and financial flows have been both limited and unevenly distributed. They have been limited because, with the exception of the years 1970–80 and 1990–92, the growth of the value of the external trade of the industrialized capitalist nations has consistently exceeded that of the Third World as a whole (Table
The result is that the Third World's share of world trade fell from about 32 per cent in 1955 to about 25 per cent in 1992 (Table 2.2). At the same time 78 per cent of the investment activities of multinational corporations are in industrialized economies (Table 2.5), a proportion which has not changed much since the end of the 1970s (Brandt Commission, 1980) while transnational banks have lent almost exactly 75 per cent of their stock of loans in industrialized countries.

Uneven development has also characterized the Third World, with a handful of Newly Industrialized Countries (NICs) and oil exporters enjoying most of the benefits of global expansion up to the early 1980s and the NICs being the main beneficiaries since then. The NICs have had the highest average growth rates of trade since the late 1960s, outpacing those of the industrialized countries and increasing their share of world exports from 5.1 per cent in 1960 to 13.6 per cent in 1992. Their trade in real terms was 20 times as high in 1992 as in 1960, more than four times higher than the growth in world trade as a whole (Table 2.3). These growth rates are without historical precedent. Oil exporters enjoyed rapid trade growth in the 1970s resulting in a radical reordering of world trade shares (Table 2.1), but with the collapse of oil prices their total export earnings have fallen dramatically (Table 2.4) and their share of world trade is now lower than it was in the 1960s. The NICs and oil exporters together account for over two-thirds of investment in the Third World by MNCs (over 75% on some definitions of these country groupings [Andreff, 1984]) and for over 80 per cent of foreign lending to Third World countries by transnational banks and other private sector lenders (IMF, 1989).

For the 47 least developed countries, most of which are small, low income countries in Sub-Saharan Africa, the annual average rate of growth of trade between 1950 and 1992 was well below that of industrialized capitalist countries and well below that of the rest of the Third World as well. As a result, their share of world export trade has fallen steadily from 2.8 per cent in 1950 to 0.4 per cent in 1987 (Table 2.2). While their export performance in terms of volume growth was inferior to that of developing countries generally, the poorest have also been hit more than any other group by deteriorating terms of trade since 1960 (Table 2.3). These countries accounted for less than 6 per cent of the stock of direct foreign investment in the Third World and for only 1.6 per cent of foreign private loans outstanding in Third World countries in 1983, confirming
Table 2.1  World Trade Growth, Current Dollar Terms, 1950–92 (% p.a.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Capitalist Countries</td>
<td>7.1</td>
<td>10.0</td>
<td>18.8</td>
<td>7.8</td>
<td>3.7</td>
</tr>
<tr>
<td>E. Europe and USSR</td>
<td>10.8</td>
<td>8.7</td>
<td>18.0</td>
<td>2.3</td>
<td>-38.0</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>4.6</td>
<td>6.9</td>
<td>25.5</td>
<td>3.1</td>
<td>6.6</td>
</tr>
<tr>
<td>- Oil Exporters</td>
<td>7.8</td>
<td>8.1</td>
<td>32.1</td>
<td>-6.8</td>
<td>2.7</td>
</tr>
<tr>
<td>- Exporters of Manufactures</td>
<td>0.8</td>
<td>8.8</td>
<td>25.1</td>
<td>11.1</td>
<td>10.9</td>
</tr>
<tr>
<td>- Heavily Indebted</td>
<td>3.2</td>
<td>6.0</td>
<td>21.5</td>
<td>1.2</td>
<td>-1.3</td>
</tr>
<tr>
<td>- Least Developed</td>
<td>3.5</td>
<td>5.8</td>
<td>10.1</td>
<td>1.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>


Table 2.2  World Trade Shares, 1950–92

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World Exports – Current $b</td>
<td>61</td>
<td>129</td>
<td>315</td>
<td>1998</td>
<td>3447</td>
<td>3662</td>
</tr>
<tr>
<td>Share of Exports %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Capitalist Countries</td>
<td>66.1</td>
<td>72.5</td>
<td>75.7</td>
<td>69.1</td>
<td>65.5</td>
<td>69.9</td>
</tr>
<tr>
<td>E. Europe and USSR</td>
<td>6.8</td>
<td>10.1</td>
<td>9.8</td>
<td>7.7</td>
<td>5.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>32.4</td>
<td>24.0</td>
<td>19.3</td>
<td>29.7</td>
<td>23.5</td>
<td>25.1</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>6.3</td>
<td>6.8</td>
<td>6.3</td>
<td>16.4</td>
<td>6.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Exporters of Manufactures</td>
<td>8.8</td>
<td>5.1</td>
<td>4.8</td>
<td>7.3</td>
<td>11.7</td>
<td>13.6</td>
</tr>
<tr>
<td>Heavily Indebted</td>
<td>10.9</td>
<td>7.4</td>
<td>5.8</td>
<td>6.5</td>
<td>4.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Least Developed</td>
<td>2.8</td>
<td>2.3</td>
<td>1.6</td>
<td>0.6</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>


Table 2.3  World Trade: Volume and Terms of Trade, 1960–92

<table>
<thead>
<tr>
<th></th>
<th>Indices of Volume</th>
<th>Terms of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Exports</td>
<td>35 163</td>
<td>83 100</td>
</tr>
<tr>
<td>Industrial Capitalist Countries</td>
<td>24 166</td>
<td>117 113</td>
</tr>
<tr>
<td></td>
<td>45 167</td>
<td>45 73</td>
</tr>
<tr>
<td>Developing Countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Oil Exporters</td>
<td>54 86</td>
<td>21 58</td>
</tr>
<tr>
<td>- Exporters of Manufactures</td>
<td>18 355</td>
<td>87 84</td>
</tr>
<tr>
<td>- Heavily Indebted</td>
<td>58 137</td>
<td>53 73</td>
</tr>
<tr>
<td>- Least Developed</td>
<td>37 118</td>
<td>118 78</td>
</tr>
</tbody>
</table>

Global Expansion and Differential Integration

Table 2.4 Growth of Export Earnings, 1980–92, $b

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>%</th>
<th>1992</th>
<th>%</th>
<th>Change</th>
<th>% Change 1980–92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Countries</td>
<td>1252</td>
<td>%</td>
<td>2652</td>
<td>%</td>
<td>+1400</td>
<td>+120.0</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>594</td>
<td>100.0</td>
<td>919</td>
<td>100.0</td>
<td>+325</td>
<td>+54.7</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>328</td>
<td>55.2</td>
<td>199</td>
<td>21.6</td>
<td>-129</td>
<td>-39.4</td>
</tr>
<tr>
<td>- Exporters of Manufactures</td>
<td>145</td>
<td>24.4</td>
<td>498</td>
<td>54.2</td>
<td>+353</td>
<td>+143.4</td>
</tr>
<tr>
<td>- Four East Asian NICs</td>
<td>76</td>
<td>12.7</td>
<td>340</td>
<td>37.0</td>
<td>+264</td>
<td>+347.4</td>
</tr>
<tr>
<td>China</td>
<td>18</td>
<td>3.0</td>
<td>85</td>
<td>9.2</td>
<td>+67</td>
<td>+372.2</td>
</tr>
<tr>
<td>Heavily Indebted</td>
<td>129</td>
<td>21.7</td>
<td>182</td>
<td>19.8</td>
<td>+53</td>
<td>+41.1</td>
</tr>
<tr>
<td>Least Developed Countries</td>
<td>13</td>
<td>2.2</td>
<td>14</td>
<td>1.4</td>
<td>+1</td>
<td>+6.2</td>
</tr>
</tbody>
</table>


Note: Shares of country groups do not sum to 100% because some countries are included in more than one group and because some are included in none of the above groups.

Table 2.5 Stocks of Foreign Direct Investment, 1980 and 1992 ($b)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>%</th>
<th>1992</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Countries</td>
<td>503</td>
<td>100</td>
<td>1948</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Capitalist Economies</td>
<td>394</td>
<td>78</td>
<td>1520</td>
<td>78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Oil Producers</td>
<td>108</td>
<td>22</td>
<td>420</td>
<td>22</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>- Exporters of Manufactures</td>
<td>24</td>
<td>5</td>
<td>94</td>
<td>5</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>45</td>
<td>9</td>
<td>193</td>
<td>10</td>
<td>45</td>
<td></td>
</tr>
</tbody>
</table>


Andreff's argument that foreign bank lending tended to follow MNC direct investment in the 1970s. By 1992, their share of private international debt had fallen to 0.8 per cent (calculated from World Debt Tables, World Bank, 1993). These countries are highly dependent on flows of official development assistance and, as will be shown in Chapter 3, it is only this which has allowed their imports to grow at a faster pace than their exports. In effect, these countries are becoming increasingly marginalized in the global economy and increasingly dependent on the largesse of rich donor countries. The world trade and financial system has been particularly damaging to the development prospects of the countries of Sub-Saharan Africa (Barratt Brown and Tiffen, 1992).

The very different experiences of different groups of Third World countries in terms of their integration in the global economy has
Interdependence, Disequilibrium and Growth

given rise to competing theories of development/underdevelopment. There are those who argue that a New International Division of Labour (NIDL) has arisen based on industrialization in developing countries ‘producing manufactured goods which are competitive on the world market’ (Fröbel, Heinrichs and Kreye, 1980, p. 12). They see capital flowing from the ‘North’ to the ‘South’ in order to profit from a global reservoir of cheap labour. New global patterns of production are made possible by new technologies and new approaches to work organization which reduce skill levels needed by labour, and by innovations in transport technology which lessen the importance of industrial location. On this approach, the periodic economic crises which have characterized the ‘North’ since the late 1960s are viewed not as the cause of the NIDL but rather as the result. (It will be shown later, when discussing the US balance of payments deficit, that there is little substance in this argument except on the level of some individual industries.) Furthermore, the people of the ‘South’ are not seen as deriving much benefit from this type of industrialization which is considered to be merely another form of dependent development involving only a small number of lowly paid workers, low local value added, high import content, and high rates of profit remittance. The NIDL, therefore, simply recreates underdevelopment in a new industrialized form (ibid., Part III).

Others see in the new patterns of international trade in manufactures further refutation of the dependency school theory of underdevelopment (Harris, 1986). They conclude that prosperity in developing countries is linked to closer integration with the North based on manufacturing exports, not with greater autarky as the dependency school might lead one to believe (ibid., pp. 123-4). Moreover, ‘(t)he process of disposal of manufacturing capacity brings enormous hope to areas where poverty has hitherto appeared immoveable’ (ibid., p. 202), even if for large sectors of the population this hope remains to be realized (ibid., p. 117). The emergence of a global manufacturing system is regarded as a ‘general phenomenon’ involving large numbers of ‘developing’ economies but it excludes the poorest countries. For this reason, and because each developing country embarking successfully on industrialization does so because of its own peculiar set of reasons – historical, strategic, political, social and economic – it no longer makes sense to generalize (if, indeed, it ever did) about countries of the South, and hence Harris proclaims ‘the end of the Third World’.
Global Expansion and Differential Integration

Other critics of dependency theory point to the growth in the share of manufacturing value added in GDP in most developing countries as evidence of the possibility of the capitalistic development of these countries. Most manufacturing output is not produced for sale to the 'North' but rather caters mainly for the domestic market and hence, through industrialization, developing countries are gaining greater independence from industrialized capitalist countries (Warren, 1980).

One must be careful, however, not to exaggerate the degree of industrialization in 'the South' or of the resultant 'deindustrialization' of 'the North'. One must also keep the growth in international trade in manufactures in perspective. By 1984, the share of developing countries in global industrial production was just slightly under its share in 1948! (Gordon, 1988). It appears, therefore, that over that forty-year period, the East Asian countries had simply expanded their share of world trade at the expense of other Third World countries, notably those in South America. Yet the most significant shift in global industrial production during this period was away from the industrialized capitalist countries excluding Japan, towards Japan and the centrally planned economies of Eastern Europe and the USSR. A more detailed overview of recent developments in global manufacturing, in the period 1975–92, is given in Table 2.6. This shows that the share of the 'industrial countries' in global manufacturing value added fell from 87.4 per cent to 74.5 per cent over those seventeen years, but the fall is accounted for mainly by the collapse of Eastern Europe and the USSR and by the fall in the share of the European Community. Japan actually increased its share by almost 50 per cent while North America more or less retained its share. While the share of developing countries almost doubled, this was accounted for mainly by China, with some modest gains by other newly industrialized countries. At the same time, total value added in constant (1980) terms increased by 76 per cent, so even though their overall share fell, the industrialized countries as a group nevertheless increased real manufacturing value added by about 50 per cent and the EC by about 44 per cent over this period.

Furthermore, the penetration of Third World manufactures in the total consumption of manufactured goods in industrialized capitalist economies (including Japan) was only 3.1 per cent in 1991 (United Nations, 1994, p. 534), and was significant only for clothing where it accounted for 22.4 per cent (ibid., p. 539). The older industrialized countries continue to lead world production in a wide
Table 2.6 Distribution of Manufacturing Value Added, 1975–92a

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World Total MVA $b of which %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrialized Countries</td>
<td>87.4</td>
<td>82.9</td>
<td>81.1</td>
<td>78.3</td>
<td>74.5</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>12.6</td>
<td>17.1</td>
<td>18.9</td>
<td>21.7</td>
<td>25.5</td>
</tr>
<tr>
<td>Industrial Less Former</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Eu and USSR</td>
<td>68.9</td>
<td>64.3</td>
<td>62.5</td>
<td>61.8</td>
<td>64.3</td>
</tr>
<tr>
<td>North America</td>
<td>22.5</td>
<td>21.2</td>
<td>21.6</td>
<td>21.3</td>
<td>21.4</td>
</tr>
<tr>
<td>European Community</td>
<td>30.8</td>
<td>27.5</td>
<td>24.5</td>
<td>23.3</td>
<td>25.2c</td>
</tr>
<tr>
<td>Japan</td>
<td>9.8</td>
<td>10.4</td>
<td>11.8</td>
<td>13.3</td>
<td>14.0</td>
</tr>
<tr>
<td>E. Europe and Former USSR</td>
<td>18.5</td>
<td>18.6</td>
<td>18.6</td>
<td>16.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Newly Industrialized Countries</td>
<td>7.7</td>
<td>8.1</td>
<td>7.9</td>
<td>8.2</td>
<td>8.3</td>
</tr>
<tr>
<td>2nd Generation NIC</td>
<td>1.7</td>
<td>1.8</td>
<td>2.1</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>China</td>
<td>na</td>
<td>3.9</td>
<td>5.5</td>
<td>7.5</td>
<td>10.5</td>
</tr>
</tbody>
</table>


Note: a At 1980 constant prices; b Provisional; c Includes estimates for former GDR.

A range of manufactured products, many of which are commonly, and mistakenly, thought to be produced mainly in the Third World. Thus, the US is the world’s leading producer of textiles, accounting for 18.2 per cent of the total in 1992, followed by Italy (9.7%) and Japan (9.1%), while the closest Third World producer was India with 5.9 per cent. The US led the way in the production of wearing apparel (25.9%), followed by Italy, Japan, Germany, the UK and France and, together, these countries produced 58 per cent of world output. The pattern is repeated in the output of leather and fur products, with the top six producers being industrialized countries accounting for 56 per cent of world output; and in shoe production in which Italy, France and the US produce 37 per cent of world output. In ‘heavier’ manufacturing sectors, the US is the world’s leading producer in chemicals (25.8%), paper (30.8%), rubber products (21.9%), non-ferrous metal products (26.3%) and non-electrical machinery (35.7%). Japan is the world’s leading producer of iron and steel (23%) and electrical machinery (28.5%). Other industrialized countries are much bigger than any Third World producer in all of these fields and, in many of them (e.g. wearing apparel, leather, textiles,) the share of the largest producers has been increasing since 1980 (UNIDO, 1995, pp. 42–8).
Finally, while the shares of manufacturing value added in GDP, when calculated in current prices, fell in almost all industrialized capitalist economies between 1975 and 1990, this was not the case when shares are calculated in constant prices. In real terms over that period, the USA, Japan, Italy, the Netherlands, Austria and Belgium all experienced an increase of the share of manufacturing value added in their GDP (UNIDO, 1992, p. 55). And the increase in the value of real manufacturing GDP in North America alone between 1975 and 1992 was in excess of that of the whole of the Third World, excluding China. In no industrialized country did real value added in the manufacturing sector actually fall over this period (World Bank, *WDR*, 1994, p. 165).

The above data are useful reminders that while the growth rate of NIC manufacturing exports has been extremely high, and while important structural changes are taking place in the world economy, globalization still has a long way to go and the North is still the dominant centre of manufacturing. In a political sense, it is also a useful reminder that, contrary to the impression created by Harris, neither workers nor governments of the North and the South should consider themselves helpless in the face of the mobility of capital. There is still great scope for domestic industrial policy in the North and, indeed, the internationalization of the economy is still very much regulated by state policy. Furthermore, foreign competition and capital mobility rarely place an absolute constraint on workers in the North in defending or improving their living standards or working conditions, although they can do so in specific instances. Placing the growth of global manufacturing in context is necessary, therefore, if ‘political fatalism’ in the North is to be avoided (Gordon, 1988).

One must be equally careful, though, not to underestimate the structural changes taking place in the global economy, changes which do not necessarily find reflections in many of the simple proportionate shares and growth rates used above. The industrialization of the NICs, and especially the phenomenal growth of the four East Asian NICs and China, have important implications for South–North interdependence as well as profound implications for specific industries in the North. The trend towards concentrating capital, skill and research intensive industries in the ‘core’ while shifting labour-intensive and standardized technology-intensive industries (or activities) to the periphery, whether it be to the South or to the Sun-Shine Belt of the North, is a very real one (Cox, 1987, Chaps. 7, 9). This trend, together with increasing pressure of competition
in manufacturing, has led to employment in the manufacturing sectors of the industrialized capitalist world falling significantly, by 11.5 per cent, between 1970 and 1990 (United Nations, 1994, p. 480), notwithstanding the 64 per cent growth in real value added in manufacturing over this period. Employment in manufacturing in the Third World has increased by 137 per cent over the same period, compared with a growth in value added of 256 per cent. Job losses and the evidently superior record of the Third World in terms of increases in productivity over the last two decades, are clear causes of concern for workers in older industrialized countries.

It is apparent, however, that only a handful of countries in the South have benefited from these developments and, on the whole, it is the NICs, the major recipients of international capital and credit in the 1970s and of direct foreign investment in the 1980s, together with China, which now dominate the growth in export earnings of the South (Table 2.4). There are only ten countries classified by the UN as 'major exporters of manufactures' and the growth in their export earnings accounted for more than the whole of the net growth in Third World exports between 1980 and 1992. In turn, three-quarters of their export growth was accounted for by the four 'Asian Tigers' – Hong Kong, Singapore, Taiwan and South Korea. These four, together with China, whose export growth has outpaced even that of the 'tigers' since 1980, now account for 46 per cent of all Third World exports. Looked at from another angle, some 18 countries classified by the UN as NICs or second generation NICs, including China, now account for 86 per cent of all manufacturing production in developing countries (Table 2.6).

The experience of the NICs cannot be generalized to other Third World countries. The manufacturing sectors of most Third World countries do, indeed, cater predominantly to local demand and are often highly import dependent. Their growth tends to alter the pattern of purchases (exports) from the industrialized capitalist countries – from consumer goods to intermediate and capital goods – rather than reducing purchases or, more to the point, threatening to replace equivalent industries in industrialized capitalist countries catering to domestic markets, as imports from the NICs do. Moreover, many countries of the South faced sharp industrial contraction in the early 1980s as a result of foreign exchange shortages. Thus, between 1980 and 1985, eighteen of the 57 low and middle income countries for which data were available, or 32 per cent, experienced absolute declines in their manufacturing sectors, while a further
seven had growth rates of less than 1 per cent p.a. (World Bank, *WDR*, 1987, pp. 204–5). While there was improvement in manufacturing performance in the second half of the decade, eleven countries still experienced falls in value added and almost a half of the low and middle income developing countries had lower annual growth rates in this sector than the average for high income OECD countries (3.3% p.a.) for the decade as a whole (ibid., 1992, pp. 220–1). It is important, therefore, not to exaggerate the extent of manufacturing transformation in the South, nor to overgeneralize the experience of the handful of Asian countries which have enjoyed success in exporting manufactured goods to the North.

The increasing differentiation of the Third World on the basis of production, trade, foreign investments and credit flows finds reflection in increasing differentials in living standards on both a trend and a cyclical basis. Exporters of manufactures enjoyed solid growth rates in both decades with per capita incomes being close to doubled over the whole period (Table 2.7). The four East Asian Newly Industrialized countries have consistently outpaced the rest of the Third World in growth of income per capita since 1970, including other producers of manufactures. By 1992, their income levels were more than four times their 1970 level. But these countries contain only 73 million people or less than 1.8 per cent of the total population of developing countries. The rapid growth in China over the period, with per capita incomes more than tripling, is much more significant in terms of its impact globally since China accounts for 27 per cent of the world’s population. The very poorest countries, with over half a billion people or 12.6 per cent of the population of the Third World, however, experienced falling living standards in both decades, because their moderate growth rates in output were outweighed by very high population growth rates, which averaged in the region of 3 per cent p.a. Both oil exporters and the fifteen largest debtor countries enjoyed solid increases in per capita incomes in the 1970s only to experience falling living standards in the 1980s, falls which were especially severe for oil exporters. Regrettably, we have no data on what happened to the distribution of income within these country groups, on a quintile, regional or gender basis. Changes in average incomes per head serve only as a very crude approximation for changes in global incomes, and a very inadequate one at that, but they are suggestive of some significant differential experiences among groups of developing countries since 1970.
Table 2.7  Real Income Per Capita 1970–92 (1970 = 100)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Exporters</td>
<td>129.3</td>
<td>117.5</td>
</tr>
<tr>
<td>Exporters of Manufactures</td>
<td>164.4</td>
<td>205.9</td>
</tr>
<tr>
<td>(Four East Asian NICs)</td>
<td>(191.3)</td>
<td>(409.9)</td>
</tr>
<tr>
<td>China</td>
<td>142.4</td>
<td>340.4</td>
</tr>
<tr>
<td>Heavily Indebted</td>
<td>135.7</td>
<td>125.8</td>
</tr>
<tr>
<td>Least Developed</td>
<td>96.1</td>
<td>89.3</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>135.7</td>
<td>147.8</td>
</tr>
</tbody>
</table>


Changes in the pattern of well-being over this period are not likely to be very different if the more sophisticated purchasing power parity measurement of GDP were used. This allows more accurately for the impact of exchange rate changes on income ranking and produces much reduced disparities in global income distribution than the GNP measure used in Table 2.7 (see UNDP, 1995, pp. 21–2). Both this measure and the Human Development Index (HDI), which combines life expectancy, literacy and educational access with income per capita, show that the Asian Tigers have progressed rapidly in the recent past so that their living standards approximate those of some industrialized countries, while Sub-Saharan Africa as a region lags well behind the rest of the world. While industrialized countries had an average HDI of 0.916 in 1995, East Asia excluding China averaged 0.874, Latin America and the Caribbean, 0.823 and Sub-Saharan Africa only 0.389. When the HDI is adjusted for gender differentials, all Third World countries made progress in the period 1970–80, much of it explained by a significant improvement in female enrolment in primary and secondary school. It is not clear, however, whether this progress was sustained in the 1980s for, as we shall see in Chapter 3D, structural adjustment programmes have put some pressure on the public provision of social services and the cuts might have affected females more than males in some countries. There are also two findings of considerable importance in the derivation of the Gender-related Development Index (GDI). The first is that women are disadvantaged relative to men in all countries of the world, i.e. the GDI is lower than the HDI in all countries. Secondly, progress towards
gender equality is not dependent on increases in income; thus, China has a higher GDI rank than Saudi Arabia but has only one-fifth its per capita income (on a PPP basis) (UNDP, 1995, pp. 74-8). Africa gains ground relative to Latin America once gender is factored into the HDI and the progress of the Asian Tigers is not uniform; while Hong Kong and Singapore rank higher in the world on the GDI than on the HDI, South Korea ranks lower (ibid.).

One must be careful, therefore, not to read too much into crude statistics of average income per capita by region. They are suggestive of increasing global differentiation but domestic distributional structures and policies vary significantly between countries, with regard to both class and gender, thereby reducing the meaningfulness of average income as a measure of social welfare internationally.

The patterns of trade, finance and income growth suggest that North-South interdependence cannot be viewed as a static phenomenon. Economic relationships have been undergoing structural transformation since World War II and have been subject, especially since the late 1960s, to profound cyclical swings. The oil surpluses of the 1970s and the explosion of Third World debt were indicative of these structural/cyclical developments as was the abandonment of the Bretton Woods arrangements and the devaluation of sterling and, later, the dollar. These shocks and the underlying economic crisis of profitability and political crisis of waning US hegemony which had given rise to them, made economic policy management in the North very difficult during the 1970s. Economic activity once more took on a pronounced cyclical character and, although the recession of 1974-75 was short lived, unemployment rates and inflation rates were to remain on much higher levels than those of the 1960s for the remainder of the decade (Loxley, 1986, Chap. 1).

The economic crisis of the early 1980s marked the end of one social system of accumulation in industrialized capitalist countries and the struggle to erect another, designed to assist recovery in the rate of profit and to lay the foundation for a period of sustained economic growth. A number of governments began, one after another, to tear up old social compacts by abandoning Keynesian employment policies, tightening credit, cutting back social spending, attacking organized labour, and redistributing income in an inequitable manner. The objectives of this ‘neo-conservatism’, the centre-piece of which was monetarist and neo-liberal economic
policies, were, essentially, to raise the rate of profit by shaking out uncompetitive companies, reducing the cost of labour and creating a new climate for growth and acquisitiveness. The effects on much of the Third World of this approach to managing policy in the centre have been catastrophic and long lasting.
3 Neo-Conservatism and the Growth of Global Disequilibrium

A. PAYMENTS IMBALANCES IN THE SOUTH

The immediate consequences of the ideological ascendancy of monetarism and its simultaneous adoption as policy in most major capitalist countries was, of course, the depression of demand in the North and a rise in real interest rates to record levels. This found expression in huge balance of payments deficits for countries of the South as their export earnings fell and as interest payments on foreign debt rose. It was this combination of factors which precipitated the debt crisis, as the current account deficit of the fifteen most heavily indebted nations rose to $50 billion in 1981 (Table 3.1). From 1981 to 1983 real per capita incomes of Third World countries fell (by 1.8%), and fell especially sharply in Sub-Saharan Africa (11%) and Latin America (10%) as exports fell, as debt servicing costs rose dramatically and as real flows of official assistance also declined (IMF, WEO, October 1989, p. 79). Only the countries of Asia escaped relatively unscathed because of their larger domestic economies, lower external debt burdens and proximity to Japan which avoided the worst of the recession; their per capita incomes increased by 13.9 per cent in these three years.

By 1986, the overall deficits of the Third World and the industrialized capitalist countries had not changed much, but the pattern of global disequilibrium had shifted dramatically. The collapse of oil prices resulted in a deterioration of current account balances of oil exporters of some $70 billion between 1981 and 1993, to a deficit of $37 billion. Non-oil exporters reduced their deficits by almost $70 billion, $30 billion of which is accounted for by the four Asian NICs which, by 1986, were enjoying surpluses of $23 billion, while the fifteen heavily indebted countries had reduced their deficits by a further $33 billion. There was, however, a clear asymmetry in the way in which the four Asian NICs and the large debtors had been able to solve their balance of payments problems.
Table 3.1 Balance of Payments, 1981–93 ($b)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Countries</td>
<td>-23.7</td>
<td>-27.1</td>
<td>-84.2</td>
<td>-51.2</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>-43.3</td>
<td>-46.4</td>
<td>-16.2</td>
<td>-80.1</td>
</tr>
<tr>
<td>Non-Oil Exporters</td>
<td>-76.5</td>
<td>-9.3</td>
<td>-6.0</td>
<td>-39.8</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>+33.2</td>
<td>-37.1</td>
<td>-10.2</td>
<td>-40.4</td>
</tr>
<tr>
<td>Exporters of Manufactures</td>
<td>-31.4</td>
<td>+5.1</td>
<td>+12.8</td>
<td>-10.8</td>
</tr>
<tr>
<td>Four East Asian NICs</td>
<td>-7.2</td>
<td>+23.9</td>
<td>+24.3</td>
<td>+4.9</td>
</tr>
<tr>
<td>Fifteen Heavily Indebted</td>
<td>-50.4</td>
<td>-17.4</td>
<td>-6.9</td>
<td>-39.9</td>
</tr>
<tr>
<td>Small Low Income</td>
<td>-10.5</td>
<td>-7.1</td>
<td>-9.8</td>
<td>-11.1</td>
</tr>
</tbody>
</table>


The former group did so almost entirely by raising their trade surplus through export (and import) expansion. The large debtors did so by contracting both exports and imports, but by reducing the latter (−$54b) by much more than the former (−$27b) (IMF, October 1989, p. 119). Import compression was, therefore, the single most important characteristic of the debtor country approach to external adjustment in the 1981–86 period, real imports falling by an incredible 35 per cent (calculated from IMF, *WEO*, October 1989, p. 99). Thus, the stagnation of exports and policies of austerity designed to reduce domestic demand, together explain the very poor growth record of these countries during these years.

The net result of these developments was that the South's share of world exports fell significantly in the 1980s, from 29.7 per cent in 1980 to 23.5 per cent in 1990 (Table 2.2). With the exception of trade with the NICs, industrialized countries consolidated their trade with themselves during this period. A major contributory factor was, of course, the collapse of oil prices, but non-fuel commodity prices also fell sharply, by 25 per cent, between 1981 and 1986 (calculated from IMF, *WEO*, October 1989, p. 103). These falls were moderated somewhat by reduced import prices but, nevertheless, the terms of trade for developing countries as a whole fell by 18.3 per cent from 1981 to 1987, those for oil exporters by 42.2 per cent and for non-oil exporters by 7.4 per cent (ibid., p. 102). On the whole, therefore, relative price changes in the 1980s were to the detriment of the South.

The downward adjustment of balance of payments deficits of the South during 1986–89 (Table 3.1) was achieved, unlike the earlier period, by an across the board expansion of export earnings. All
country groupings of the South participated in this export growth, oil exporters by 38 per cent, non-oil exporters by 60 per cent. Exports of manufactures expanded most rapidly (by 71%!) and accounted for almost 70 per cent of export growth from the South. The four Asian ‘tigers’ accounted for over two-thirds of this increase, almost doubling their exports over this three-year period. The fifteen large debtors reversed their export decline. By 1988 their export earnings had regained the 1981 level and in 1989 were 38 per cent above the 1986 nadir. Even the small low income economies enjoyed strong export growth, of 28 per cent, although their deficits grew larger on account of more rapid import growth.

It appears, therefore, that the very strong recovery of world trade in 1986–87 helped reverse some of the damage caused by the global recession at the beginning of the decade. The trade shares of the South, which had fallen to 21.6 per cent in 1986, then began to edge back up, reaching 23.5 of total exports by the end of the decade.

The devaluation of the dollar between 1985 and 1987 means, however, that dollar values of trade must be treated with caution. A more accurate measurement of the benefits of trade is the index of the volume of goods which developing countries were able to buy over a period of time. Table 3.2 shows what has happened to real imports over the decade and reveals that the recovery of exports since 1986 has led to only modest or zero increases in real imports for all groups except those exporting manufactures. Of particular concern in this respect is the fact that real import levels in major debtor countries on the one hand, and Sub-Saharan Africa (which excludes oil producers and South Africa) on the other, remained lower in 1992 than they were in 1980. This is even more disturbing when one considers that the population of these two groups grew by about 35 per cent and 25 per cent respectively over this period (United Nations, WES, 1993, p. 209). In economies so dependent on imports for both consumption and investment, this suggests very strongly that economic recovery was constrained by foreign exchange shortages and this is borne out in the continued erosion of per capita incomes in this period (Table 2.7). The prolonged import compression of these groups leads to the question of how the debt crisis, and the financial problems of the South generally, have been managed over the past decade, and it is to this that we now turn.
Table 3.2  Real Imports, 1980–92

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Countries</td>
<td>100</td>
<td>101.2</td>
<td>102.0</td>
<td>171.1</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>100</td>
<td>107.1</td>
<td>73.3</td>
<td>104.8</td>
</tr>
<tr>
<td>Exporters of Manufactures</td>
<td>100</td>
<td>104.0</td>
<td>129.1</td>
<td>226.2</td>
</tr>
<tr>
<td>Four East Asian NICs</td>
<td>100</td>
<td>116.5</td>
<td>145.3</td>
<td>347.2</td>
</tr>
<tr>
<td>Fifteen Heavily Indebted</td>
<td>100</td>
<td>67.9</td>
<td>65.6</td>
<td>96.7</td>
</tr>
<tr>
<td>Small Low Income</td>
<td>100</td>
<td>96.0</td>
<td>109.4</td>
<td>114.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>100</td>
<td>87.8</td>
<td>90.7</td>
<td>92.0</td>
</tr>
</tbody>
</table>

*Source: Calculated from IMF, World Economic Outlook, May 1992.*

B. MANAGING DEBT AND PAYMENT IMBALANCES IN THE 1980S

The Third World debt crisis has never been a crisis for *all* countries or country groups of the South. In the early 1980s, oil exporters and the four East Asian exporters of manufactures, as a group, had relatively low debt burdens relative to GDP or exports and very low annual debt servicing burdens (Table 3.3). Within these groups, however, Mexico and Venezuela were problem debtors and South Korea was on the margin of becoming one (see Loxley, 1986, Chap. 3). The debt crisis was felt most acutely by the large debtors at one extreme and by the poorest Third World countries at the other, as debt approached or exceeded 40 per cent of GDP and 200 per cent of annual exports. Even then, the annual debt servicing burden of the fifteen largest debtors was double that of the poorest countries as three-quarters of the debt of the latter was to official agencies, much of it on concessional terms.

From the onset of the debt crisis in 1981 to 1992, Third World debt grew by 90 per cent with all groups but the four East Asian NICs increasing their indebtedness. While it is difficult to sort out how much of this rising indebtedness was due to new borrowing and how much was due to accumulation of unpaid interest and to dollar devaluation, the net result is quite clear. Debt burdens for the largest debtors are no lower now than in 1981 in terms of GDP and have risen significantly as a percentage of export earnings. The debt burdens of oil exporters are significantly higher than at the beginning of the decade and many must now be considered problem debtors, while debt burdens of the poorest countries are now
<table>
<thead>
<tr>
<th></th>
<th>Total Debt ($b US)</th>
<th>Total Debt as % GDP</th>
<th>Total Debt as % Exports</th>
<th>Annual Debt Servicing as % Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Countries</td>
<td>732</td>
<td>1087</td>
<td>1388</td>
<td>28</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>217</td>
<td>300</td>
<td>463</td>
<td>24</td>
</tr>
<tr>
<td>Exporters of Manufactures</td>
<td>260</td>
<td>392</td>
<td>539</td>
<td>23</td>
</tr>
<tr>
<td>Four East Asian NICs</td>
<td>43</td>
<td>62</td>
<td>62</td>
<td>29</td>
</tr>
<tr>
<td>Fifteen Heavily Indebted</td>
<td>334</td>
<td>449</td>
<td>493</td>
<td>38</td>
</tr>
<tr>
<td>Small Low Income</td>
<td>60</td>
<td>98</td>
<td>157</td>
<td>42</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>49</td>
<td>81</td>
<td>133</td>
<td>46</td>
</tr>
</tbody>
</table>

greatly in excess of those of even the most heavily indebted countries of the world. The annual debt servicing burden of the big debtors has fallen relative to 1986 but, at about 35 per cent of exports, is still huge and not significantly lower than at the onset of the debt crisis. The debt servicing burdens of the poorest countries are still lower than those of the big debtors but have risen above their 1981 levels; those of oil exporters have increased significantly since 1981.

While the management of the Third World debt situation was successful in that a collapse of the world banking system was avoided in the 1980s, it has done little to reduce the burden of debt on the indebted countries and, in some respects, the situation at the end of the decade was actually worse than it was at the beginning. The debt burden of the poorest countries is so high that it is unlikely ever to be met without special arrangements for write-down or forgiveness while, after a decade of austerity, it is nothing short of remarkable that the large debtors have continued to service their debts. A closer look at changes in the balance of payments situation of these two groups will help clarify how their financial relations with the North changed over the decade.

What is apparent from Table 3.4 is that the improvement in current account balances of most groups of developing countries between 1981 and 1989, particularly striking for net debtor countries as a whole, was achieved in spite of a substantial rise in payments of interest on foreign debt. Such payments amounted to $100 billion a year by 1989, and between 1981 and 1989 totalled $773 billion, more than the sum of debt outstanding in 1971. Interest payments rose to levels twice as large as the balance of trade account for the South as a whole, and almost seven times the size of trade balances for net debtor countries. About half the interest payments were made by the fifteen large debtor countries. Interest payments of the poorest countries doubled from 1981 to 1989.

Annual net flows of finance to the South fell from $43 billion in 1981 to $7.3 billion in 1989 or by $36 billion. Annual flows of official loans in 1989 were at about the same level they were in 1981 (although they fell to a low of $18 billion in 1988), while official transfers rose by $8 billion p.a. and became particularly important for the low income countries. The most dramatic change in flows was, however, on account of private transactions. Foreign direct investments (net) fell by $4.5 billion p.a. relative to 1981 while borrowing from commercial banks fell by $94 billion, 60 per cent of this fall being experienced by the fifteen large debtor countries.
Table 3.4  External Financing, 1981–92 ($b US)

<table>
<thead>
<tr>
<th></th>
<th>Developing Countries</th>
<th>Net Debtor Countries</th>
<th>Fifteen Large Debtors</th>
<th>Small Low Income Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Balance</td>
<td>48.3</td>
<td>50.7</td>
<td>-8.0</td>
<td>-63.8</td>
</tr>
<tr>
<td>Services Net</td>
<td>-106.3</td>
<td>-84.3</td>
<td>-80.0</td>
<td>-74.8</td>
</tr>
<tr>
<td>(Interest Payments)</td>
<td>(-74.0)</td>
<td>(-100.0)</td>
<td>(-81.4)</td>
<td>(-71.1)</td>
</tr>
<tr>
<td>Private Transfers</td>
<td>7.7</td>
<td>11.3</td>
<td>22.2</td>
<td>17.7</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-50.3</td>
<td>-22.4</td>
<td>-65.9</td>
<td>-121.0</td>
</tr>
<tr>
<td>Official Transfers</td>
<td>7.0</td>
<td>15.1</td>
<td>14.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Direct Investment Net</td>
<td>17.6</td>
<td>13.1</td>
<td>36.5</td>
<td>13.2</td>
</tr>
<tr>
<td>Net External Borrowing</td>
<td>121.0</td>
<td>37.2</td>
<td>84.0</td>
<td>112.6</td>
</tr>
<tr>
<td>of which: (Net IMF Credits)</td>
<td>(6.6)</td>
<td>(1.0)</td>
<td>-</td>
<td>(6.9)</td>
</tr>
<tr>
<td>(Long-term Official)</td>
<td>(30.6)</td>
<td>(29.2)</td>
<td>(-35.7)</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Other – Including Interest Arrears</td>
<td>(83.5)</td>
<td>(7.3)</td>
<td>(-48.3)</td>
<td>(76.3)</td>
</tr>
<tr>
<td>(Borrowing from Commercial Banks)</td>
<td>(101.3)</td>
<td>(6.8)</td>
<td>(-32.6)</td>
<td>(91.5)</td>
</tr>
<tr>
<td>Change in Reserves</td>
<td>(+ = decrease)</td>
<td>6.7</td>
<td>-31.4</td>
<td>-52.1</td>
</tr>
<tr>
<td>Other – Net</td>
<td>-95.6</td>
<td>-26.6</td>
<td>-16.9</td>
<td>-36.5</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook, Various.
Offsetting the large inflows of bank credit in 1981, however, were large repayments of trade credits hidden under ‘other net’ and the fall in these payments in subsequent years moderated the impact of the loss of bank credit to the South.

Net flows of IMF credits have never been a significant source of finance for Third World countries in terms of total flows, although they did reach $11 billion in 1983. In the years 1986–88, they were in fact significantly negative (−$5.9 billion in 1987). Their importance lies rather in securing for debtors other sources of funds, both private and public and, especially since 1983, the rescheduling of debts. Reschedulings have not been less than $33 billion p.a. since 1984. In 1987, they reached $49 billion and for the years 1981–89 totalled $276 billion, underscoring the continuing fragility of the Third World debt situation from the point of view of debtor countries which have been reduced, essentially, to the position of paying tribute to the North in the form of interest on debts which are not likely ever to be repaid.

(i) Managing the Debt of the Large Debtors to 1989

In its initial manifestation, the debt crisis was a crisis of the global banking system as non-payment of debt by the fifteen largest debtors would, inevitably, have caused its collapse. The competitive pressure on banks to lend in the 1970s and the oligopolistic structure of world banking meant that market signals failed to regulate the amount borrowed which, for all intents and purposes, was supply driven (Devlin, 1989). By the early 1980s, banks in the US had loaned Third World countries more than twice the equivalent of their total capital, and loans to the three largest Latin American borrowers alone exceeded 100 per cent of their capital. Safeguarding financial capital was the main objective of debt management and little regard was paid to the costs of this to the people of debtor nations.

The initial management strategy consisted of the major powers arranging bridging finance so that debtors did not default. Banks were openly pressured to lend even more to debtors so that interest could be paid and to facilitate this facade, the rules on non-performing assets were waived. Concerted lending was forced on the banks by making it a condition for IMF involvement which, in turn, was required for arranging the rescheduling of debt payments through the London Club (commercial loans) and the Paris Club (official
loans). Since these reschedulings were absolutely crucial to the debt management and bank survival strategy (totalling $411 billion for all Third World debtors between 1983 and 1989; United Nations, 1993, p. 255), the bigger banks had little choice but to comply, although the smaller banks exited from the market as quickly as possible and the additional lending of the large banks facilitated this. In return for debt rescheduling and involuntary bank lending, the IMF, together with the World Bank, were able to demand that debtor countries adopt economic policy reforms, or stabilization and structural adjustment programmes, acceptable to both banks and the international agencies. This strategy benefited the large banks by disciplining borrowers and by preserving the fiction that the debts were still sound. Banks made huge profits on reschedulings and involuntary loans while avoiding the need to make provisions for bad debt. Between 1983 and 1988, the banks put an additional $82.5 billion into the fifteen large debtors but received back $227 billion in principal and interest payments, a return of 2.75 to 1 (Loxley, 1994).

Another arm of the strategy was the socialization of debt. While net private debt outstanding was virtually unchanged between 1983 and 1989, bilateral and multilateral debt rose by $81 billion, which served to shore up private debt and facilitate interest payments on it. A portion of this flowed under the abortive Baker Plan (1985), Part 1 of which sought to stimulate an inflow of $20 billion of private credit to the fifteen large debtors by committing $27 billion of World Bank money. The private flows did not materialize and the banks actually reduced their outstanding lending in 1985–86. Further socialization of Third World debt has taken place since Citicorp abandoned the fiction of the repayability of Third World debt when, in 1987, it made substantial provisions for bad debt. Other banks followed suit and in many countries such loan-loss provisions are tax deductible, thereby shifting a portion of the cost of bad debt on to taxpayers. At the same time, it must be emphasized that making a loss provision is not the same thing as writing down debt. By and large, banks kept Third World debt on their books at nominal values so that full interest obligations continued to be payable by debtors. Bank profits were, however, reduced and bank balance sheets strengthened by these provisions.

It is clear, therefore, that bank collapse was averted only by substantial official intervention. Had market forces been allowed to operate freely, as some such as Milton Friedman (1984) advocated,
the result would unquestionably have been widespread bank failures and a complete disruption of the global trade and payments system. While a secondary market for bank debt had been in existence since the mid-1980s, offering considerable discounts, it had only very limited use until 1988, perhaps because, until that time, bank loan-loss provisions had been so small. In that year, turnover on the market reached $50 billion. But debt reduction through this medium was, even then, quite modest, totalling $18 billion, only $6.8 billion of which was in the form of debt-equity swaps (Loxley, 1994).

By 1989 it was evident to the US government that while 'muddling through' had preserved the banks and the global economic system, it was no longer enough. The debt problem was not going away and voluntary debt reduction through the free market was not going to solve the problem quickly enough. At the same time, the way in which the crisis had been managed to that point in time had put an enormous burden on the people of the debtor countries. Real imports were still about a third below their 1981 levels while rates of investment were 20 to 30 per cent below their levels at the start of the decade, raising concerns about the long-term impact of restraint. GDP per capita was below its 1981 level, many large debtors had experienced huge drops in real wages and most were suffering from high rates of inflation and large fiscal gaps. Moreover, the continuing austerity and attempts to reform economic policy did nothing to stem the unofficial flight of capital from the fifteen large debtors, which is estimated to have amounted to $194 billion between 1983 and 1989, which was equivalent to 83 per cent of the total debt they owed to commercial banks in 1983 (ibid.).

That the large debtors did not repudiate their debts is remarkable and suggests that, while the debt crisis appeared to be a singular instance of the countries of the South having policy leverage over those of the North, in reality, the debtor governments could not or would not exercise that leverage. Fears of economic or military reprisals from the industrial creditor countries might have been at least an implicit consideration, as might have been a shared fear of global economic chaos. Whatever the motivation, creditor governments never seriously considered this option and were prepared to impose austerity on their people rather than seek more radical solutions to the crisis, which might have had less predictable outcomes. Neither were the debtors prepared to form a cartel to improve their bargaining strength against what was, in effect, a creditor cartel. In part this was because banks and their governments made
concessions to individual debtors which inhibited cooperation among debtors. In part, several debtor governments were reluctant to take any actions which might prejudice fledgling movements to democracy in the 1980s (Devlin and Ffrench-Davis, 1994). The net result was that debtor governments acquiesced in the net transfer abroad of the equivalent of 4 per cent of GDP per annum, or proportionately much more than the reparations paid by Germany after World War I (ibid.).

(ii) Managing the Debt of the Large Debtors since 1989

A number of factors have combined since 1989 to considerably improve the economic situation of the largest debtors. These are the continuing increase in bank provisioning, the introduction of the Brady Plan, the fall in interest rates in creditor countries and the reversal of capital flight from debtor countries. The 1989 Brady Plan sought to use public money to induce banks to write down their debt on the secondary market, which banks are now more able to do because of their continuing additions to loan-loss reserves. The Plan, therefore, continues to socialize debt even further by allowing $20-25 billion of the resources of the international financial institutions (the IMF and World Bank) to be used to buy back debt at a discount. The advantage of this plan, which also calls for new commercial bank lending of about $10 billion to 1995 and new financing of $10 billion from Japan, is that it does to some extent write down debt, as discounts were running at about 63 cents to the dollar when the plan was introduced (IMF, WEO, October 1989, p. 54). The Brady Plan represents progress, therefore, in that for the first time there is acknowledgement, internationally, of the need for debt reduction. It offers the possibility of reducing the total debt of the highly indebted countries by between 10 and 20 per cent, depending on prices actually paid for debt. Debt servicing payments would fall by between $3.4 and $6.8 billion (World Bank, 1989c).

The Brady Plan seeks to involve as many banks as possible (reduce the so-called ‘free-rider’ problem) by offering them a menu of options. Official funds can be used to buy back debt at a discount or to replace existing debt by new and partly collateralized bonds, at a discount or at reduced, but fixed, interest rates. Banks are encouraged to purchase new money bonds. Debtors are to continue their economic policy reforms and encourage repatriation of capital flight.
Between 1989 and 1993, eight countries, all but Costa Rica belonging to the fifteen highly indebted, negotiated debt restructuring packages under the Plan. The debt reduction equivalent amounted to $46 billion, 42 per cent of eligible debt but, after allowing for increased official borrowing to finance the scheme, the equivalent of only 15 per cent of total external debt was written off. In the process of restructuring, some banks were able to strengthen their collateral by negotiating contingency clauses giving them greater debt servicing if the economy of debtors improves or by subordinating outstanding unstructured debt to new or restructured debt.

Although restructuring did little to reduce total debt and even less to reduce immediate cash flow on account of debt servicing, given the need for up-front cash buy-backs, it did increase confidence in the remaining debt. Restructuring also coincided with a number of other developments which, together, have considerably improved the climate for foreign and local capital in many of the big debtor countries. The governments of several of these countries have introduced a number of reforms benefiting investors. They have privatized public enterprises, such as banks in Mexico and gas and power in Argentina, liberalized their current and capital accounts and financial institutions, greatly increased incentives for foreign investors and maintained high real interest rates and flexible exchange rates. These, together with the debt restructuring, the fall in interest rates between 1989 and 1993 and the recession in industrialized countries in 1991, drastically altered the relative attractiveness of many large debtor capital markets to overseas lenders. This was reflected in large increases in the average price of bank claims of the fifteen on secondary markets, which rose from 31 per cent of face value in 1989 to over 60 per cent by the end of 1993. The average price for the debt of countries involved in Brady deals rose from 43 per cent of face value to over 80 per cent (World Bank, 1994b). This has been accompanied by a huge increase in capital flowing into these countries in the form of new bond issues (up $67 billion between 1989 and 1992) and equity investment (up $13.4 billion or 140 per cent), and a remarkable reversal of capital flight from an outflow of $46.5 billion in 1988 to an inflow of $65.8 billion in 1991, the latest year for which figures are available. Bond and equity inflows continued strongly into 1993. Foreign reserves of this group rose by $50 billion between 1989 and 1992, or from the equivalent of three to five months imports, and imports by about the same dollar amount, or by over a third in volume terms (Loxley, 1994).
Over a very short period of time, therefore, the preoccupation of many of these countries shifted from dealing with large capital outflows to managing surges of capital inflows. To the casual observer in the early 1990s, it might have appeared that the debt crisis, as a crisis of debtor countries, was as much a part of history as was the threat to the global banking system that was the initial conceptualization of the debt problem. But this would have been premature, as much of the old debt continues to remain outstanding and the new forms of capital inflow bring with them their own, often quite familiar, problems. Thus, US mutual funds play an important role as creditors in the new inflows and have, on occasion, been more interventionist than commercial banks ever were in pressuring debtors to maintain economic policies the funds deem to be to their advantage. There is evidence that Mexico’s reluctance to depreciate its exchange rate in 1993–94 can be explained by pressure it was under from US mutual funds, but this led to massive speculative pressure in 1995 and a return of capital flight (ibid.). But the problems facing the very large debtors are, nonetheless, much easier ones to deal with than those they faced at the height of the debt crisis in the early 1980s. Debtor problems are much more serious in low income countries and progress in dealing with them has been much more halting and much less adequate, perhaps because they have not posed any great threat to global financial institutions.

(iii) Managing the Debt Crisis of the Poorest Countries

The distinguishing feature of the debt of the poorest countries, as measured either by the IMF’s 45 ‘Small Low Income Economies’ or the UN’s slightly different 46 ‘Least Developed Countries’, is that between 80 and 90 per cent of it is official debt owed to bilateral or multilateral donors. Of particular concern is the ability of the 26 ‘debt distressed’ members of these groups to meet their debt commitments, as they now have a debt to export ratio of a staggering 960 per cent and a debt to GDP ratio of 110 per cent! Throughout the early 1980s the approach to managing the problem of servicing the debts of the poorest was to reschedule official debts through the Paris Club on an annual basis as they fell due. In return for this and for balance of payments support from the IMF and the World Bank, the governments had to adhere to policy conditionality in the form of stabilization and structural adjustment programmes.
In 1985, in recognition of the inadequacy of resources available to assist these countries manage their debt commitments, Part II of the Baker Plan established a concessional Structural Adjustment Facility within the IMF amounting to SDR 2.7 billion. In 1987 the Enhanced Structural Adjustment Facility was established, funded at SDR 6 billion or roughly $8.4 billion. Bearing interest at 0.5 per cent p.a. and repayable over 10 years with a 5.5 years grace period, these loans were designed to provide balance of payments support to debt-distressed low income countries, within a three-year programme of economic reform and with less rigorous quantitative conditionality than the IMF’s regular Standby facility. These facilities did not radically alter the basic approach to debt management which remained rescheduling within a context of IMF/IBRD-led policy reform. Indeed, adherence to a structural adjustment programme approved by the Fund was a requirement for a Paris Club agreement. Throughout the 1980s no fewer than 38 African countries entered into agreements with the Fund and 22 of these received programme loans carrying policy conditionality from the World Bank. Between 1983 and 1989, 25 African countries were involved in 67 exercises to reschedule their official debt through the Paris Club, providing almost $22 billion in debt relief (Sevigny, 1991). This accounted for two-thirds the number of all such reschedulings during this period.

A number of initiatives have been taken in recent years to moderate the debt servicing burdens of low income debtor countries. Some large donors took further steps to convert official development assistance (ODA) loans to grants under the 1978 UNCTAD resolution on Retroactive Terms Adjustment, for example France, Germany, Japan and the UK. Canada agreed to these conversions in 1987 and, together with Denmark, France, Germany, the Netherlands and the UK, extended them to countries pursuing structural adjustment programmes but which were in higher income brackets than the group covered by the UNCTAD resolutions (OECD, 1988, p. 114). In this regard, it should be emphasized that countries unable or unwilling to come to an agreement with the IMF have been denied access to debt conversion, for example West Germany refused to convert loans to Zambia in the late 1980s (ibid., p. 74).

At the 1987 Venice Summit the terms of Paris Club reschedulings were eased, replacing the 10-year repayment term and 5-year grace period with 20 years and 10 years respectively. In the following year at the Toronto Summit, additional debt relief for poor coun-
tries was proposed with creditor countries being given three options to relieve the burden of export credits. They could offer concessional interest rates at \(3\frac{1}{2}\) per cent below market rates while rescheduling loans over 14 years with an 8-year grace period; reduce debt by a third with a 14-year maturity for the balance at market interest rates or, thirdly, reschedule debt over 25 years with 14 years grace, at market rates of interest. This menu would certainly assist the poor in reducing debt servicing but the concessions are relatively small given the limited size of the write-downs and interest rate reductions and the fact that poor countries only pay a half of what is due now anyway. Furthermore, under the new menu approach debt rescheduling continued to be tied to IMF agreements and, therefore, to economic policy conditionality, remaining virtually an annual affair with all the inconvenience and uncertainty this entails for creditors (Helleiner, 1989). It is indeed the centrality of policy conditionality to debt management which explains official resistance to multi-year rescheduling, the idea being to keep borrowers on a short leash. At the same time, however, the cost to debtors in terms of calls on the time of scarce skilled personnel are enormous. Incredible though it might seem, it has been estimated that between 1980 and 1992, African governments were involved in about 8000 separate debt negotiations with creditors (Killick, 1993).

The major creditor countries have found it increasingly difficult to defend their slowness to write off the debt of the poorest countries in the world. In 1990, proposals from the British to write off what amounted to two-thirds of the stock of outstanding bilateral debt (the ‘Trinidad Terms’) and by the Dutch to write off the entire stock of official debt, of low income, debt-distressed countries, were not accepted but served to force yet further concessions from the Paris Club. In 1991 it announced ‘Enhanced Toronto Terms’ which provide, in menu form again, for an effective 50 per cent reduction in present value terms of consolidated debt-servicing payments on non-ODA assistance and a 23-year repayment schedule. But these write-downs are applied only as servicing falls due, do not apply to debt covered by the initial Toronto Terms, and do not apply to debt of non-Paris Club members, such as former USSR and OPEC countries (Helleiner, 1995b). Little wonder, then, that the debt burdens of the poorest continue to remain unacceptably high and that, even as debt servicing payments are being reduced, arrears have mounted to unsustainable levels ($14.5 billion in interest arrears
alone for the severely indebted low income countries in 1993; ibid.; almost $30 billion in both interest and principal arrears in 1992 for the least developed; see Loxley, 1994; and almost $46 billion for Sub-Saharan Africa as a whole in 1993; see Laishley, 1994). Above all, the Enhanced Toronto Terms achieved only a $2 billion reduction in debt, in present value terms, by March 1994, on a total stock of debt of $150 billion (ODI, Briefing Paper, March 1995).

International pressure on Paris Club creditors to lift the debt burden on the poorest countries led, in December 1994, to the Naples Terms, under which debt reduction of up to 67 per cent in net present value terms, on a flow basis, is possible for highly indebted countries. In addition, for countries with a good track record under IMF/Paris Club agreements, and where there is confidence in the country continuing to respect agreements, the entire stock of debt can be rescheduled on concessional terms. By April 1995, nine reschedulings had taken place under the Naples Terms and one stock-of-debt operation had been concluded with Uganda (IMF, April 1995, p. 15). Still, few poor debtors are likely to ‘exit’ their debt problems through this channel and even fewer will be able to reach the World Bank’s debt to export target of 200 per cent, so the ‘debt renegotiation treadmill’ (ODI, March 1995, p. 3) will continue.

Neither the Toronto nor the Naples terms contained any provisions for reducing multilateral debts, which total about $38 billion for the least developed countries. Indeed, neither World Bank/IDA nor IMF debts can be rescheduled, leave alone written down. The approach of these institutions to debt servicing has been, therefore, to establish new facilities for refinancing debts. These facilities are now very significant for poorer, namely Sub-Saharan Africa countries and, with the exception of SAFs and ESAFs, which were addressed earlier because of their significance in debt rescheduling exercises, are dealt with in the following chapter on foreign aid. In recent years, a number of debt-distressed poor countries have had great difficulty meeting multilateral debt servicing commitments, as evidenced by growing arrears in the Fund, Bank and African Development Bank. By 1990, arrears to the IMF had reached $4.5 billion. The Fund responded by introducing a Rights Program under which those countries in arrears could, by virtue of ‘good’ policy behaviour, accrue rights to borrow up to the amount of arrears at the start of the programme, with the promise of access to further resources, but only when they had cleared the arrears. This basically boiled down to policy conditionality without financial assis-
tance and, in reality, funds for paying down arrears at the Fund under the Rights Program have come from the aid budgets of bilateral donors. It is not surprising, therefore, that the Fund accompanied this less-than-generous innovation with harsh punitive measures for those with protracted arrears (IMF, *Annual Report*, 1993, pp. 91-2). There seems to be no compelling logic, however, to a situation in which the debts of all creditors but the multilateral agencies can be considered for rescheduling or writing down.

In mid-1996, the IMF announced a new debt initiative to assist about 20 of the most heavily indebted poor countries. Bilateral creditors are expected to raise end of adjustment stock-of-debt relief from 67 per cent to 90 per cent. The Fund will give some debt-service relief by making ESAF repayments more concessionary while the World Bank is considering giving expanded IDA allocations through grants, but there will be no change in the policy of not rescheduling or writing down multilateral debts by these agencies (IMF Survey, 15 July 1996). Some bilateral donors have, however, offered to assist 'deserving' countries with large multilateral debt obligations by funding Multilateral Debt Funds, the first of which, for Uganda, was established in 1995 (UNCTAD, *Trade and Development Report*, 1995, New York, p. 48).

The Toronto Terms also did not apply to commercial bank and other private debt, which account for over $25 billion of the debt of low income countries. In 1989, however, the International Development Association (IDA), the concessional arm of the World Bank, introduced the Debt Reduction Facility. Financed to the tune of $100 million, this gives up to $10 million in grants to debt-distressed poor countries adhering to structural adjustment programmes, to enable them to buy back their private debt on the secondary market without, at the same time, increasing their official debt. Bilateral donors co-finance the arrangement which by late 1993 had seen only three countries, Mozambique, Uganda and Niger, draw on the facility. These transactions involved debt buy-backs or exchanges totalling almost $400 million at prices of between 10 and 18 cents on the dollar. Creditor reluctance is said to explain the slow pace of take-up. The very existence of this facility, however, raises serious questions about the reluctance to write down official debt more aggressively, as the revised Toronto Terms come nowhere near offering such deep discounts on official debt.

It should be noted that few of the above initiatives apply to middle income countries in Africa or elsewhere. Their debts are considered
too small to warrant special programming of the Baker/Brady type and their per capita incomes too high for 1978 UNCTAD conversion or the Toronto menu approach to debt relief, ESAFs or the Debt Reduction Facility. Originally, global debt management strategies envisaged that their needs would be taken care of by the market. It is now acknowledged that this has not happened (Loxley, 1994).

Finally, recent initiatives for the poor do not even come close to what creditor nations are asking. The OAU has requested much greater flows of concessional financing, conversion of all bilateral debt to grants or to very long-term low interest loans; conversion of commercial bank debt to long-term securities, easing of multilateral debt terms, including rescheduling of IMF debts, and considerably more favourable rescheduling terms including multi-year rescheduling of at least 5 years and maturities of 50 years with a 10-year grace period. Debt servicing obligations ought to be suspended for 10 years and, thereafter, restricted to a percentage of export earnings (ibid.).

These proposals are at one and the same time radical, relative to what debtors are likely to offer, and conservative, in the sense that there is no attempt to deny debt obligations, to advocate the writing down of multilateral debt, or to call for repudiation. Like their counterparts in the group of fifteen large debtors, the governments of the poor highly indebted countries seem content to argue for partial relief rather than a complete end to debt-induced austerity. Faced with crushing debt burdens and inadequate flows of international finance to stimulate growth, some individual countries have unilaterally restricted debt servicing payments, such as Zambia which in the late 1980s limited debt servicing to 10 per cent of exports net of certain crucial payments. This type of move, which also does not deny the debt obligation, is best described as 'conciliatory default'. If global schemes for debt reduction fail to go further than they have, and incomes of debtor countries continue to be severely constrained by debt servicing, one can expect more of these individual initiatives and, in the extreme, a complete breakdown in debt servicing discipline due to debt fatigue. This might be more difficult for creditors to deal with than a collective repudiation of debt for which, perhaps in recognition of the stark reality of their dependence, there has never been much enthusiasm among the highly indebted poor countries.

For poorer debtor countries, the debt crisis is still very much a reality shaping and limiting their economic and political freedom
of manoeuvre. Yet, unlike the fifteen heavily indebted countries, the net transfer to these countries on account of debt remained positive throughout the 1980s and early 1990s, as did aggregate net resource transfers. The latter, in fact, rose steadily after 1985. What explains this and differentiates the poorest debtors from the large debtors, is their access to foreign aid which has been important in shoring up their debt servicing capacity, such as it is.

C. FOREIGN AID IN THE 1980s

The collapse of private financial flows to the South and the massive reverse flows on account of the servicing of bank debt put a new onus on official loans and transfers to help fill the gap. This did not happen during the 1981–83 recession, however, when aid and other official flows actually declined compounding the financing problems of the South (Table 3.5). Since then, this trend has been reversed and aid flows in current dollar terms increased steadily during the rest of the decade, by 85 per cent between 1983 and 1990. Because export credits and private capital flows declined after the onset of the debt crisis, the proportion of ODA in aggregate net resource flows rose between 1981 and 1986, from 30 per cent to 54 per cent, declining only as private flows began to pick up again after 1988. By 1992, ODA accounted for about 35 per cent of net resource flows.

Aid has not, however, increased significantly in real terms (Table 3.6) because that from Arab donors fell by 70 per cent, from $9b to $2.7b in 1991 dollars, its share in world aid falling from 22.9 to 7.1 per cent. Counteracting this, however, large DAC donors increased their real aid significantly over the decade. Japan led the way with a 56 per cent increase. This raised its aid to $9.5b and its share of world aid to 15.8 per cent in 1990/91, compared to $11b and 18.5 per cent for the US, the largest donor at that time. By 1991, the largest EC donors were France, Germany and Italy with totals of $7.4b, $6.5b and $3.3b, respectively, and world shares of 12.2, 10.9 and 5.5 per cent. The Netherlands, the Scandinavian countries and Canada all experienced rapid growth in their real aid budgets in the 1980s (OECD Development Cooperation, 1992).

Relative to GNP, however, there was absolutely no significant improvement among DAC donors in the 1980s. Most large donors did not come close to meeting the UN target of 0.7 per cent and
Table 3.5 Aggregate Net Resource Flows, 1981–92 (Current $b)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I Official Development Finance (ODF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Official Development Assistance (ODA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Bilateral</td>
<td>36.9</td>
<td>33.9</td>
<td>44.3</td>
<td>55.3</td>
<td>55.3</td>
<td>29.5</td>
<td>34.8</td>
</tr>
<tr>
<td>Multilateral</td>
<td>7.9</td>
<td>7.6</td>
<td>9.5</td>
<td>13.5</td>
<td>16.8</td>
<td>6.1</td>
<td>10.5</td>
</tr>
<tr>
<td>2. Other ODF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Bilateral</td>
<td>8.7</td>
<td>8.5</td>
<td>11.8</td>
<td>14.0</td>
<td>11.9</td>
<td>6.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Multilateral</td>
<td>5.7</td>
<td>7.2</td>
<td>7.8</td>
<td>7.9</td>
<td>4.2</td>
<td>3.7</td>
<td>2.7</td>
</tr>
<tr>
<td>II Export Credits</td>
<td>17.6</td>
<td>4.6</td>
<td>-0.6</td>
<td>10.7</td>
<td>1.4</td>
<td>12.9</td>
<td>0.9</td>
</tr>
<tr>
<td>III Private Flows</td>
<td>66.2</td>
<td>48.1</td>
<td>28.2</td>
<td>52.5</td>
<td>90.5</td>
<td>51.6</td>
<td>56.9</td>
</tr>
<tr>
<td>of which: Bank Lending</td>
<td>52.0</td>
<td>34.7</td>
<td>5.0</td>
<td>12.1</td>
<td>37.7</td>
<td>38.2</td>
<td>23.7</td>
</tr>
<tr>
<td>Total I + II + III</td>
<td>128.3</td>
<td>95.1</td>
<td>83.7</td>
<td>132.5</td>
<td>159.1</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: OECD, Development Cooperation, 1993.

Table 3.6 Real Aggregate Net Resource Flows, 1981–92

<table>
<thead>
<tr>
<th>Type</th>
<th>$b 1989 Prices &amp; Exchange Rates</th>
<th>1991 Prices &amp; Exchange Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Development Finance</td>
<td>66.7</td>
<td>64.6</td>
</tr>
<tr>
<td>Official Development Assistance</td>
<td>54.0</td>
<td>51.7</td>
</tr>
<tr>
<td>Total Net Resource Flows</td>
<td>201.5</td>
<td>144.4</td>
</tr>
</tbody>
</table>


the performance of DAC members as a whole, at 0.33 per cent, was well below half that figure. Several large donors actually reduced their performance in these terms, the US from 0.23 to 0.2, Germany from 0.45 to 0.41 and the UK (which actually experienced a fall in real aid) from 0.39 to 0.3 per cent. Canada's aid effort fell from 0.5 to 0.45 per cent and has continued to fall significantly since.

Large increases in the aid/GNP share were, however, experienced by Italy (0.16 to 0.3 per cent), France (0.31 to 0.55 per cent), Denmark (0.74 to 0.95 per cent), Norway (0.86 to 1.15 per cent) and Finland (0.24 to 0.7 per cent). In spite of greatly reduced aid flows, the relative aid effort of Saudi Arabia, at 2.5 per cent of GNP, remained the highest in the world. Among DAC donors, the Netherlands (0.9 per cent) and Scandinavian countries set the pace, with
Norway being the leader. While Japan's share hardly increased over the decade (from 0.3 to 0.32 per cent), by the mid-1990s it had become the world's leading donor.

Thus, while the flow of aid both in total real terms and as a percentage of GNP over the decade did not alter much, aid relationships were changing in some significant ways. South-South aid from oil producers to others understandably collapsed; large traditional donors such as the UK and Germany withdrew to some extent to be replaced by Japan, France, Italy, the smaller European and Scandinavian countries and Canada.

The quality of assistance changed also. Most major donors, and Canada since 1986, ceased making loans to poorer developing countries, converting their assistance to grants only. France (11%) is now the only donor which continues to give a significant proportion of assistance to these countries in loan form. The grant element of total ODA has remained roughly constant, however, since 1981 at about 90 per cent (OECD, 1989, p. 208).

While comparable figures are hard to come by, it appears that a number of countries actually increased the proportion of their tied aid over the period from 1981 to 1989, for example West Germany from 19 per cent to 32 per cent, Italy from 8.5 per cent to 58 per cent, and Sweden from 13.8 per cent to 20 per cent (compare figures in Loxley, 1986, p. 170 with OECD, 1991, p. 206). For such large donors as the USA and the UK the proportion of aid tied remained very high (over 40%) while for Canada it actually fell – from 58 per cent in 1981 to about 36 per cent in 1989.

There have been significant shifts also in the direction of aid since 1981 (Table 3.7). Aid to North Africa and the Middle East fell from $9 billion to $8 billion over this time period, in current dollar terms. Most strikingly, aid to Sub-Saharan Africa rose from $9.5 billion to $19 billion. This was the result of bilateral donors focusing aid on countries with the lowest per capita incomes and of a series of special initiatives by donors for low income Sub-Saharan Africa to help alleviate the acute economic conditions there. The collapse of net resource flows to Sub-Saharan Africa, from $13 billion to $7 billion between 1981 and 1984, led to the IDA setting up the $2 billion Special Facility for Sub-Saharan Africa in June 1985. This was followed by Part II of the Baker Plan which not only established the Structural Adjustment Facility (SAF) of the IMF (augmented by the ESAF in 1987 and subsequently replaced by it) but also encouraged the expansion of the IDA itself in its
Table 3.7 Direction of Aid, 1980/81–1991/92

<table>
<thead>
<tr>
<th>Region</th>
<th>% of Total Aid</th>
<th>Aid as % Recipient GNP</th>
<th>% Share Population</th>
<th>Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>25.8</td>
<td>35.6</td>
<td>4.1</td>
<td>13.4</td>
</tr>
<tr>
<td>Asia</td>
<td>31.8</td>
<td>29.3</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Oceania</td>
<td>3.2</td>
<td>2.8</td>
<td>15.3</td>
<td>25.2</td>
</tr>
<tr>
<td>North Africa &amp; Middle East</td>
<td>24.6</td>
<td>18.2</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>11.2</td>
<td>10.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>South Europe</td>
<td>3.3</td>
<td>3.5</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>1.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>


eighth replenishment by over a third to $12.4 billion (Loxley, 1994a). Within the IDA greater priority has been given to financing the needs of poorer Sub-Saharan Africa countries. In IDA 8, SSA received 45 to 50 per cent of IDA resources and this proportion was maintained in IDA 9 (1991–93), although total funding increased by 15 per cent over IDA 8 (Stern, 1990). The 1987 Venice Summit also led to the creation of the World Bank’s Special Program of Assistance designed to raise $1.5 billion p.a. for poorer indebted Sub-Saharan Africa countries.

While the IMF facilities designed to assist the poorer, mainly African, countries, are not included in the above aid figures, their use is often accompanied by greater flows of bilateral and multilateral aid, as more and more donors, including Canada, the United States, United Kingdom and West Germany are tying aid flows to implementation by recipient countries of policy packages acceptable to the IMF and World Bank. The nature of ‘conditionality’ and its implications for North–South relations will be dealt with in the next chapter; suffice it to say here that one of the major impacts of the global crisis on the South has been to blur the distinction between emergency financing for the balance of payments and finance for economic development, leading to aid flows becoming increasingly conditional upon IMF and World Bank approval of economic policy reform.

As a result of the changes in aid focus, Sub-Saharan Africa now relies heavily upon aid, which in 1991–92 was the equivalent of...
13.4 per cent GDP, more than double the share in 1986–87. For some countries dependence in these terms is even more extreme, for example Uganda 42.7 per cent, Zambia 25 per cent, and for Mozambique, Somalia and Tanzania, aid is now almost as great as GDP itself (although this must, to some degree, reflect underestimation of GDP, especially in the case of Tanzania). Another, equally telling measure of dependence is the proportion of aid to total merchandise imports which, for Sub-Saharan Africa (excluding Nigeria) rose significantly from 36 per cent in 1981 to between 57 per cent and 67 per cent (depending on whether one uses IBRD data or DAC data) in 1991–92. When it is considered that real imports fell by 8 per cent over this time period (Table 3.2) the full magnitude of the problems of export erosion and debt servicing in Sub-Saharan Africa is revealed. Thus, poor countries in Sub-Saharan Africa are now overwhelmingly dependent on aid from the North to supply basic import commodities and are especially vulnerable, therefore, to policy conditionality which might accompany that aid. They are also vulnerable to donor fatigue in the face of growing fiscal pressures domestically and, as we shall see, to shifts in donor priorities to other parts of the world, especially to Eastern Europe and the former Soviet Union. As of mid-1996, few observers expect any significant increase in the flow of aid during the rest of the decade, and many would predict both a reduction in aid budgets and a greater focusing of aid on recipients likely to become closer trading partners with donors. If these forecasts prove accurate, Africa is likely to have to do more with less. There are sound reasons, anyway, for recipient countries themselves to regulate aid more closely, to reduce reliance on it and to make better use of what they do receive. Closely related to this, there is also a need to open up the issue of aid dependence to public debate in recipient countries. Whether or not a country should take aid, from which donors, in what amounts, for what purposes and on what terms, ought to be discussed openly and public policy towards aid ought to be informed by such discussions. In addition, there is a need in many countries for greater accountability in the use of aid funds.

Other notable aid trends are slight increases in the proportion of aid to Asia and Latin America. While Asia receives only 16 per cent less aid than Sub-Saharan Africa, its relative importance in terms of income (0.9%) and imports (5.3% in 1991–92; excluding the Four East Asian NICs) is much less. With much higher per capita incomes Latin America qualifies for lower flows of aid and,
therefore, has a relatively low dependence upon it in terms of income (0.5%) and imports (under 6%). For some smaller countries considered strategically important to the US, though, such as Bolivia, El Salvador and Honduras, aid dependence has approached or been higher than that of the average for Sub-Saharan Africa.

A major criticism of the current pattern of aid is that it is not targeted either at poor countries or at the poor within recipient countries. Thus, the richest 40 per cent of the developing world receives twice as much assistance per head as the poorest 40 per cent (UNDP, 1994, pp. 72–3). The ten countries which contain two-thirds of the world's poor receive less than a third of all ODA. For example, India has 27 per cent of the world's poor but receives only 5.2 per cent of ODA, or $7 per poor person, while Indonesia has only 3.7 per cent of the world's poor but receives 4.6 per cent of ODA, or $44 per poor person (ibid.). Such anomalies abound. Furthermore, few donors direct their aid programmes to services likely to be of greater benefit to the poor, such as primary health care, basic education, rural water, nutrition or family planning. On average, expenditures on these services account for only 7 per cent of bilateral aid – with Denmark (25%) and Norway (18%) spending a much greater proportion of their aid in these areas, Canada (9%) just a little more than average and countries such as Germany (2%) and Japan (3.4%) spending much less (ibid., p. 74). There is also a perverse relationship between the share of GDP recipients spend on the military and the amount of aid they receive. Countries spending more than 4 per cent of their GDP on the military received two and a half times more aid per capita than those spending less than 2 per cent (ibid., p. 72).

There is scope, therefore, for both donors and recipient countries to improve the allocation of existing resources. For this reason, the UNDP has suggested 'a 20:20 compact on human development' under which donors would direct at least 20 per cent of their aid and recipients would undertake to devote at least 20 per cent of their national budgets (at the moment they average only 13%) to basic human development needs (ibid., pp. 77–8).

There has been pressure on donors in recent years to pay more attention to the gender impact of their assistance. Initially, this took the form of recognizing the important role of Women in Development (WID), replacing the previous approach which tended to regard women primarily as care givers. WID sought to increase the participation of women in the production process and their share
of benefits derived from it. The inspiration for this was the pioneering work of Esther Boserup (1970) in which she argued the centrality of women's labour in the production process in Third World countries. Several donors adopted this approach and began to design and assess their aid from this perspective. In the 1980s WID was replaced by a broader concern for unequal gender relations and the lack of empowerment of women. This Gender and Development (GAD) approach, advocated by Young (1988) and others, sought to achieve the equality of women in economic development, in the full meaning of the term. Donors have gradually adopted this approach which is very demanding in terms of training staff in gender awareness and 'literacy' and in the appraisal of development projects in terms of the totality of their gender impact (Braidotti et al., 1994, pp. 82ff). Both WID and GAD represent important steps forward in conceptualizing the impact of aid and they have had some influence on both the design of foreign aid programmes and on staffing and training programmes of donors. They have also put some pressure on recipient governments to take more seriously the gender impact of their policies, but success in this regard remains more limited. More recently, even the GAD approach has come under fire from Third World feminists for failing to challenge the 'assumptions of the dominant development paradigm itself, which is firmly rooted within the logic of modernization and the economic growth model' (ibid., p. 83). The Women, Environment and Sustainable Development (WED) approach will be dealt with in Chapter 5 when we examine alternative paradigms to growth. Suffice it to say here that WED proponents are understandably sceptical about the ability of aid donors to 'influence global economic processes and patriarchal structures that have led to women's subordination and their disproportional pauperization relative to men' (ibid., p. 83).

Another relatively recent trend in aid is the attempt by some donors to channel more of their assistance through non-governmental organizations (NGOs) in recipient countries. The motivation comes from a variety of sources. Sometimes it is designed to reduce dealings with autocratic governments. In this respect it takes a page out of the book of donor NGOs which, as long ago as the late 1970s, attempted to assist the fight against apartheid by channeling resources to NGOs in South Africa. Sometimes, it is designed to avoid corrupt or incompetent governments in the Third World, in an effort to get resources to ground level or to get them there
more cheaply. More recently, it has been part of the movement to strengthen ‘civil society’ in developing countries as aid has come to be seen as an instrument of democratization. Channelling aid through NGOs is not, however, without problems. Often, they lack the necessary expertise or internal discipline and controls to do what is demanded of them. Some NGOs are far from being removed from state influence while others are seen to be a threat to the state, which will then not look kindly on the activities of donors.

Trends in Canadian aid broadly follow the above pattern and in some areas efforts have been made to improve the targeting and effectiveness of aid. Three-quarters of bilateral aid is to low income countries and Sub-Saharan Africa is now the largest beneficiary. The aid strategy announced in May 1988, in Sharing Our Future (CIDA, 1987), proposed less tying of aid, the decentralization of CIDA personnel and authority to the field, a focus on poverty alleviation, human resource development and women in development and a concentration of aid effort on poorer countries. The severe cut-backs in aid announced since 1989 throw considerable doubt over the commitment of the government to certain elements of this strategy. By 1994, decentralization was being reversed, regional integration in Africa was replacing country programmes and greater focus was being placed on countries offering a market for Canada’s exports. Further aid cut-backs and yet another reorganization of the agency were having a very negative impact on personnel within CIDA and in the NGOs dependent on CIDA funding. CIDA has been extremely active in building first WID and more recently GAD concerns into its programmes and in drawing on international feminist expertise to help design its approach. It has also adopted a concern for strengthening civil society, giving local NGOs in recipient countries a greater role in aid disbursement and management, even as the Canadian government adopts policies at home designed, deliberately, to reduce the effectiveness of Canadian NGOs, and especially those associated with development education and aid lobbying.

How one interprets trends in aid flows over the last decade depends, of course, on one’s theoretical perception of the role of aid. At one extreme aid flows are considered transfers from rich to poor which are not only equitable but also productive for countries of the South, enabling them to raise growth rates. At the other extreme, aid is imperialism designed to extend northern economic and political influence in the South, serves to support corrupt south-
ern regimes and, at best, may only trickle down to ordinary people. In recent years some aid has also been deemed damaging to the environment of the South – especially large-scale aid for dams and irrigation (Rich, 1985). That there even is a debate and that it has been an ongoing one for decades would suggest that there is sufficient evidence around to justify both points of view. Aid can be productive, can be designed to reach down to the poor and help them to become more self-reliant, it can break key import bottle-necks and enable countries to strengthen their economies. Food aid, if managed properly, can help prevent catastrophe without necessarily undermining local farming systems. Not all aid need strengthen authoritarian or repressive states, that is if it is channelled through independent NGOs. On the other hand, aid is unquestionably beneficial to capital and the intellectual and bureaucratic elite of donor countries and has been used to extend national interests of northern capitalist countries in the South. Frequently, in the past decade, aid has been used as a weapon against democratically elected or popularly based governments and in favour of authoritarian, repressive ones. Instances abound of aid, including food aid, not reaching those for whom it was intended and of people in authority becoming wealthy through the administration or diversion of aid. In short, the precise role of aid cannot be divorced from the broader political economy of specific recipient states and of the international economic, military and diplomatic status of ‘donor’ countries.

What is clear, however, is that whatever the moral imperatives behind aid budgets, and these are often considerable given the role of church groups and progressive political movements which strive to raise the aid appropriation in the North, there are owners of capital, workers and professionals who benefit greatly from aid ‘business’. So while aid in total may represent only a very small proportion of GNP, it is more important for certain segments of northern society who benefit greatly from it. It is for this reason that CIDA has recently emphasized not only ‘cooperative efforts’ with the private sector but also regional balance in the allocation of CIDA contracts within Canada.

Secondly, and much more important for North-South relations over the last decade, aid has become the lever through which governments are forced into agreements with the IMF/IBRD. In the 1989 OECD survey of aid, several large donors emphasized that aid programmes were being amended to support structural adjustment
programmes sponsored by the IMF/IBRD – Canada, the UK, USA and West Germany among them. This involves raising the proportion of aid in the form of quick-disbursing balance of payments support, which now accounts for almost 19 per cent of bilateral assistance (OECD, 1989, p. 209), and of linking aid flows explicitly to the acceptance by recipient countries of IMF/IBRD policy reforms. Such reforms are, however, very controversial and such conditionality is considered a grave encroachment on the national sovereignty of the countries of the South. The issue of structural adjustment is, therefore, a crucial one in North–South relations and is inextricably linked to the dependence of the South on debt and foreign aid. It is not likely to cease being controversial in the foreseeable future and is worthy of closer examination.

D. STRUCTURAL ADJUSTMENT PROGRAMMES

Structural adjustment programmes are best seen as an attempt by the international financial institutions, and the northern governments which control them, to create new regimes of accumulation in the South based on the further internationalization of trade and payments. Forced by the crisis conditions of the early 1980s and by the import dependent nature of their economies to turn to the IMF/IBRD for balance of payment loans, the countries of the South have been pressured to adopt reform programmes designed to integrate them more fully into the global economy, with greater reliance on markets and the private sector than in recent years. These programmes usually require borrowers to restrict domestic demand, use exchange rates and the price mechanism to increase incentives for export promotion and ‘efficient’ import substitution, liberalize imports and domestic markets, reduce the intrusion of the state in economic affairs and raise the efficiency of the remaining public sector.

The object of structural adjustment is to strengthen, in particular, the external sector by raising export earnings, by increasing the efficiency of the import structure and by increasing the attractiveness of the country to private foreign capital inflows. These programmes rarely reduce imports; on the contrary, the IMF/IBRD loans and other capital inflows which accompany the adoption of programmes, are used to raise them. But changes in prices and liberalization of import controls are designed to restructure imports in accordance with free market signals and to abolish the rents
which accrue under controls. On the export side the aim is to revive traditional exports, to diversify the export base and to channel exports through formal as opposed to black markets. A major objective of external restructuring is ‘to facilitate orderly relations with creditors and a reduction in trade and payments restrictions’ (IMF, September 1992, p. 19). They are designed, therefore, to discipline borrowers to ensure that debt obligations are met and to generally improve the climate for international capital. As we have seen, they have been a cornerstone of the strategy for managing the international debt crisis of both the large and the poorest debtors.

Internal objectives are closely related to the external ones as reduced fiscal deficits and tight money policies restrain import demand and reduce inflationary pressures which can distort producer prices and real exchange rates. The dismantling of price controls and state subsidies is designed not merely to bring down state budget deficits but also to strengthen the role of the market in allocating resources and in many instances, such as transport or food subsidization, this too will affect import demand.

Adjustment programmes are based on the assumption that state intervention in the productive sectors of the economy should be minimized as it is associated with inefficiencies and the retardation of economic growth. Thus, reducing public ownership and state regulation, and improving conditions under which private enterprise operates, are given a heavy emphasis, as is improving the ‘capacity’ of the remaining public sector.

While there has been much debate about these programmes since their inception, it is clear that their underlying philosophy of economic liberalism now shapes economic policy in most countries of the South. This is so not merely because it has been forced on countries through their debt and aid dependence and their lack of financial alternatives in a global environment which has been far from benign since the early 1980s, important though this has been. Contributing to it has been the collapse of the USSR and Eastern European communism which has had the effect of discrediting most forms of state intervention and departure from market signals. This has coincided with a growing intellectual hegemony by the World Bank (and to a lesser extent, the IMF) over appropriate approaches to economic development, academics and policy makers alike being bombarded by books and papers (and seemingly limitless publications budgets in the IFIs) giving support to their neo-liberal paradigm. Part of this process has involved incorporating at least some
of the earlier criticisms of adjustment programmes into programme design or, at least, into official rhetoric, thereby lessening debate. Part of it has involved co-opting international donor agencies which previously were sceptical or agnostic. Thus the DAC, which had been relatively non-committal on what economic policies recipient countries ought to follow, became an aggressive advocate of the orthodoxy in its 1991 report on Development Co-operation. In the same year, the UNDP, which was originally a proponent of more nuanced approaches to adjustment, became a slavish proponent of the orthodoxy. Finally, after some years of hesitancy, in 1994 the European Community appeared to be tightening conditionality on African, Caribbean and Pacific (ACP) countries seeking aid under Lomé IV to force them not only to promote the market and private enterprise, but also European style democratic institutions, trade unions, legal institutions and reformed government structures (Islam, 1993–94). For these various reasons, and for better or worse, structural adjustment policy has now become, in effect, economic development policy.

To some extent, the debate about structural adjustment has been one about global equity, about which countries and which classes within them should bear the burden of global instability and crisis. This aspect of the debate takes a number of forms but revolves around the issue of financing versus adjustment. Given that there are trade-offs between the two, one can imagine a number of scenarios where the balance is tilted much more heavily towards the former than the latter. Thus, relieving import strangulation in heavily indebted countries would probably do more for growth and a recovery of investment than anything else would. The large debtor countries could and do argue that the intervention by industrialized states in the management of the debt crisis had the effect of greatly raising and maintaining capital outflows, to levels well beyond what they would have been had the banks been subject to the same kind of market discipline that the IFIs have been imposing on debtor countries, that is they had to write down their debt to market levels and take their losses as they did so. This would have greatly reduced debt servicing costs and permitted an earlier recovery instead of forcing debtors to endure what has become known as 'the lost decade'. In effect, an asymmetric adjustment process was adopted involving massive and abrupt adjustment on the part of debtors and gradual, state-supported adjustment by the global banking system (Devlin and Ffrench-Davis, 1994).
There were other asymmetries in the global adjustment process of the 1980s affecting the balance between financing and adjustment in Third World countries. The huge balance of payments surpluses of Japan and West Germany were used, not to assist the developing world, but to finance the spending of the richest country in the world. The irony of the USA taking the lead in the IMF and World Bank in forcing poorer countries to balance their budgets and external accounts while itself running a fiscal deficit of $200 billion and an external deficit of the same order, has not been lost on Third World observers.

Finally, although the IMF and IBRD tend to play this down, deterioration in the terms of trade had played havoc with Third World reform programmes in the late 1980s and early 1990s and, for many countries in Sub-Saharan Africa, have more than offset any increase in official aid flows (Helleiner, 1993b). A more rational and equitable global order would provide income maintenance payments or at least some form of contingency funding for countries facing such losses during adjustment programmes. This is acknowledged in principle by the international financial institutions and finds reflection in the IMF's Compensatory and Contingency Financing Facility, which now allows for contingent borrowing in the face of fluctuations in international prices or interest rates, but the facility is quite small and is, in any case, a loan scheme. What makes the situation worse from a Third World perspective is, as we shall see, that to some degree, international prices have deteriorated because they undertook reform programmes.

Thus, the debate about adjustment in the Third World cannot be divorced from debate about global trade and financial management and about issues of global equity. But given global institutions as they are and, therefore, the severe limitations on the ability of Third World governments to finance their way out of crisis, what can be said about the appropriateness of 'orthodox' adjustment programmes? Is there any debate left or is the World Bank/IMF hegemony in this area now complete?

To begin with, it has to be said that many critics of early efforts at adjustment were those who had most to lose by it, but over whose losses one should not shed many tears; those earning rents from price controls, exchange controls and import licensing. Secondly, reform of many economies was overdue as several policies were unsustainable, that is grossly overvalued exchange rates; inadequate producer prices to farmers; over-regulation of produce
markets to the point where most peasants were *de facto* criminals; the intrusion of the state into economic areas where it was ill-equipped to operate, such as small retail trade; the heavy subsidization of many state enterprises that were nominally self-supporting; and large and growing fiscal deficits. The result was an acute shortage of essential imported goods, dislocation of domestic industrial production, falling growth rates (at least in the recorded economy) and rapid rates of inflation in unofficial if not official markets. These situations were often brought on or aggravated, in part, by an adverse external environment, but given the limits to compensating inflows of capital, governments had no option but to deal with them by changing economic policy. To this degree, some form of adjustment was needed and much of it would, inevitably, have to look somewhat like an orthodox IMF/World Bank programme. What then are the issues for debate?

There are at least five main interconnected areas of contention: their encroachment on sovereignty, their distributional impact, their theoretical coherence in terms of long-run strategy, how well they work in practice and how sustainable they are politically.

The degree to which international agencies and bilateral donors intervene in domestic policy formulation in the Third World is without precedent since colonial times and would be quite unacceptable in industrialized capitalist economies. The Policy Framework Papers which govern the conditionality of low income countries lay out a myriad of specific economic reforms to be carried out over the 3-year period. While nominally 'owned' by the government receiving assistance, it is widely acknowledged that most of them are drawn up in Washington by IMF and Bank staff and merely presented to recipient governments for retyping and signing. Only in exceptional cases and within very narrow bounds do recipient governments shape the content of these documents. This appears not to concern proponents of structural adjustment and they see nothing inconsistent between this crude dictating of economic policy and their use of loan agreements to pressure Third World governments to democratize their societies. The effect is to stifle debate, to limit the input of local people who have to live with the impact of reform and to reduce programmes to a formulaic homogeneity which differs in essentials only slightly from country to country. It also limits local commitment to reform programmes and encourages non-compliance.

The second area of concern has to do with the uncertain distri-
butional impact of these programmes. In the early days of structural adjustment, neither the Fund nor the Bank even bothered to concern themselves explicitly with the issue. The Fund argued it would be interfering in domestic sovereignty if it were to become involved in such matters, even while it made recommendations on prices, exchange rates, subsidies, public sector wages and user fees for social services! Only after pressure was put on them by Unicef, NGOs and bilateral donors did the international institutions begin to consider distributional issues and, even then, only in a partial and narrow way. In 1988 the Fund acknowledged the need to protect the poorest in its programme design while, since 1987, the Bank has concerned itself with the social costs of adjustment. Again, the emphasis has been on protecting the poor and has taken the form of ‘adding on’ mitigating measures during adjustment to help laid-off workers find alternative livelihoods, to ensure that essential drugs are available, to rehabilitate education institutions and to create jobs through public works. There is some evidence that emergency social funds can be effective in shielding the poor during policy adjustment, most notably by the provision of temporary employment (Newman, Jorgensen and Pradhan, 1991). The Bank has also introduced Living Standards Surveys to help monitor the social impact of programmes and works with the African Development Bank and UNDP to collect and monitor data under a Social Dimensions of Adjustment Programme. Both the Fund and the Bank see structural adjustment as being essential for economic growth and see economic growth as being the best way to reduce poverty although, in its more nuanced documents, the Bank will admit that there may not be an automatic link and that specific anti-poverty interventions may be necessary.

There is a presumption in the design of adjustment programmes and one which is repeated frequently in Bank publications (e.g. World Bank, 1994a), that poor people live almost entirely in rural areas, and that since adjustment programmes shift the terms of trade away from urban areas towards rural areas, they will, inevitably, reduce poverty. Neither of these assumptions is necessarily accurate. Living standards of workers in the formal and informal sectors of urban areas of many countries fell dramatically both before and during adjustment programmes, and it is not clear that the extent of urban poverty is accurately known. Secondly, class relations in rural areas are quite complex and it does not follow that the poor are likely to benefit automatically from increased rural
Interdependence, Disequilibrium and Growth

incomes; much will depend upon their access to land or employment and the terms of that access. Moreover, some elements of adjustment packages appear to threaten recent gains by poor farmers where those gains have been based on pan-territorial pricing and state-subsidized transport and other inputs (Loxley, 1990). Little wonder, then, that the empirical evidence on the impact of adjustment on the poor is quite mixed (Haddad, Brown, Richter and Smith, 1995), suggesting the need for great caution in the design of policy reform.

The gender impact of adjustment is a central distributional concern which has only recently begun to receive the attention it warrants. Relations of production and reproduction are gendered, often in complex ways which vary greatly from country to country, and often between different societies or regions within the same country. While structural adjustment policies seek to achieve narrowly defined economic objectives using ostensibly technical economic tools it is, in reality, through their impact on social relations that they affect the economy. Thus, changes in relative prices affect the level and composition of output by changing the level, intensity and direction of labour input or the relations of exchange between producers, traders, transporters or the state. Changes in taxation or government spending may cause significant shifts in the allocation of labour available to households or in the accessibility of family members to important social services, such as health or education. These reactions are not likely to be gender neutral and we are only now beginning to appreciate the possible complexity of the gender impact of adjustment (see Bakker, 1994; Benería, 1995; Benería and Feldman, 1992; Elson, 1989, 1995; Gladwin, 1991; Haddad et al., 1995). Thus, while public sector lay-offs sometimes hit women harder than men, the abolition of food subsidies and resulting queues for scarce foodstuffs has been shown to reduce demands on women's time. While import liberalization has sometimes led to the closure of industries catering to domestic consumption, such as textiles, in which women made up a significant proportion of the labour force, the promotion of industrial exports has sometimes led to more employment opportunities for women. Promotion of traditional exports, on the other hand, and cut-backs in social services, often place increasing demands on already overburdened women. To the extent that adjustment programmes do increase the incidence of poverty, this also raises gender concerns since women tend to be over-represented among the poor and es-
especially among the poorest of the poor (Haddad et al., 1995; UNDP, 1995, p. 40).

What is striking about the literature is how little of it originates in the IMF and World Bank, how inadequate are existing data to gauge the gender impact of adjustment and how ambiguous are the findings in the few empirical studies to date which have attempted to measure gender impact. Much more needs to be done to incorporate gender considerations into the economic models underlying adjustment policies, although a good start has been made recently (see Darity, 1995; Elson, 1995; Etürk and Çağatay, 1995; Taylor, 1995). More resources need to be devoted to refining research methodology and to conducting more systematic research at the level of the household.

After over 15 years of adjustment, therefore, we still have no clear idea of what the impact is on poverty, gender relations or income distribution as a whole. These ought to be central concerns of public policy.

The third area of contention has to do with the long-term coherence of these programmes in a number of different respects. First of all, there is evidence that the adoption of adjustment programmes by a number of countries producing similar primary export products has led to overproduction on a world scale, resulting in the collapse of world prices and the loss of any gains made by earlier production increases. This 'fallacy of composition' seems to have applied to beverage commodities in particular, but also to cotton, and has been responsible in recent years for the collapse of both the International Cocoa Agreement and the International Coffee Agreement. Table 3.8 is suggestive of this global output/price relationship.

While this problem may not apply to all primary commodities, even the IMF (1988) has acknowledged its applicability to beverages, and the World Bank (1994a) to beverages, tobacco and sisal. But while the Bank plays down the significance of the problem, these commodities account for more than half of Africa's agricultural export earnings.

Structural adjustment programmes also rarely contain explicit food production policies, the assumption being that this sector will benefit from import expansion, liberalization and the general growth of the economy. Insufficient attention is paid to food crop/export crop substitutions, market imperfections causing delays in relative price adjustments, transportation shortages and peasant household
labour constraints. Climatically induced fluctuations in harvests over the past few years have made it difficult to assess whether the IMF/IBRD assumptions are correct, but so little is known about what is happening to production at the farm level that caution is warranted in assuming that the food sector will simply be pulled along by policies explicitly geared to export promotion.

The long-term relationship between structural adjustment and environmental stability, or sustainable development, is also problematical. There are documented instances of export promotion causing severe ecological damage to forestry areas (Gibbon, Havnevik and Hermel, 1993) and to fish stocks (Loxley, 1992). A pattern is discernible of austerity measures adversely affecting government spending on resource policing and management (ibid.; Reed, 1992, p. 151). Poverty induced by structural adjustment measures is also said by some to put further pressure on the environment (Development Gap, 1993).

For its part, the Bank acknowledges that it did not originally pay attention to environmental matters, for a number of reasons. Principally, there is a belief in the Bank that adjustment programmes generally have a benign impact on the environment by sending the 'right' price signals for resource use (Munasinghe, Cruz and Warford, 1993). Other reasons were that lenders had not identified the environment as a priority, that dealing with environmental implications could only cost governments money which they did not have and, finally, because Bank staff simply did not see the connection between macro policy and the environment (Reed, 1992, pp. 3–4). As with poverty, the best means of addressing environmental problems is seen by the Bank to be through the stimulation of growth

### Table 3.8 World Prices and Outputs; Selected Commodities, 1980–92 (1980 = 100)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1987</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>Output</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Price</td>
<td>100</td>
<td>75</td>
</tr>
<tr>
<td>Coffee</td>
<td>Output</td>
<td>100</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>Price</td>
<td>100</td>
<td>72</td>
</tr>
<tr>
<td>Cocoa</td>
<td>Output</td>
<td>100</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td>Price</td>
<td>100</td>
<td>77</td>
</tr>
<tr>
<td>Tea</td>
<td>Output</td>
<td>100</td>
<td>129</td>
</tr>
<tr>
<td></td>
<td>Price</td>
<td>100</td>
<td>77</td>
</tr>
</tbody>
</table>

*Source:* FAO Yearbook.
And as with poverty, no thought appears to have been given, until recently, to the possibility of growth actually being the *cause* of environmental problems. There has been more attention paid to environmental issues in adjustment programmes in recent years, with some 60 per cent of those approved between 1988 and 1992 having environmental goals or addressing specific environmental issues (Munasinghe et al., 1993, p. 41) but since the Bank admits to knowing little about the linkages between adjustment and the environment, scepticism still persists.

Adjustment programmes appear also to have lacked coherence on the issue of restoring the rate of investment and promoting both foreign and domestic investment. Investment rates have generally fallen during reform and it is not at all clear why, but the implications for long-term growth could be very serious. It may be that, under financial liberalization, exchange rate flexibility and tight money policies, real interest rates become very high in adjusting countries. This would tend to push investors into financial assets or real estate, or speculative assets rather than into direct investment. In countries with huge debt overhangs, which adjustment is supposed to support, all new investments are instantaneously discounted, through arbitrage, to the market value of debt, so that high real interest rates prevail in all markets and new investment, foreign or local, is discouraged. Finally, the debt overhang discourages investment in export industries because of the uncertainty surrounding retention of earnings (Loxley, 1994).

Likewise, it has proven almost impossible to attract foreign investment into low income adjusting countries and much more difficult than envisaged to promote local capitalism. To some degree, this is simply symptomatic of the fact that in some countries the state expanded its activities because the private sector was ill-developed. In other instances, the local capitalist class was footloose and has left or been expelled. In yet others, the problems of taking over large state enterprises in some state of disrepair, perhaps even with huge liabilities, is too daunting. Whatever the reason, the assumption of a ready made class of capitalists waiting in the wings has not been realized.

The wisdom of countries liberalizing their capital accounts is also open to debate. This often leads to large initial capital inflows which lead to an *appreciation* of the exchange rate and resulting difficulties for the real sector of the economy. These inflows put pressures on often shaky banking systems and lead to distortions in the
structure of production, favouring non-tradable goods at the expense of tradable goods (Fanelli and McMahon, 1996, p. 36). Capital flows respond sensitively and often dramatically to short-term factors, such as changes in relative interest rates, which 'have little to do with the longer-term economic “fundamentals” or the requirements of successful longer-term development strategy' (Helleiner, G.K., 1995a, p. 44). The 1994 Mexican crisis demonstrates graphically the highly volatile nature of private capital flows under a liberalized regime and underscores the long-term damage to the economy or, more precisely, to the people of the country involved, that the rapid departure of capital can cause. It was precisely a desire to minimize the havoc that speculative capital flight can wreak that led Keynes (1933) to argue that 'above all, let finance be primarily national'.

These issues of long-term coherence are brought into sharp focus by the Bank's frequent appeal to the performance record of the four East Asian 'tigers' as a rationale for externally oriented growth, less state intervention and greater reliance on market forces in its adjustment programmes elsewhere. The remarkable success of the NICs in the 1970s and 1980s has become the implicit model on which policies of 'openness' for the rest of the South are based (Balassa, 1989). There are, however, at least two major problems with this model; the first concerns its historical interpretation, the second its possible future replicability.

In associating NIC experience with external openness and internal market orientation, the advocates of structural adjustment mis-specify the history of the four East Asian NICs, ignoring the years of inward-looking import substitution that made later outward orientation possible (Bienefeld, 1983). They fail also to appreciate the role played by import controls even in the outward orientation phase (Sachs, 1986), underestimate the importance of state intervention and industrial policy in the industrialization experience, and in regulating and channelling domestic finance to chosen sectors. In fact, the policies pursued by the four were, in many respects and for many years, the exact opposite of those advocated by the Bank. The Bank also failed to recognize the unique strategic factors which assisted some of them to attract foreign capital in the early days (Thomas, 1974).

Since Japan developed along very similar lines to the four NICs, it has been alone among major donors in being uncomfortable with
the misreading of their historical record by the Bank and by the Bank's single-minded attachment to neo-liberalism. Under pressure from the Japanese government, the Bank recently studied the historical experience of the 'East Asian Miracle' (World Bank, 1993a) and concluded that the 'market-oriented aspects of East Asia's experience can be recommended with few reservations. More institutionally demanding strategies have often failed in other settings and they clearly are not compatible with economic environments where the fundamentals are not securely in place’ (ibid., p. 26). Critics of the Bank who have also studied that experience were appalled at these conclusions, arguing that they are ‘quintessentially political and ideological’ and not supported by the evidence the Bank itself cites (Amsden, 1994, p. 627). To conclude that 'industrial policy had little structural effect... flies in the face of overwhelming micro-level evidence that most promoted activities would not otherwise have been undertaken... the whole exercise is a masterly piece of obfuscation' (Lall, 1994, p. 651).

On a different note, some have expressed doubt about the replicability of the Asian NIC experience in terms of penetrating world markets. Cline (1982) has argued that generalizing the Asian NIC model would swamp world markets for manufactured goods and generate protective reactions in the North. Others, such as Balassa (1991), on the other hand, do not see world demand or access to markets as the main problem. Instead, they see the main obstacle being greater production of manufactures for export by the South and hold governments responsible for this for pursuing ‘inappropriate’ domestic economic policies. Without external protection and a supportive industrial strategy, though, the fear is that the manufacturing sectors of many Third World countries, opened up to import competition through structural adjustment programmes, would not survive to mature into producers for export. Thus the debate over the historical experience of the Asian NICs is a very relevant one and it is apparent from the exchanges over the Bank's interpretation of that experience just why it is that structural adjustment continues to be controversial, and why it is that many remain unconvinced of the long-run coherence of Bank policy advice. To complicate matters further, the relationship between export orientation and growth has not been established as an historical fact aside from these examples. It is not at all clear that export orientation is necessarily associated with faster growth; the empirical
evidence is ambiguous (Weston, 1989), especially for Sub-Saharan Africa where, however, growth and import shares appear to be correlated closely (Helleiner, G.K., 1986).

The fourth area of contention has to do with measuring and interpreting the historical record of adjusting countries themselves. Both the Bank and the Fund have devoted enormous resources to demonstrating that their programmes actually do produce positive results. Numerous studies have been carried out which are interpreted as supporting that conclusion (Donovan, 1982; Khan, 1990; Reichmann and Stillson, 1978; World Bank, 1989a, 1989b, 1994a; Zulu and Nsouli, 1985). In fact, at best the evidence is ambiguous and often it seems to suggest that programmes work less than half the time. Studies by academics outside the IFIs are even less flattering of the record of performance (Killick, 1984, 1995; Loxley, 1984; Mosley, Harrigan and Toye, 1991). There is not much benefit to be derived from examining the most recent ones closely as little is known about the extent to which governments actually implemented each component of the programmes, or what would have happened had they not had a programme or had they had a different programme. Furthermore, none of these studies is able to correct for favourable weather, shifts in the terms of trade or the failure of promised resource transfers to materialize, so one is not really sure of causation. In addition, the most recent evaluation for Africa by the Bank, mis-specifies the starting date of most adjustment efforts, claims for itself improvements which took place under programmes not sponsored by the Bank/Fund, seems to show that some countries with the worst record of adjusting policies had economic performances which were among the best and vice versa, and claims improvements in the poverty situation while acknowledging that it had no data on which to base that finding. Furthermore, even the ‘success stories’ enjoyed only modest improvements in economic growth, of 0.4 per cent p.a. on average. Even in Ghana, considered Africa’s success story, the Bank admits that the poor ‘will not cross the poverty line for another fifty years’ (Laishley, 1994).

This is not to deny that, faced with severe external balance and limited, if not falling, external financing, adjustment of some sort is needed. If external debt obligations are to be met then the resulting imbalances must be rectified by either an increase in income and/or a reduction in domestic absorption such as in domestic consumption or investment, both private and public. What must be understood about the widespread application of IMF/IBRD struc-
tural adjustment programmes in the 1980s was that they were, indeed, premised on the assumption that external debt obligations, by both big debtors and poor countries alike, could and must be met. This assumption has looked increasingly suspect in recent years, as private banks have protected their flanks by building up reserves, as official funds have been used to encourage debt write-downs, as bilateral debt of the poor is being increasingly written off, as the finances of the IMF and the Bank have been strengthened to forestall or protect against possible loan losses as large debtors reach the political limits of continuing austerity programmes. These developments should serve to throw doubt on current efforts to restructure the South, premised, as they have been, on maximizing the South’s debt servicing capacity (Bienefeld, 1994). If the South were to collectively repudiate its debts, its external imbalances would disappear overnight and the intrusive power of the IMF/IBRD would disappear with it. Only then would the South be in a position to assess, objectively, its preferred approach to structural adjustment; but this is unlikely to happen.

As it is, and in spite of occasional militant sounding noises from debtors, debt obligations continue to be acknowledged and adjustment programmes continue to be implemented. Restructuring often involves fundamental shifts in state policy, in the structure of state institutions and in the political balance of the country concerned as attempts to create a new regime of accumulation have far-reaching social and political implications. Such transformations rarely proceed smoothly simply because they do involve realignment of political and economic influence and although the process of ‘internationalizing’ the South is little different from that being pressed on to countries of the North (c.f. Canada and the FTA and NAFTA), it is more transparently the result of external pressures and hence, even when promoted by those nationals ideologically in tune with the IMF/IBRD, it breeds more awareness and more resentment among nationalists of the South (Cox, 1987, p. 265).

A principal objective of structural adjustment programmes has been to weaken the state and to shift economic power to market oriented groups. In effect, this entails radically altering the institutional structure of adjusting countries and the power relations within them and this is often accompanied by significant shifts in the distribution of income and wealth. It should come as no surprise, therefore, that the political ramifications of adjustment policies can be very far reaching. The initial effect of adjustment programmes is
often to heighten political instability as the state 'loses revenue, influence and status' (Shaw and Inegbedion, 1994, p. 400). The undermining of existing institutions often proceeds at a faster pace than the creation of viable new ones, and the polarization of society is enhanced as the new economic regime creates distinct winners and losers among workers, rural dwellers and middle-class professionals, according to their ability to gain access to foreign exchange and to take advantage of new market opportunities. Indeed, the absence of a strong middle class and the failure of adjustment to promote a relatively egalitarian society helps explain the difficulty of building strong, stable national institutions. Once again, the prescriptions of orthodox adjustment packages are at odds with the experience of successful adjusters in East Asia; these societies tend to be much more egalitarian in terms of income distribution and this is held to explain, in part at least, their success in building strong national institutions (UNRISD, 1995, pp. 48–9).

There is also the question of the relationship between economic adjustment and political liberalization, a question we will touch upon later in Chapter 4D in discussing the 'transitional economies' of Eastern Europe. In the early days of structural adjustment, the IMF held that successful reform requires 'strong' governments (Thorp and Whitehead, 1980, p. 11) and this was interpreted to mean governments not too concerned about democracy. Critics argued that reform programmes were, in fact, associated with authoritarianism, the stifling of debate and political opposition (Bangura, 1986, 1992; Beckman, 1992; Hutchful, 1987) and that 'a programme of structural adjustment which is not backed by a political programme which has wide support amongst the population has every chance of failing' (Campbell, 1989, p. 160).

More recently, as the political implications of reform have begun to receive more serious treatment, both the Fund and the Bank have moved to occupy positions taken by their critics. The Fund has spoken of the need to build consensus so as to achieve a critical mass of reforms (IMF Survey, 8 January 1996, p. 23), while the Bank has argued that '(o)only with strong government commitment and widespread public backing will policy reforms be sustained' (World Bank, 1994a, p. 217). Both speak of the need for good governance, accountability, open discussion of policy, human rights and the rule of law. This suggests that reforms would need to be democratically based in order to be effective. The difficulty is that reforms are likely to disturb the economic basis of political con-
stituencies of governments, the patron–client relations underlying the old political order. As such, 'structural adjustment is politically precarious for African leaders... (and) potentially at odds with democratic development. No matter how beneficial they are in the long-term, stabilization and adjustment entail short-term costs and have politically volatile distribution implications which imperil the durability of economic reform and the stability of African regimes' (Schmitz and Gillies, 1992, p. 58). The problem then is how can reform be sustained politically when support for it is weak and fragmented? (Bangura, 1992; Beckman, 1992).

Latin American experience suggests that the relationship between political and economic liberalization is quite complex. It appears that established democracies perform just as well as authoritarian regimes in implementing economic reform. The lack of a coherent political opposition seems to be the common element here, but the commitment of democratic governments to reform must also have strong support among the public. Emerging democracies, however, appear to find it difficult to impose economic discipline (Schmitz and Gillies, 1992, pp. 59–60) and may retreat to centrist, non-participatory approaches to decision making. This backsliding may be tolerated if it is widely held to be a temporary measure and if it brings clear economic rewards, but it could be very damaging to fledgling democratic institutions (Damill and Frenkel, 1996). The scope for public debate about adjustment programmes tends to be very circumscribed whatever the political regime, reforms being presented as self-evident technical necessities. In this sense there is 'a definite solution of continuity between the authoritarian and the electoral phase of neoliberalism' which 'produces an effective loss of citizenship' (Nef, 1995, p. 73).

If debts are to continue to be met and if import bottle-necks are to be lifted then governments have few options but to accept IMF/IBRD programmes. In some cases, the threat of aid withdrawals is an added lever pulling governments in this direction. Some governments have taken this route in the hope that after pump-priming the economy in this way they could restore the generation of surplus and direct it towards more inward-looking strategies of development. The classic cases of this are countries like Ghana, Uganda, Tanzania and Mozambique. Whether or not this kind of 'tactical' use of adjustment resources and programmes is feasible or whether it gives rise to new chains of indebtedness and aid dependence, and whether the state will, in the process, lose its
ability to pursue 'national policies' and control of the surplus, remains to be seen. The evidence to date is not, however, encouraging as adjustment programmes create their own social and political dynamic which tends to be antithetical to inward-looking development.
4 Reordering Global Relations: Threats to the South

Having dealt at some length with trends in North–South relations in the decade of the 1980s, as they apply to production, trade, finance and income distribution, this chapter is more speculative and examines four developments of a policy and/or structural nature which could well have important implications for North–South relations in the decade of the 1990s. These are: (i) a reduction in the US external (and internal) deficit; (ii) the possibility of the world economy being dominated by a triad of large trading and investment blocs; (iii) the implementation of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT); and (iv) the collapse of communism in Eastern Europe and the Soviet Union. The first three are indicative of how increasingly difficult it is becoming for capital to deal with the long-term decline in profit rates and for governments to cope, policy-wise, with the resulting instability. With the collapse of the Soviet bloc, competition between major capitalist powers is, once again, a more transparent feature of international affairs, even as capital becomes more globalized. Formal agreements for regional or multilateral cooperation set the legal and political framework within which this competition will be played out and reflect the ongoing tensions between still strong national interests, emerging regional interests and the tendency to globalization.

The governments and people of the South have very little input into how each of these four issues will be managed but they will, nonetheless, be deeply affected by their outcomes. Each offers the South the prospect either of greater opportunity or of greater instability and increased difficulty of policy management. The precise impact will depend only partly on how the major capitalist powers shape or have shaped policy; it will vary greatly from one part of the South to another, depending crucially, following the analysis of earlier chapters, on how specific countries or groups of countries are located within the international capitalist division of
labour. Likewise, the impact of the reinsertion of the former Eastern Europe and the Soviet Union fully into the ambit of global capitalism will likely vary greatly from one part of the South to another, depending on how close countries were to the collapsed system and how likely they are to be competitors of the so-called 'transitional economies' for international finance and trade.

A. DEALING WITH THE US BALANCE OF PAYMENTS DEFICIT

The relative stability of the combined balance of payments deficit of industrialized capitalist countries in the first half of the 1980s (Table 3.1) hid some massive imbalances between individual countries. In particular, the USA balance of payments deteriorated by over $150 billion, from a surplus of $8.2 billion in 1981 to a deficit of $145 billion in 1986. This was offset largely by both Japan and West Germany (as it was then) enjoying huge balance of payments surpluses (Table 4.1). In 1987 the US deficit reached $167 billion.

The growth in the US deficit coincided with a massive growth in the trading deficit of the US with the South. While US imports from the South exceeded exports to the South by $14 billion in 1982, this deficit ballooned to $72 billion by 1987 (Table 4.2), equal to 60 per cent of the US current account deficit in that year. Over a half of this trade imbalance was accounted for by trade with the four East Asian NICs, and about a fifth each with oil producers and Latin America. Since the mid-1980s, there has been a fear among countries of the South that the US might attempt to reduce its external deficit in ways which would impact negatively on their exports and, therefore, on income growth, by the direct imposition of trade restrictions, through restrictive domestic policies or through exchange depreciation.

There was no agreement in the US as to what was driving the current account deficit and the problem was that some of the explanations seemed to imply that reducing the deficit could be achieved only in ways which would damage the interests of the South. US policy towards the deficit became, therefore, a matter of great concern to the South and as the deficit is forecast to rise strongly in the coming years, this issue will remain an important one for South–North relations for some years to come.
Table 4.1 Balance of Payments and Trade Balance, Industrial Countries, 1981–93 ($b)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of Payments</td>
<td><strong>-23.7</strong></td>
<td><strong>-27.1</strong></td>
<td><strong>-66.7</strong></td>
<td><strong>-84.2</strong></td>
<td><strong>-35.6</strong></td>
<td><strong>-41.4</strong></td>
</tr>
<tr>
<td>Industrial Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td><strong>+8.2</strong></td>
<td><strong>-145.4</strong></td>
<td><strong>-167.3</strong></td>
<td><strong>-101.6</strong></td>
<td><strong>-6.9</strong></td>
<td><strong>-67.9</strong></td>
</tr>
<tr>
<td>Japan</td>
<td><strong>+4.8</strong></td>
<td><strong>+85.8</strong></td>
<td><strong>+87.0</strong></td>
<td><strong>+57.2</strong></td>
<td><strong>+72.9</strong></td>
<td><strong>+117.6</strong></td>
</tr>
<tr>
<td>Germany</td>
<td><strong>-3.6</strong></td>
<td><strong>+39.5</strong></td>
<td><strong>+45.9</strong></td>
<td><strong>+57.4</strong></td>
<td><strong>-19.2</strong></td>
<td><strong>-21.0</strong></td>
</tr>
</tbody>
</table>

Trade Balance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Countries</td>
<td><strong>-6.5</strong></td>
<td><strong>+18.0</strong></td>
<td><strong>-32.8</strong></td>
<td><strong>-36.9</strong></td>
<td><strong>+17.9</strong></td>
<td><strong>+35.3</strong></td>
</tr>
<tr>
<td>USA</td>
<td><strong>+12.6</strong></td>
<td><strong>-121.5</strong></td>
<td><strong>-159.6</strong></td>
<td><strong>-90.3</strong></td>
<td><strong>-28.5</strong></td>
<td><strong>-96.1</strong></td>
</tr>
<tr>
<td>Japan</td>
<td><strong>+6.2</strong></td>
<td><strong>+87.3</strong></td>
<td><strong>+96.4</strong></td>
<td><strong>+37.9</strong></td>
<td><strong>+58.7</strong></td>
<td><strong>+132.3</strong></td>
</tr>
<tr>
<td>Germany</td>
<td><strong>+2.4</strong></td>
<td><strong>+46.8</strong></td>
<td><strong>+70.5</strong></td>
<td><strong>+64.1</strong></td>
<td><strong>-1.9</strong></td>
<td><strong>+32.2</strong></td>
</tr>
</tbody>
</table>

*a Data for Germany before 1990 apply to West Germany only.

Source: IMF, World Economic Outlook.

Table 4.2 US Trade with the South, 1987 and 1992 ($b)

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports</td>
<td>Exports</td>
</tr>
<tr>
<td>Latin America</td>
<td>44.3</td>
<td>29.6</td>
</tr>
<tr>
<td>Four E. Asian NICs</td>
<td>61.3</td>
<td>23.6</td>
</tr>
<tr>
<td>China</td>
<td>6.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Oil Exporters</td>
<td>24.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Africa</td>
<td>12.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Total South</td>
<td>161.3</td>
<td>89.6</td>
</tr>
</tbody>
</table>


The Council of Economic Advisers gave three reasons for the growth of the US deficit in the early 1980s. To begin with, the debt crisis reduced the demand for US goods by Latin American and other debtors by reducing their ability to pay for them. The Council has argued that this factor was responsible for 'somewhat less than 25 per cent of the increase in the deficit between 1980 and 1984' (Fieleke, 1988, p. 136), or by less than a quarter of $108 billion in the years in question. This is consistent with the estimate of Cline (1989) of between $12 and $25 billion. While explaining only a minor portion of the overall growth in the deficit, these sums are huge from the point of view of the South, accounting for between 9 and 19 per cent of their 1981 import level, and represented annual losses.
The Council's second explanation of the growth of the deficit is the appreciation of the dollar between 1980 and 1985. In those years the real effective exchange rate of the dollar rose by 46 per cent. This was the result of foreign capital flowing into the USA in response to high real interest rates, themselves a product of a conservative monetary policy and growing fiscal deficits as the Reagan government sought to achieve economic recovery through military-Keynesian solutions and reduced tax burdens on the rich. Between 1979 and 1985, the fiscal balance of the US turned from -0.5 per cent of GNP to -3.3 per cent GNP, or to a deficit in excess of $200 billion. The gap between domestic savings and investment was filled by an inflow of foreign investment which rose from -0.1 per cent GNP to +2.9 per cent GNP in 1985. This pushed up the value of the US dollar in terms of the currencies of its major trading partners and seriously undermined US competitiveness. US export earnings fell by almost $30 billion or by about 10 per cent in current dollar terms between 1981 and 1983 and stayed below their 1981 level until 1987. Imports, on the other hand, rose strongly, by $282 billion between 1981 and 1986, or by 48 per cent (International Monetary Fund, *IFS*, 1988, p. 721).

While the strong dollar would have made imports more attractive, unusually high rates of economic growth also contributed to the surge in import demand and, therefore, constituted a third factor explaining the increase in the external deficit. Growth rates of GNP in the early 1980s were well in excess of those in the previous decade, reaching a peak of 6.7 per cent in 1984, and acted as a source of expansion for the global economy as a whole. This factor was identified by the Council as being responsible for 25 per cent of the current account deficit. The appreciated dollar was held to explain in excess of 50 per cent and was considered, therefore, to be the single most important factor (Fieleke, 1988, p. 136).

One could argue that if the Council of Economic Advisers was correct in its analysis of the causes of the deficit, then the appropriate remedies would follow from their diagnosis. Depreciation of the dollar would be the main policy prescription followed by reduced growth rates and a lasting, expansionary solution to the debt problems of the major debtors. But there were many who disputed the Council's explanation of the growth in the current account deficit and even those who might agree with it recognized that dealing with the problem in these ways would not be a simple task. Disagreement centred around structuralist and monetarist inter-
pretations of developments in the US economy, although these labels do not do justice to the often high degree of overlap in these viewpoints.

There are a number of variants to structuralist views, but what they share is a belief that the growth in the manufacturing trade deficit is the key to the balance of payments problem and that devaluation would be, at best, but a partial solution and, for some, an infeasible or undesirable solution. Some see the problem arising from a secular decline in US productivity relative to Japan and other, often Asian, suppliers (e.g. Dertouzos, Lester and Solow, 1989, pp. 33ff). Structural deficits in a limited range of consumer goods explain most of the trade deficit; motor vehicles, electronics, apparel, footwear, paper products and furniture (Lenz, 1992, p. 547). Many of these industries are located off-shore and are unlikely to return simply through devaluation, though such devaluations may be required to maintain current capacity and current export competitiveness. The solution lies more in raising the rate of investment to raise productivity. This could be achieved by attracting foreign direct investment, which is already important in automobiles, but especially by raising the domestic rates of investment. This will require improvements in the fiscal and regulatory environment in which manufacturers operate.

Others, who share the view that lack of adequate investment is the key, focus more on the need to raise the domestic savings rate. This would be achieved by eliminating the fiscal deficit, by reducing the rate of growth of consumption and by reducing the effective cost of capital by lowering the tax burden on savings (Hatsopoulos, Krugman and Summers, 1990). While these solutions are designed to improve the US trade balance by encouraging greater import substitution and improved export competitiveness, they need not pose any great threat to Southern suppliers. Provided US domestic savings were raised by restraining consumption growth, rather than by reducing consumption as a whole, and provided the deflationary impact of fiscal deficit reduction were offset by increases in exports and domestic investment, the market for southern manufacturers could still grow.

Yet another structuralist interpretation of the deficit sees it as the result of unfair trading practices by foreign governments. Institutional structures and practices are said to block access to some markets, patents and copyrights are ignored by others, while a number of countries are accused of ‘dumping’ products in the US, either
by underpricing or by explicit or implicit subsidization of exports. This point of view has helped spawn the 'managed trade' school of thought which advocates direct trade action by the US government to rectify these perceived wrongs. Third World and other countries enjoying high rates of growth of exports to the US or a strong trade surplus with the US would be obvious targets for this policy approach and such countries would have cause for genuine concern if this approach to deficit management were to become influential.

A final 'structuralist' school of thought, which leads to a strand of managed trade in its policy prescriptions, is one which denies the efficacy of devaluation as an instrument to solve the deficit problem. This holds that modest depreciations will have little impact and possibly a perverse impact (through the 'J' curve effect), while the large devaluations required to balance the account would be inflationary and lead to large deteriorations in the terms of trade. The US would become poorer but no more competitive (Kuttner, 1991). This analysis might suggest the use of tariffs to deal with trade deficits, as was argued by the Cambridge Economic Policy Group in the 1970s (Krugman, 1991, p. 296) which would be a cause of great concern to southern suppliers of manufactured goods.

Finally, there are those who see the close tracking of the US current account deficit and the US fiscal deficit in the 1980s as being evidence of a causal connection which runs from the domestic to the external sector. On this view, rectifying the external deficit will require improving the fiscal balance, as this will curtail the demand for imports and, where the economy is operating close to full capacity, allow for export demand to be met by reducing domestic absorption. The IMF lends credence to this view, acknowledging that, to some degree, 'the current account can be seen as an indicator of inappropriate fiscal policies', although it acknowledges that the US external deficit could also be seen, to some extent, as a reflection of international capital markets operating efficiently (IMF, WEO, October 1989, p. 39). Persistent deficits may, however, lead to 'adverse market reactions', involving 'a severe reduction of national income relative to domestic output' and, eventually, debt servicing difficulties and pressure for protectionist measures. If the US is to reduce its absorption of foreign saving, then it must reduce the fiscal deficit to make room for 'the corresponding expansion of net exports', or to channel any remaining inflows into the financing of domestic investment (ibid.).
Whatever the causation, the trade deficit of the US with the South ballooned in the early 1980s, but it should not be inferred from this that Third World imports are necessarily leading to the 'de-industrialization' of the USA. Fieleke (1988, pp. 142ff) has found that between 1980 and 1986 there was on average only a slight, 5.2 per cent, shift in the difference between exports as a share of manufacturing shipments and imports as a share of such shipments. Furthermore, 'little relationship exists between the percentage-point change in exports less competing imports as a percentage of an industry’s shipments, on the one hand, and the percentage change in industry employment, on the other' (ibid., p. 188). In a context of rapidly rising demand, he argues, both domestic production and imports can increase and 'disindustrialization' is, therefore, 'more nearly myth than substance'. Even where plant closings have taken place, in industries such as clothing, leather, radios, TVs and clocks, where import penetration has been greatest, it is pointless blaming foreign manufacturers. Harris (1986) has argued that US deficits caused by huge military spending are the basic cause and that 'it suited everybody to blame the foreigners and their wretched manufacturers for the difficulties rather than presidential war mongering... without foreigners, it would have been necessary to invent them' (ibid., p. 143).

The question being asked in the mid to late 1980s was whether or not the external deficit could be brought down to a sustainable level without bringing about a collapse of the global economy through trade and output contraction, through US-induced recession or heightened international protectionism. Cline (1989) defined that level as one which would stabilize or even slightly reduce the ratio of external debt to GNP and which could be financed by the reinvestment in the US of the earnings by foreigners on US assets, setting it at about $50 billion for 1992. He believed that a 'hard landing' could be avoided by international cooperation to realign exchange rates and by expansionary policies being pursued by all the main trading partners of the US except the four Asian Tigers. For its part, the US was to balance its budget by 1991.

Between 1985 and 1988 the US real exchange rate did depreciate significantly, by some 40 per cent. This led to a rapid growth in US exports, amounting to 60 per cent between 1986 and 1989, and to a moderation of import growth, which reached less than half this rate (IMF, DTS, 1993, p. 403). The net result was a significant improvement in the trade balance and in the current account balance.
Interdependence, Disequilibrium and Growth

(Table 4.1). This was accomplished without a recession in the US; indeed, GDP growth averaged around 3 per cent p.a. during this time. This has led some to argue that 'on the whole, recent analysis has tended to confirm the old-fashioned view that exchange rates work' (Krugman, 1991, p. 289), notwithstanding the existence of significant lags. The sharp contraction in the trade balance in 1990 was caused, however, by the onset of recession, as growth in the US import bill slowed down. In 1991 merchandise imports actually fell while exports continued to grow. This helps explain the virtual disappearance of the current account deficit in that year but this was also due partly to large, one time, inflows of capital from allies to help pay for the Gulf War. A hard landing was, however, avoided and import demand fell only in that one year.

By 1992, the trade deficit of the US had grown again, reaching $96 billion. Over a half of this was on account of trade with the South, in particular with the four Asian tigers, China, oil exporting countries (Table 4.2) and Brazil ($2.4 billion). The current account deficit had also grown again, reaching $68 billion in 1992 and $104 billion, respectively, by 1993, the latter being double what Cline had hoped it might be. By 1996 it had reached $165 billion, roughly where it was in 1987, and was equal to 2.2 per cent of GDP (IMF, WEO, May 1997, Table A28). It was expected to rise by another $20 billion in 1997. At the same time, optimism about reducing the fiscal balance is not high. It has been argued that the close tracking of the two deficits in the 1980s was due, in part, to the high cost of bailing out failed savings and loan institutions and was, therefore, for this and other reasons, spurious (Krugman, 1991, p. 316). This gave the orthodoxy some comfort in its view that exchange rates were the main issue. But the fiscal deficit has remained high and, though falling relative to GDP, was still at 2.7 per cent by 1996, and was expected to converge with the current account deficit in 1997 (IMF, WEO, May 1997, Table A14).

From the point of view of the South, the persistence of large internal and external deficits in the US raises a number of concerns. First of all, there is an issue of global equity when one of the wealthiest countries of the world is absorbing such a high proportion of global savings while the poor and middle income countries have difficulties obtaining sufficient external finance. Secondly, a hard landing was avoided in the past only because of fairly high growth rates in the industrialized world, which raises questions about both the sustainability and, more especially, the desirability of such
growth in the long term. These are issues which will be dealt with in the last chapter of this book; suffice it to say at this point that managing US deficits in ways other than through expanded growth raises important questions of equity, both in the US and internationally, which are not easily addressed.

The resurgence of the external deficit and the persistence of the fiscal deficit are likely to revive, in the near future, arguments about the relative effectiveness of various approaches to policy in the US and rekindle concerns in the South and elsewhere about the steps which might be taken to deal with them. These are not merely idle concerns for, as we shall see in the following chapters, the US did adopt some of the approaches of the 'managed trade' school of thought in the late 1980s and early 1990s, even as it sought to reduce its deficit through depreciation of the dollar. Managing the US economy, and regulating competition between the major capitalist powers, as well as between them and the emerging industrializing countries, will continue to be a major challenge throughout the last decade of this century; one with possibly profound implications for all countries of the South.

B. REGIONAL TRADING BLOCS?

In spite of the clear trends towards the internationalization of trade and capital outlined in Chapter 2, and its facilitation and legitimation by such international financial institutions as GATT, the IMF and the IBRD, there are concerns in some quarters that the world economy may break down into three large trading blocs, each pursuing liberalized trading policies within their own region but adopting neo-mercantilist policies towards nations of other regions (Smith, 1989, p. 25), thereby inhibiting if not reversing the process of globalization. The regional blocs would be North America, Europe and Asia and each would be dominated by a major national economic pole around which the other national economies in the region would revolve. These poles would be the USA, Germany and Japan, respectively.

At the root of these concerns lies the fact that globalization has had a definite regional character and that there are clear trends towards institutionalizing increased regional cooperation in both Europe and North America. Also, in the latter half of the 1980s both Europe and the USA began to pursue trade policies which
were very neo-mercantilist, the US government adopting an aggressive trade policy stance especially towards countries with which it has been experiencing large trade deficits. Finally, progress in the Uruguay Round of GATT talks had been very slow, with particular difficulty being encountered in the areas of services, agriculture and intellectual property rights. In this context, a US preference for bilateral trade agreements was seen by some to be especially threatening to global trade liberalization. What follows will elaborate on these themes and assess the possible implications of trade blocs for Third World countries. In the process, it will evaluate the likelihood of regional trade blocs emerging.

The regional character of global trade relationships can be seen in Table 4.3. Trade within each region tends to be larger than that with any other single region and is particularly dominant in the case of the EC, accounting for almost 60 per cent of total trade. Intra-regional trade has, in all cases, grown more rapidly since 1980 than has total trade (Table 4.4) and in the EC this simply reinforces a trend which has been very pronounced since 1958 – at which date intra-regional trade was only 35 per cent of the total (Lopez-Claros, 1987).

The data are, of course, far from being unambiguous. Asian/North American trade is almost as large as trade within North America and trade with the EC is still a significant proportion (19%) of total North American trade. Moreover, EC and North American trade with Japan/Asia has grown more rapidly than has trade within all of the three regions (Table 4.4).

Global patterns of investment are even more ambiguous than those for trade. Though data are incomplete, and tend to underestimate capital reinvested from profits, Table 4.5 suggests that there is considerable two-way investment between Europe and North America and that investment both ways increased significantly and consistently between 1975 and 1992. Until 1985 each region accounted for over half the direct foreign investment of the other and growth in this inter-regional investment was more rapid than the growth in their respective intra-regional investments. Since 1985, however, intra-EC growth has greatly outpaced growth in investment between the EC and North America. Though much of this increase may be a statistical illusion, as 1975 and 1985 data in Table 4.5 cover only Germany, the Netherlands and the UK, and the EC has enlarged since 1985, nonetheless, aggregate data suggest total EC foreign direct investment rose threefold between 1985 and 1992.
Table 4.3 Value and Relative Importance of Regional Trade, 1990 (Share of World Exports) ($US billion and %)

<table>
<thead>
<tr>
<th>Source</th>
<th>United States/Canada</th>
<th>Destination European Community</th>
<th>Japan/Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States/Canada</td>
<td>$347 (30%)</td>
<td>$217 (18.7%)</td>
<td>$324 (28.0%)</td>
<td>$1159 (100%)</td>
</tr>
<tr>
<td>European Community</td>
<td>$127 (8.0%)</td>
<td>$1649 (60.7%)</td>
<td>$205 (7.5%)</td>
<td>$2716 (100%)</td>
</tr>
<tr>
<td>Japan/Asia</td>
<td>$324 (23.9%)</td>
<td>$205 (15.2%)</td>
<td>$553 (40.9%)</td>
<td>$1353 (100%)</td>
</tr>
</tbody>
</table>

Notes: 1. Figures for each region are the sum of imports and exports. 2. Asia includes Hong Kong, Singapore, Taiwan, Korea, China and other ASEAN countries.

Source: IMF, Direction of Trade Statistics.

Table 4.4 Growth Rates of Inter- and Intra-Regional Trade, 1980–90 (% p.a. compound)

<table>
<thead>
<tr>
<th>Source</th>
<th>United States/Canada</th>
<th>European Community</th>
<th>Japan/Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States/Canada</td>
<td>8.5</td>
<td>7.0</td>
<td>12.0</td>
<td>7.9</td>
</tr>
<tr>
<td>European Community</td>
<td>7.0</td>
<td>7.9</td>
<td>13.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Japan/Asia</td>
<td>12.0</td>
<td>13.3</td>
<td>7.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Total</td>
<td>7.9</td>
<td>6.4</td>
<td>9.5</td>
<td>6.1</td>
</tr>
</tbody>
</table>

*Excludes Taiwan for which 1980 figures were not available.

Source: IMF, Direction of Trade Statistics, and author’s calculations.

while that of North America only doubled (UN, World Investment Report, 1994, p. 419). Interdependence, however, remains high. Japan’s overseas direct investments are surprisingly small given persistent balance of payments surpluses. This is because the main repositories of Japan’s high level of personal savings, insurance and pension funds have a preference for long-term foreign bonds (Ariyoshi, 1988). Yet Japanese overseas investment grew strongly over this period in all regions, especially in North America and Asia. Since 1985 there has been a surge in Japanese direct investment
Table 4.5  Regional Pattern of Reported Stocks of Direct Foreign Investment, 1975–92 ($US billion)

<table>
<thead>
<tr>
<th>Source</th>
<th>US/Canada</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US/Canada</td>
<td>34.6</td>
<td>74.2</td>
<td>117.2</td>
<td>51.4</td>
<td>161.9</td>
<td>223.5</td>
<td>3.3</td>
<td>9.2</td>
<td>28.7</td>
<td>124.2</td>
<td>250.7</td>
<td>582.8</td>
</tr>
<tr>
<td>EC(^1)</td>
<td>25.3</td>
<td>133.2</td>
<td>216.9</td>
<td>33.9</td>
<td>66.3</td>
<td>350.2</td>
<td>0.3</td>
<td>1.5</td>
<td>9.8</td>
<td>74.5</td>
<td>263.6</td>
<td>799.3</td>
</tr>
<tr>
<td>Japan</td>
<td>3.7</td>
<td>26.7</td>
<td>169.5</td>
<td>2.4</td>
<td>10.8</td>
<td>70.7</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15.9</td>
<td>83.6</td>
<td>386.6</td>
</tr>
<tr>
<td><strong>Total Stocks(^2)</strong> by Source</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>214.6 597.9 1768.6</td>
</tr>
<tr>
<td><strong>Total(^2) Stocks</strong> by Recipient</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>158.9 505.2 1286.7</td>
</tr>
</tbody>
</table>

Notes: 1. Includes only the Netherlands, Germany and the UK in 1975 and 1985; 2. Totals are for world as a whole from these three regions.

Source: Calculated from United Nations Centre on Transnational Corporations, 1988; and Industry Canada, 1996.
overseas by close to $300 billion, but the marked preference for bonds continues, their purchases totalling almost $490 billion between 1985 and 1995 (UN, WES, 1996, p. 333). Finally, Japan invests much more abroad than foreigners invest in Japan, and the gap widened considerably after 1985. This, as we shall see, has become a major source of friction with its trading partners.

Such ambiguities in trade and investment data have led some to conclude that the emergence of trade blocs 'is impossible, since the pattern of trade is global rather than regional' (Kolko, 1988, p. 232); 'the dominant trend is towards a more integrated global economy' and hence 'substantial regionalization of the global political economy is unlikely' (Gill and Law, 1988, p. 368). The guarded nature of this second conclusion reflects, of course, the uncertainties of global trade developments. Indeed, the very success of Japan, the four East Asian NICs and the other ASEAN countries in penetrating European and North American markets in recent years has prompted restrictive trade policies which, in the context of other trade developments, would seem to enhance the prospects for greater regionalization of world trade.

The overriding fear is that the unification of the European internal market since 1992 and the accession of Eastern European and EFTA countries might strengthen tendencies towards autarky in this region, while the Canada/US Free Trade Agreement (FTA) and the subsequent North American Free Trade Agreement (NAFTA), which includes Mexico, might give rise to an inward-looking North American trading bloc.

These fears have been fuelled by the adoption of neo-mercantalist policies both by the EC and the USA since the 1980s. Tariffs remain high in Europe and the US with one-third and 17 per cent, respectively, of items subject to tariff carrying most favoured nation rates in excess of 10 per cent. Non-tariff restrictions, especially in the form of voluntary export restraints (VERs) – or bilateral arrangements to restrain exports – have grown rapidly in recent years, from about 50 in 1978 to 135 in 1987 and to 260 in 1988 (Boonekamp, 1989) and most of these are accounted for by the EC and the USA. Indeed, of 99 major identifiable ones outstanding in 1986, the EC was responsible for 55, the US for 32. These covered steel, agricultural products, automobiles, textiles, clothing, electronics, etc. EC restrictions were aimed at Japan, covering an estimated 34 per cent of its exports to the EC in 1984, Taiwan, Korea, other developing countries and Eastern Europe. US restrictions were aimed mainly
Interdependence, Disequilibrium and Growth

at Japan, Korea, the EC and Brazil. Almost a third of Japanese
exports to the US are now covered by VERs (ibid.).

Since 1984, the EC and the USA have introduced tough anti-
dumping legislation and measures to prevent evasion of anti-dumping
charges. Of 1148 anti-dumping investigations initiated between 1985
and 1992, the EC was responsible for 242, the US for 300, with
Australia accounting for 282 and Canada for 129. The main re-
spondents were the EC or its members, 209; Japan, 105; the US,
100; reflecting the commercial tension between the three ‘mature’
capitalist poles. But emerging capitalist countries, mainly middle
income developing countries, were also major targets, especially
South Korea (78), China (69), Taiwan (68), Brazil (54) and Hong
Kong, Mexico and Turkey (22 each). The former socialist coun-
tries of Europe also attracted 139 investigations (Low and Yeats,
1994).

The agricultural sectors of the EC, North America and Japan
are highly protected and this is a major source of friction between
the three regions. The Common Agricultural Policy (CAP) of the
EC gives subsidies in the form of price supports which have led to
large agricultural surpluses, and which are said to be the equiva-
 lent of 40 per cent of producer income. US subsidies in the form
of deficiency payments, import quotas and VERs are estimated at
28 per cent of producer prices, and Canadian subsidies at 39 per
cent (Winglee, 1989). In Japan, high rates of protection on rice
(144%) in particular (Ray, 1986) lead to subsidies being the equivalent
of 69 per cent of the gross value of output (Winglee, 1989). Since
1985 the US has been particularly aggressive in attempting to counter
subsidized EC agricultural exports, the Export Enhancement Pro-
gram (EEP) being introduced in that year initially to help restore
the US share of world wheat trade, but more recently to promote
exports of other crops too. Agricultural trade policies have, there-
fore, caused increasing friction between the EC, Japan and North
America and were a major cause of disagreement in the current
round of GATT talks.

Frustration with multilateral trade initiatives which are seen as
slow, time consuming and involving ‘diffuse reciprocity’ (Keohane,
1986) have led to a new emphasis on bilateralism and ‘specific recipro-

city’, especially by the US. This new bilateralism is, in some
forms such as VERs, clearly at odds with trade liberalization, but
in others, the US claims it is a means towards strengthening global
free trade. Thus the Canada/US FTA of 1989 was said to conform
fully with Article XXIV of the GATT rules which permits the negotiation of free trade areas provided certain conditions are met. These are (i) that the FTAs cover most of the trade between countries involved; (ii) are implemented within a reasonable length of time; (iii) are designed to expand trade rather than restrict it; and (iv) do not result in raising barriers to trade with non-members of the FTA. Indeed, the official US view of such agreements is that ‘they can stimulate trade and strengthen the multilateral system... they can promote freer trade than the multilateral system is currently prepared to accommodate’ (George Schultz quoted in Smith, 1988, p. 91).

There can be no question that the FTA went well beyond what was eventually negotiated in the Uruguay Round of GATT talks in the depth of tariff cuts, in the scope of its coverage of services, investment, resources and agriculture and in its commitments to tackle subsidies (Lipsey and Smith, 1989). This is precisely the argument of its Canadian opponents – that it greatly reduces Canada’s ability to pursue national economic policy. The fear is that this form of bilateralism, though consistent with GATT rules, will undermine the multilateral process by diverting resources and political commitment. There is also a fear that replication of this type of agreement would be chaotic to administer (Krueger, 1989).

This new bilateralism was unquestionably an outgrowth of the failure of the US government to find other solutions to its external deficit problems discussed above and it is for this reason that FTAs were provided for as instruments of official US policy in the 1984 Trade and Tariff Act (Smith, 1988). The need to reduce deficits has also given rise to calls from influential policy advisors such as Kissinger, Vance, Thurow and Prestowitz (Lawrence, 1989) and academics (Krasner, 1986) for ‘managed’ trade with Japan. The 1990 Structural Impediments Initiative in which the US sought to negotiate access to trade and investment opportunities in Japan is a step in this direction. These bilateral talks led to Japan agreeing to increase spending on public works and to increase the access of foreign companies to this, to take steps to reduce monopoly and restrictive trade policies and to reduce land prices. In return for what opponents call an agreement to ‘remake Japan’, the Japanese argued that the US should raise taxes, restrict credit card use, raise savings and investment and improve productivity, if it wished to deal with its trade deficit (Winnipeg Free Press, 25, 28 March 1990). It is to be noted that this agreement, which will at best have only
a long-term impact, was arrived at in a context in which Japan was being warned by senior European and US officials that if it did not make such concessions it would risk losing investment and trade access (Globe and Mail, 5 February 1990).

In the US this would mean falling foul of Section 301 of the 1988 Trade Act which permits retaliatory action by the US government against countries thought to be restricting sales of US products. The persistence of huge US trade deficits with Japan well into the 1990s, inspite of large depreciations of the dollar relative to the yen, serve to emphasize the structural unevenness of global capitalism and the difficulties of global regulation of capital. Failure to redress global macro-economic imbalances has led, therefore, to the US and the EC taking stances which threaten to contract world trade and to do so in a way which heightens regionalism.

Little attention has been paid to the possible implications for Third World countries if regional trade blocs were to develop. Presumably, the assumption is that the trade of Third World countries would also become regionalized, with Africa and the Middle East trading with the EC, the Caribbean and Latin America trading with North America and Asian Third World countries trading with Japan and among themselves. Though existing trade patterns do follow such regional lines to a degree, especially for Latin America, Africa and the 'rest of Asia', the extent of inter-regional trade is also very significant and particularly so for the four East Asian NICs and the Middle East (Table 4.6). A breakdown of trade into regional blocs would, therefore, be highly disruptive of Third World trade.

In reality, even if blocs were to develop, it is unlikely that Third World trade would be contracted in this manner. There would seem to be no obvious reason why the markets for primary commodities, such as oil, coffee, tea or cocoa, should become regionalized beyond their current traditional patterns simply because regional blocs developed. Being relatively homogeneous commodities it would be difficult, anyway, to enforce such regional restrictions and it is not clear why, for the most part, anyone might want to attempt this. An exception could perhaps be made for primary commodities of great strategic importance, such as oil, as one could imagine that in the event of global shortages, regional blocs might take on a transparently imperialist character vis-a-vis the Third World. Indeed, as long ago as 1902, J.A. Hobson (1965) envisaged just such a possibility, speculating that a federation of European states might
Reordering Global Relations

Table 4.6 Regional Trading Patterns and the Third World, 1991

<table>
<thead>
<tr>
<th></th>
<th>North America/Latin America</th>
<th>EC, Africa</th>
<th>Middle East</th>
<th>Asia</th>
<th>Total/World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>X$b 82.5</td>
<td>33.8</td>
<td>16.4</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 58.9</td>
<td>24.1</td>
<td>11.7</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M$b 86.5</td>
<td>34.1</td>
<td>4.8</td>
<td>142</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 60.9</td>
<td>24.0</td>
<td>10.4</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Four East Asian NICs</td>
<td>X$b 89.5</td>
<td>61.0</td>
<td>136.0</td>
<td>303.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 29.5</td>
<td>20.1</td>
<td>44.9</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M$b 59.5</td>
<td>55.4</td>
<td>174.5</td>
<td>311.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 19.2</td>
<td>17.8</td>
<td>56.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>X$b 32.1</td>
<td>43.0</td>
<td>119.8</td>
<td>213.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 15.0</td>
<td>20.2</td>
<td>56.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M$b 36.8</td>
<td>48.9</td>
<td>119.8</td>
<td>227.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 16.2</td>
<td>21.5</td>
<td>52.7</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>X$b 16.2</td>
<td>47.9</td>
<td>7.5</td>
<td>87.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 18.4</td>
<td>54.5</td>
<td>8.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M$b 9.2</td>
<td>50.6</td>
<td>14.0</td>
<td>84.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 10.9</td>
<td>60.0</td>
<td>16.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>X$b 19.9</td>
<td>51.8</td>
<td>50.0</td>
<td>138.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 14.3</td>
<td>37.3</td>
<td>36.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M$b 20.8</td>
<td>60.0</td>
<td>27.8</td>
<td>128.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 16.2</td>
<td>46.7</td>
<td>21.7</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Note: X = exports; M = imports.

emerge, coexisting peacefully together yet, 'whose upper classes drew vast tribute from Asia and Africa' (p. 364).

In what follows we shall examine the relationships between groups of Third World countries and their respective regional poles to ascertain how they might each be affected by a more pronounced regionalization of the global economy.

Guaranteeing the US long-term access to strategic resources such as oil, minerals, wood products and, some would argue, hydroelectricity and even water, was undoubtedly a critical consideration in the Canada/US FTA and is equally important in the NAFTA. Like Canada, Mexico was pressured into trade talks partly by an increasingly protectionist US government which steadily raised non-tariff barriers and related trade restraints (e.g. countervailing duties) on Mexican exports. Those affected rose from 6.5 per cent of total exports in 1982 to over 13 per cent in 1986 (Trigueros, 1989), with drastic impact on specific commodities such as iron and steel products.
Access to Mexico’s resources and expanding opportunities for US investment and for US service industries are the attractions for the US. Unlike Canada, however, Mexico also offers an abundance of super cheap labour, and this is a major attraction for some factions of US capital. It also poses a major threat to the wages, both private and social, of workers in Canada and the USA. Unlike the EC, there is no provision in NAFTA for improving social conditions, improving regional equity, strengthening democratic decision taking, enhancing the mobility of labour, safeguarding the environment and protecting the right of regional and national governments to adopt economic development policies (Grinspun and Cameron, 1993). In effect, NAFTA is a ‘continental economic constitution (which) . . . solidifies a bill of economic rights for transnational business’ (ibid., p. 18).

Even before NAFTA, the US dominated Mexican trade, accounting for more than 70 per cent, so that in an important sense the North American trading region had been a reality for some years. The rapid growth of trade with the US in the 1980s (up 50%) was driven very much by the investment activities of US transnational corporations, which increased their share in Mexican imports from the US from 26 per cent of the total to 42 per cent, and their share in exports to the US from 7 to 27 per cent (UN, World Investment Report, 1992, p. 41). The effect of NAFTA, therefore, is ‘to ratify and advance the integration that is already taking place at the level of production’ (ibid., p. 42). Only a few years ago the prospects of a Mexican government agreeing to the key components of NAFTA, such as reducing tariffs and non-tariff barriers to trade, opening up the country to foreign investment, and giving foreigners guarantees on intellectual property rights and technology, allowing foreigners to compete in the service sector, etc. – all of which bears a striking resemblance to the agenda of the GATT Uruguay Round talks – would have been slight given Mexico’s commitment to an inward-looking, nationalist, import substitution development strategy. Under pressure of the debt crisis, however, and the depressed global capitalist economy which precipitated it, Mexico liberalized its economy. In 1986 it entered GATT and thereafter, even before joining NAFTA, it drastically reduced the coverage of import permits (from 820 items in 1986 to 250 in 1989) and price controls (from 19% of tradable output to less than 1%), more than halved the average tariff rate (Trigueros, 1989) and drastically devalued the peso. In a further major reversal of past policies it also priva-
tized most of the large state sector and has turned a blind eye, in practice, to foreign investors not meeting stiff performance requirements (i.e. local content, etc.), deregulating foreign investment in fact even if not in law (Bueno, 1988). NAFTA was, therefore, the logical extension of a domestic economic policy revolution which had, as its main objective, the more systematic institutional integration of the Mexican economy into the US economy. Politically, this reflected the growing alliance between large-scale national capital and transnational, essentially US, capital and the corresponding loss of influence of organized public sector labour, the state bureaucracy and medium and small capital, the basis of the prior corporatist regime which had provided relative stability for so many decades (Teichman, 1993). Opposition to NAFTA and the new policy directions has come from many quarters but most dramatically from the Zapatistas of Chiapas who hold economic liberalization responsible for the immiseration of their region.

The question is, will further North American integration transform the trading region into a trading bloc in the sense in which we are using that term, i.e. a region which is inwardly liberal and outwardly protective?

Diversion of trade from other Third World countries is not likely to be great in the NAFTA. Closer US ties to Canada might lead to some diversion by Canada, being the smaller country, but its purchases from the Third World are relatively small to begin with (Whalley, 1989). Trade diversion resulting from closer US–Mexico ties is also not likely to be great, given the already high degree of trade interdependence, but enhanced US imports of Mexican manufactures would undoubtedly have an adverse impact on exports of Asian and other Latin American developing countries currently restricted by both tariff and non-tariff barriers. Ironically, however, enhanced US–Mexico integration might weaken Canada–US integration.

It is not clear that the Caribbean, Central and South America would benefit greatly from any closer trading ties with the US. The small Caribbean and Central American countries covered by the 1983 Caribbean Basin Initiative (CBI) already enjoy one-way trade preference with the US although some import-sensitive items such as textiles, shoes and clothing are excluded (Fritsch, 1989). The smaller Caribbean nations which belong to the 68-member African, Caribbean and Pacific (ACP) group of the EC already receive EC preferential treatment and now count among their members
both Haiti and the Dominican Republic, the two Caribbean nations most dependent on trade with the US. Mounting pressure from certain Latin American producers, supported by the US, to end the EC banana protocol and the erosion of the EC sugar preference through implementation of the Uruguay Round of GATT (see Section 4C), could weaken Caribbean ties to Europe. This may lead to a strengthening of Caribbean links to the US, but at the possible cost of eroding CBI preferences (ibid.). There is some evidence of investment flowing into Caribbean ACP countries from Korea and Taiwan to take advantage of the liberal access of Caribbean countries to both the USA and the EC (UN, *World Investment Report*, 1993, p. 29).

The remaining South American states are less strategically important to the US than Mexico, have strong trade ties with other regions and most would, in any case, find it more difficult to liberalize their economies under debt-servicing pressures, than has Mexico. They are, therefore, much less likely to opt willingly for closer trading ties with the US, and the US itself has less interest in promoting this. The possible exceptions are Chile, which the US holds up as a model of reform in the region, and which is likely to be the next member of NAFTA, and Brazil, which has always held attraction to US capital and which competes directly with Mexico in the US market for specific products such as steel, textiles and shoes. Brazil might be forced to seek closer ties with the US if a Mexico-US deal is seen to work greatly to its disadvantage. Brazil has also been the target of numerous US non-tariff measures since the mid-1980s, having been listed in 1989 along with Japan and India under Section 301 of the 1988 Trade Bill as pursuing unfair trade practices against the US. Opening up its market to US business in a formal manner by joining NAFTA might at some point appear to be the only way to avoid tough economic sanctions by the US if aggressive bilateralism continues to shape US trade policy. For its part, the US government is on record as favouring a free trade area from Alaska to Tierra del Fuego, the Enterprise for the Americas’ Initiative (EAI), notwithstanding the dubious benefits of such a project from Latin America’s perspective and the threat this poses to multilateralism (Helleiner, 1993a).

Patterns of direct foreign investment reinforce the suggestion that Latin America as a whole might be better served by avoiding pressures to belong exclusively to a North American economic bloc if one assumes, as we do, that the emergence of blocs would *reduce*
Table 4.7 Sources of Foreign Investment in the Third World, 1975–92 ($US billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America &amp;</td>
<td>20.8</td>
<td>37.9</td>
<td>9.3</td>
<td>15.0</td>
<td>2.5</td>
<td>15.0</td>
<td>60.2</td>
<td>149.0</td>
</tr>
<tr>
<td>Caribbean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East, South &amp;</td>
<td>6.0</td>
<td>16.7</td>
<td>4.2</td>
<td>10.1</td>
<td>4.4</td>
<td>20.0</td>
<td>65.4</td>
<td>192.4</td>
</tr>
<tr>
<td>South East Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>-9.7</td>
<td>5.0</td>
<td>6.9</td>
<td>1.5</td>
<td>6.0</td>
<td></td>
<td>50.0</td>
<td>78.8</td>
</tr>
<tr>
<td>Total</td>
<td>175.6</td>
<td>420.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Centre on Transnational Corporations, 1988; 1994; 1985 figures may not be consistent.

flows of investment between regions. (One could argue the opposite! – that trade restrictions might enhance inter-regional investment flows. The literature is silent at this point.) While US and Canadian investment in 1985 accounted for 56 per cent of the foreign investment in Latin America identified in Table 4.7, some $22 billion or 58 per cent of this was received by Mexico. Of the Japanese and EC foreign investment of $29.9 billion outstanding in Latin America in that year, only $6.66 billion or 22 per cent was received by Mexico (calculated from data in Bueno, 1988, p. 123). Thus, outside of Mexico, foreign investment from North America (at about $16 billion in 1985) was about the same in total as that from Japan and the EC, and Japanese investment seems to be growing at a much faster rate.

Unfortunately, comparable data on the stock of foreign direct investment in developing countries by source is not available for more recent years. Aggregate data suggest that FDI grew much more rapidly in Asia than elsewhere in developing countries in the years 1985–90 (Table 4.7). Much of this appears to have originated in Japan which was the single largest source of investment flows to Korea, Hong Kong, Thailand and Taiwan. But Japan’s investments in these countries over the period, at $9.5 billion, were almost identical in size to investments by newly industrialized Asian countries in China and Malaysia. Much of this investment comes from Taiwan and Korea, which are now net exporters of capital, and is in response to rising production costs and shortages of labour (UN, World Investment Report, 1992, pp. 24–5, 319). While the bulk of
their capital outflows stay within the region, the NICs are also apparently investing in Europe and North America in order to avoid protectionism in these markets (ibid., p. 25).

Capital inflows to Latin America over the period 1985–90 were much lower than those to Asia. The US was the major supplier to ten countries in the region, including Mexico the largest recipient of FDI. Members of the European Community were the largest suppliers of capital to Eastern Europe, the former Soviet Union and parts of Africa (ibid., p. 318).

This data suggests a strengthening of regionalization between 1985 and 1990. Nonetheless, the trend still contains important ambiguities and complexities. Thus, the US is still the biggest investor in Hong Kong, the Philippines, Singapore, Nigeria and Saudi Arabia; Japan is the second biggest investor in Guatemala and the EC the biggest investor in Brazil, Vietnam and Indonesia and the second biggest investor in Ecuador (ibid.).

The figures for direct foreign investment, while being admittedly very crude, serve to strengthen the arguments drawn from trade figures, that Asian developing countries might be the hardest hit by the evolution of inward-looking regional blocs. Though Japanese investment is the single largest source of foreign capital in Asia, and the most rapidly growing, North American and EC investments in Asia are very significant and appear also to be growing rapidly.

Nowhere is resistance to a retreat into regional blocs likely to be greater than in Japan and the Asian Third World, where the obstacles to a ‘natural’ regional bloc are immense. To begin with, though these countries have close trade relations, there is a good deal of overlap in their production and export structures, in such fields as textiles, electronics and electrical products, machinery and transport equipment (Hiemenz, 1988), so that replacing exports to the EC and North America by intra-regional trade would be difficult structurally. Secondly, Japan has the same problem of trade imbalances with these countries as it has with the EC and North America, and in 1991 enjoyed a trade surplus with them of $33 billion (Amex Bank Review, 22 March 1993, Vol. 20, No. 3). Concern about the inequality in trade relationships is likely to be as great for Japan’s Asian neighbours, therefore, as it is for the EC and North America. Finally, with the exception of Hong Kong and Singapore, trade protectionism is rife in this region.

Most ASEAN countries have high tariffs on manufactures, in the
30 per cent range (Ariff, 1989), and are likely to be resistant to suggestions of freeing up regional trade because the main impact of tariff removal within the ASEAN itself has been trade diverting rather than trade creating (Drysdale and Garnaut, 1989, p. 245). Though Japan has low tariffs on industrial goods, the institutional or ‘intangible’ impediments to market penetration are, some argue, considerable (Christelow, 1990). China would be crucial to such a regional arrangement, but the peculiarities of its internal pricing system (and, one could add, the structure of its exports) were thought to inhibit regional integration (Drysdale and Garnaut, 1989). The most important market for China has long been Hong Kong, accounting for 55 per cent of its exports and 41 per cent of its imports in 1992 (IMF, DTS, 1993, p. 134). Most of this trade was no doubt entrepôt trade, Hong Kong being used as an outlet to the West, but to the extent that it was destination trade, it will become internal trade after 1997. The rapid growth of China’s international trade since the early 1990s, however, while possibly changing the nature of its relations with the rest of Asia, seems to be targeted very much at the US.

Though falling somewhat recently, the average industrial tariffs in Korea (23.5%) and Taiwan (13.8%) are also high. Protective tariffs in some Asian countries in agricultural products such as rice are among the highest in the world. The average rate of protection on agriculture generally in the early 1980s was 166 per cent in South Korea (Ray, 1986), even higher than that of Japan. Such protectionism is as much a source of friction within the region as it is with the US.

Thus, there are considerable obstacles to an Asian Free Trade bloc along the lines of the EC or North America emerging as a purely Asian initiative in the near future. Such a development is highly unlikely, the more so since in Asia ‘political resistance to Japanese dominance is widespread, and confidence that an open global market is in the best overall interest is equally widespread’ (Preeg, 1989, p 8). A major implication of this conclusion is that both Japan and Asian Third World countries are quite vulnerable to neo-mercantilist pressures from both the EC and the USA. As we have seen, these countries are the main targets of VERs, antidumping initiatives and countervailing duties. Threats of GSP graduations have also been used successfully in recent years by both the EC and the US, to force concessions from Korea (patents, copyright, shipbuilding), Singapore and Thailand (intellectual property
rights) while threats of other forms of bilateral action by the US have forced Taiwan to reduce import duties and Korea to liberalize its import and foreign investment restrictions (Whalley, 1989).

Because of this trend towards bilateralism by the EC and the US, Asian NICs and the ASEAN countries are likely to be nervous about closer integration in Europe and about NAFTA. Yet, there is little in the unification of the European market *per se* to threaten them directly and, indeed, more rapid European growth might actually benefit them. One source of unease, however, will be the movement from national to community import quotas as it is conceivable that this might be a vehicle for further import restraint, although Whalley (1989) has pointed out that unused national clothing and textile quotas might be reassignable to other EC countries after 1992 which would benefit Asian countries. EC insistence on 'reciprocity' might also adversely affect countries like Korea which restrict access to their financial markets.

The signing of the Lomé IV Convention continues to guarantee access of the 70 small, poor ACP states to the EC – 1992 has not changed this. It will, as stated, adversely affect ACP sugar and banana producers and is likely to open up EC markets for those products to more efficient Central and South American producers and hence should not be interpreted as strengthening regional isolationism. Otherwise, the uncertainty of 1992 surrounding the resultant rate of economic growth, the standardization of products and the rates of excise duties and value added taxes, will affect ACP countries just as it will other developing countries.

More important than 1992 for ACP countries is the fact that since the first Lomé Convention was signed in 1975, the ACP share of EC trade has fallen significantly, from 6.7 per cent of total EU imports to 3.7 per cent by 1992 (Davenport, Hewitt and Koning, 1995, p. 5). Moreover, the *structure* of trade remains classically colonial – the ACP countries selling primary products to the EC and purchasing manufactured goods, especially capital goods, in exchange (Hewitt, 1989). African ACP members are particularly aggrieved. Their share of total EC trade fell from 6.0 per cent in 1976 to 3.3 per cent in 1992, while their share of developing country trade with the EC fell from 15.0 to 10.0 per cent (derived from Davenport et al., 1995, p. 10).

Though bound closely to the EC, their fear is less that of being tied into a restrictive trading bloc than it is of being marginalized altogether as the share of trade falls and as a 'colonial' export pattern
becomes less relevant to EC production structures characterized by reduced inputs of raw materials. While the EC would argue that problems internal to ACP countries explain these adverse trade developments, critics point out that restrictions on CAP products from ACP countries, restrictive rules of origin and resort to safeguard clauses for 'sensitive products' such as textiles, have had the effect of discouraging the diversification of ACP trade with the EC (Ravenhill, 1985).

The EC has also negotiated association and/or cooperation agreements with the countries of the Maghreb (Algeria, Morocco and Tunisia) and the Mashreq (Egypt, Lebanon, Jordan and Syria) as well as with other European developing countries (Turkey, Malta, Cyprus, Yugoslavia) and Israel. The impact of these is hotly debated for, as with ACP countries, there are restrictions both on CAP products and on products of 'sensitive industries' such as textiles and clothing which tend to figure more prominently in the exports of these Mediterranean countries than of the ACP. At the same time, it has been argued that the enlargement of the EC by the entry of Greece, Portugal and Spain is likely to have diverted trade from the rest of this region (Featherstone, 1989; Robert, 1980), which serves as a reminder of the intricacies of economic interrelationships within regional trading areas. It also suggests that the emergence of blocs in the sense in which we are using that term, i.e. regional trading areas which are pursuing liberalization internally and restrictive policies externally, would not be without complexities.

It should be added that the latest EC enlargement might have fuelled fears of 'Fortress Europe' by having a clear negative impact on the trade of Spain and Portugal with South America. Entry to the EC led to Spain switching its coffee and cocoa purchases from Latin America to the ACP countries whose goods are not subject to the Common External Tariff. Spain also reduced quite drastically its purchases of Argentinean corn and Brazilian oilseeds on entry to the EC. The largest single factor shaping EC–Latin America trade in the recent past was, however, the global recession and the accompanying (and still persistent) debt crisis which halved EC exports to the region. Export levels of the early 1980s were recovered only at the end of the decade, though trade expanded very strongly thereafter (IMF, DTS, 1993).

The geographical pattern of aid flows, like those of trade and investment exhibit a degree of regional bias but with some import-
Interdependence, Disequilibrium and Growth

Table 4.8 Regional Distribution of DAC Official Development Assistance, 1991–92 ($ billion US and %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Sub-Saharan Africa</th>
<th>Asia &amp; Oceania</th>
<th>Middle East &amp; North Africa</th>
<th>Latin America &amp; Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC Countries</td>
<td>9.8 (46.7)</td>
<td>5.3 (25.2)</td>
<td>3.4 (16.2)</td>
<td>2.5 (11.9)</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7 (18.1)</td>
<td>5.9 (62.8)</td>
<td>0.9 (9.6)</td>
<td>0.9 (9.6)</td>
</tr>
<tr>
<td>Canada</td>
<td>0.7 (18.1)</td>
<td>0.6 (40.2)</td>
<td>0.1 (6.3)</td>
<td>0.2 (12.5)</td>
</tr>
<tr>
<td>United States</td>
<td>2.1 (23.1)</td>
<td>1.6 (17.3)</td>
<td>4.3 (45.7)</td>
<td>1.1 (11.7)</td>
</tr>
<tr>
<td>Total $b</td>
<td>14.3 (34.8)</td>
<td>13.4 (32.6)</td>
<td>8.7 (21.1)</td>
<td>4.7 (11.4)</td>
</tr>
<tr>
<td>%</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>

Source: Computed from OECD, Development Cooperation, 1993.

Important cross-regional ties too (Table 4.8). The largest portion of European bilateral assistance flows to Africa and the Middle East, with about half going to Sub-Saharan Africa. Japan's aid is dominated by flows to Asia. Beyond this, there is no close regional fit. The Middle East and North Africa receive the largest share of US aid, and much more than the total US aid received by Asia and Latin America combined. Sub-Saharan Africa and the poorer countries of Asia account for most Canadian aid. The complex mix of strategic national interests, both commercial and political, historical ties and humanitarian motives giving rise to this regional pattern would need to be simplified enormously if more clear-cut regional flows, corresponding to the tri-polar bloc theory, were to evolve.

In summary, there are sufficiently strong regional tendencies in trade and, to a much less degree, international investment and aid, and sufficiently clear retreats from multilateralism in recent years to justify the fear of regional trade blocs emerging. Uncertainties surrounding the impact of Europe 1992 and the consolidation of the North American trading area serve to fuel these fears. Yet the strengthening of these two regional groupings would have to be accompanied by much more restrictive policies towards those outside the respective region if the idea of a 'bloc' is to become a reality. There is nothing inherent in the internal unification of Europe to suggest that external barriers to trade will be enhanced and the European Commission has stated that, as a matter of policy, this
will not happen (The Economist Survey, 8 July 1989, p. 6). Likewise, the Canada–US FTA and NAFTA conform with Article XXIV of GATT and need not *per se*, therefore, lead to a regional bloc. Indeed, given the small size of the Canadian and Mexican domestic markets relative to the US, and the fact that economic ties with the US were already extensive before trade negotiations even began, a unified North American market is unlikely to lead, in and of itself, to rapid transformation of the region’s extensive trade and investment ties with other regions. The aggressive bilateralism, sometimes unilateralism, of the US, however, might help that process along. The trigger for this could be the inability of the US to deal, in any other way, with its chronic external (and closely related internal) imbalances. Competition between the three major capitalist poles for global markets would then, undoubtedly, increase but based not on ‘the impersonal rules of liberal economic behaviour’ but rather on strength and bargaining power (Cox, 1987, p. 249). Any resulting further retreat from multilateralism would most likely strengthen observable regional trade patterns and trends. Escalation of retaliation could, conceivably, transform regional trading areas into regional blocs.

There are, as we have seen, significant countervailing forces which might prevent the emergence of a neat and tidy tri-polar regionalization, in particular, the strength of existing Asian–North American trade links. So important are these that a whole panoply of possible US FTAs with Asia have been considered – with Japan, Taiwan, Korea, ASEAN and a variety of Pacific Rim combinations (see Ariff, 1989; Drysdale and Garnaud, 1989; Kojima, 1971; Kuroda, 1989; Park and Yoo, 1989; Tsiang, 1989). This has given rise to fears of the US ‘criss-crossing the world with bilateral free trade areas and mutually beneficial ties beyond its regional sphere’ (Luyten, 1989, p. 278). The EC, so the argument goes, would then have to emulate the US with the result that ‘the two trading giants, polarising parts of the world around them, would fragment the international economy to the detriment of all nations, small and large’ (ibid.). Trading blocs may arise, therefore, but not necessarily conforming to separate regional areas. While this Eurocentric view of the world is perhaps too dismissive of the idea of Japan forming its own economic bloc, the process of global trade restructuring which it envisages is an entirely plausible one. It raises the prospect of new forms of imperialism, new threats to global peace, and an increasingly differentiated South. One can envisage Third World
suppliers of strategic raw materials being tied tightly to one bloc or another and the products of selected NICs being tailored to meet the specific needs of the trade bloc in which they find themselves. Middle income group countries, in particular, would be forced to restrict products and markets and, if blocs are arrived at through a process of negotiating bilateral free trade agreements, may be forced to abandon many of the levers of national economic policy. The poorer, primary producing countries of the Third World would become even more marginalized than they are now and would find it even more difficult to diversify their export base or attract foreign capital.

There are, however, alternative visions. One is that internationalization continues apace, albeit with a pronounced regional character. US imbalances are corrected gradually and a 'hard landing' is avoided by international cooperation. Japan and perhaps Korea and Taiwan seek to pre-empt further EC and North American trade restrictions by investing their surpluses there in the form of productive capacity; and by promoting intra-firm production and trade which are less prone to restriction than inter-firm trade. Cooperation between developed and developing countries in the Asia-Pacific Rim proceeds at a pace, reducing tendencies to turn inwards in both the Asia and the North American regions. The 18-member APEC (Asia Pacific Economic Cooperation) achieves its goal of free and open trade by the year 2010 for developed countries such as Japan, the US and Canada and by 2020 for developing Asian and Pacific members (UN, World Economic and Social Survey, 1996, p. 75). On this view, which is highly contested in the Third World, as we shall see in the next chapter, successful completion of the Uruguay Round, albeit with substantial delays, can be seen as evidence that multilateralism still offers a non-confrontational way forward. While the rapidly growing NICs might continue to face sporadic, specific trade restrictions, they are flexible enough to maintain rapid growth. The terms of trade might shift back in favour of oil producers as the reality of long-term resource scarcity hits home, but the Latin American, poor Asian and African countries could continue to face debt peonage, austerity, slow per capita growth, huge income inequalities and global peripheralization.

It is not the aim of this work to attempt to forecast which scenario, if either, is likely to unfold but to emphasize, rather, the precarious nature of the global economy and the differential experience in it of different segments of the South. Nor do we accept that the problems of Latin America and the poorer countries of the world,
common to both these scenarios, should or will remain unaddressed. Indeed, in the final chapter of this work we shall examine critically the premises on which global development has proceeded to date and look at a series of proposals for alternative approaches to development which would have particular relevance for the vast majority of the residents of the South whose lives continue to be dominated by poverty and insecurity but which would also imply marked changed in values and lifestyles for the people of the North. Before turning to this, however, two remaining recent developments of crucial importance to South–North relations need to be examined; first, the Uruguay Round of the GATT Agreement and the formation of the World Trading Organization, and, second, the breakup of the Soviet bloc.

C. THE URUGUAY ROUND OF GATT AND ITS IMPLICATIONS FOR THE THIRD WORLD

Multilateralism is widely held to be a preferred alternative for Third World countries to the recent tendencies towards neo-mercantilism and the regionalization of trade, and the possible threat they harbour of a retreat into protective blocs. The conclusion of the Uruguay Round of trade negotiations in December 1993, after 7 years of bargaining, is considered an accomplishment promising significant net benefits to the whole global economy, including the developing world. Yet there is disagreement about how large the overall benefits will be, concern about their timing and a recognition that, whatever their size, the distribution of benefits will be skewed heavily in favour of developed economies and the newly industrializing countries while Africa and the ACP countries generally, will be net losers. Furthermore, there are those in the Third World and elsewhere who place a much less benign interpretation on the GATT process, seeing it as a forum in which the interests of transnational corporations are promoted, mainly by the US but also by the EC and Japan, at the expense of the workers and peasants of poorer countries. An examination of the nature of the agreements reached under the Uruguay Round will help explain these conflicting views.

Like the previous seven rounds of trade negotiations since the creation of the General Agreement on Tariffs and Trade in 1948, the Uruguay Round dealt extensively with tariff reductions on
manufactures. It reduces the average Most-Favoured-Nation (MFN) tariff of industrial countries by 40 per cent over 5 years, from over 6 per cent to below 4 per cent (ODI, May 1995 (3); IMF, WEO, May 1994, pp. 82–8) and raises the share of duty-free imports from 20 to 43 per cent. It goes beyond earlier rounds, however, in prohibiting voluntary export restraints, orderly marketing agreements and other ‘grey area’ non-tariff measures, phasing them out over 4 years. Furthermore, unlike in previous rounds, developing countries are also required to reduce their average tariffs, from 13.5 to 9.8 per cent, and to increase the proportion of their manufactures on which tariffs are ‘bound’, or subject to an upper limit, from 13 to 61 per cent (ODI, op.cit.).

The agreement makes significantly greater inroads into economic liberalization than earlier GATT rounds in the areas of textiles and clothing, agricultural trade, trade in services, intellectual property rights and trade related investment measures. It provides for tougher rules on dumping and industrial subsidies and creates the World Trade Organization which will monitor the trade relations of the 120 signatory countries.

The Multi-Fibre Arrangement (MFA), which dates back to 1974, will be phased out over a 10-year period. Textile and clothing quotas under this agreement will be gradually integrated into GATT before being enlarged and phased out. Agricultural trade will be brought within the purview of the WTO. Quantitative restrictions on agricultural commodities will be converted into tariffs, most tariffs will be bound and all will be reduced by 36 per cent, over a 6-year period, relative to the 1986–88 base. More importantly, the value of export subsidies will fall by 36 per cent, the volume of exports subsidized by 21 per cent and the value of domestic supports, such as production subsidies, by 20 per cent. Developing countries are to commit themselves to reductions in each of these areas equal to two-thirds the commitments of industrialized countries but the least developed countries are exempt from all such commitments (IMF, WEO, May 1994, p. 82).

For the first time, trade in services, which had grown much faster than merchandise trade over the past decade (9.5% p.a. versus 7.1%; Harmsen, 1995), are covered by the GATT agreement in the form of a General Agreement on Trade in Services (GATS). This provides for most-favoured-nation treatment, transparency of laws and regulations, market access and the extension to foreign companies of the same treatment as that given to national ones (national treat-
ment). The commitment of GATS members varies greatly, however, with regard to these principles and their application to specific service industries.

An agreement on Trade-Related Intellectual Property Rights (TRIPS) seeks to protect patents, copyrights, industrial designs and other forms of intellectual property. It does so by setting standards of protection, by introducing the principles of MFN (most favoured nation) and national treatment and by providing protection in national laws and through the WTO dispute settlement machinery. The potential importance of TRIPS is enormous, foreign earnings from intellectual property rights by the G-7 having risen more than fourfold from 1980 to 1991 to $30 billion (ibid.).

Trade related investment measures (TRIMS) must conform to GATT principles of national treatment and the abolition of quantitative restrictions, such as those which require a certain local content or trade or foreign exchange balancing. Industrial countries must conform within 2 years, developing countries within 5 and the least developed within 7 years.

The Uruguay Round agreement also provides clearer rules for introducing anti-dumping actions, for subsidies and for countervailing measures against subsidies. Dispute settlement procedures are speeded up and made more automatic. The WTO is also given surveillance responsibilities and is required to cooperate with the IMF and the World Bank to ensure as coherent an approach as possible to the regulation of the global economy.

Estimates of the likely impact of the full implementation of the GATT agreement on the annual growth of world real income range between $212 billion and $274 billion, amounting to about a 1 per cent growth rate. Between $182 and $188 billion of these benefits, or between 69 and 86 per cent, would accrue to OECD countries. The EC would enjoy the greatest gains, of between $71 and $73 billion, or between 27 and 34 per cent, on account of it having the greatest agricultural ‘distortions’ at the beginning of the process. Benefits to the US would be between $26 and $27 billion; those to Japan between $36 and $42 billion (IMF, WEO, May 1994, pp. 83–4). The former USSR and Eastern Europe would see incomes rise by about $2.2 billion. Developing countries would derive real income gains of about $78 billion, most of this accruing to Asian industrializing countries, and especially China which would realize gains of $37 billion (Golden, Knudsen and van der Mensbrugghe, 1993). Latin America would also gain, by about $8 billion.
Among the developing countries, Africa, the Caribbean and ACP countries generally, stand out as exceptions in that they will not derive overall benefits from the Uruguay Round. In fact, Africa, already marginalized by the world trading system (Barratt Brown and Tiffen, 1992), will be a net loser of income to the tune of $2.6 billion. There are two main reasons for this. First, African and Caribbean countries already have preferential access to EC and US markets, so that cuts in MFN rates will reduce the value of their preferential access, allowing greater access by competitors, such as Latin American countries. UNCTAD estimates that the GATT agreement will cost Africa about half of its competitive advantage in the EC, US and Japanese markets (African Recovery, December 1993–March 1994, p. 9). Second, cuts to agricultural subsidies will raise world prices for food and much of Africa is a net importer of food. Thus, the Uruguay Round threatens to marginalize Africa even further. This has led to calls for GATT to provide compensatory finance for losses incurred by least developed countries and net food importers, drawing on a small portion of the huge benefits accruing to OECD members. The GATT ministers have indicated a willingness to consider this with respect to the increased cost of food imports. There are, however, concerns that more concrete operational arrangements need to be put in place and that compensatory provisions in the GATT deal do not extend to the first cause of ACP losses, the erosion of preferential access.

Most of the benefits accruing to developing countries will derive from the phasing out of the MFA. The MFA was aimed principally at the NICs, especially those in Asia, so their exports of clothing and textiles to OECD countries are likely to grow significantly. There is, however, no agreement on the extent to which these exports will grow, the WTO estimating it at 80 per cent (Harmsen, 1995), the ODI (1995) at 20 per cent. There is general agreement, however, that the benefits to Third World producers will be felt only after some time as importers have discretion over the rate at which specific products are integrated into GATT and as phasing out quotas is heavily weighted towards the end of the 10-year period (Harmsen, 1995). For many developing countries, the costs, in terms of their own liberalization, will be incurred before the benefits are enjoyed. Such a long waiting period serves also to increase the uncertainty about the eventual dismantling of quotas as global trade circumstances can change radically over a decade.
In previous GATT rounds, Third World interest was at best lukewarm or marginal. The GATT charter had made some provision, in Article XVIII, for developing countries to use protection to help build their industrial bases through import substitution policies. Beyond that, in the 1950s and 1960s, GATT appeared to have little relevance for most developing countries since it excluded raw materials, agricultural products and fisheries from tariff reduction negotiations and refused to deal with price stabilization proposals (Tussie, 1987, p. 32). For these reasons, UNCTAD was formed and became the main forum for pressing the trade demands of the Third World. As developing countries increasingly pursued industrial strategies that were more export oriented, so their interest in GATT grew, along with their frustration at being excluded from key negotiations (ibid., p. 33). By the beginning of the 1990s, developing countries accounted for 20 per cent of world trade in manufactures, and their representation in GATT had increased significantly, but they were still excluded from much of the Uruguay Round of GATT negotiations, and the final agreement falls far short of what many developing countries would have liked. The MFA is not phased out fast enough for some, while tariff cuts on manufactures such as clothing, leather, rubber, shoes and transport equipment, important to poorer countries, were quite small on high rates. This reduces the benefits of the cuts accruing to Asian and Latin American exporters. Tariff escalation also remains, so that while the average level is cut, tariffs on manufacturing imports from developing countries still step up as value added is increased. Thus the average rate on finished products falls from 9.1 to 6.2 per cent, but this is still much higher than the new rates for semi-manufactures (2.8%) and those for raw materials (0.8%) (World Bank Policy Research Bulletin, Jan–Feb, 1995, Vol. 6, No. 1). The anti-dumping measures are also likely to affect mainly the developing countries which have lower production costs (ODI, May 1995).

Dissatisfaction with the agreement was, perhaps, strongest in the areas of services and intellectual property. Only in the tourism sector of services did developing countries sign on 100 per cent in terms of making offers to limit protection. In other sectors, such as health, education, distribution, recreation and construction, the proportion making offers was well below 50 per cent. Notwithstanding the ambiguities surrounding what, precisely, is the nature of commitments under offers, the growing differentiation of the developing world seems to be readily apparent in this aspect of the agreement.
Latin America is much more willing to open up its finance, recreation and distribution sectors than are Africa and Asia, while Asia is more willing than the other two regions to liberalize its business, communications and construction sectors. As the least developed region, Africa was also the least willing to liberalize its service industries (ibid.).

The growing differentiation is apparent also in the different degrees of enthusiasm shown by different Third World groups towards the intellectual property rights agreement. Countries like Brazil, India, Mexico and some Asian NICs now have the industrial and technical capacity to export certain forms of intellectual property and hence are not as reluctant as they used to be to enter into property rights agreements. Poorer countries which do not have that capacity were opposed to including this item in the agreement as they will undoubtedly suffer immediate costs for uncertain future benefits.

It would be a mistake to infer that government support for a specific measure in the GATT agreement translates into national support as a whole. Different classes and groups in society will be affected differentially by this liberalization, which has the potential for markedly changing living standards and patterns for large sections of society, some for the better, some for the worse. In this respect, the GATT agreement is no different from structural adjustment programmes. When overall net income benefits are negative, however, as they are in many poor countries, the ability to compensate classes or sections of society which are adversely affected is greatly reduced. Indeed, the GATT agreement will make it more difficult for ACP countries to live up to expectations in ongoing structural adjustment programmes under the auspices of the IMF and World Bank. In this respect, the case for coordination between the three international bodies is readily apparent, as is the need for more effective international mechanisms of resource transfers from richer to poorer countries.

There are those who question whether the type of multilateralism embodied in the GATT negotiations is an appropriate way of conducting international relations, and whether Third World countries should be involved in GATT at all. Rhaghavan (1990) sees the agenda of GATT being driven by transnational corporations, in the US principally, but also in the EC and Japan. The objective is to open up the whole globe to the MNCs, allowing capital to move without impediment. GATT is the means by which developing coun-
tries will be ‘recolonized’ by international capital, ‘an instrument for oppression and enslavement of the South and its poor’ (ibid., p. 308). A reformed and expanded GATT (now WTO) is an ideal vehicle for this since countries generally have no choice but to trade. In contrast, putting oneself under the debt tutelage of the IMF or World Bank is more optional and many countries avoid it. Furthermore, developing countries have no formal organizations or structures in GATT, whose proceedings are obscure and lack transparency, but which are, essentially, dominated by the powerful industrialized countries.

The object of the Uruguay Round was to restructure global relations to the benefit of MNCs, and this required the agreement to go well beyond the traditional trade confines of GATT, the inclusion of other items being justified by labelling them ‘trade related’. This means, in effect, forcing the US definition of property rights on others, even where it is quite antithetical to the moral values of the people upon whom it is foisted. In this respect, Vandana Shiva has argued that TRIPS privatize knowledge which, hitherto, has been in the public domain. They permit the patenting of ‘all life, including plants and animals’ and give zero weight to the thousands of years of indigenous knowledge upon which modern scientific knowledge is based. As such they ‘threaten the biological and cultural diversity of peasant societies across the third world’ and exact tribute from the Third World for use of plants and other forms of embodied knowledge (Shiva, 1993, pp. 16-17). These Third World ‘ecological’ views represent a different world view than that which underlies GATT and will be elaborated upon in the last chapter of this work. Suffice it to say here that Shiva and Raghavan share the view that GATT serves mainly the interests of the MNCs and, through them, the interests of the North, opening up southern borders and reducing national sovereignty so that ‘the resources of the entire planet should be available for Northern economic interests’ (ibid., p. 13).

It is not that southern nations do not require foreign capital. The issue is, as Rhaghavan puts it, whether or not they are to retain a capacity to regulate foreign capital in the national interest. The GATT agreement severely constrains national autonomy and enforces ‘a new international regime for rights of foreigners’ not through the gunboat diplomacy of the colonialism of old, but through trade retaliation (Raghavan, 1990, p. 44). In effect, therefore, many of the objections to NAFTA dealt with in the previous chapter
would apply equally to the new approach to multilateral trade negotiations through GATT.

While there is much substance in Rhaghavan’s critique of GATT, the main weakness in his analysis is his belief that Third World nations as a group continue to share common interests and that there is scope, therefore, for collective action and cooperation between them on trade issues. This appears to underestimate the degree of differentiation between them in terms of their industrial base, their reliance on primary products as opposed to manufacturing exports, the sophistication of their service sector, their scientific and research capabilities and their openness at this point in time to international forces, including the presence of MNCs. The GATT agreement recognizes this by allowing longer adjustment periods for poorer, less industrialized and generally less open developing economies. Given the whole panoply of obligations under the Uruguay Round agreement, this special dispensation may prove to be insufficiently flexible to permit ‘autonomous’ development by the poorer countries, denying them ever the opportunity to ‘graduate’ to NIC status. That remains to be seen, but it could be argued that these concessions represent the most the Third World could salvage from the negotiations; that there never was much scope for a common front among all developing countries designed to retain a greater degree of autonomy in national economic policy.

A somewhat different critique of GATT, but one sharing some of the same premises, has been made by James Goldsmith, a member of the European Parliament from France and an international financier (Goldsmith, 1994). His concern is that the Uruguay Round will lead to MNCs transferring manufacturing and service industry capacity and jobs to low wage centres. It will also transform agriculture globally, raising productivity and displacing millions of rural workers. These will be forced to migrate into urban slums or become ‘GATT refugees’. The social impact on both the South and the North will be devastating. In the North, long lasting implicit social compacts on income distribution will be ‘brutally shattered’ by global free trade, as mobile capital puts pressure on wage rates. The MNCs will benefit, ‘with access to an almost inexhaustible supply of very cheap labour. But they will be like the winner in a poker game on the Titanic. The wounds inflicted on their nation will be too deep to be acceptable without brutal consequences’ (Goldsmith, 1994, p. 21).
Goldsmith’s alternative to global free trade is free trade between countries at similar levels of economic development. NAFTA and the EC would continue to maintain free trade within their regions and would be open to capital, technology and ideas from outside, while entering into bilateral trade agreements with other regions to their mutual advantage. Developing countries at similar levels of development and with similar wage rates would cooperate with each other. (Inexplicably, Goldsmith seems to overlook the anomalous position of Mexico in NAFTA, in terms of his requirement for similar wage levels, etc.) Foreign corporations wishing to sell goods in any region would be required to establish factories and create jobs there.

This analysis is a sweeping condemnation of global free trade, as embodied in GATT. It leaves unanswered, however, the question of the means by which MNCs are to be dissuaded from pursuing profit maximization. It overstates the likely impact of GATT on agricultural reform in developing countries. It also exaggerates the likely pace of capital flight to the Third World, given that factors other than wage rates (such as overall productivity, political stability, economies of scope and just-in-time inventory management) play an important role in determining industrial location. Nonetheless, it forces us to confront the motivation behind free trade, which is the pursuit of profit by MNCs and the unbridled pursuit of economic growth, and their possible long-term consequences. Profit and growth are the very foundations of the contemporary economic paradigm, upon which national and international economic policy, as embodied in IMF, World Bank and GATT policy prescriptions, is based.

One of the first initiatives of the WTO has been to promote vigorously a multilateral agreement on investment (MAI). Still in its formative stage, this agreement would guarantee foreign capital free access to each and every sector of the economy on the same terms as domestic capital. It would prevent nations from favouring or protecting domestic capital in key sectors such as energy or finance and restrict the ability of governments to use investment policy to further social, cultural, economic or environmental goals. It would be the investment equivalent of free trade and would significantly undermine what remains of the ability of governments to formulate national economic policy. It is too early to say what precise form the MAI will take but there is the possibility that it will constrain national taxation, labour and environmental policies. Like NAFTA, progress in its formulation, behind closed doors, appears
to be rapid and not much public discussion of its implications is likely to take place in most countries.

The last chapter of this work will examine alternative paradigms to profit-driven growth and the trade and other policy implications which seem to flow from them. Before that, however, we examine the implications for the South of the collapse of the Soviet bloc.

D. THE IMPLICATIONS OF EASTERN BLOC REFORM FOR SOUTH–NORTH RELATIONS

The third major potential source of instability in South–North relations stems from the recent dramatic developments in Eastern Europe and the former USSR. The collapse of the political authority of the respective communist parties, the introduction of political pluralism, and the heightening of economic difficulties in the bloc as a whole have led to the adoption of economic reform programmes in all countries throughout the region. These have in common the abandonment of central planning and managed international trade, a greater emphasis on the use of the market mechanism, a reduced reliance on state ownership, the promotion of the private sector and the expansion of trade and financial integration with the rest of the world. The rate at which such reform programmes are being implemented varies greatly from country to country, with the former GDR being at one extreme given its complete integration into West Germany, beginning with the July 1990 monetary unification, and recalcitrant Albania being at the other. But the reform movement, both political and economic, is affecting all formerly ‘communist’ countries in Europe which are now described as ‘transitional economies’, and the implications for North–South relations could be far reaching.

The most immediate impact of the political transformation is the undermining of the logic of the Cold War and of the military arrangements through which it found expression. The reduction in the threat of nuclear confrontation is, undoubtedly, the principal benefit of this development and one enjoyed as much by those in the South as by those in the East and West. The expectation has been that, over time, there ought to be a peace dividend flowing from this new security situation as the major powers restructure their economies and their state budgets away from East–West military confrontation. Peace activists have long argued that such re-
Reordering Global Relations

structuring ought to have a beneficial impact on global living standards, help rectify global financial imbalances in a non-recessionary manner and even free up resources for enhanced aid flows to the South. It is ironic, therefore, that while governments of the South in general have welcomed the reduction in global military tensions, they have been less sanguine about receiving the economic benefits which might flow from it and, on the contrary, have expressed great anxiety that closer West-East relationships might adversely affect North-South economic ties.

The main concern has been that flows of finance might be diverted from the South to the East on the grounds that the East might be considered a more attractive outlet for all sources of funds—bilateral and multilateral loans and grants and private investment. Eastern Europe is perceived as being more willing to create a receptive pro-market, pro-private enterprise environment, and more ready to adopt western forms of parliamentary democracy, than are many Third World countries. Its infrastructure is more developed and its labour force more skilled and disciplined than those in many parts of the South and hence it appears to be better positioned to provide outlets for profitable private investment. In addition, in countries such as West Germany, the USA and Canada, powerful domestic lobbies exist for aiding Eastern Europe, while pro-South lobbies have to contend with aid fatigue and cynicism. Geographical proximity and relatively cheap labour suggest that Western Europe, in particular, might replace both imports and labour migration from the South with goods produced in Eastern Europe financed by direct foreign investment in plant and machinery and by western trade credits, both official and private. Most Eastern European countries are also saddled with huge burdens of debt owed to the West, as onerous as those facing the larger Latin American debtors (see Table 4.9), from which many observers feel some relief would be required if economic reforms are to have any hope of success. Governments of the South are afraid that easing the East's debt burden will make it more difficult for them to negotiate relief from their own debt obligations.

While it is too early to judge whether or not southern fears are justified, a number of observations seem in order. To begin with, there has been a peace dividend but it has been slow in materializing. Global military spending appears to have been declining steadily since 1986 (Table 4.10), and the easing of East-West tensions must have contributed to this, but the pace does not appear to have
Table 4.9 External Debt of Eastern Europe and USSR, 1992 ($b)

<table>
<thead>
<tr>
<th></th>
<th>I Total External Debt</th>
<th>II Reserves as % GDP</th>
<th>III Debt as % Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>11.1</td>
<td>24.7</td>
<td>218</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>5.3</td>
<td>11.4</td>
<td>47</td>
</tr>
<tr>
<td>Hungary</td>
<td>17.1</td>
<td>75.0</td>
<td>171</td>
</tr>
<tr>
<td>Poland</td>
<td>45.2</td>
<td>61.2</td>
<td>323</td>
</tr>
<tr>
<td>Romania</td>
<td>3.3</td>
<td>5.7</td>
<td>97</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>14.5</td>
<td>34.4</td>
<td>79</td>
</tr>
<tr>
<td>Sub Total</td>
<td>96.5</td>
<td>31.3</td>
<td>121</td>
</tr>
<tr>
<td>Former USSR</td>
<td>65.3</td>
<td>4.7</td>
<td>199</td>
</tr>
<tr>
<td>Total</td>
<td>161.8</td>
<td>13.0</td>
<td>155</td>
</tr>
<tr>
<td>15 Highly Indebted Countries</td>
<td>537.2</td>
<td>42.6</td>
<td>195</td>
</tr>
</tbody>
</table>


Table 4.10 World Military Spending, 1980–92 (% GDP)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1986</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.5</td>
<td>3.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Industrial Countries</td>
<td>3.6</td>
<td>4.1</td>
<td>3.3</td>
</tr>
<tr>
<td>USA</td>
<td>5.3</td>
<td>6.5</td>
<td>5.3</td>
</tr>
<tr>
<td>European Community</td>
<td>3.0</td>
<td>3.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>3.3</td>
<td>3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Countries in Transition</td>
<td>4.1</td>
<td>4.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>


picked up significantly since the collapse of the Soviet bloc. As a percentage of GDP, the USA was still spending as much in 1992 as it was in 1980, and appeared to have shed only the increases of the Reagan administration. All other major countries and groups were, however, spending less than they were in 1980, as a percentage of GDP.

It appears that earlier optimism about the possible speed of demilitarization was misplaced. Warfare within what used to be Yugoslavia and the USSR has certainly slowed down the process in those regions but has also threatened the peace of neighbouring countries, thereby serving to strengthen the political weight of those advocating caution in reducing military budgets. Furthermore, the real economic, political and social difficulties involved in laying off
large numbers of people working in the military sector, both soldiers and civilians, and of converting armaments industries to peaceful ends, were undoubtedly grossly underestimated by the peace movement. The main pressure for reduced military spending is coming now from fiscal difficulties, real or imagined, and finds its counterpart, not in increased aid budgets or strengthened social programmes, but in reduced deficits or reduced pressure on taxes.

The speed with which western governments and international agencies have accommodated transitional economies institutionally and have offered them large amounts of financial assistance has served only to fuel southern pessimism. At the initiative of the European Council, a European Bank for Reconstruction and Development, with a capital of 10 billion ECU ($12 billion), was established in 1990 to help finance the transition to market economy in Eastern Europe and the former USSR. Share capital was contributed by 40 countries including the EC and other European countries, the USA, Canada, the countries in transition and even a handful of middle income developing countries, such as Mexico, Korea and Morocco. By early 1994, all former Soviet and Soviet bloc countries had been admitted to membership of the IMF and World Bank. A Systemic Transformation Facility to assist countries experiencing balance of payments problems in moving to full market pricing was established by the IMF in April 1993, and had loaned SDR 3.4 billion to 18 countries by the end of 1994.

Between 1991 and 1993, the Central European and Baltic nations received $41.4 billion in external financing, $12.4 billion in debt relief (mainly Bulgaria and Poland), $17.4 billion in private capital, $8.0 billion from the IMF/IBRD, and almost $3 billion in bilateral, non-concessional loans tied to IMF conditionality (IMF, WES, October 1994). The Russian Federation received $38 billion in 1992–93 alone, $20 billion from bilateral creditors, $15 billion in official debt relief and $3.0 billion in multilateral loans. Multilateral assistance had been announced at a much higher level, almost $20 billion (ibid.), but most was withheld because Russia failed to meet tests of policy conditionality by not moving fast enough or far enough in its reform programme to satisfy the IMF.

Large though these sums are, they pale into insignificance against the $70 billion German Unity Fund for modernizing the GDR and against the cost of monetary unification which exceeded $9 billion. Germany also assumed responsibility for the external debt of the GDR which totalled some $20 billion in 1988.
These financial flows, and planned ones yet to materialize, are so large that leaders in the South are understandably concerned that assistance to Eastern Europe might be at their expense. Both the Managing Director of the IMF and the President of the World Bank have offered reassurance that assistance to Eastern Europe will not be at the expense of Latin America and Africa (Crow, 1990), the former arguing that ‘there is no competition for our resources’ (Reuters, 28 December, 1989). For the most part, this is likely to be true of assistance from the IMF. The Ninth General Review raised quotas by 50 per cent or by $60 billion in 1990, in part to enable the IMF to meet the financing needs of Eastern Europe without reducing funds to the South.

In any event, special funds are already in place in both the IMF and the World Bank, and the capital of the African Development Bank has been expanded, to address the needs of low income Africa, while an enhanced Lomé IV catering to the needs of ACP countries was signed in 1990. Nonetheless, for those who argue that flows of concessional funding to the poorest by multilateral agencies continue to be deficient as, for instance, the G-24 would argue with respect to the Special Program for Africa (IMF, Survey, 21 May 1990), the financing of ‘transitional economies’ does appear to carry a direct opportunity cost.

It is, however, the middle income developing countries, and especially those of Latin America, which perceive the greatest threat to multilateral funding. The reason for this is that the collapse of communism has created at least 22 new members of the World Bank classified as ‘middle income economies’, including such large countries (in terms of population) as Russia and the Ukraine. These will almost certainly be in direct competition with other middle income developing countries for World Bank funds over the medium term as its financing and administrative capabilities are clearly limited.

Latin America and middle income countries elsewhere must surely also be vying with Eastern Europe for private direct foreign investment. Encouragement of foreign investment is a central feature of Eastern European reform programmes and foreign companies, mainly from Western Europe, have shown a great deal of interest. Thus, by 1991, over 31,000 foreign investment registrations had been recorded in Eastern Europe and the former USSR and in that year the number doubled to 60,000 (UN, World Investment Report, 1993, pp. 55–7). Since the poorest nations of the South have been effec-
Relatively closed off to private capital during the 'lost decade', the emerging pattern of private investment can hardly be said to be at their expense, although their structural adjustment programmes do assume that revival of foreign investment is desirable and possible. Middle income countries of the South are, however, probably correct to see themselves competing directly with Eastern Europe for these resources. To the end of 1994, however, the competition does not appear to have been a major problem for them as private foreign capital flows to Eastern Europe were quite small and those to the former Soviet countries virtually non-existent. In other words, the FDI registrations did not accurately reflect capital inflows. Thus, the $17.4 billion in private capital received by Eastern European and Baltic countries between 1991 and 1993 must be compared with the over $200 billion flowing to mainly middle income developing countries in those years in the form of direct investment and bond financing (IMF, WEO, October 1994, p. 162; UN, WES, 1993, p. 243).

The explanation for the poor performance in attracting foreign capital, apart from the fact that structural adjustment programmes have been notoriously deficient in this area elsewhere in the world, is probably to be found in the economic turmoil that has accompanied early efforts at economic reform in the transitional economies. Between 1990 and 1993, real GDP fell by 26 per cent in Central and Eastern Europe, while in Russia it dropped by a staggering 38 per cent. Unemployment has become a major problem in many countries for the first time in decades (in Hungary it rose from 1.7% in 1990 to 23.0% in 1992), and in some, hyper-inflation has taken hold. In Russia, for instance, prices rose more than sixteenfold in 1992 and real wages fell by 50 per cent in that year alone (UN, WES, 1993, p. 33). Organized crime became rampant with the emerging business class being a prime target. Income and wealth are being redistributed in a radical fashion through this mechanism as well as through privatization measures and inflation, but this climate of 'primitive accumulation', with a strong element of plunder and pillage, creating conditions of enormous uncertainty, is not conducive to attracting international capital. Only those countries which have had a modicum of success in stabilization efforts, such as Poland and the Czech Republic, appear to be attracting foreign capital.

Much of the turmoil was the result of a collapse of CMEA trading arrangements, and within the countries of the former USSR,
of both trade collapse and the withdrawal of transfers by the Russian Federation. These latter amounted to 10 per cent of the Russian GDP in 1992 and to 20 per cent of the GDP of recipient countries. As Russia moves to pricing its exports at world prices, these transfers are expected to fall further reducing the GDP of its former union members by 15 per cent to 1994 (IMF, *WEO*, 1994, p. 66).

It is in the area of *bilateral assistance*, however, that the South has most to fear. Aid fatigue and budgetary pressures have already led, as we have seen, to erosion of real aid flows from some industrialized nations in recent years, notably the UK, West Germany and, most recently, Canada. Notwithstanding donor protests to the contrary, large flows of bilateral assistance to Eastern Europe must ultimately threaten aid to the South. The tendency to mix aid with trade credits and to tie aid closely to co-financing transactions also favours a shift to Eastern Europe should the climate for business become rosier. In that event, it is unlikely that aid flows to poorer nations of the South will escape unscathed.

Regardless of what happens to the *amount* of finance flowing to the South, there are already signs that the opening up of Eastern Europe is having important implications for the *terms* on which such assistance flows. In assessing the experience of economic reform in Eastern Europe the Executive Director of the IMF has concluded that ‘attempts to find a “third way” intermediate between central planning and a market economy have not been successful’, and that a ‘more fundamental root and branch’ reshaping of economic systems is required (IMF, *Survey*, 7 May 1990). Such conclusions are likely to strengthen the IMF’s belief in the efficacy of unbridled market forces in the South and to find reflection in tougher conditionality along these lines. This will, in turn, lead to less tolerance of efforts to reform the economies of the South which deviate from the IMF model or which entail preservation of some capacity for national industrial policy formulation. Secondly, as a direct result of developments in Eastern Europe, bilateral donors are now openly talking of attaching *political conditionality* to aid. President Mitterand has made it clear that in future French aid will depend upon how far recipient countries go in building ‘institutions founded on free elections, an independent press, an independent judiciary, a multi-party system and the abolition of censorship’ (*Le Monde*, in *Guardian Weekly*, 1 July 1990). The US-initiated recovery plan for Central America unveiled by James Baker
in June 1990, and which involves a coordinated aid effort between the US, the EC and Japan, calls for both judicial and human rights reforms as preconditions for receiving assistance (The Independent, 19 June 1990). African governments, in particular, have been pressured by donors to adopt multi-party democracies, with Kenya, Zambia and Madagascar being the focus of attention.

This new form of conditionality, deriving directly from the West’s experience in assisting the ‘opening up’ of Eastern Europe, is a mixed blessing. On the one hand, it is difficult to argue against the view that countries in the South receiving aid ought to meet minimal criteria of human rights and liberties. On the other hand, some foreign aid donors themselves have a long record of putting into power and sustaining anti-democratic regimes which have been at the forefront of human rights abuse. Periodic US involvement in overthrowing democratically elected regimes in South and Central America and the Middle East is well documented. Similarly, European governments (West and East) have given support in recent years to a number of ruthless governments in Africa especially those of Bokassa, Amin, Obote II, Mengistu and Mobutu. The people of these parts of the South could be forgiven, therefore, if they greet these new forms of conditionality with a degree of scepticism.

Beyond some basic, easily agreed norms of human rights and liberties, prescribing appropriate forms of democracy for the South is fraught with difficulties – both conceptual and practical. Should western political systems be transferred holus-bolus into countries with quite different historical and cultural backgrounds? Is parliamentary democracy the most appropriate form for the South? What is the scope for non-parliamentary forms? Can it be argued seriously that the one-party system in Tanzania, which initially came about through the ballot box, was any less democratic in the 1960s and 1970s than US, UK and Canadian democracy which has seen governments retain power and introduce sweeping economic and political reform with much less than 50 per cent of the popular vote? In what sense can one speak of democracy in countries in which outside intervention has played a major role in forcing particular political arrangements, pre-empting certain forms of democracy, and in which some political parties have received massive external funding for newspapers, electioneering, etc., for example Nicaragua and the GDR?

None of this is to argue that the people of the South ought to be denied the political and individual freedoms available to many
in the North, only to caution that the issue is a complex one not amenable to simplistic solutions which smack of both Eurocentrism and paternalism. The appropriate approach to political conditionality will need, therefore, to be one of caution and humility, concentrating upon putting pressure on the worst cases of human rights abuse and lending support to popular forms of democracy even if these have no counterpart in the North.

Perestroïka in Eastern Europe is likely to have yet another adverse impact on financial flows to the South, through cut-backs in CMEA aid. As one Soviet analyst has argued, 'It is hard to defend an aid budget which is 20 times as large as the health budget at a time when the Soviet infant mortality rate is among the highest in Europe and rising' (Shatalov, 1990a, p. 4). In 1990 the Soviet aid budget was cut by 25 per cent (Shatalov, 1990b, p. 5) and public opinion appeared to be strongly in favour of such reductions. While CMEA aid in conventional project form was not particularly large – about $3 billion or 0.2 per cent of GNP – the overall aid effort was considerably more substantial when non-conventional forms of assistance were included. These included pricing subsidies in the form of paying more for commodities than their world price (e.g. Cuban sugar) or charging less than world price for items such as oil, subsidized technical assistance, free education for Third World students, cheap maritime transportation rates, etc. When allowance is made for these, the aid effort of CMEA countries was claimed to be between 0.7 and 1.2 per cent of GNP (Dobozi, 1989) or in line with that of the most generous DAC donors.

CMEA aid was highly concentrated on a handful of recipient countries, principally the three developing country members of the CMEA and these have been affected very adversely by aid cut-backs. It is for this reason that Cuba, which received in excess of $4 billion in CMEA aid per annum, mainly through preferential pricing, was a particularly vocal opponent of Comecon adopting world prices in its trade transactions (Reuters, 9 January 1990). Vietnam and Mongolia, the other two ‘southern’ members of the CMEA, also suffered with the discontinuation of preferential pricing. Observers believed, however, that cut-backs in project aid would lead to lower real losses for the South than might appear to be the case because aid quality was low and the proportion of aid considered ‘uneconomic’ had been in excess of 30 per cent (Shatalov, 1990a, p. 2). The reduction in aid has been accompanied by efforts to improve quality.
Military assistance by the former USSR was almost twice that of economic aid (ibid.) and the expectation has been that it too would be cut back in the 1990s as diplomacy replaces military confrontations in the South. This would then find reflection in reduced credits to the South but would hardly be cause for concern. Persistent balance of payments problems may, however, propel transitional economies to more aggressively market weaponry to the South, despite the fact that arrears on military credits are huge and growing (38% for Angola – ibid.).

The liberalization of Eastern Europe is also likely to have profound implications for South–North and East–South trade over the medium term, but it is too early to state with any kind of precision what the net effect will be. Much will depend upon how Eastern European economies are restructured and on how they attempt to reposition themselves in the global economy. During the 1980s the trade of the East with the South was quite minimal accounting for only 14 per cent of USSR exports, 8 per cent of Eastern European exports (United Nations, 1990) and for slightly over 6 per cent of the exports of the South. The South buys less that 5 per cent of its imports from Eastern Europe/USSR and accounts for less than 12 per cent of the imports of those countries. Moreover, trade was relatively stagnant over the decade as a whole (IMF, 1988). Soviet-Eastern European trade patterns just before the political collapse were dominated by inter-CMEA trade (Table 4.11) and the bulk of it was exchanged for soft, inconvertible currencies (Table 4.12).

There is evidence that in the early part of the last decade hard currency surpluses of the CMEA-6 with the South were used consciously to offset hard currency deficits with the West. These transactions involved the re-export to the West of oil from the Middle East and find some reflection in the direction of trade data for 1986 (Table 4.11). The surplus, however, appears to have virtually disappeared since then with the collapse of oil prices (Dobozi, 1989). Otherwise trade with the rest of the South was ad hoc and ‘residual’, filling in gaps in raw materials and food supply which could not be met from production within the CMEA.

Structurally, CMEA-6 trade with the South followed the same pattern as the old colonial division of labour between West and South, i.e. selling manufactured goods to the South in exchange for primary products. Thus, while over 90 per cent of imports from the South consisted of primary products about a half of exports were manufactured goods. Soviet imports followed the same pattern,
Table 4.11  Direction of Trade: USSR and European CMEA Countries, 1986 (%)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>USSR/CMEA-6</td>
<td>57.6</td>
<td>64.4</td>
</tr>
<tr>
<td>EC/EFTA</td>
<td>18.1</td>
<td>16.3</td>
</tr>
<tr>
<td>USA</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Japan</td>
<td>0.9</td>
<td>2.2</td>
</tr>
<tr>
<td>OPEC</td>
<td>6.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Latin America/Caribbean</td>
<td>4.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Asia</td>
<td>4.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Africa</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Middle East</td>
<td>2.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Other</td>
<td>3.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Table 4.12  Total Exports USSR and European CMEA, 1988 ($US billion)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Hard Currency</th>
<th>Soft Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>USSR</td>
<td>148.4</td>
<td>31.8</td>
<td>116.6</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>17.3</td>
<td>2.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>13.1</td>
<td>4.9</td>
<td>8.2</td>
</tr>
<tr>
<td>GDR</td>
<td>51.4</td>
<td>9.1</td>
<td>42.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>10.3</td>
<td>5.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Poland</td>
<td>13.1</td>
<td>7.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Romania</td>
<td>15.6</td>
<td>8.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>269.2</td>
<td>70.0</td>
<td>199.2</td>
</tr>
</tbody>
</table>


but less than 30 per cent of exports took the form of manufactured goods (ibid.).

What is apparent is that Eastern Europe and the USSR did not follow the example of OECD countries in importing manufactured goods from the South. Indeed, contrary to what their factor proportions would indicate, given their relative shortages of labour prior to the collapse, the European CMEA/USSR countries had a surplus with the South in labour intensive manufactured goods. To
some degree they also competed with Southern manufacturers for the markets of the West although they were clearly less successful in penetrating those markets. Thus, while in 1987 the Soviet Union accounted for 3.5 per cent of the consumption of manufactured goods by developed market economies, the centrally planned economies accounted for 0.3 per cent (0.8% in Europe, 4.2% in Finland and only 0.1% in the USA) (United Nations, 1990). During the 1980s the share of such imports in consumption actually fell while those of the South grew by 5.7 per cent p.a. (ibid., p. 21). The East saw its competitiveness decline in such technologically advanced product areas as machinery and transport equipment, losing ground to the NICs. To offset this, it had little choice but to compete with the NICs more aggressively in markets for material and energy-intensive products even when its comparative advantage lay elsewhere (Dobozi, 1989).

The trade effects of 'perestroïka' will depend, therefore, on how reform efforts change these recent patterns of trade. Clearly, the South fears that large-scale western investments in or loans to Eastern Europe/USSR will give rise to an expansion of East–West trade which might crowd out certain manufactured goods from the South, such as textiles, clothing, footwear, wood products, chemicals, plastics, basic metals. These are product areas in which the East already competes with the South in developed country markets (United Nations, 1990, p. 3). This possibility must be taken seriously by the South, especially the NICs and middle income countries (e.g. Brazil) because if large capital flows to transitional economies were to materialize they would ultimately find a counterpart in enhanced trade flows. Outside of the CMEA, Europe was, in any case, the most important trading area for the Eastern countries (Table 4.11) and hence, institutionally, there is already a foundation on which to build trade expansion.

On the other hand, such trade restructuring and the adoption of strategies of manufactured goods export promotion cannot take place overnight. The abysmal failure of similar strategies by Poland in the 1970s, culminating in the Polish debt crisis (Green, 1977), serve to emphasize just how difficult it will be to transform the economic structures of the Eastern bloc economies. And if, this time around, in the changed economic and political climate of the 1990s, such efforts at structural reform are successful, the impact on the South need not be negative. To begin with, world trade is not a zero sum game and revitalized East–West relations might generate a higher
level of economic activity globally leading to enhanced demands for the products of the South. Furthermore, if domestic industrial restructuring proceeds rationally, the East should begin to buy from the South a whole range of manufactured goods currently in short supply or produced inefficiently in the East. This could benefit not merely the NICs but also the lower income countries of the South producing labour intensive products such as textiles. And as consumption is liberalized in the East in the years ahead, the poorer countries of the South could expect to experience an increase in the demand for primary products such as coffee, tea and fruit, the per capita consumption of which is quite low in Eastern Europe relative to that of Western Europe and/or North America.

The countries of the South with most to lose from closer East-West trade links are obviously the NICs and the middle income developing countries. Already, German reunification is a fait accompli and the transitional economies have negotiated trade association agreements with the Community and have now joined the GATT. These new trade relations and a desire among some not to remain dependent on Russia, mean that Eastern European economies will be integrating their trade much more closely with the West. Whether these enhanced trade relations will complement or displace the trade of the South with the West or lead to more East-South trade will only be obvious after some time. Countries of the South will need to adopt aggressively expansionary trade policies with both the West and the East to ensure that they are not the victims of this new East-West rapprochement. This might involve using trade policy to attempt to shape the economic restructuring of the East and South to create complementary rather than competing industrial structures.

The collapse of the CMEA gave an added impetus to increasing trade with the rest of Europe and, in the process, ameliorated the economic collapse of the transitional economies in the early 1990s. Their trade with the European Community rose by 72 per cent between 1988 and 1993. Yet, fears that such trade might squeeze out developing countries seemed unfounded, at least to 1993, as their trade with the EC rose by 48 per cent during the same period but from a base which was 4.7 times as high, $370 billion versus $80 billion. Thus, the increase in developing country/EC trade over the period was itself much larger than the total trade between the EC and the former Soviet Union and its satellites at the end of that period. Trade between the transitional economies and de-
veloping countries, however, fell by 20 per cent between 1988 and 1993 reflecting, no doubt, the end of trade related aid, with Cuba being the main victim.

The recasting of production and trade patterns in the East will require some easing of the burden of external debt and this process has already begun with debt relief totalling $27 billion between 1991 and 1993. While the amounts involved are very large, approximating those involved in the Brady Plan, there is no evidence that relief has come at the expense of Third World debtors or that the terms of the relief are more generous than those extended to Southern debtors.

The collapse of the Soviet Union and the Soviet bloc has, therefore, raised the possibility of the middle income countries of the South having to compete with the transitional economies for capital and market access. The threat of this competition is undoubtedly a real one but the chaos which has accompanied economic reform and the dismantling of former planning, production and trade institutions has served, at least, to postpone it. Ultimately, it will be in the areas of multilateral financing, private investment and the European markets for manufactures of a limited range of goods currently supplied by the middle income countries, that competition is likely to arise.
5 Alternative Paradigms: Peripheral Views and Views from the Periphery

The assumption underlying international economic relations since World War II has been, and continues to be, that economic growth is both desirable and necessary. Steadily rising living standards, in both North and South, are deemed desirable in and of themselves and, by extension, rising per capita incomes are assumed to signify an improvement in human welfare. Growth in the North is considered to be relatively autonomous of growth in the South, whereas rising incomes in the South are held to require expansion of economic activity in the North. Increasingly, the orthodox or mainstream literature also advocates economic growth as a prerequisite for dealing with poverty in the South. High rates of population growth, which are considered to be caused by factors other than income levels, are also held responsible for low per capita incomes in the South.

While these views on growth permeate the literature, and are a dominant feature of structural adjustment theory and policy, they are by no means uncontested in either the North or the South. A small but influential critical school of thought, which challenges much of the above received wisdom, and which has a long historical pedigree, is slowly gaining ground. Starting from a different set of premises, these challengers of the orthodoxy are suggesting the need to rethink the form and substance of development goals and models. These writers do not, however, offer either a single, coherent critique of current theories and strategies, or a common vision of alternatives. Some question the desirability of sustained growth in the North, others its feasibility. Some question whether the South can ever solve its problems by hanging on to the coat-tails of northern growth, while others would argue that much development in the South is autonomous of the market, including international relations, and not captured in accepted indices of growth. Many would see contemporary theories and strategies of development as being strongly rooted in a patriarchal view of the
world, a view often shared by decision takers in North and South alike.

In what follows, we will examine some of these theories and their possible policy implications, especially as they apply to North–South relations. For the sake of convenience, the literature will be divided into two sections, the first dealing with peripheral views from the North and the second with alternatives proposed from the South. This division is purely for ease of exposition for, in reality, the world of ideas cannot be segmented so neatly. There is, as will be apparent, a convergence of outlook on many of the issues under discussion and a considerable degree of cross-fertilization of ideas. Many would argue that this represents a common concern for the survival of humanity in the face of perceived threats from a global economic system premised on limitless economic growth, but this is to anticipate what follows.

A. ALTERNATIVES TO THE GROWTH FETISH: PERIPHERAL VIEWS FROM THE CENTRE

Many contemporary writers who question the goal of sustained growth in the North, draw their inspiration from J.S. Mill's argument for a stationary state. While Mill was motivated by whether or not growth was desirable, modern theorists of the steady state, 'entropy' or 'homeostasis' persuasion, though influenced by Mill, focus more on the capacity of the world's resources and environment to support sustained growth and the affluent, even profligate, lifestyles of the North. This section will examine the differences between these alternative perspectives, and also look at the philosophical underpinnings of two practical approaches to alternative lifestyles within the bosom of North American capitalism; those of the Hutterites and of aboriginal peoples.

(i) The Stationary State

The idea of a stationary state as a desirable goal of society is not a new one, having been propounded by John Stuart Mill over a hundred years ago. Mill (1886, pp. 326–32) broke with tradition by denying that such a state would necessarily be the result of growth and prosperity reaching their 'natural limits' and that it be associated, therefore, with crisis and poverty. Instead, he argued that a
stationary capital stock and labour force could co-exist with gen-
eralized affluence and freedom from competitive acquisitiveness –
'the trampling, crushing, elbowing, and treading on each other's
heels...'. He identified two critical, and related, prerequisites for
this to be realized: 'a conscientious or prudential restraint on popu-
lation' and a more equal distribution of property. The latter would
be achieved through a combination of individual 'prudence and
frugality', in the context of a well-paid work force, and legislated
limitations on gifts and inheritances to sums enabling recipients to
enjoy only 'a moderate independence'.

 Though strongly influenced by Malthus, Mill's arguments for lim-
iting population growth were not simply Malthusian. He believed
that solitude is essential for human realization and that a large
population, even if well provided for materially, might deny people
the pleasure of being alone. Furthermore, allowing population to
grow beyond the density required to reap all the advantages of
'co-operation and social intercourse' would soon undermine the
'spontaneous activity of nature; with every rood of land brought
into cultivation, which is capable of growing food for human beings;
every flowery waste or natural pasture ploughed up, all quadru-
peds or birds which are not domesticated for man's use extermin-
ated as his rivals for food, every hedgerow or superfluous tree
rooted out, and scarcely a place left where a wild shrub or flower
could grow without being eradicated as a weed in the name of
improved agriculture'. There is a remarkably prescient concern in
Mill, therefore, for the quality of life and for the balance between
humans and the rest of nature.

 A stationary state need not imply no improvement in technology
or productivity. On the contrary, Mill argued, the general environ-
ment would likely be more conducive to such progress, since in-
stead of merely raising the wealth of the middle class, it would
reduce the drudgery of work and allow time for intellectual and
other pursuits. Technological progress would thus 'become the com-
mon property of the species, and the means of improving and el-
levating the universal lot'.

 There are two other observations in this work of Mill which have
everous relevance today. The first is that while, in the 'advanced'
countries, the emphasis ought to be on improving income and wealth
distribution rather than on growth, in the 'backward' countries of
the world raising production would still be an important require-
ment. This would not, presumably, rule out the possibility of im-
proving the lot of workers and peasants of the poorer countries through redistributive measures, but it stresses that a certain level of material well-being is required before consideration can be given to dispensing with growth.

The second observation is that ‘For the safety of national independence it is essential that a country not fall much behind its neighbours in (the . . . increase of production and accumulation)’. This tantalizing statement, barely a passing reference, seems to suggest that the living standards of the most advanced economy will set the bench-mark for the point at which the stationary state can be attempted. If this were so, then at this particular time in history, although not perhaps when Mill was writing, the stationary state would not be consistent with preservation of the global environment. Given the limited carrying capacity of the globe, in terms of people, resource base and ability to absorb waste and pollution, the living standards of the most ‘advanced’ nations do not offer a realizable target for poorer countries and, in themselves, are not likely sustainable.

A major omission in Mill is any discussion of whether the stationary state is compatible with the capitalist economy, although it is clear that he assumes it is. He allows for the amassing of personal wealth in the lifetime of any individual and he provides for technological progress, but gives no account of how this will be achieved, without crisis, in a context in which the total capital stock is stationary.

(ii) The Steady-State Economy

Despite its shortcomings, Mill’s pithy statement on the stationary state has been influential in shaping the views of contemporary advocates of alternative approaches to development. His questioning of the need for growth is echoed in the works of Galbraith (1962), Baran (1957), Tobin (1964) and Weisskopf (1985). His identification of population restraint, income and wealth redistribution, a reduced working day and/or reductions in the drudgery of work, as prerequisites for abandoning current fixations with economic growth (whether or not this is accompanied by recommendations for a stationary state) are central themes in the writings of contemporary scholars with alternative visions. This is strikingly evident in the works of Herman Daly, who argues eloquently and passionately for a ‘steady-state’ economy.
Daly (1977) defines a steady-state economy as one in which the stock of both population and wealth are held constant. This conforms closely with Mill’s definition of the stationary state. He expands upon this earlier concept, however, by building into it the need to minimize the inflows of energy and matter (low entropy materials) used in production and consumption, and the associated outflows of waste, used materials and pollution (high entropy materials). This aspect of his work draws heavily upon the insights of Georgescu-Roegen, Daly’s mentor, who sought to spell out the implications for economics of the second law of thermodynamics. This law states that the entropy of a closed system continuously increases, that ‘available energy is transformed into unavailable energy until it disappears completely’ (Georgescu-Roegen, 1972, p. 8). In practical terms, this means that since the stock of energy and raw materials on and in the earth is finite (by the first law of thermodynamics and ignoring solar energy, the earth’s only ‘flow’ source of energy, which still remains to be harnessed) the portion usable by humans is depleted by economic development, as development necessarily entails the conversion of low entropy energy and matter into high entropy (dissipated) energy and matter. The greater the rate of growth, the greater the rate of resource depletion and ‘the shorter becomes the life of the human species’ (Georgescu-Roegen, 1970, p. 5). For Daly, therefore, the steady-state economy is a recognition of the need to respect entropic limits or the limits imposed by absolute scarcity. In this respect, Daly’s work can be located in the ‘limits to growth’ school which became influential after the mid-1960s (see, for instance, Boulding, 1966; Ward, 1966; Erlich, 1968; Meadows, 1972).

To these ‘biophysical’ arguments for the necessity of a steady state, Daly adds his own ‘ethisocial’ reasons why such a state is desirable (Daly, 1987). To begin with, current use of resources reduces their availability to future generations. Since the demands of the generations not yet born are not registered by the market mechanism, there is a moral obligation on society to limit resource use now in order to provide for the needs of future generations. Secondly, and following Mill again, Daly argues that material growth threatens the existence of other species which, whatever their instrumental value to humans, have intrinsic value. There is, therefore, a moral argument for limiting the takeover of the habitat of other species and therefore, necessarily, for limiting economic growth. Thirdly, once absolute needs have been met, there is no close relationship
between rising incomes and rising welfare. Finally, economic growth undermines the moral foundations on which society is built. It glorifies self-interest, erodes the moral distinction between necessities and luxuries or junk, and elevates ‘scientism’ or the belief in the ultimate power of science and technology, at the expense of morality and moral restraint. The political consequences of this ‘depletion of moral capital’, in the context of an economic system which is pressing up against the biophysical limits of the globe, are that control will likely be exercised by a totalitarian state.

There are, therefore, powerful moral arguments against unrestricted growth. In contrast, the moral foundations of the steady-state economy would be built upon the following ‘first principles’—some concept of enoughness, stewardship, humility and holism (Daly, 1977, p. 47).

In practical policy terms, the steady-state economy would require control over population growth, the reduction of income and wealth inequalities, and the scaling down of resource use or depletion. Daly proposes that these policies be implemented by new institutions which would intervene selectively in the operations of, but not replace, the twin pillars of capitalism, namely, private property and the market mechanism.

Population control would be achieved through the use of birth licences, first proposed by Boulding (1964), which would be issued to all women in equal amounts just sufficient to allow replacement fertility. The licences would be transferable, those wishing to have more children than the average being allowed to buy that right from those wishing to have less.

There would be a guaranteed annual income, through a negative income tax, and a maximum limit on income and wealth above which a 100 per cent tax would be levied. There would be a limit on the size of companies, a requirement to pay out all profits as dividends, and strikes would be outlawed as unnecessary. Through such measures, the institution for distribution would recreate the 19th century liberal notion of private property.

Resource use and, indirectly, waste and pollution would be limited through the mechanism of depletion quotas auctioned by the government. By restricting quotas, the state would accrue scarcity rents to be used to help finance the minimum income scheme, and commodity prices would be forced upwards, encouraging more efficient use of scarce resources. Rising prices for the stock of the earth’s non-renewable resources would encourage not only greater
use of renewable resources, which would also be subject to quota based on sustainable yield, but would also create pressures for finding ways of harnessing solar power more effectively and more extensively.

Daly's work focuses mainly on the advanced capitalist countries, but he does address some of the more salient implications of the steady state economy for developing countries. Most importantly, he advances the 'impossibility theorem', that Third World countries can never hope to reach the per capita consumption levels of the industrialized capitalist countries. Neither the resource base of the globe, nor its carrying capacity, in terms of waste and pollution, will permit this. Secondly, economic growth is desirable in these countries in order to allow people to enjoy an improved level of material well-being. To facilitate this, the advanced countries should limit their consumption (and population) while the developing countries should restrict their population growth. The goal would be to converge average per capita consumption levels (Daly, 1977, p. 152). Yet, if the well-being of the mass of the people is to improve, then policies of income redistribution and population control ought also to be followed, since the single-minded pursuit of economic growth in the past, while causing considerable damage to the environment, appears to have benefited only the elite.

In more recent work, Daly and Cobb (1989) have advocated policies of national self-sufficiency for both 'advanced' and developing countries as an essential component of more 'community' focused, steady-state, economic strategies. This would entail eschewing free trade and drastically reducing trade, investment, loan and aid flows. Free trade is to be rejected because, in a world in which capital is mobile and has no attachments to specific nations, it would lead inevitably to the reduction of the real wages of workers in advanced countries as capital seeks to maximize profits by locating in low wage countries. Trade patterns are shaped more by absolute advantage, and mainly by real wage costs, than, as orthodox economic theory would have it, by comparative advantage. Free trade agreements should be restricted, therefore, to countries with roughly equal real wages and benefits, if they are not to seriously undermine the living standards of workers in the advanced countries. There is also a suggestion here, found in earlier writings of Daly, that the benefits of Third World industrialization flow mainly to capital, and not to the workers.

Grossly unbalanced trade, like that of the USA, Japan and many Third World countries, is also to be avoided as it causes problems
of international indebtedness and associated global instability. If comparative advantage is to guide international trade, then flows of capital internationally must be reduced drastically, and this can only be achieved by the pursuit of balanced trade. For the USA, which is the main concern of Daly and Cobb, trade would be roughly balanced with imports being restricted by quota to anticipated export earnings, so that the practice of borrowing internationally would cease. Third World countries would also move towards trade balance and would reduce dependence on foreign capital significantly. There would be no outright prohibition on trade imbalances or foreign borrowing, but they would be restricted to transactions which would be mutually beneficial and productive to both debtor and creditor nations as communities, and not simply because they are profitable for private interests.

There is again a belief here that most financial flows to the poorer countries have been squandered or have benefited local elites or international capital, and that servicing Third World debts has greatly eroded the living standards of the ordinary people and has often negatively affected the environment. Reduced foreign investment and restricted access to the markets of advanced industrial countries would mean that strategies of export-led industrialization would no longer be feasible. But since Daly and Cobb believe that the benefits of such a strategy for ordinary workers of the Third World have always been negligible, and that replication of the 'success' of the NICs is, in any case, not possible for the Third World as a whole, they see no important moral issue involved in recommending the closing off of such an option.

In short, the prescription of the steady-state economy approach for North–South relations is for reduced and more balanced interaction. It advocates neither free trade nor autarky, but clearly favours more self-reliance. Growth will need to be pursued in poorer countries but within a framework of population control and more equitable income redistribution.

In essence, the steady-state alternative relies heavily on a strong nation state approach to economic decision taking, an emphasis which is surely in order if communities are to retain some discretion over their economic life. Indeed, if anything, the required degree of national circumscription of international market forces would need to be much greater than Daly and Cobb suggest. They seek to reduce international capital flows by balancing trade, but as emphasized in Chapter 2, world financial flows are now many times
larger than *absolute* trade flows, leave alone trade *imbalances*. Community control over foreign trade would imply an ability to influence exchange rates, but this, and community control over investment and employment, presupposes some national control over capital movements. It also presupposes more broadly based community control over the nation state than is currently the case under capitalism. Taken as a whole, Daly's prescriptions require a highly interventionist state which would need to be representative of popular will and accountable to it if repressive autocracy is to be avoided.

The modern variant of the stationary state approach raises exactly the same question as Mill's version; can it be achieved under a free enterprise system? Daly believes that it can, but favours a more participatory type of capitalism, with less concentration of ownership and more worker involvement in decision taking. He relies heavily, however, on the power of reason and moral authority in bringing about the required attitudinal and political changes. We are less sanguine about this possibility, because the steady-state economy would seem to place strict limits on the accumulation of wealth and this is likely to be resisted by the wealthy. In the advanced economies, new capital investment would, in general, be limited to the amount of depreciation of the existing capital stock, so that, if efficiency remained unchanged, a no-growth situation (akin to the classical stationary state of Mill or to Marx's 'simple reproduction') would obtain. But presumably, new investment could exceed this level if it reduced the demand for raw materials, since this could still be consistent with a constant 'throughput'. In this case, there would be the possibility both of growth in the conventional sense and of rising profits. Furthermore, the steady state *allows for growth* in Third World countries. In theory, therefore, there would still be opportunities for profitable investment. But these would be seriously constrained in advanced countries and, given the policy framework of distributional equity, it remains unclear whether there would be sufficient 'elbow-room' for capital anywhere.

Obviously, the proposals for a steady-state economy constitute an almost complete rejection of current structural adjustment orthodoxy, the only common ground being the call for population control for Third World countries. They would face, therefore, formidable opposition from the establishment which both propagates and benefits from orthodox policies.
Entropy and the Myth of the Steady State

There is, however, another, less likely source of opposition to the idea of steady-state economics. Georgescu-Roegen, who has provided inspiration to contemporary advocates of the stationary state, dismisses it as a ‘myth of ecological salvation’ (Georgescu-Roegen, 1972). He argues that the logical conclusion to be drawn from the unsustainability of exponential growth in a world of finite resources, is not that a steady-state approach is needed, but rather that a reversal of growth is imperative. A steady-state economy would still be absorbing the limited resources of the world and would, at best, therefore, have a finite duration. Furthermore, maintaining balance in the system, for all but very brief periods of time, as resources are used up, would be impossible, as this would require that compensating innovations occur at just the right moment. Georgescu-Roegen’s critique hits at the heart, therefore, of all alternatives based on the notions of sustainability or ‘steadiness’.

Yet even he acknowledges the need to delay the inevitable and, not surprisingly, the immediate practical implications which flow from Georgescu-Roegen’s welding together of the entropy law and economics are not strikingly different from those of the steady-state school of thought. While recognizing the technical difficulties involved, he is a strong proponent of efforts to harness solar energy. The sun represents the earth’s only flow source of energy, is a massive source relative to the stock of terrestrial resources, and is unique in that its use by the current generation does not deprive future generations of its availability. He also advocates a ‘minimal bio-economic programme’, consisting of the prohibition of the production of instruments of war, assistance to Third World countries to enable them to lead a good but not luxurious standard of living and a reduction of population to a level sustainable by organic agriculture. His programme would also regulate against the wasteful use of energy, avoid such ‘bio-economic crimes’ as fashion and gadgetry, build into products durability and repairability, and allow for much more time to be spent, intelligently, in leisure. He recognizes that even this minimal programme will require a new ethical orientation but is less sanguine than Daly about the possibility of this happening, speculating that ‘Perhaps the destiny of man [sic] is to have a short, but fiery, exciting and extravagant life . . .’ (ibid., p. 35).
In terms of international and, specifically, North-South relations, there is one proposal raised by Georgescu-Roegen (in a footnote only) which warrants serious consideration. This is his suggestion to allow people to move and live in any country they please (ibid., p. 34). The intent of this proposal is to help end poverty in the poorer countries. Opponents argue that this would be consistent with the prevailing free trade orthodoxy, would assist the mania for growth, and would have the effect of reducing real wages and raising profits in the advanced countries (Daly and Cobb, 1989, pp. 247-8). Others argue that unlimited migration would destabilize countries ‘approaching equilibrium conditions’ and hence could be envisioned only after a steady state had been reached (Tanton, 1977). The poorer countries, too, might object to such a proposal, partly because of the brain-drain it might encourage, and partly for cultural and nationalistic reasons. But in a context of ageing and declining populations in the advanced countries, a more generous immigration policy, at least, could be justified on the grounds of avoiding precipitous falls in production per capita (including dependents), and need not, in itself, propagate growth. Certainly, a freer movement of population might more directly improve global income distribution than aid and foreign investment, given their chequered record.

(iv) Towards Homeostasis?

Few Third World scholars have attempted to apply the entropy argument to their particular context (see Singh, 1976, discussed in section B(iii) of this chapter), and apart from the scattered comments in Georgescu-Roegen, only Caldwell (1977) among western scholars has done so. His book welds together the entropy principle with a Marxian analysis of underdevelopment as the product of imperialism. He argues that contemporary agricultural strategies in both the underdeveloped and the overdeveloped countries are based on fossil-fuel dependence which cannot be sustained. Furthermore, relations between rich and poor countries are exploitative with the wealth of the former being in part the result of massive resource transfers from the latter. These transfers take the form of metals, fuels and protein, each of which becomes more important to the overdeveloped countries as they exhaust their own resource base. Since capitalism, both at home and abroad, reproduces these physical and social patterns of exploitation, and since Soviet-style
socialism does likewise, non-centrist forms of socialism will be needed to move Third World countries towards 'homeostasis', or 'sustainable eco-economic equilibrium' (ibid., p. 139).

Caldwell does not specify precisely what a programme for homeostasis might look like, but instead describes the policies of Asian socialist countries in the mid-1970s as examples of acceptable alternative approaches. These involved a high degree of national and regional self-reliance with a drastic cutting down and restructuring of external economic relations. Down-sizing of post-colonial urban centres with a concomitant growth of population in the rural areas and a return to organic, labour intensive farming were important features. Equity in income distribution, and the absence of landlords, capitalists and bureaucratic elites ensured that growth translated into improvements in welfare for the peasants and workers. Population also showed a tendency towards stabilization, especially in China, due to greater family security and to birth control programmes sponsored by the state. Indeed, Caldwell was much more optimistic about population trends in the world generally than are others writing from an entropy/steady-state perspective, going as far as to assert that 'It seems that, one way or another, with, without, or in spite of, government actions world population numbers are levelling off; it is hard not to conclude that Man, the animal, and his natural environment are at last shaking down into some kind of (entropy-constrained) equilibrium ...' (ibid., p. 185).

Caldwell also spells out the bare bones of a programme for homeostasis in Britain which envisages similar initiatives to those recommended for Third World countries. A deliberate policy effort would be made to reduce dependence on fossil fuels, fertilizers and insecticides, the internal combustion engine, imported animal feeds, and livestock (which are large and inefficient consumers of grain). Steps would be taken to spread population more evenly geographically, from urban to rural areas. In effect, Britain would move towards significant self-reliance nationally and regionally with consequent reduction in imports and the need to export. Population growth was not seen as a problem because by the mid-1970s it appeared to be negative.

There is much in Caldwell's work to commend it. Bringing the entropy dimension into the analysis of North-South relations was long overdue. So too was a sober evaluation of high yielding variety (HYV) agricultural techniques which had been viewed by many as a panacea for the food problems of the Third World. Adding the
spatial dimension to what is, in effect, a steady-state type proposal, was also unusual. There is, as well, at least the outlines of a more environmentally responsible, resource and inter-generationally sensitive, economic strategy.

On the other hand, and with the benefit of hindsight, Caldwell's assessment of the nature of some of the Asian socialist regimes seems now to be grotesquely inaccurate. To hold up Pol Pot's government as a model of social justice and democracy was tragically misguided, no matter how much the West may have exaggerated the scale of its atrocities. It is also clear that China's decentralization has always been circumscribed by a highly centrist, Stalinist, political system. Policies since the death of Mao have reversed many of the characteristics of the Chinese economy applauded by Caldwell, such as national self-sufficiency, distributional equity, regional balance, external balance and control over inflation. There is, however, no doubt that Caldwell misread the progress being made in some areas during Mao's lifetime, for example in reducing pollution and environmental damage.

Caldwell was also naively optimistic about the progress being made towards population stabilization. Even very low growth rates in countries with large populations imply huge additions to total population. Thus, between 1988 and the year 2000, China's population is expected to grow at no more than 1.3 per cent p.a., or at less than a half the rate for most low income countries. But this translates into an additional 187 million people, or more than the entire population in 1988 of Pakistan, Bangladesh, Burma, Sri Lanka and Nepal combined. Since Caldwell's book was published, the population of the world has risen by over 1.2 billion; between 1988 and the year 2000, it will rise by a further 1.1 billion to 6.2 billion, and depending on assumptions made, it will not stabilize until it reaches between 7.7 and 14.2 billion (World Commission on Environment and Development, 1987, p. 102). The resource implications of this continued absolute growth are simply staggering and Caldwell, being preoccupied with the slow-down in growth rates, simply failed to appreciate this.

(v) Reds, Greens and Sustainable Development

Socialists generally have had difficulty dealing with the issue of population control, and this is readily apparent in the recent literature on alternative paradigms of global development. Following Marx's
critique of Malthus, the socialist tradition has been to play down the importance of population growth as an independent variable explaining poverty, and to argue that economic growth and more equitable income distribution would not only eradicate poverty, but would also reduce population growth rates. Caldwell was simply following this tradition, but his analysis was flawed by his over-optimistic interpretation of demographic trends. In two recent books, Michael Redclift (1984, 1987) critiques neo-Malthusian perspectives on resource scarcity for failing to appreciate the relationship between capitalism and the environment, but then proceeds to treat the issue of population pressure as being an altogether dependent one. There is, however, no guarantee that redistributive measures (which are surely the sine qua non for all alternative paradigms attempting to address the problem of economic development constrained by finite resources) would actually halt population growth before many Third World countries with high population densities had experienced crisis conditions. China’s experience would surely suggest that distributive justice and economic security are not, in themselves, sufficient to bring about a stable population.

Redclift’s work is, otherwise, extremely perceptive. It is more analytical than prescriptive, but it does suggest a number of potential policy directions in which alternative paradigms might lead. To begin with, the principal emphasis must be on ‘removing structural constraints on the activities of the poor, and imposing them on the activities of the rich’ (1984, p. 130), implying the need for radical transformation of the economic and social systems in which we live. Greater access of the poor to land and resources would do more to stem environmental damage in the Third World than would the export of northern notions of ‘conservation’. The eradication of excess consumption in all parts of the world is necessary, as is an emphasis on meeting basic human needs in an ecologically sound manner. He suggests that, if the environmental discourse is to become a development discourse, it may be that ‘we should take our cues from societies whose very existence “development” has always threatened’ (ibid.). This is a theme we explore further below (Sections A(vii) and B(iii)).

Redclift draws on, while remaining critical of, the radical environmentalism of Rudolph Bahro (1982), which calls for a fundamental restructuring of North–South relations. Bahro argues that the problems of environmental degradation and of southern and northern poverty can only be addressed by de-industrializing the North, by
reducing demands on southern resources, and hence, by reducing North–South trade. This contrasts starkly with the liberal-social democratic consensus (Loxley, 1986), as represented by the Brandt Commission (1980, 1983), which recommends stimulating growth in the North to promote growth and equity in the South. It contrasts also, therefore, with the recommendations of the World Commission on Environment and Development (1987), the Brundtland Commission, which can be located within that consensus.

Brundtland calls for a sustainable world economy but with more rapid economic growth in both North and South, differing in this respect from most other advocates of sustainable development who generally accept the need to constrain or reduce growth in the North. The logic behind this position is that Third World countries need growth to deal with poverty which is the main cause of their environmental problems, and to diversify their economic base. Mutual interdependence requires growth in the North to stimulate growth in the South, through trade. As well, it requires increased capital flows to the South at reduced interest rates and in concessional forms, greater access to northern markets and to northern technology. All of this is to be achieved while ‘respecting the environmental constraints’ (World Commission on Environment and Development, 1987, p. 89). Brundtland stresses the need for renewed growth to be less resource intensive, and for international agencies to promote environmental sensitivity in all their dealings with the Third World. Mutuality of interest will ensure international cooperation to reduce Third World poverty and ecological degradation.

Other themes in Brundtland, which has been instrumental in raising international awareness about issues involved in seeking sustainability, draw heavily on the steady-state tradition. There is an unambiguous call for population control, for greater food self-sufficiency, for maintaining biological diversity, reducing energy and other resource throughput, for demilitarization and for reducing urban concentration and urban poverty.

There are, however, a number of weaknesses in the Brundtland Commission’s approach to sustainability. First of all, it underestimates the difficulties likely to be encountered in the short run in attempting to render any economic recovery ‘environmentally responsible’. While the contribution of existing North–South commercial and aid relations to the environmental problems being faced by the South are acknowledged, they are not given sufficient weight. Third World countries have few options in the short run but to
expand primary exports, with all that this entails for their environments. Contemporary structural adjustment programmes put more, not less, pressure on the often fragile ecologies of these countries.

Secondly, increasing northern consumption is a strange way to approach the problem of sustaining the global economy; at best it can be justified as a temporary measure, and even then only if one accepts that the direction of mutual interdependence runs in the opposite direction of that claimed by Bahro. Furthermore, Brundtland is virtually alone among those advocating 'sustainable development' in proposing increased North–South trade. Most emphasize the need for greater self-reliance, either nationally or within Third World countries as a group, and hence call for or anticipate reduced trade between North and South (Bahro, 1982; Brown, 1981; Daly and Cobb, 1989; Sachs, 1986).

Thirdly, there is the problem of what Redclift has described as 'agency' (1984, p. 44). Brundtland places great emphasis on the role of international institutions in ensuring the environmental sensitivity of Third World policies. Yet, the track record in this area of multilateral development banks, and especially the World Bank, is a dismal one (Rich, 1985). They would have even less credibility for this type of conditionality than for other types. This has been acknowledged recently by MacNeill (the principal author of the Brundtland Commission report), Winsemius and Yakushiji (1991). While applauding the increased awareness of the World Bank about environmental issues, as evidenced by the establishment of the $1 billion Global Environment Fund in 1990, they feel that a change in the Bank's 'institutional culture' will be needed if it is to effectively promote sustainable development. Their assessment of the IMF is even less flattering, since it 'has shown no signs as yet of making the changes necessary to reflect environmental concerns in its decisions' (ibid., 122).

Before turning to examine alternative approaches to development put forward by Third World scholars, it might be useful to look at two other 'peripheral' viewpoints from the industrialized 'centre', those of the Hutterites and the aboriginal people, for insights into practical alternatives to the orthodoxy of growth mania.

(vi) Learning from the Hutterites: Asceticism with Growth

The Hutterites are Anabaptists who trace their origins back to Moravia (in what became Czechoslovakia) in the late 1520s. Persecuted
for their beliefs, especially their pacifism, they had to move several
times, to Russia in the eighteenth century and from there to the
USA in the late nineteenth, before many settled in Canada at the
end of the First World War (Hostetler, 1974; Government of Alberta,
1975). Located mainly in Alberta, Manitoba and Saskatchewan, the
Hutterites live, produce and consume collectively. They practise
common ownership of possessions and, drawing on biblical refer­
cences, see communal living as a means to salvation. Families are
organized into colonies of between 130 and 150 people and pursue
a very high degree of self-sufficiency. Farming is the main activity
but, in contrast to most other Prairie farmers whose activities are
now very specialized, Hutterite communities practise mixed farm­
ing. Grain production is accompanied by a wide variety of live­
stock, as well as honey, vegetables and fruit. Hutterites tend to
farm their land both more intensively and more productively than
other farmers (Ryan, 1973). Self-consumption of food is accompa­
nied by extensive processing activities in the making of bread, meats
and sausages, dairy products, wines and beer.

Colonies have their own machine shops and workshops, handle
their own construction of houses and buildings, including electrical
and plumbing needs, and make their own furniture, shoes and cloth­
ing. Hostetler (op. cit., p. 182) also mentions that they do their
own bookbinding, clock repairing, rug making, wool spinning, knit­
ting, quilting and toy making.

Most adults have two jobs and jobs considered unpleasant are
rotated. Work is highly organized, but not onerous and colonists
help others when their own tasks are completed. Efforts are made
to reduce the burden of work by adapting new technologies, and
colonies do attempt to keep abreast of innovations being devel­
oped both within and outside the Hutterite community. In their
willingness to modernize production techniques, the Hutterites are
quite different from such other Anabaptists as the Old Order Amish,
who spurn modernity to a much greater degree.

On the consumption side, however, the Hutterites also eschew
modernity and practise frugality and austerity, satisfying 'socially
sanctioned needs, not individual wants' (Hostetler, p. 194). The
principle of distribution followed is that of 'To each according to
his need, in equal measure with his fellow members' (Government
of Alberta, 1975, p. 13). Thus, within each colony lifestyles are
simple and relatively egalitarian; people consciously make do with
less, but do so 'with dignity and purpose' (Bennett, 1967, p. 173,
Alternative Paradigms

quoted in Hostetler, p. 195). Hutterites are set apart from the rest of society by not indulging in the limitless drive for enhanced consumption, and by not being acquisitive at the personal or family level. No one goes without the necessities of life and there is no recorded neglect of either children or the aged. The Hutterites pay taxes but do not accept welfare. Since all property is owned communally, there is no inheritance, and should a member decide to leave the colony, he or she has no legal right to any of the colony’s property.

The size of colonies is determined by land availability and the number of jobs, especially responsible ones, so that when the population reaches 130-50, plans are made for ‘branching’, or forming a new colony. Additional lands are gradually acquired with this in mind and when the time comes for branching, the population of the parent colony is split in two, each under the leadership of a preacher, and with careful regard for the skills necessary to maintain both the old and the new colony. There is some division of assets, such as livestock and small tools, but otherwise the initial capital for the new colony is provided in cash by the old (ibid., pp. 185-90).

In terms of relations with the ‘outside world’, most production on Hutterite colonies is for sale to local or wider markets. For grain this means production for the world market, using the same channels as other farmers. But cash income is used much less for consumption than for capital goods and livestock, for intermediate products such as fertilizer, feed and seed, and for expansion of land holdings. Indeed, expenditures on food and clothing are generally less than 3.5 per cent of total cash spending (Hostetler, p. 195). Being extremely frugal, and having some access to loans from within the community, Hutterite farms use little outside credit and fragmentary evidence suggests that they maintain positive net current asset positions and enjoy considerable net worth (Government of Alberta, op. cit., p. 23).

As an alternative lifestyle to one driven by limitless personal consumption, the Hutterite way is an important model for the following reasons: (i) it provides for people’s basic material and spiritual needs while avoiding acquisitiveness and boundless materialism; (ii) it provides economic security to all, regardless of age or gender; (iii) it is built on a high degree of self-sufficiency, especially in the area of consumption which is not, therefore, as susceptible to global market instability as the consumption of the rest of rural Canada;
(iv) it provides employment for all able-bodied people; (v) it is based on equality of income and wealth; (vi) it relies less on state services and supports than do other sections of society; (vii) it relies much less on outside bank finance than does the rest of the rural community in North America; (viii) it is based on pacifism.

There are, however, several difficulties standing in the way of this lifestyle serving as a model for emulation by the broader society. To begin with, it is based on a very specific and relatively unchanging set of Christian beliefs which are not widely shared, and on a community with a strong sense of historical, ethnic and cultural identity. Secondly, although decision taking is in many ways quite democratic, positions of responsibility are held by men and the community is very patriarchal. This finds reflection in the division of labour, in which women tend to be confined to domestic chores. Thirdly, there is no evidence that Hutterite agriculture is in any way more environmentally responsible than prairie agriculture generally. It is equally fossil-fuel dependent, equally polluting in terms of fertilizer and pesticide use, equally mechanized and equally dependent on a dangerously narrowing seed base. Perhaps only in the area of livestock is it less polluting as Hutterite colonies tend to run much smaller feed lots than is usual. Finally, in its own way, the Hutterite economy is also driven by a need to grow. It is not limitless personal consumption which drives it, but rather limitless collective accumulation driven by the lack of checks on population growth. Indeed, population growth and large families, with over ten children on average, are positively encouraged so that the community has one of the highest population growth rates in the world (Hostetler, op. cit., pp. 290-3). Branching is necessary if the growing population is to be provided for and accumulation is necessary if branching is to take place. While such a communal lifestyle would permit a much more efficient and humane accommodation of the world's population, growth rates of population in the region of 4 per cent p.a. would quickly nullify these benefits by overtaxing the world's carrying capacity.

(vii) The Aboriginal Concept of Stewardship and Enoughness

Another possible source of insights into alternative lifestyles and value systems is the aboriginal community of North America. Traditional aboriginal values reflect the relationship of the people with land and, in particular, their complete dependence on the land for
survival. Land is respected as the giver of life, and together with water, fish, animals and plants, is considered inseparable from human life itself. The land is the ‘mother’ of human society, the flesh and blood of human existence. It is the basis not only of security, but also the source of aboriginal peoples’ identity, pride, self-respect and independence (Berger, 1977, pp. 93–100). No one owns the land, and all can use it but within socially determined patterns of land use distribution.

As custodians, the current generation has responsibility for safeguarding the land, and the animal, fish and plant life, for future generations. In practice, this custodial obligation finds reflection in aboriginal resource management practices which are highly respectful of the need for conservation and replenishment. For instance, the Waswanipi of the Boreal Forest area of Northern Canada practise rotational hunting, moving from one area to another, in order to regulate the production and distribution of animals (Feit, 1987). Aboriginal resource management in Australia seems to have followed similar patterns, the sophistication of which is only now being appreciated by non-aboriginal society, whose own resource management practices leave so much to be desired (Coombs, 1990, pp. 97–9).

In general in aboriginal communities, resource management is achieved by consensus based on shared information gathered through harvesting experience, and passed on from generation to generation through oral culture (Usher, 1987). Rules governing trespass, over-hunting or hunting out of season are enforced through social sanctions. Since ‘production’ is for use rather than exchange, consumption is indeed governed by some concept of enoughness, as Daly would put it, and is modest with any surplus being shared with others in need. Sustainability is the result of this modesty and social control over land use.

One should not, however, romanticize the aboriginal wildlife management experience. ‘There is fairly clear evidence that early humans in North America were at least partially responsible for extinction of at least 20, possibly as many as 40 species of medium to large mammals’ (Pruitt, 1989, p. 2). The point is that traditional aboriginal ways of life were and are much more in synchronization with nature than is merchant and industrial capitalism, which has wreaked more destruction in the last 400 years than ‘that which had taken the earlier human invasions some 10,000 years to achieve’ (ibid.).
Together with this highly developed sense of stewardship over land and natural resources, aboriginal communities maintain a value system which appears to be singularly relevant to the search for a more sustainable form of economic existence. There is a strong attachment to egalitarianism and to sharing (Berger, op. cit.), to 'mutual aid ... family and community life and traditional institutions such as the collective land tenure system' (Ross and Usher, 1986, p. 150). Central to aboriginal culture is respect for elders as repositories of knowledge, history, customs and tradition (Berger, op. cit.). This stands in stark contrast to the values fostered by capitalism which emphasize individualism, acquisitiveness and the educational and technological superiority of youth. This type of mentality gives rise to not just lack of respect for the experience, contribution and knowledge of the aged, but also a lack of social responsibility for their care seen, in its most heinous form, in the recent phenomenon of 'granny dumping' in the USA.

Though trade and gift giving between regions was often highly developed, aboriginal economies were very self-sufficient. With the encroachment of merchant and industrial capitalism, and of the state, the aboriginal way of life has been eroded and constrained, but it still persists and in northern regions remains strong. It is a testimony to the strength of aboriginal culture that it does persist under such unrelenting pressure, and there is much that can be learned from its values by those seeking a less acquisitive, more community-focused way of life.

B. ALTERNATIVE PARADIGMS: VIEWS FROM THE PERIPHERY

There is a growing body of literature from the South which also challenges many of the basic tenets of contemporary development, or structural adjustment, policies. Some has its origins in the dependency literature of the 1960s and 1970s, though offering a richer and more subtle set of policy alternatives than were offered at that time. Much of it, however, represents a sharp break from earlier development thought, orthodox or critical, and emphasizes the importance of the 'autonomous' sector, the environment and feminist perspectives on the economy. There is a good deal of overlap with what we have described as peripheral views from the centre and, despite the variety of approaches, a number of common policy themes can be seen to recur.
(i) The South Commission and South–South Cooperation

The most comprehensive proposal by representatives of the ‘periphery’ for alternative approaches to the trickle-down approach to development, which has dominated the experience of the last 30 years, is to be found in the report of the South Commission (1990). The call here is for much greater South–South cooperation, both to facilitate greater southern self-reliance, and to give the South more countervailing power in seeking greater access to northern markets and more influence in supposedly ‘global’ institutions. At root is a belief that the South can no longer rely for its economic growth on demand derived from the North. ‘(T)he Northern locomotive economies will not pull the train of Southern economies at a pace that will satisfy its passengers – the people of the South’ (ibid., p. 286).

The vision of the Commission is a very different one indeed not only from that underlying development experience in the years since 1960, but also from that likely to result from the emergence of trade blocs, discussed above. If, some would say ‘when’, such blocs emerge, groups of Third World countries are threatened with being absorbed by them, or subordinated to them, in varying degrees, creating new forms of dependent development along regional lines. In contrast, and partly to forestall this possibility, the South Commission argues for building up self-reliance both within and between countries of the South.

The Commission accepts the need for economic growth in the South but of a form radically different from that of the past decades. Continued emulation of northern consumption patterns would not be acceptable, since this would perpetuate income and wealth inequalities and place unbearable demands on the use of energy and imports and on the environment (p. 80). In this respect, the Commission accepts the ‘impossibility theorem’. Instead, the emphasis must be on providing the basic necessities for all, starting with food security and, by the year 2000, ‘universal primary health care, literacy, and elementary education’ (ibid.). Food security may require radical reform of land tenure systems to permit access by peasants and small farmers; it will also require measures to raise the productivity of these farmers, such as localized research, preferably into organic farming possibilities, and appropriate pricing policies and extension, storage and credit supports.

Putting the emphasis on ‘food first’ and on other basic needs involves a significant departure from the priorities of orthodox
adjustment policies. So too does the Commission’s call for broadly-based industrialization which would integrate very closely with agriculture and which would be guided, not by the impersonal forces of the market, but by national industrial policy. Both rural and industrial policy would, however, seek to avoid the errors of past approaches which tended to underestimate the need for efficiency and technological dynamism (p. 93). Due attention would also need to be paid to export promotion, which was often ignored in the recent past. Again though, this cannot be left to untrammelled market forces, but will require judicious assistance from the state in terms of investment support, the facilitation of market access, and the creation of appropriate research and training institutions. All of this would likely be considered excessively ‘dirigiste’ by the IMF and World Bank.

The South Commission is not seeking a continuation of policies and practices long discredited, as claimed by conservative critics (The Economist, 4 August 1990). Rather, it is itself highly critical of the record of many Third World governments. Indeed, the economic strategy outlined above is less reminiscent of actual past policies of Third World governments, than it is of the critique of those policies some 20 years ago by the dependency and related schools (see, e.g. Cliffe and Saul, 1972; Seidman, 1970; and Thomas, 1974). In fact, it has much in common with more recent critical alternatives to both past practices and IMF/World Bank orthodoxy (Loxley, 1986).

Where the South Commission is clearly unambiguous in advocating new beginnings is in its call for gender-sensitive development. Rarely has an organization of the South been so critical of the lack of action by southern governments on, and of the lip-service they pay to, women’s equality. It is acknowledged that women ‘carry the double burden of poverty and discrimination’, and that ‘their contribution to economic and social change continues to be inadequately recognized and greatly undervalued’ (p. 128). Furthermore, structural adjustment policies have worsened, not improved, the situation of women. If development is to be in any sense ‘sustained’, then the subordination of women must be eradicated, which in turn means that Third World societies must change radically, at all levels – administrative, legal, political and, most difficult of all, cultural. The promotion of gender equality in, and the recognition of the contribution of women to, society and economy, would also be invaluable in furthering equity, self-reliance, popular participation and environmental protection (p. 130). The Commission ac-
knowledges that the speed of change will depend crucially on the awareness of women of their rights, and on their mobilization to defend and extend them. Those who have sought to build gender equality into reform programmes in Third World countries, and have encountered the brick wall of entrenched patriarchal interests at the highest levels of governments otherwise considered 'progressive', can fully appreciate just how radical the stance of the South Commission is on this issue.

The promotion of the equality of women is seen also as one among several prerequisites for reducing unsustainable population growth rates in the South. Others are reduced child mortality rates, the alleviation of poverty and insecurity, improved accessibility to family planning services and, more specifically, improved educational levels among young girls. This position represents an important departure from the widely held view in the South, and on the left in both North and South, that the sole key to population restraint is improved prosperity.

In a similar vein, the Commission argues that while most environmental degradation has been, and continues to be, taking place in the advanced northern countries, the South must take steps to deal with its own problems. These are seen to be the result of excessively high population growth rates, income and wealth inequalities, too rapid rates of urbanization, the emulation of northern consumption patterns by the elites of the South, and strategies of economic growth which emphasize the need to export raw materials in order to purchase imported goods. The Commission calls for action on all these fronts, but recognizes the need for international cooperation between South–South as well as North–South countries (pp. 39, 134–41, 258–60, 193–4).

The South Commission is equally vocal on the need to strengthen democracy and human rights generally in the Third World. The principle of multi-party systems and the importance of dissent are underscored, as is the desirability of a strong non-governmental organization (NGO) sector to counter the influence of the state. The state must become more transparent and accountable for its actions, and the separation of the legislative function from that of the executive and judiciary must be restored. Steps must also be taken to curb militarism, autocracy and corruption. Contrary to prevailing views in the IMF/World Bank, '(T)he South does not need help to do this, certainly not from the North where the record is not everywhere unblemished' (p. 117).
To some degree, the positions of the Commission on gender, population growth, the environment and democracy reflect the pressures on the ground in the South for profound changes in policy in these areas. Such pressures are unevenly developed throughout the Third World, and are everywhere meeting stiff resistance from vested interests. But they are real and their influence is being felt both nationally and internationally. Likewise, the strong emphasis of the South Commission on the need to strengthen South-South linkages does not emerge from a vacuum, but rather reflects the growing dissatisfaction in the Third World with colonial and post-colonial patterns of trade and investment.

Even as the Commission's report was being written, a variety of southern states were discussing closer economic cooperation. The Global System of Trade Preferences (GSTP) introduced in April 1989 is designed to reduce trade barriers to greater South-South trade and has 50 signatories. Full implementation, which will be difficult because of unevenly distributed costs and benefits, could raise trade within the South by 17 per cent. Prospects for trade expansion are particularly good for foodstuffs, crude steel and services (Hardy, 1990).

A Group of 15 Third World countries was also established in that year, drawn from Asia, Latin America, Europe and Africa, and at its first meeting in 1990 put close South-South ties at the head of its priorities. This will be the main vehicle for pursuing the recommendations of the South Commission (ibid.).

Since the publication of the report of the South Commission, a number of initiatives have been taken to strengthen South-South integration. Plans to establish a North African free trade zone were announced in 1990 (Reuters, 19 October 1990) and a Southern Cone Common Market (MERCOSUR) was created by Argentina, Brazil, Paraguay and Uruguay which became a customs union in 1995 (UN, World Economic and Social Survey, 1996, p. 74). Plans to establish an Eastern and Southern Africa Common Market (COMESA) by the end of the century were also announced in 1990 (Reuters, 22 November 1990), while in 1992 it was agreed that the Southern African Development Coordination Conference (SADCC) be replaced by the Southern Africa Development Community (SADC) which plans to fully liberalize trade, investment and migration by the end of the century and achieve a common currency (UN, World Economic and Social Survey, 1996, p. 75). Countries of the Caribbean Community (CARICOM) have com-
mitted themselves to a single regional market and common external tariff by 1997 (ibid., p. 74).

The South Commission is not calling for delinking from the North; quite the contrary. While arguing for debt write-downs and reduced debt servicing to permit per capita growth of 2 to 3 per cent p.a., it presses the case for doubling the flow of concessional finance, especially from the multilateral agencies, and for more private foreign investment. It argues for the removal of trade barriers facing Third World exports in northern markets, especially textiles, and for the stabilization of the prices of products of importance to the South. Recognizing the potentially destabilizing impacts of fluctuations in prices, interest rates and exchange rates, outside the control of southern governments, the Commission also calls for greater allowance for contingencies in North-South arrangements. More effective management of the global environment will also require closer cooperation between North and South, and much of the cost of improving environmental practice in the South will need to be financed by the North, as is already recognized in such international agreements as the Hague Declaration of 1989 covering global warming and ozone depletion.

Indeed, no issue of principle is involved in any of these proposals for closer North-South relations, since each has already been implemented to some degree. As a package, however, they clearly go well beyond what the powerful states of the North are willing to accept. Until southern integration and cooperation have gone much further, with consequent strengthening of southern negotiating power, or until northern values have changed in the drastic way envisaged by Daly, Georgescu-Roegen and others who appreciate the utter unsustainability of current global trends and arrangements, the demands of the South Commission will remain utopian.

(ii) Delinking

As already noted, the recommendations of the South Commission have been shaped, in some important respects, by critics identified with the dependency school. The emphasis on domestic self-reliance and on greater cooperation between the countries of the South are not new themes, yet they continue to dominate alternative paradigms for development in the South. Samir Amin's call for delinking is but an extreme form of this argument, one which he has refined in recent years.
Amin views the increasing influence of the IMF and World Bank over policy formulation in the South as an attempt to 'recompradorise' the South by undermining domestic capital to the advantage of northern capital. Structural adjustment is seen as a 'systematic subordination of the peripheral bourgeoisie, wiping out the scope for autonomy they have been able to carve out in the preceding period' (Amin, 1990, p. 71).

This global application of 'Reaganomics' will renew and intensify the relations of inequality between North and South, but will also benefit the countries of the North differentially, heightening rivalries among the imperialist powers. For Amin, as for the South Commission, cooperation among the nations of the South is seen as being important in helping to offset the collapse of the world into competing blocs, spurred for the most part by the attempts of the USA to offset its declining hegemony. His argument for 'maximum polycentrism' is not confined only to South-South cooperation, but to cooperation between all middle and small powers. Indeed, Amin suggests that the immediate benefits of cooperation between weak peripheral countries might be rather limited, although the long-term possibilities are acknowledged (ibid., p. 74).

Amin proposes a strategy of 'national and popular autocentric development', which rejects development based on comparative advantage defined by participation in the world capitalist system. His alternative would be based on a very different type of rationality, 'on a law of value on a national basis with popular relevance' (ibid., p. 62). In essence, he would abolish private ownership in land and industry, focus centrally on the development of agriculture and refrain from its exploitation through primitive accumulation, and pursue policies promoting egalitarian income distribution. Rational prices and wages would be arrived at initially by reference to the share of the populations of the rural and urban sectors in net product, with prices being adjusted thereafter to reflect changes in productivity. The state would determine surplus according to desired growth rates and allocate it in line with sectoral need.

In earlier statements on delinking, Amin left himself open to the criticism that he was advocating a rash and impractical form of autarky (Loxley, 1986, pp. 201–2). In his more recent work he is at pains to point out that this is not at all what he has in mind. He recognizes the need for external relations, but argues that they need to be subordinated to a logically separate internal development dynamic. For reasons of resource scarcity, technological backward-
ness and the need for sophisticated capital goods, small and medium Third World countries will need to continue relying on imports and, therefore exports, as a necessary evil. Generally, however, his alternative is highly likely to lead to a reduction in the external trade of the South.

Amin also rejects the notion that restored northern prosperity will, *ipso facto*, permit development in the South. Keynesian-type policies, as proposed by the Brandt and Brundtland Commissions, would at best have ‘timid’ implications for North–South relations, but are in any case not likely to work given the severe structural/class nature of the crisis. If relations between the North and South are to be less exploitative and more equal, then the North will need to pursue much more radical alternative approaches to development which would imply, among other things, a degree of austerity. This would not be Reaganite austerity implying increasingly regressive monetarist policies, but rather reduced consumption within a more equitable distribution of income. Amin seems to be arguing, therefore, for global shifts in income and consumption in the direction proposed by Georgescu-Roegen, Bahro and Redclift, and positing that greater autonomy in the South will require alternative approaches to development in the North. He does not equate his vision with that of socialism, although he clearly believes that greater autonomous development will open the way to socialism. His objective is to broaden ‘the scope for autonomy of state, nations, peoples and exploited classes’ in both the North and the South (ibid., p. 73). Politically, this is a call for non-alignment internationally.

(iii) Beyond Delinking: Autonomous, Ecological and Feminist Alternatives

Many of the themes to be found in Amin’s proposal for delinking recur in more recent alternatives put forward by Third World scholars and activists, but in each case they go well beyond the confines of Amin’s somewhat traditionalist dependency approach. For purposes of exposition three approaches have been isolated here, but they overlap considerably.

(a) Recognizing and Promoting the Autonomous Sector

The first approach to build on delinking is one which seeks to recognize the importance of the ‘autonomous’ sector of the economy,
not merely in quantitative terms but also as an entirely new, unprecedented form of society with great potential for transforming the lives of ordinary people.

Defining the autonomous sector as a combination of the informal sector and the 'vernacular' or production for direct use (cashless, non-exchange) sector, Alfredo de Romaña of Peru sees in it the seeds of an alternative to industrial society. Lying outside the private commercial and public official sectors, the autonomous sector is largely invisible but immensely important. It 'sustains the life of the majority of the world population and constitutes... perhaps still the largest... portion of human activity on the planet' (de Romaña, 1989, p. 26), although little of this is captured in conventional measures of income or welfare. The autonomous sector is an important repository of indigenous knowledge, rooted in physical work and creative human interaction, and is central in shaping cultural identity. For de Romaña, it is culture, broadly defined, which is the 'ultimate source of economic production and social transformation', not 'investment' or 'information'.

Industrial accumulation in the formal sector undermines vernacular economy and culture but the resulting damage is not captured in contemporary economic measurements of welfare. Indeed, driven by large-scale private enterprise and the centralized state, economic growth, as measured by economists, actually impoverishes the population in a whole variety of important areas. Lack of self-reliance in housing and accompanying dependence on credit, the inability to repair common household items, the destruction of subsistence economy, as well as community and personal relations, are just some facets of 'modernized impoverishment'. The benefits of economic growth are, therefore, systematically exaggerated.

The state reinforces the centralizing tendencies of growth by supporting the expansion of industry, both directly and indirectly, by promoting tax-financed activities at the expense of the vernacular sector, and by promoting institutional and regulatory mechanisms which discriminate against autonomous activities. International institutions, such as the IMF, World Bank and GATT, serve to strengthen centralizing forces by removing impediments to free markets at the national level. The net result of their activities in recent years has been to destroy the economy, ecology and culture of local communities and, with the aid of the debt crisis, to promote an unprecedented degree of 'heteronomy' in the South, or government by political entities resident elsewhere.
The solution offered by de Romaña is greater national self-reliance with trade and exchange at both national and international levels being "radically subordinate and only accessory to the autonomous sector" (p. 78). Production for use must be strengthened, market exchange and collective consumption carefully regulated, and the formal sector recast to strengthen rather than replace the informal and vernacular sector. Ironically, it is only when the autonomous sector is strong, providing security, improvements in well-being and a solid sense of cultural identity, that international trade can proceed free of protectionism. As de Romaña puts it, it is not markets that are the problem "but market-regulated societies... not industry but commodity-intensive lifestyles... not "state intervention" but social programming through central policy" (Part 2, p. 163).

This 'third way' will be quite different then from both market economy and statism. Growth in the industrialized countries will have to cease as it is ecologically unsustainable, and Third World peoples will need to acknowledge that industrial society is out of their reach. Pollution must be outlawed. Inflation, budget and trade deficits must be eliminated and a full-scale programme of progressive income redistribution must be implemented.

A new political consensus will be required to build the third way. De Romaña feels that this will be informed by common sense (of the desirability of security, cultural freedom, a stimulating social environment, living within one's means, etc.) and propelled by a systemic break based on 'the new environmental and social consciousness'. Building such a consensus may be easier in the periphery, where social dissatisfaction is greater, industrialization less influential and 'vernacular life more vital'. In the industrial centres, it may require a prior major economic, ecological and political crisis. In both parts of the world, however, there is an urgent need to articulate alternative forms of social organization and to mobilize politically for their realization.

De Romaña's 'third way' is very close in conception to Gustavo Esteva's 'new commons'. Esteva (Ideas, 1990) views the expansion of what is popularly called the 'informal sector' as a rational reaction on the part of the great mass of people in the South to being 'marginalized' by development. The dreams of the 1960s and 1970s that the benefits of development would be shared widely were recognized, by the 1980s, to be just dreams. While established ways of life were destroyed by 'modernization', the loss of subsistence and
traditional safety nets were not replaced, for most people, by modern services, jobs and security. Having realized their marginalization or, in Esteva’s words, that ‘development stinks’ (Esteva, 1991), and finding themselves in an urban setting, the ‘marginals’ have begun to build a new social organization, a ‘new commons’. Drawing on cooperative tradition, modern technologies and original forms of organization, they are shaping a new way of life, to a large degree independently of both the formal market and the centralized state. Nowhere is this more apparent than in the sphere of housing, where the vast majority of new structures in a country like Mexico are ‘autoconstructed’ using a blend of modern and traditional techniques and materials.

Unlike rational economic man, the ‘common man’ (and woman!) conquers space not time, and improvises rather than plans. The new commons have no historical precedent. They are in many ways constrained by the state such as in developing appropriate sewage disposal systems rather than water driven ones which are outside the reach of the mass of people. They are also victims of market forces, that is being forced off land as the market for non-traditional crops expanded. To this extent, the crisis of both the state and the market in the 1980s has opened up space for the marginals, enabling them to consolidate their economy and polity, expanding their own autonomy in the process. Esteva sees the new commons, therefore, as a rational response of the marginals to the realization that the state and the market have limited relevance to their needs; it is an evolving sector which will interact in only a limited way with the formal sector, one which will develop according to its own internal dynamic.

Esteva’s analysis is important for reminding us that the crisis of the South is essentially a crisis of the ‘modern’ sector, which has opened up creative possibilities for many people marginalized by the limited and lop-sided nature of modernization. By the same token, structural adjustment programmes may reverse the fortunes of the marginalized, and have a harmful impact on them, but this is not usually a consideration in the design or evaluation of such programmes. Indeed, in contrast to adjustment programmes, Esteva calls for negative growth as a desirable social goal (ibid., p. 15). He is sceptical of current efforts at ‘green redevelopment’ of the South seeing this as ‘the last definitive assault against the organized resistance to development’, i.e. against the poor themselves in the new commons since, increasingly, sustainable development has
come to mean sustaining development rather than sustaining the environment. Likewise, he is suspicious of the new-found concern in the North over democracy in the South, since centralized ‘formal democracy’ has little relevance to decentralized forms currently thriving in the new commons.

Clearly, de Romaña and Esteva ascribe much more autonomy and importance to the ‘informal’ sector than either earlier ILO analyses which tended to regard it as significantly promotable by the state (e.g. ILO, 1972), or their critics who saw the sector’s role as being primarily that of reducing the reproduction costs of labour in the formal sector (Leys, 1973). In emphasizing the uniqueness of the ‘third way’ or ‘new commons’ as a distinct social formation without historical precedent they also distinguish themselves from Peruvian Hernando de Soto who sees the informal sector in quite different terms.

In The Other Path (1989), de Soto argues that there is, indeed, historical precedent in Europe for the informal sector as it now exists in Latin America, that it has enormous transformative potential, but that its growth was in response to, yet at the same time constrained by, mercantilist policies of the state. This potential can only be realized if laws and regulations and, indeed, the state and political system generally, can be liberalized, so that the informal sector, which is essentially outside the law but which is founded firmly on economic rationality, can be allowed to flourish formally. Latin American independence preceded the development of liberal democracy in Europe, so that states there were the product of mercantilism, governed paternalistically by vested interests through influence and connections. To this day, as if frozen in time, Latin American states still function in mercantilist fashion so that obtaining land or registering a business can be a lengthy, bureaucratic nightmare. The informal sector has arisen, therefore, as the result of individual initiatives designed to circumvent mercantilist inertia and regulation.

For de Soto, the people of Peru have but two options to replace an increasingly beleaguered, parasitic and unrepresentative state; the Shining Path, a violent Maoist option, or his own ‘other path’ which consists of endowing the informal sector with appropriate institutions, such as property rights, limited liability and enforceable contracts, to ‘accelerate our transition from a mercantilist society into a modern economy and a progressive democracy’ (Ideas, 1990, p. 12).
These two, quite conflicting, and ultimately irreconcilable, views of the informal sector reflect the complexity and ambiguity of the economic origins and character of shanty towns and 'favelas', which are the reality for an increasingly greater proportion of the population in Latin America and in the Third World generally. There can be no doubt that conventional development theory, in either its orthodox or Marxist/neo-Marxist variants, does not adequately address the role and significance of the informal sector, and by and large ignores its existence or passes over it lightly. Yet these Latin American attempts to explain its formation and potential are inadequate in terms of both analysis and prescription.

Though his insights undoubtedly have some relevance, de Soto clearly exaggerates the significance of mercantilist influences on this sector, and underestimates the contribution of the destruction of 'natural economy', as Luxemburg (1968) described it, and the limited absorption ability of the modern sector, to the formation of the informal sector. Furthermore, his prescription, which seems to echo Rostow in its anti-communist intent, appears too facile to deal adequately with the complex problems facing Peru. From whence would the political impetus arise to unseat the ruling oligarchy? What policies would be needed in the rural and 'modern' industrial and commercial sectors to complement liberalization in the informal sector?

On the other hand, both de Romaña and Esteva seem to portray the informal sector as consisting of an undifferentiated mass of 'residents', who are untouched by processes of class formation or unequal income and wealth formation. Furthermore, the formal sector, both domestic and foreign, seems to impact on these residents only in a harmful, negative way, ruling out altogether the symbiotic relation identified, though undoubtedly overstated, by Colin Leys. In reality, interlinkages are likely to be more variegated and complex, through purchases and sales of commodities, including labour and services, and through property relations and rent-seeking activities, as neither sector has the degree of autonomy implied. Examination of these interconnections would be an important next step in furthering our understanding of this 'relatively' autonomous sector which is now so crucial to the livelihoods of so many in the Third World.
(b) Ecology and the Economics of Survival

De Romaña and Esteva have accomplished more than merely forcing us to accept the enormous importance of the informal sector and to challenge our lack of theorizing about it. They have also questioned the need for, and desirability of, economic growth in the formal sector, not least from the perspective of its negative effects on the environment. Asian ecologists have developed this line of argument much further, stressing that formal sector development is extremely resource intensive and threatens the very existence of those people, still in a majority, who depend for their survival on 'the direct utilization of common natural resources' (Bandyopadhyay and Shiva, 1989, p. 1227). The resulting destruction of both ecology and traditional society is legitimated both by a profit calculation which does not internalize ecological and human costs and by a theory of development which puts a value on resource use only in terms of commodity production and capital accumulation. In short, a focus solely on natural resource commodification ignores the complex operation of two other crucial, and intimately inter-related economies; the economy of natural ecological production and the survival economy.

Orthodox economists know little about the operations of these two economies, and care less. The result is that 'development' projects, such as forestry clear cutting or monoculture, hydro dams, irrigated fruit or flower projects, mining, etc., often disturb the fragile processes of natural production and undermine the economy of survival. It is for this reason that ecology movements of the Third World, unlike those in the industrialized world, are not 'the luxury of the rich but are a survival imperative for the majority of the people whose survival is not taken care of by the market economy but is threatened by its expansion' (ibid., p. 1228).

Implicit in 'modern' approaches to development, be they capitalist or state socialist, is not only an ignorance of the workings of ecology and survival economy, but also an arrogance in terms of an assumed superiority of northern lifestyles and northern knowledge. Subsistence producers are considered to be 'poor' and, therefore, fit subjects for 'development', regardless of their self-perception or the objective reality of their existence (Rahnema, 1991). The complex forms of 'solidarity, cooperation and reciprocity they develop within their communities' (ibid., p. 36) in order to allow all to have access to nature's resources to meet their needs, are not
generally appreciated in the North. A frugal existence and restraint in behaviour and wants, which are central tenets of the traditional Indian ethos and not just of a Ghandian world view (Klostermaier, 1990), is confounded with what Sachs (1990) has termed 'désitution'. It is but a short step from devaluing vernacular lifestyles in this way to justifying their destruction in the name of 'poverty alleviation' and 'development' and, in the process, replacing for many, 'convivial poverty' with commodity-based poverty.

This is not to argue that ecological degradation was unknown before colonialism and the capitalist penetration of the South. On the contrary, Ethiopia and Nepal are examples of countries which suffered extreme ecological damage without being colonized for lengthy periods. Rather, the point is that environmental degradation is to be explained by mechanisms of surplus extraction and exploitation which operate in ways which cause producers to overwork the soil and produce on marginal and fragile lands (Shanmugaratanam, 1989, p. 16). Colonialism, with its unprecedentedly large demand for timber, minerals and other raw materials, was simply an extreme form of such exploitative relations, with an equally unprecedentedly large reach into the natural ecology and survival economies of the South. Modern day capitalism and state socialism simply expand the scale of exploitation and human and environmental degradation and make the encroachments of colonialism look puny by comparison. The common thread between colonial and post-colonial systems in the South is development projects by capitalism and/or the state which are driven by short-term profit considerations and not by their long-term development impact. In the process, they damage the environment and impoverish whole sections of rural society. This forces the rural poor on to marginal lands and, with high birth rates, themselves a defence mechanism against insecurity, further ecological damage results. Environmental pressures come, therefore, from the two polar extremes in society, 'one group destroys the environment because of its drive to maximize profits and its privileged position in the political system; the other does so because of its unprivileged, deprived status' (ibid., 20).

The trivialization of traditional knowledge and expertise is itself often the result of confusion in northern minds between wisdom on the one hand and literacy and formal education on the other. It finds its apex in recent attempts by the USA, in particular, to force intellectual property rights, including plant breeders' rights, into
the GATT and other international agreements. Such a move would entirely devalue the contribution of the South, over many millenia, to preserving and enriching the gene pool from which northern farmers and scientists draw their plant material. It would signal that only the labour of white scientists and only marketed knowledge have value in agricultural advances (Shiva et al., 1991, pp. 55–8). Ironically, it is this very scientific progress which the North wishes to monopolize which threatens genetic diversity and the maintenance of traditional gene pools. Indeed, ecologists in the South tend to be uniformly sceptical about the long-term impact of the Green Revolution and, while acknowledging the tremendous short-term increases in output it has generated, emphasize also accompanying increases in rural inequality (Rahnema, 1991, p. 33), environmental damage from chemical use, the vulnerability of the hybrids to disease (Shanmugaratnam, 1989, p. 20), and the energy intensity of hybrid seeds (Bandyopadhyay and Shiva, 1988, p. 1229; Shiva, 1988, pp. 128–40). They assess technological advance, therefore, in exactly the same way they view natural ecology and the survival economy; i.e. from a holistic perspective, and not simply in terms of short run production and profitability.

To a large extent, the ecological movement in Asia has been a defensive one, a grassroots movement, of tribal people in particular, fighting to preserve a way of life in the face of encroachment by developers. Their alternative approach to economic life is intrinsic in their struggles. Thus the Chipko movement, in which peasants embraced trees to prevent them being cut down, started in Uttar Pradesh in opposition to logging by outside contractors, but rapidly spread to other regions as a broadly based movement ‘aimed at the maintenance of the ecological stability of the major upland watersheds in India’ (Bandyopadhyay and Shiva, 1989, p. 1224). It is now much more than a merely defensive movement and some see it as ‘actively challenging the ruling class vision of a homogenizing, urban-industrial culture.... Far from being the dying wail of a class about to drop down the trapdoor of history, the call of Chipko represents one of the most innovative responses to the ecological and cultural crisis of modern society’ (Guha, 1988, p. 196).

Numerous similar movements have sprung up throughout Asia against logging, monoculture, dams, over-fishing and mining. What they have in common is a recognition of the interdependence of the ecology and the survival economy, and the threat to these from
so-called ‘development’ projects. They are generally quite critical of the international financial institutions as purveyors of such projects and of macro-economic policies, enforced through the debt relation, which support and encourage them (ibid., p. 1231). Being deeply suspicious of the market economy, they do not share the belief of the IFIs that market forces and growth can solve environmental problems; nor do they share Brundtland’s optimism that growth can in any sense be sustained from the point of view of the ecology and survival economy.

Piecing together the strands of arguments which are rarely laid out systematically, one can say that that the ecology movement in Asia would stress the need for local control over resources, for decentralized decision taking and democracy, a cautious approach, at best, to market transactions and international trade and an avoidance of international debt. Above all, they would insist on a reconceptualization of the appropriate model of development, with far-reaching consequences for state policy and the very nature of the state itself. By implication, the activities of the private sector and the state would be severely constrained.

On a more explicit note, Shanmugaratnam (1989, p. 29) has argued that the production of cash crops should not be abandoned altogether simply because of adverse past experience. Rather, the social relations which led to monoculture and overexploitation and ecological degradation, must be transformed. Only then will it be possible to evaluate, objectively, both traditional production systems and more modern systems and, in conjunction with local producers, derive a new way forward which combines cash crop production and subsistence crops. How those production relations might be transformed is, however, left unclear.

No such lack of clarity pervades the vision of Indian economist and ecologist Narindar Singh (1989), who argues that the world is facing a crisis of ecology and the ‘road forward . . . lies . . . through positive attempts to create a new system which seeks to meet the “inner limits” of the basic human needs for all the world’s people, but without violating the “outer limits” of the planet’s resources and environment’ (p. 9). A new system is needed because capitalism has a ‘compulsive necessity of expanding’ and, contrary to the beliefs of the Club of Rome and Herman Daly, is absolutely incompatible with zero growth which is a prerequisite for ecological balance. State socialism provides no answer because it chose to emulate capitalist approaches to development (p. 154). The answer
lies, therefore, in a different type of socialism which is egalitarian but which eschews the path of limitless accumulation at any cost. ‘Enough is Beautiful’ should be society’s new organizing principle, rather than maximizing economic growth (p. 229).

The gap between rich and poor countries is irrelevant, argues Singh, not just because of severe inequalities within countries, but more profoundly, because the rich countries must abandon growth and ‘rectify instead their manifest excesses against nature’. For their part, countries designated ‘underdeveloped’ must not try to catch up but rather ‘map out a course of development which is ecologically viable and humanistically rewarding’ (p. 149). Since growth per se will not be the driving force of either the rich or poor countries, there will be no need to justify income and wealth inequalities on the basis of their incentive effects.

Singh does not provide a detailed account of the way in which he sees society operating, but the specific proposals he makes would not be out of line with many of those made by Daly or Georgescu-Roegen. He foresees not a return to nature, but rather the adoption of technologies which ‘serve and preserve’. He feels that the automobile should largely be abandoned as it perpetuates dependence on fossil fuels which pollute the environment, requires massive infrastructure, and perpetuates global inequality by depriving people elsewhere of access to resources for their transport and other basic needs. He favours, instead, the creation of a Bicycle Age, and argues that ‘Only a society so modern that it can organize itself around the bicycle can evolve habitat which is both humanized and habitable’ (p. 183). Finally, peace, both among people and with nature, is a prerequisite for sustainability and society will need to ‘emphasize non-violence on a scale that has never been visualized before’ (p. 226).

(c) A Feminist Approach to Development

Third World feminists see the orthodox development paradigm as being shaped by, and in the interests of, white middle-class males, and they see the costs of implementing that paradigm falling disproportionately on peasant and working-class women in the Third World. The orthodox development model rests in turn on post-Enlightenment western scientific knowledge, which is viewed as patriarchal and reductionist. Modern science is considered a patriarchal project because, firstly, its practitioners have been predominantly
male who, at the very outset, rejected women as traditional repositories of scientific knowledge (thenceforth denounced as witches) and, secondly, because their approach has been a consciously masculine one of 'conquering' nature. It is reductionist because it isolates processes from their environment and treats them separately and mechanically rather than organically. It denies the legitimacy both of other ways of looking at nature and of 'knowers' other than 'experts'.

Together, mainstream science and development have been and continue to be 'intrinsically violent and destructive to nature as a producer, and to women as knowers' (Shiva, 1988, p. 221). Furthermore, economics is also reductionist in reducing all value to market value. This has the effect of ignoring human dependency on nature on the one hand, and of devaluing unpaid labour, especially that of sustenance, which is essentially female labour, on the other. Since women's work and existence in the Third World is tied inextricably to nature and since both women and nature are producers and sustainers of life, it should come as no surprise that feminists and feminist thinking have played a central role in developing alternative theories emphasizing the preservation and restoration of the ecology. And since much of women's labour is unpaid, especially that concerned with social reproduction and sustenance, it is little wonder that this thinking has been an important influence on theories which reconceptualize the role of the 'autonomous' or 'vernacular' sector, in which much of women's labour is concentrated. In this sense, feminist theory is integral to the alternative approaches discussed above and ought not to be viewed as separate from them.

Feminists see contemporary forms of development as fragmented and anti-life, as 'maldevelopment', which is 'based on the introduction or accentuation of the domination of man over nature and women' (ibid., p. 6). The poverty crisis in the South is the outcome of maldevelopment and 'this touches women most severely, first because they are the poorest among the poor, and then because, with nature, they are the primary sustainers of society' (ibid., p. 5). It is for this reason that women have been at the forefront of the grassroots ecological movements, such as Chipko, even though the bulk of the local community benefits from their actions.

The solution is for an alternative approach to development, one built upon the feminine principle, of creating, sustaining and conserving life. This principle is deeply embedded in traditional In-
dian cosmology and religion, and 'is characterized by (i) creativity, activity, productivity; (ii) diversity in form and aspect; (iii) connectedness and inter-relationship of all beings, including man; (iv) continuity between the human and the natural; and (v) sanctity of life in nature' (ibid., p. 40). Under this approach, people would cooperate with and adapt to nature rather than seek to conquer and control it as is the practice now (Klostermaier, 1990). Development processes would be participatory, drawing on the accumulated wisdom and experience of women as producers, resource managers and 'traditional natural scientists' (Agarwal, 1989, p. WS-61; Shiva, 1988, p. 41). At the same time, though based on the feminine principle, development would be 'non-gendered', and men and women would work together, non-hierarchically and cooperatively, since contemporary gender ideology, in which women are viewed as passive and men as aggressive, dominating and destructive, is socially constructed and will need to be deconstructed. 'The recovery of the feminine principle is thus associated with the non-patriarchal, non-gendered category of creative non-violence' (Shiva, 1988, p. 52).

Shiva's work has been extremely influential internationally, helping shift the emphasis of feminist concerns in aid policy from the narrow WID approach to the much broader WED, or Women, the Environment and Sustainable Development, approach. Its shortcomings are its overemphasis on subsistence living, which is not an option for many, and its relative neglect of the complexities of the Indian class and caste structure (Braidotti et al., 1994, Chap. 5). Its strength lies in questioning western notions of appropriate development and the values on which they are based.

Several of the themes raised in Shiva's work are echoed in the writings of DAWN, Development Alternatives with Women for a New Era, a network of Third World women, activists, researchers and national and international policy makers. In its work, however, the social class context of women's struggles is given due recognition. DAWN focuses its attention on poor Third World women and concludes that the UN Decade for the Advancement of Women, 1975–85, actually saw a deterioration in their socio-economic status 'because many long-term economic processes have been harmful – or at best indifferent – to the interests and needs of poor people in general' (Sen and Grown, 1987, p. 16). Alternative approaches to development would be based on feminism, in all its diverse forms, as defined by women in different parts of the Third
World, and would seek to build 'a world where inequality based on class, gender and race is absent from every country and from the relationships among countries' (ibid., p. 80). Poverty eradication would be the focus of economic policy and would require structural changes in ownership, production processes and international linkages to recast relations of exploitation which cause poverty. Control would need to be exercised over multinational corporations, and foreign debt and IMF/IBRD structural adjustment programmes would need to be avoided, as these reinforce the very mechanisms of exploitation and inequality DAWN seeks to dismantle. The centrality of the work of poor women in this development process would be recognized and poor women would play pivotal roles in planning and implementation.

DAWN envisages a society in which basic needs are basic rights, in which individuals have the opportunity to realize their capabilities, in which human relations are characterized by values of nurturance and solidarity — women's values — and which is free from violence and oppression both within and outside the home. Men and society generally would play a larger role in childcare, while the diversion of technology from war to peaceful ends would give women greater control over their fertility and would help end hunger and disease. Democracy would be broadened to all spheres of life and women would play an active role in decision taking (ibid., pp. 80-1).

How would this be achieved? Through popular education, consciousness raising and mass movements which would put this vision at the centre of their demands for political power. They would seek also to transform 'the structures of subordination that have been so inimical to women.... Changes in laws, civil codes, systems of property rights, control over (women's) bodies, labour codes, and the social and legal institutions that underwrite male control and privilege are essential if women are to attain justice in society' (ibid., p. 81).

In the works of these Third World feminists, two central themes are evident. First, there is a clear recognition, admittedly somewhat more developed in DAWN than in Shiva, of the importance of combining gender issues with class issues, both in their emphases on the poor and in their concern for more participatory decision-taking structures. The logic behind this is that 'the processes of creation and recreation of class and gender relations take place simultaneously and involve both material and ideological dimen-
sions'. In particular, 'male and female insertion in the work force is not autonomous but mediated by household/family reciprocities that allow men to consolidate their position in class and gender terms' (Beneria and Roldan, 1987). Secondly, the approach is also holistic, encompassing the non-economic objectives of growth, treating reproduction as a vital component of development, and seeking to demystify the local and international roots of oppression. These themes permeate the feminist literature on underdevelopment, including that by writers, such as Young (1988), Folbre (1986) and Pearson (1986), who are not from the Third World.

C. PUTTING IT ALL TOGETHER: AN ALTERNATIVE VISION

While no single vision of global development emerges from this rich and provocative literature, it is possible to sketch from it a composite of the form an alternative approach might take. What emerges is startlingly different from the contemporary development paradigm, having profound implications for the way people live in both North and South and for the structure of global inter-relationships.

In the North, the growth imperative would be abandoned to be replaced by a focus on making do with less and leading a balanced, less material and more culturally enriched life. Income and wealth redistribution would ensure equality of opportunity and that all have sufficient income to lead healthy lives. Governments would have to reduce debt and deficits through progressive taxation and the reduction of private consumption, because policies of cutting social services would be abandoned as inequitable and short-sighted. At the same time, seeking to 'grow out' of debts by reducing the debt/GDP ratio by raising the GDP would not be acceptable over the long run. Full employment, a guaranteed minimum annual income, with a reduced work week, job-sharing and optional early retirement would be a main focus of policy. Universal childcare provisions would facilitate gender equity in the 'formal' labour market. In the home, domestic responsibilities of all forms would be shared by men and women. Technological change would focus on making do with less, in terms of material input, and on reducing household drudgery. Environmental issues would be given much more prominence in economic decision taking and, wherever possible, collective consumption goods, such as public transport, would replace
individual ones. The emphasis would be on minimizing input use and output waste, on guaranteeing the security of the individual and on reducing violence of all forms. Peace and disarmament would be pursued vigorously. Decision making of all forms, including economic decisions, would be democratized, and would make specific provision for the participation of women and workers generally.

In the South, many of the above prescriptions would also apply. The notion of replicating northern consumption patterns would be abandoned and, instead, the emphasis would be placed on economic security for all, on universal literacy, and health care, education and access to potable water. All of this ought to be possible from current production levels, through income and wealth redistribution and a reordering of social and political priorities. This would imply Third World states which were much more accountable, much more equitable and much less aggressive militarily, than are most of the existing ones. Many poorer countries would, even then, however, require growth in production to reach socially acceptable minimum consumption levels for all, and most Third World countries would deem growth necessary to raise average consumption to a comfortable level. The question would be, what type of economic growth and with what implications for the vernacular economy, and especially women and the poor, and the ecology? Once more, a completely fresh approach to decision taking would be needed, including a redefinition of what constitute acceptable consumption standards, if some of the worst excesses of contemporary development are to be avoided. Thus, 'growth' would be measured in such a way as to fully account for any destruction of the vernacular economy and the ecology, while prejudices against traditional housing, foodstuffs and clothing must be countered, as part of an essential campaign to redefine poverty, acceptable living standards and the very meaning of economic progress.

A new emphasis on economic security, on gender parity at home and in the workplace, be it field, forest or factory, would go a long way to removing pressures for population growth. The availability of safe and practical birth control techniques would be essential if real reproductive choice is to be possible.

Again, collective means of satisfying consumption would be pursued where sensible, and technological progress would focus on appropriate technologies to absorb unemployment, reduce the drudgery of work of all forms, including housework and the transporting of water and fuel, and minimize resource use, waste and pollution.
These alternative models of development presuppose, for both North and South, a radical reordering of institutional structure and practice. They imply severe constraints on the exercise of property rights, given that negative or 'reconstituted' growth are unlikely to result from the unimpeded operation of private enterprise and the market. In the South, food security and ecological integrity are not likely to be consistent with land inequality and with private ownership of, or unimpeded access to, forests. Incorporating long-term and indirect implications of projects into state and private investment decisions would severely curtail current business practice. Radically new forms of decision taking, in all institutions of government, from the family to the farm, the factory to the state, would also be necessary if the economy was to be democratized in both the class and gender form suggested.

It seems evident that controls would need to be placed on the operations of multinational corporations, but it is not clear whether MNCs could live with them. Trade relations would probably be reduced in scale and perhaps enhanced in scope, i.e. countries of the South would sell less to the North but would offer a greater diversity of commodities as they moved away from mono-crop export strategies. International trade and transport would be reduced, trade would be more balanced and international borrowing and lending would be severely curtailed, as would international capital flows generally. The international financial institutions would cease to be international economic police and economic sovereignty would be restored to the South. This would mean the end of structural adjustment programmes as we know them and the end of debt peonage. External debt of Third World countries would need to be written off somehow, with or without the cooperation of creditors. Foreign aid would be reduced drastically in size but improved in quality so that it reaches intended beneficiaries, as a supplement to national efforts and not as a replacement for them. As far as possible, international financial transfers would be formula-driven, as automatic as possible and with minimal conditions, except targeting to specific income groups for specific social purposes, perhaps along the lines of the UNDP's 20–20 formula (UNDP, 1994, pp. 77–8). International relations should, therefore, be as cooperative, non-exploitative and facilitating as possible, but the precise forms and, equally importantly, the precise methods of arriving at them are not at all clear.

At a minimum, the development of alternative, progressive, political
interdependence, Disequilibrium and Growth

agendas, will require a much more inclusive approach to politics, one which is based on building broad alliances between the different sectors of society most negatively affected by, or most disaffected by, contemporary capitalism and the prevailing, neo-conservative, approach to public policy. Public and private sector workers’ organizations, seniors, women’s groups, students, the disabled, the unemployed, the poor, environmentalists and pacifists all have strong critiques of the dominant paradigm, but often work in political isolation. This is especially so since social democratic governments, which have traditionally represented these groups electorally, have in recent years been co-opted to the neo-conservative vision of what constitutes appropriate public policy. Building political alliances probably means, therefore, working initially outside the electoral framework with the goal of building a strong movement which will, ultimately, be powerful enough and articulate enough to reshape the agenda of electoral politics. Alliance politics of this kind are not easy. They require much giving and taking as well as acceptance of the broadest definitions of democracy to ensure that the most dispossessed in our society can have their voices heard alongside some of the more organized and still relatively well financed groups in the alliance, such as trade unions or the environment lobby. Such politics will never be easy, but they are not utopian. Thus, the Alternative Federal Budget exercise in Canada draws precisely on this range of groups and functions remarkably well to produce an alternative fiscal vision, one that incorporates many of the policy recommendations contained in the approach being advocated (Canadian Centre for Policy Alternatives and Choices, 1995, 1996; Loxley, 1995). It protects and strengthens social programmes by putting Canadians back to work and by following a fair taxation policy, which closes corporate tax loopholes and ensures that the wealthy pay reasonable taxes. It reduces the working week and overtime and puts great emphasis on improving environmental infrastructure and on reducing energy consumption and waste. It sets a made-in-Canada interest rate policy and puts some constraints on the movement of international capital. It raises the income of poorer Canadians and builds in safeguards for them. It reduces the budget deficit and the share of debt in GDP and while it achieves this partially through increased economic growth, it changes the qualitative nature of that growth through its emphasis on environmental reforms. This is best seen as an interim measure, a necessary first step in bringing rationality back into public policy, setting the stage
for later measures to curb consumption while retaining or improving the quality of life.

What the AFB does is demonstrate that, in the context of neo-conservative budget cuts and tax inequities, progressive political alliances and the compromises needed to make them work are, indeed, possible, provided the goodwill is there. It also demonstrates that there are progressive ways of conducting monetary and fiscal policy to achieve both short and longer run goals. It takes time to engineer a paradigm shift, but the process starts with changes in short-term policies. A new approach to the conduct of economic affairs will require a new approach to the conduct of our political affairs, and the AFB represents a start in both which may serve as a model for progressive movements in other countries, in both the North and the South.

It is evident that the type of society envisaged by the alternative paradigms is much closer to a vision of democratic socialism than it is to contemporary forms of capitalism or state socialism. This may not be a popular notion at a time when northern academics are still celebrating the 'end of history' and the triumph of capitalism and the market both in the South and in what was the Soviet Union and Eastern Europe. The strength of many of these alternative theories is, however, that they take a longer view of the potentialities and problems of capitalist development, and particularly of its most rapacious forms that we are seeing in the areas newly opened up (re-opened?) to capitalism. It is an irony that the collapse of state socialism and the pre-eminence of structural adjustment coincide with a major recession in global northern capitalism, in which more than 30 million workers are without jobs, and in which the living standards and security of those still working are under attack, through reductions in wage packets and the social wage. Workers elsewhere are also beginning to realize that the transition to capitalism and market economy will not be an easy one and that their living standards and security are eroding rapidly. In this situation, it is timely to put alternative visions of development on the agenda for discussion and insertion into the political debate, not because there is any immediate prospect of their being implemented, but rather because as current models of development encounter increasingly severe difficulties, social and political movements are likely to be generated which are more receptive to alternative ideals. And, in conclusion, lest one be tempted to dismiss this notion as being entirely utopian, it may be worthwhile
quoting Eduardo Galeano, who has reminded us that many of these ideals have strong roots in the past:

Certain voices from the American past, long past, sound very futuristic. For example, the ancient voice that still tells us we are children of the earth and that our mother is not for sale or for hire. While dead birds rain on Mexico City and rivers are turned into sewers, oceans into dumps and forests into deserts, this voice, stubbornly refusing to die, heralds another world, different from this one that poisons the water, soil, air and soul. The ancient voice that speaks to us of community heralds another world as well. Community – the communal mode of production and life – is the oldest of American traditions, the most American of all. It belongs to the earliest days and the first people, but it also belongs to the times ahead and anticipates a new New World. For there is nothing less alien to these lands of ours than socialism. Capitalism, on the other hand, is foreign: like smallpox, like the flu, it came from abroad.

(Galeano, 1989, p. 135)
Bibliography


Ariff, Mohamed, ‘The US–ASEAN Free Trade Area Option: Scope and Implications’, in Jeffrey J. Schott (ed.).


Chandavarkar, Anand G. 1984. The International Monetary Fund: Its Fi-
Bibliography


Daly, Herman E. and John B. Cobb Jr, 1989. For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future. Beacon Press, Boston.


Devlin, Robert and Ricardo Ffrench-Davis, 1994. 'The Great Latin American Debt Crisis: A Decade of Asymmetric Adjustment' (mimeo), April.


Drysdale, Peter and Ross Garnaut, 1989. ‘A Pacific Free Trade Area?’, in Jeffrey J. Schott (ed.).


Fanelli, Jose Maria and Gary McMahon, 1996. ‘Economic Lessons for Eastern Europe from Latin America’, in Gary McMahon (ed.).

FAO (Food and Agricultural Organization of the UN), Various. *Yearbook: Production*. Rome.


Bibliography


Bibliography


International Monetary Fund, Various. *International Financial Statistics (IFS)*. Washington, DC.

International Monetary Fund, Various. *Direction of Trade Statistics (DTS)*. Washington, DC.
International Monetary Fund, Various. *World Economic Outlook (WEO)*. Washington, DC.
Jenkins, Rhys, 1984. ‘Divisions over the International Division of Labour’, *Capital and Class*, Spring.


Krueger, Anne O. 1989. Comments on Snape in Jeffrey J. Schott (ed.).


Lawrence, Robert Z. 1989. Comments on Makoto Kuroda, in Jeffrey J. Schott (ed.).


Park, Yung Chul and Jung Ho Yoo, 1989. ‘More Free Trade Areas: A Korean Prospective’, in Jeffrey J. Schott (ed.).

Prestowitz, Clyde, 1989. Comments on Makoto Kuroda in Jeffrey J. Schott (ed.).


Shiva, Vandana, 1993. 'Understanding Threats to Biological and Cultural Diversity', Inaugural Hopper Lecture, University of Guelph, September.


Smith, Michael B. 1989. 'Bilateralism's Role in Trade Liberalisation', *Economic Impact*, No. 4.

Smith, Murray G. 1988. 'What is at Stake?', in William Diebold Jr.


Snape, Richard H. 1989. 'A Free Trade Agreement with Australia', in Jeffrey J. Schott (ed.).


Index

Aboriginal perspectives, 134–6
ACP, 50, 83, 88, 89, 93, 96, 98, 106
Africa,
  aid to, 90, 109
  AIDS/HIV, 4–5
democratization, 63, 109
inward looking development strategies, 64
Lomé Agreement, 83, 88
marginalization of, 92
OAU position on debt, 38
regional cooperation within, 140
regional trade blocs, 80–1, 83, 88
structural adjustment, 56, 60, 63
terms of trade, 56
Uruguay Round impact, 96, 98
see also ACP, Sub-Saharan Africa; and individual countries
agriculture, 7, 55–6, 77, 78, 79, 87
  GATT, 74, 79, 94–7 passim, 100, 101
in alternative paradigms, 125, 126, 132–4, 138–42, 150–1
see also food
aid, see foreign aid
AIDS/HIV, 4–5
Amin, Samir, 141–3
Argentina, 89
ASEAN, 3, 75, 77, 86–7, 88, 91
Asia,
  aid, 42, 44, 90
  AIDS, 4
ecology movements, 149–53
Eastern Europe, 112
foreign investment, 85–6
GATT, 95–8 passim
Japan, 77, 85, 86, 87, 90
socialism, 127–8
trade, 75, 81
trade blocs, 86–8
USA, 83, 90, 91
see also, Asian Tigers; NICs; and individual countries
Asian Tigers, 16, 18, 19, 71, 72
see also Hong Kong; Singapore; South Korea; Taiwan; NICs
austerity, 22, 26, 30, 38, 56, 61, 92, 132, 143
Australia, 8, 78, 135
autonomous sector, see informal sector
Bahro, R., 129–30, 131, 143
Baker Plan, 39, 42
balance of payments,
  developing countries, 21, 22, 27, 39–42 passim
  Germany, 51, 67
  industrial countries, 22, 67
  Japan, 51, 67, 75
  large debtors, 21, 26, 27, 28–33 passim
NICs, 21, 22
oil exporters, 21, 22
poorest countries, 22, 26, 27, 33–9 passim, 39–48 passim
USA, 5, 8, 12, 51, 66–73, transitional economies, 105, 111
balance of payments support, 33, 34, 43, 48
bank lending, see debt
Bienefeld, Manfred, 58, 61
Brady Plan, 31–2
Brandt Commission, 130
Brazil, 72, 78, 84, 86, 98, 113
Bretton Woods, 7, 19
Canada, 78
  Aboriginal resource management, 135
aid, 40, 41, 42, 44, 46–7, 48, 103, 105, 108

176
Alternative Federal Budget
exercise, 160-1
Hutterite communities, 132, 133
regional trade figures, 75, 76
Toronto menu, 38
trade agreements, 61, 77, 78, 81-2, 83
CAP, 78, 89
capital flight, 24, 30, 31, 32, 33, 58, 101
capital flows, 1, 7, 8, 21-48
passim, 39, 58, 107, 124, 130, 159
capital inflows, managing, 32-3
CBI, 83
CCPA (Canadian Centre for
Policy Alternatives), 161
China, 11, 13, 15-19 passim, 72, 75, 78, 85, 87, 95, 127, 128, 129
Choices, 161
CIDA (Canadian International
Development Agency), 46, 48
Cline, W.R., 59, 67, 71, 72
Club of Rome, 152
CMEA, 107, 110-14
community, 123-4, 134, 136, 144, 154, 162
consumption,
   collective, 145, 157, 158
   Hutterite, 132-3
   northern, 2, 5, 13, 139, 158
   reducing, 120, 122, 129, 131, 143, 157, 158, 160, 161
   southern, 23, 55, 61, 69, 137, 139, 158
   transitional economies, 113, 114
Council of Economic Advisers,
   US, 67-8
credit,
   international, 7, 16, 17
   domestic, 19, 133, 137, 144
see also debt
Cuba, 110, 114
current account deficits/surpluses,
   see balance of payments
DAWN, 155-7
debt,
   and structural adjustment
   programmes, 61
   arrears, 36, 37
   banks, 11, 26-33
   burden, 24-6
   buy backs, 31, 32
   crisis, 21-39
   default, 28, 38
   dependency theory, 1
   equity swaps, 30
   export credits, 35, 39, 40
   global economic crisis, 19
   IMF credits, 27, 28
   loan loss provisions, 29, 30, 61
   multilateral, 36-8
   net transfers on account of,
   26-31
   OAU proposals, 38
   official, 24, 26, 27, 28, 33-9
   Paris Club, 28, 34-6
   private, 9, 11
   repudiation, 30
   rescheduling, 28
   restructuring, 32
   secondary market, 32
   servicing burden, 24-6, 31
   socialization of, 29, 31
   Toronto Terms, 37
   write off, 32, 61
see also IMF; International
Development Association
(IDA); World Bank
debtor countries,
cartel, 30
Eastern Europe, 2, 13, 43, 50, 65, 66, 77, 86, 95, 102-15
exporters of manufactures, 24-5
large debtors, 24-33
least developed, 33-9
NICs, 24-5
oil exporters, 24-5
poorest countries 9, 33-9
real import levels of, 23-4, 30
small low income, 24-5, 33-9
Sub-Saharan Africa, 23, 24, 25, 35, 36
see also individual countries
Index

deficits,
  external, see balance of payments
fiscal deficit, 49
  see also USA
de-industrialization, 13–14, 71, 129–30
de Romana, Alfredo, 144–5, 147, 148, 149
de Soto, 147–8
devaluation,
  of dollar, 19, 23, 24, 66, 68, 69, 70, 73, 80
  of sterling, 19
  see also exchange rate
development theory,
  critiques of mainstream theory, 136, 144, 145, 146, 148, 149, 154
dependency school, 1, 136, 138, 141, 143
feminist approaches, 45, 54–5, 153–7, 158
mainstream theory, 116, 136
Marxist/neo-Marxist, 124, 129, 148
refutation of dependency theory, 1, 12, 13

Eastern Europe, 13, 43, 62, 65, 66, 78, 86, 95, 102–15, 161
ecology, 144, 149–53, 154, 158
ecology movements, 149, 152
education, 44, 53, 54, 97, 110, 137, 150, 156, 158
EEP, 78
EFTA, 77
Elson, Diane, 54, 55
employment, 16, 19, 53, 54, 55, 71, 124, 134, 157
Enhanced Structural Adjustment Facility (ESAF), 34, 36–8, 42
enoughness, 121, 134, 135
Enterprise for the Americas Initiative, 84
entropy law, 2, 117, 120, 125, 126, 127
environment,
  aid and, 45, 47
automobiles, 153
bicycles, 153
capitalism, 129, 152
colonialism, 150
consumption excesses, 5, 119–27
green revolution, 151
growth and, 120, 122, 125
GATT, 151
impossibility theorem, 5, 122
orthodox economics and, 5–6, 149, 153–4
population and, 5
structural adjustment, 56–7
women, 45, 153–5
  see also ecology
ESAF, see Enhanced Structural Adjustment Facility
Esteva, Gustavo, 145–8, 149
European Bank for Reconstruction and Development, 105
European Community (EC),
  ACP countries, 88–9, 96
  Africa, 80, 81, 88–90, 96
  Asia, 74, 75, 86
  Eastern Europe, 112, 114
  enlargement, 87
  'Fortress Europe', 89
  GATT, 93, 95, 98
  intra-regional investment, 74–6
  intra-regional trade, 74–5
  Japan, 76, 86
  Latin America, 85, 86, 89, 109
  Lomé Agreement, 88
  Maghreb countries, 89
  Mashreq countries, 89
  neo-mercantilist policies, 77, 78, 87, 88
  North America, 74–6
  polarization of world economy, 91
  social protection in, 82
  Soviet Union, 86
  unification of internal market, 77
exchange controls, 8, 52
exchange rate, 32, 39, 40, 48, 49, 52, 53, 57, 71, 72
  see also devaluation; USA dollar exports, see trade
FDI, 7, 9, 11, 26, 27, 32, 57, 71
and GATT, 92, 94, 100, 101
and trade blocs, 74, 75, 76, 84–6, 92
in transitional economies, 103, 106–7
feminist approaches, see
development theory; gender; women
Finland, 8, 41
food,
aid, 47
consumption, 132, 133
green revolution, 127, 151
imports, 96, 111
security, 137, 159
self-sufficiency, 130
structural adjustment and, 54, 56, 96
subsidies, 54, 118, 127, 149
foreign aid, 39–48,
and corruption, 47
and the environment, 47, 56, 130–1
and the poor, 44–5
and structural adjustment, 48, 49, 50, 63, 108–9
as imperialism, 47–8
conditionality, 48, 50, 63, 108–9
democracy, 47, 63, 108–9
dependence, 11, 43
direction of, 41–2, 44
Eastern Europe and
competition for, 103–6, 108
effort, 40–1, 110
fatigue, 43, 103, 108
gender and, 45, 155–6
human rights, 108–9
in steady-state economy, 122–3
international migration as
alternative, 126
peace dividend, 102
quality of, 41, 43, 110, 159
regional patterns, 89–90
regional trade blocs, 90
source of, 39–41
soviet aid, 110–11
Sub-Saharan Africa, dependence on, 43
terms of trade, 51
trade related, 41, 46, 90, 108, 110, 115
tying of, 41, 108
France, 14, 34, 41
FTA, 77, 78–9, 81, 91
GAD, 45–6
Galeano, Eduardo, 162
GATS, 94–5
GATT,
Article XXIV, 79
EC preferences, 84
free trade areas, 79
globalization, 73, 144–5
intellectual property rights, 99, 150–1
Kennedy Round, 7
negative social consequences of, 100–2
recolonization, 98–101, 145
Tokyo Round, 7
transitional economies, 114
transnational corporations, 98–101
Uruguay Round, 82, 93–102
GDR, 14, 102, 105, 109, 112
gender, 4, 18–19, 45, 54–5, 133,
138–9, 140, 153–7, 158, 159
Gender-Related Development
Index, 18–19
Georgescu-Roegen, Nicholas, 120,
125–6, 141, 143, 153
Germany, 14, 31, 51, 66, 67, 73, 76
aid 34, 39–48 passim, 103, 108
and GDR 102, 105
Ghana, 60, 64
Goldsmith, James, 100–1
Gordon, David, 13, 15
Grown, Caren, 155
growth, economic
alternatives to, 116–62
and environment, 7, 120, 122,
125, 128–31, 152
and investment, 57
and poverty, 53, 118, 122, 123,
144, 158
desirability of, 2, 72, 116, 149
growth, economic — continued
externally oriented, 58–60
GATT, 95
imperative, 2, 6, 101, 157
imports and, 50, 52, 60, 71, 72
interdependence of
North–South, 116, 130, 137
limitless, 117, 121, 153
limits to, 117, 120, 125, 145, 152
measurement, 18, 116, 144
morality of, 120
poorest countries, 17, 38, 92
reducing or limiting, 117–24,
125, 126, 130, 146, 152, 153,
159, 160
state intervention, 49, 142, 144
Third World, 17–19
GSTP, 140

Harris, Nigel, 12, 15, 71
Head, Ivan, xii, 3, 4
health, 4, 5, 44, 54, 97, 110, 137, 158
Helleiner, G.K., 35, 36, 51, 58, 60, 84
heteronomy, 144
Hobson, J.A., 80–1
homeostasis, 126–8
Hong Kong, 16, 19, 75, 78, 85, 86, 87
Human Development Index, 18–19

IFIs, 50, 51, 60
see also IDA; IMF; World Bank
ILO, 147
imports, import compression, see
trade
income,
distribution, 18, 44, 53–5, 62,
100, 118, 121, 122, 126, 127,
129, 133, 134, 139, 142, 153,
154, 156, 157, 158
per capita, 17–19
India, 14, 44, 84, 98, 151
Indonesia, 44, 86
industrialization, 1, 11–13, 59, 122,
123, 138, 145
see also manufactures
industrial policy, 15, 59, 108, 138,
158–9
infant mortality, 5, 110
inflation, 19, 30, 52, 107, 128, 145
informal sector, 2, 143–8, 149, 158
intellectual property rights, see
GATT
International Bank for
Reconstruction and
Development (IBRD), see
World Bank
International Development
Association (IDA),
Debt Reduction Facility, 37
debt rescheduling, 36
expanded allocation, 36, 37
Sub-Saharan Africa, 42
see also World Bank
International Monetary Fund
(IMF),
and autonomous sector, 144
and national industrial policy,
58–60, 64, 108, 138
arrears to, 36
balance of payments support, 33
co-conditionality of donors,
42–3
Compensatory and Contingency
Financing Facility, 51
conditionality, 28–31, 33, 34,
105
credits to South, 28
debt management strategy, role
in, 28–42 passim
debt peonage/tutelage, 99
feminist critique of, 54–5, 156
globalization, 61, 73, 95, 144
growth and profit paradigm of,
101
intellectual hegemony of, 50, 52
model, 48ff, 108, 138
quotas, 106
recompradorisation of South, 142
relations with former Soviet
bloc, 106–8
rescheduling of own debts, 36,
38
Systemic Transformation
Facility, 105
USA current account deficit, 70,
72
USA influence in, 51
see also structural adjustment programmes
investment, 23, 30, 50, 57, 61, 65, 124, 138, 159
in US, 68, 69, 70, 79
see also FDI
Italy, 4, 39, 41

Japan,
aid, 39, 41, 44, 90, 109
Asia, 21, 80, 85, 86
balance of payments surplus, 51, 66–7
EC, 75, 76, 78, 87, 92
foreign investment, 75–7, 85
GATT, 93, 95, 98
international debt, 31, 34
Latin America, 85
liberalization, 8, 79
manufacturing, 13–15
neo-mercantilist policies, 78, 79, 87
Soviet bloc, 112
structural adjustment, 59
trade balance, 67, 86, 122
trade blocs, 73, 75, 76, 80, 91
USA, 7, 75–80 passim, 84, 87, 91, 92

Kenya, 109
Keynes, John Maynard, 58
Keynesianism, 8
Killick, Tony, 35, 60

labour, 45, 55, 56, 83, 85, 103, 118, 148
cheap, 82, 103, 147
intensity, 112, 114, 127
mobility, 82, 103
women’s, 45, 55
see also women, domestic labour

land, 54, 134–6, 137
Latin America,
aid, 42, 44, 90
Eastern Europe, 106
EC, 81, 85, 89, 90

foreign investment, 84–6
GATT, 95, 98
informal sector, 143–8
integration within, 140
Japan, 81, 85, 90
living standards, 18–19, 21
manufacturing, 13
North America, 80, 81, 85
USA, 66–7, 83, 84, 90
liberalization, 2, 7, 8, 49, 55, 56, 57, 62, 63, 74, 78, 83, 89, 94, 96, 98, 111, 148
limits to growth school, 120
London Club, 28

Madagascar, 109
manufactures, 12–17, 59, 69, 71, 83, 94, 97, 100, 115
see also trade
Mexico, 24, 32, 77, 78, 81–4, 85, 86, 98, 101, 105, 146
MFA, 94, 96, 97
Middle East, 41, 42, 80, 87, 90, 109, 111, 112
military expenditures, 2, 44, 71, 102–5, 111
Mill, John Stuart, 117–19, 120, 124
MNCs, see transnational corporations
Morocco, 89, 105
Mozambique, 37, 64

NAFTA, 77, 81–3, 84, 88, 91, 99, 101
neo-conservatism, 19, 21ff
Netherlands, 15, 34, 39, 41, 76
new commons, 146–7
New Zealand, 8
NGOs, 46–7, 53
Nicaragua, 109
NICs, 9, 11, 14, 16, 18, 22, 25, 24, 58, 59, 67, 86, 96, 98
see also Asian Tigers; Hong Kong; Singapore; South Korea; Taiwan
NIDL, 12
Niger, 37
Norway, 8, 39, 41
<table>
<thead>
<tr>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD, 17, 34, 40, 41, 42, 48, 90, 95, 96</td>
</tr>
<tr>
<td>oil prices, 9, 21, 22, 111</td>
</tr>
<tr>
<td>OPEC, 35, 112</td>
</tr>
<tr>
<td>Paris Club, 28, 33–6 passim</td>
</tr>
<tr>
<td>peasants, 52, 56, 93, 99, 119, 127, 137, 151, 153</td>
</tr>
<tr>
<td>perestroika, 110, 113</td>
</tr>
<tr>
<td>population, aid recipients, 42</td>
</tr>
<tr>
<td>AIDS, 5</td>
</tr>
<tr>
<td>autonomous sector and 144</td>
</tr>
<tr>
<td>birth licences, 121</td>
</tr>
<tr>
<td>carrying capacity of world, 119, 122, 134</td>
</tr>
<tr>
<td>China, 17, 128</td>
</tr>
<tr>
<td>control, 118, 119, 121, 122, 123, 124, 128, 130</td>
</tr>
<tr>
<td>economic security, 158</td>
</tr>
<tr>
<td>environment, 118</td>
</tr>
<tr>
<td>equality of women, 139, 158</td>
</tr>
<tr>
<td>geographic spread, 126, 127</td>
</tr>
<tr>
<td>growth, 5, 17, 116, 127, 128, 129, 139, 140, 158</td>
</tr>
<tr>
<td>Hutterite growth rates, 134</td>
</tr>
<tr>
<td>impact of economic growth and redistribution on, 127, 129, 139</td>
</tr>
<tr>
<td>internal migration and GATT, 100</td>
</tr>
<tr>
<td>international migration, 126</td>
</tr>
<tr>
<td>poorest countries, 17, 23, 116, 128, 129</td>
</tr>
<tr>
<td>poverty and growth, 116, 128, 129</td>
</tr>
<tr>
<td>stabilization of growth, 127–9</td>
</tr>
<tr>
<td>poverty, 2, 4, 12, 93, 116, 117, 126, 130</td>
</tr>
<tr>
<td>aid and, 46</td>
</tr>
<tr>
<td>convivial, 150</td>
</tr>
<tr>
<td>destitution, 150</td>
</tr>
<tr>
<td>eradication of, 126, 156, 158</td>
</tr>
<tr>
<td>population, 126, 129</td>
</tr>
<tr>
<td>structural adjustment and, 53–7, 60–1</td>
</tr>
<tr>
<td>women and, 55, 138–9, 154–5</td>
</tr>
<tr>
<td>privatization, 32, 49, 58, 82–3, 107</td>
</tr>
<tr>
<td>production, costs, 85, 97</td>
</tr>
<tr>
<td>relations, 54, 162</td>
</tr>
<tr>
<td>shares, 13–15</td>
</tr>
<tr>
<td>structure, 1, 12, 58, 86, 89, 92, 120–5 passim</td>
</tr>
<tr>
<td>subsidies, 94</td>
</tr>
<tr>
<td>for use, 132, 134–6, 144, 145</td>
</tr>
<tr>
<td>see also manufactures</td>
</tr>
<tr>
<td>Quebec, 4</td>
</tr>
<tr>
<td>Rahnema, Majid, 149, 151</td>
</tr>
<tr>
<td>Redclift, Michael, 129–31, 143</td>
</tr>
<tr>
<td>Rhaghavan, Chakravarthi, 98–100</td>
</tr>
<tr>
<td>Sachs, Wolfgang, 58, 131, 150</td>
</tr>
<tr>
<td>SAF, see Structural Adjustment Facility</td>
</tr>
<tr>
<td>Saudi Arabia, 19, 41, 86</td>
</tr>
<tr>
<td>science, 99, 100, 120, 151, 153, 154</td>
</tr>
<tr>
<td>Scotland, 4</td>
</tr>
<tr>
<td>Sen, Gita, 155</td>
</tr>
<tr>
<td>Shanmugaratnam, N., 150, 151, 152</td>
</tr>
<tr>
<td>Shiva, Vandana, 99, 149, 151, 154, 155, 156</td>
</tr>
<tr>
<td>Singapore, 16, 19, 75, 86, 87</td>
</tr>
<tr>
<td>Singh, Narindar, 126, 152, 153</td>
</tr>
<tr>
<td>social system (regime) of accumulation, 6, 19, 48, 61, 107, 134, 142</td>
</tr>
<tr>
<td>South Commission, 137–41, 142</td>
</tr>
<tr>
<td>South Korea, 16, 19, 24, 75, 77, 78, 85, 86, 88, 91, 92, 105</td>
</tr>
<tr>
<td>Soviet bloc, 2, 65, 102–15</td>
</tr>
<tr>
<td>Soviet Union, see USSR state, 4, 7, 8, 15, 46, 83, 102, 134, 136, 138–9, 142–3, 144–7 passim, 150, 152, 159</td>
</tr>
<tr>
<td>and structural adjustment, 48–64 passim, 82</td>
</tr>
<tr>
<td>stationary state, 117–19, 120, 124</td>
</tr>
<tr>
<td>steady state, 117, 119–24, 125, 126, 127, 128, 130</td>
</tr>
<tr>
<td>Structural Adjustment Facility (SAF), 34, 36–8, 42</td>
</tr>
<tr>
<td>structural adjustment programmes, 48–64</td>
</tr>
</tbody>
</table>
Structural adjustment - continued

debt peonage, 61

design of, 52–60

distributional implications, 53–5, 63

economic growth, 57, 60, 101

environmental impacts, 56, 144

evaluation of, 60

export orientation, 48–9, 55–6, 59

food, 56

GATT, 98

gender dimensions, 54–5

globalization, 61

informal sector, 144, 146

investment, 57

neo-colonialism, 52–3, 142, 144

NIC experience, 58–9

political conditionality, 108–10

political implications, 62–4

terms of trade, 55–6

Sub-Saharan Africa,

aid dependence, 43

AIDS/HIV 5

aid to, 41–2, 90

arrears on debt, 36

Canadian aid to, 46

debt and debt burden, 25, 36–8

donor fatigue, 43

export orientation, 60

Human Development Index, 18

marginalization of, 11, 18, 88

real import levels, 23–4, 60

terms of trade, 51

subsidies, 49, 53, 78, 94, 95, 96, 110

see also food

survival economy, 149, 151, 152

Sweden, 8, 39, 41

Taiwan, 16, 75, 77, 78, 85, 87, 88, 91, 92

Tanzania, 64, 109

tariffs, 7–8, 70, 77, 82, 86–7, 93–4, 97

taxation, 29, 54, 68, 69, 79, 88, 105, 121, 123, 157, 160, 161

technology, 12, 82, 101, 118, 121, 130, 151, 156

Thailand, 85, 87

Third World,

differentiation of, 1, 8–20, 24, 92, 93, 96–8, 100

debt peonage, 61

design of, 52–60

distributional implications, 53–5, 63

economic growth, 57, 60, 101

environmental impacts, 56, 144

evaluation of, 60

export orientation, 48–9, 55–6, 59

food, 56

GATT, 98

gender dimensions, 54–5

globalization, 61

informal sector, 144, 146

investment, 57

neo-colonialism, 52–3, 142, 144

NIC experience, 58–9

political conditionality, 108–10

political implications, 62–4

terms of trade, 55–6

Sub-Saharan Africa,

aid dependence, 43

AIDS/HIV 5

aid to, 41–2, 90

arrears on debt, 36

Canadian aid to, 46

debt and debt burden, 25, 36–8

donor fatigue, 43

export orientation, 60

Human Development Index, 18

marginalization of, 11, 18, 88

real import levels, 23–4, 60

terms of trade, 51

subsidies, 49, 53, 78, 94, 95, 96, 110

see also food

survival economy, 149, 151, 152

Sweden, 8, 39, 41

Taiwan, 16, 75, 77, 78, 85, 87, 88, 91, 92

Tanzania, 64, 109

tariffs, 7–8, 70, 77, 82, 86–7, 93–4, 97

taxation, 29, 54, 68, 69, 79, 88, 105, 121, 123, 157, 160, 161

technology, 12, 82, 101, 118, 121, 130, 151, 156

Thailand, 85, 87

Third World,

differentiation of, 1, 8–20, 24, 92, 93, 96–8, 100

debt peonage, 61

design of, 52–60

distributional implications, 53–5, 63

economic growth, 57, 60, 101

environmental impacts, 56, 144

evaluation of, 60

export orientation, 48–9, 55–6, 59

food, 56

GATT, 98

gender dimensions, 54–5

globalization, 61

informal sector, 144, 146

investment, 57

neo-colonialism, 52–3, 142, 144

NIC experience, 58–9

political conditionality, 108–10

political implications, 62–4

terms of trade, 55–6

Sub-Saharan Africa,

aid dependence, 43

AIDS/HIV 5

aid to, 41–2, 90

arrears on debt, 36

Canadian aid to, 46

debt and debt burden, 25, 36–8

donor fatigue, 43

export orientation, 60

Human Development Index, 18

marginalization of, 11, 18, 88

real import levels, 23–4, 60

terms of trade, 51

subsidies, 49, 53, 78, 94, 95, 96, 110

see also food

survival economy, 149, 151, 152

Sweden, 8, 39, 41

Taiwan, 16, 75, 77, 78, 85, 87, 88, 91, 92

Tanzania, 64, 109

tariffs, 7–8, 70, 77, 82, 86–7, 93–4, 97

taxation, 29, 54, 68, 69, 79, 88, 105, 121, 123, 157, 160, 161

technology, 12, 82, 101, 118, 121, 130, 151, 156

Thailand, 85, 87
Index

USA – continued
- aid, 39, 40, 48, 90, 103, 109
- Asia, 75, 77, 81, 85-8, 90, 92
- balance of payments, 51, 66-73
- bilateralism, 78, 79, 84, 88, 91
- budget deficit, 51, 69-73 passim
- Canada, 77, 78-9, 81-2, 83, 91
- Caribbean, 45, 83-4, 90, 96
- competitiveness, 68-71
- dollar, 19, 23, 24, 66, 68, 69, 70, 71, 73, 80
- EC, 74-6, 78, 91
- foreign investment, 7, 76, 85-6
- GATT, 93, 95, 98, 99, 150-1
- hegemony, 19, 142
- IFIs, influence in, 51
- Japan, 69, 75-6, 78, 79-80, 86, 87, 92
- Latin America, 83-5, 90, 109
- lending to South, 28, 30, 33
- managed trade, 69, 70, 73
- manufacturing, 14, 15, 69, 71
- Mexico, 81-3, 84
- military spending, 71, 104
- NAFTA, 77, 81-3
- neo-mercantilist policies, 69-70, 77, 78, 79, 84
- savings and investment, 69
- Soviet bloc, 112-13
- trade balance with South, 66-7, 69, 71, 72, 123

USSR, 4, 10, 13, 14, 35, 43, 50, 65, 86, 95, 102-15, 161

Venice Summit 1987, 34, 42
vernacular sector, see informal sector

VERs (voluntary export restraints), 77, 78

Vietnam, 86, 110

Warren, Bill, 13

WED, 45, 155

WID, 45, 46, 155

women,
- aid, 45-6
- and population, 121, 139, 156
- and poverty, 55, 154, 156

decision making, 134, 156, 158
domestic labour, 134, 138, 154, 157
dominance, 19, 142
education, 18
HIV, 4
living standards, 18
structural adjustment programmes, 54-5, 138, 156
subordination of, 138, 154, 156
traditional knowledge, 153, 154, 156

see also gender

workers, 12, 15, 16, 47, 53, 54, 62, 82, 93, 100, 119, 122, 123, 127, 158, 160, 161

World Bank,
and autonomous sector, 144
arrears to, 36
balance of payments support, 33
conditionality, 28-31, 33, 34, 105
cooporation of donors, 42-3
debt management strategy, role in, 28-39
debt peonage/tutelage, 99
debt to export target, 36
environmental conditionality, 131
feminist critique of, 54-5, 156
Global Environment Fund, 131
globalization, 61, 73, 95, 142, 144
institutional culture of, 131
intellectual hegemony of, 50, 52
national industrial policy, 58-60, 64, 108, 138
poverty, 53-4
relations with former Soviet bloc 105-6
rescheduling of own debts, 36, 38
Special Program of Assistance, 42
sustainable development, 131
USA influence in, 51
see also IDA; Structural Adjustment Programmes
WTO, 94, 95, 96, 99

Yugoslavia, 4, 89, 104

Zambia, 5, 34, 38, 109
Zimbabwe, 5
John Loxley is Professor and Head of the Department of Economics at the University of Manitoba, Winnipeg, Canada. He lived and worked for many years in Africa. He was Research Manager, National Bank of Commerce, Tanzania 1967–69, Director of the Institute of Finance Management 1972–74 and taught in the Economics Departments of Makerere University (1965–67) and the University of Dar es Salaam (1969–72). He has served as an economic adviser on economic policy to the governments of Tanzania, Uganda, Madagascar, Mozambique and the Province of Manitoba. He is the author of Debt and Disorder: External Finance for Development and Ghana: the Long Road to Recovery, and co-author of Towards Socialist Planning, Zambia: an Assessment of Zambia’s Adjustment Experience and Structural Adjustment in Africa.
INTERNATIONAL POLITICAL ECONOMY SERIES

General Editor: Timothy M. Shaw, Professor of Political Science and International Development Studies, and Director of the Centre for Foreign Policy Studies, Dalhousie University, Nova Scotia

Recent titles include:

Gavin Cawthra
SECKING SOUTH AFRICA’S DEMOCRACY
Defence, Development and Security in Transition

Seamus Cleary
THE ROLE OF NGOs UNDER AUTHORITARIAN POLITICAL SYSTEMS

Robert W. Cox (editor)
THE NEW REALISM
Perspectives on Multilateralism and World Order

Diane Ethier
ECONOMIC ADJUSTMENT IN NEW DEMOCRACIES
Lessons from Southern Europe

Stephen Gill (editor)
GLOBALIZATION, DEMOCRATIZATION AND MULTILATERALISM

Jacques Hersh and Johannes Dragsbaek Schmidt (editors)
THE AFTERMATH OF ‘REAL EXISTING SOCIALISM’ IN EASTERN EUROPE
Volume 1: Between Western Europe and East Asia

David Hulme and Michael Edwards (editors)
NGOs, STATES AND DONORS
Too Close for Comfort?

Anne Lorentzen and Marianne Rostgaard (editors)
THE AFTERMATH OF ‘REAL EXISTING SOCIALISM’ IN EASTERN EUROPE
Volume 2: People and Technology in the Process of Transition

Ted Schrecker (editor)
SURVIVING GLOBALISM
The Social and Environmental Challenges

Ann Seidman, Robert B. Seidman and Janice Payne (editors)
LEGISLATIVE DRAFTING FOR MARKET REFORM
Some Lessons from China

In the United States
ISBN 0-312-21242-9

In Canada