

STRUGGLE FOR CHANGE

International Economic Relations



K. B. Lall

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Nehru's writings and speeches provide a perennial source of inspiration to the struggle for change in international economic relations

"Our freedom and our independence must be thought of in terms of the world and of world cooperation."—*National Herald*, 1 June 1939.

"Nationalism by itself, unconnected with some wider concept, is a narrow creed. It is also obvious that without nationalism, we are rootless. On the other hand, internationalism is not only good but essential in the world today... How to combine the two? What are the essential features of the two? And what are the conflicts between the two? Apparently there are, though possibly in reality, there are not?"—*Convocation Address at the Visva-Bharati University, Shantiniketan*, 23 December 1945.

"The world, in spite of its rivalries and hatreds and inner conflicts, moves inevitably towards closer cooperation and the building up of a world commonwealth. It is for this one world that India will work; a world in which there is the free cooperation of free people and no class or group exploits another."—*Broadcast to the Nation*, 7 September 1946.

"If some countries which are fortunate—more fortunate than others—think that they can lead their lives in isolation irrespective of what happens in the rest of the world, it is obvious that they are under a misapprehension. Today if one part of the world goes down economically, it has a tendency to drag others with it. It is not a question of the prosperous, merely out of the generosity of their hearts, helping those who are not prosperous, though generosity is a good thing. But it is a question of enlightened self-interest, realising that if some parts of the world do not progress, remain backward, they have an adverse effect on the whole economy of the world and they tend to drag down those parts that are at present prosperous."—*Inaugural Address at the Third*

Session of the United Nations Economic Commission for Asia and the Far East (ECAFE), Ootacamund, 1 June 1948.

"We live in a world of conflicts and yet the world goes on undoubtedly because of the cooperation of nations and individuals. The essential principle about the world is cooperation, and there is today a vast amount of cooperation even between countries which are opposed to each other in the political or other fields. Little is known or said about this cooperation that is going on but a great deal is said about every point of conflict, and therefore the world is full of the idea that we live on the verge of disaster. It would perhaps be a truer picture if the cooperating elements in the world were put forward and we were made to think that the world depended on cooperation and not on conflict."—*Speech at U.N. General Assembly, New York, 10 November 1961.*



UNCTAD's Tribute to Nehru

"The United Nations Conference on Trade and Development has learned with deep sorrow of the tragic demise of Pandit Jawaharlal Nehru, Prime Minister of India.

"Such an irreparable loss grieves not only the people and Government of India but also the whole of mankind. In him we have lost a wise statesman, a distinguished scholar, an inspiring leader and a great man.

"He was destined to play the historic role of leading his people to freedom and then to the path of economic and social betterment. In this very noble and lasting effort, he inspired all the peoples of the world. A man of faith and vision, he lent his courageous support to all efforts in favour of world peace and of the progress and well-being of the developing countries.

"The participants in this Conference will always remember the message received from his Government at the beginning of its work and which has been a continuous source of inspiration for them."
—*Resolution adopted at the Special Plenary Meeting held on 27 May 1964.*

Foreword

IN THE EARLY days of UNCTAD, when I met K.B. Lall, I was impressed by his personality. I followed with great attention his speeches in which he deployed his knowledge of development problems. He would not fall into easy rhetoric, but rather explained his views in a sober and forceful fashion. He was always oriented towards pragmatic solutions and gradual advances when it was not possible to do otherwise.

He has now decided to present his main contributions in this book. A very wise decision, indeed. Thanks to it, we now have an overall view of the unfolding of his ideas since the pre-UNCTAD times, when he was inspired by the great Nehru, to the present. There is continuity and change in the course of time. K.B. Lall has always shown an outstanding ability to face and interpret new facts and enrich his thinking.

While reading the speeches that I had listened to before, I cannot refrain from the following reflection. Dr. Lall, with an enlightened group of leaders of the 77—not many, but very effective—made a plea for the rebuilding of the world economic order. However, K.B. Lall was well aware that, notwithstanding the paramount importance of a new order, it was not a substitute for a vigorous internal development policy, but a complement to it.

I consider this a highly constructive approach that could be the basis for a global policy of development and international cooperation.

But developed countries—the “centers”—would not listen seriously to the “periphery”. Years, and even decades, have elapsed without important, concrete results.

The old pattern of the international division of labour did not foster the development of the “periphery”. It was based on a very logical concept of comparative advantages. But the old rules of the game did not favour a process of industrialization that would bring new comparative advantages to the “periphery”, in addition to those resulting from primary products.

Indeed, the whole conception of GATT was against protection for the development of new industries with potential comparative advantages. It took many years for the "centers" to recognize the need for protection in developing countries, without accepting such protection as one of the essential elements of development policy. K.B. Lall played an important role in these as well as in other GATT matters. His experience in these earlier efforts would fructify afterwards in UNCTAD.

UNCTAD started at the beginning of a period of extraordinary rates of growth of the "centers", growth that continued until the middle of the seventies. This was the ripe moment for beginning the gradual dismantlement of the restrictions hampering imports from the "periphery". One argument against this policy was unemployment in the "centers", a very exaggerated argument in those times. Unemployment in some declining industries where developing countries had comparative advantages would be counteracted by better employment in activities where those advantages pertained to the "centers". In this plea, Dr. Lall had a prominent role. But the "centers" would not move ahead. A great opportunity, a historic opportunity, to change the trade structure of the world was missed.

The years of prosperity are over. Capitalism is suffering from a very serious inflationary crisis whose epicenter is the United States. Really the policy of this country is difficult to understand and justify. Especially since its results are very detrimental to the world and particularly to the developing countries.

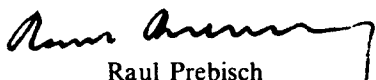
The inflationary creation of money by the U.S. has inundated the world. What an achievement! A concept fundamentally different from the creation of money, via multilateral decisions, in the shape of SDRs. Developing countries rightly advocated the use of the SDRs for development purposes—the famous "link" that K.B. Lall supported so vigorously. However, the U.S. strongly objected to the "link" as being inflationary. What a paradox: today the developing countries do *not* have the link, but they—in common with the rest of the world—*do* face an extraordinary world inflation!

We all know that the present economic prospects of the "centers" are far from promising. Recession is having very adverse effects on exports from developing countries in terms of both volume and prices. In this situation what do we do? I cannot agree more with K.B. Lall that this is the moment to build new trade relations between developing countries at the sub-regional, regional, or world level. We

have to recognise that, during the early post-war years of prosperity and growing peripheral exports, developing countries did not pay enough attention to this problem. Another opportunity lost!

It so happens that there is now a favourable factor that did not exist before. And Dr. Lall has put his finger on it. He considers rightly that a part of the financial surpluses of the oil exporting countries could be channeled to build and develop peripheral industries for that purpose. A very positive investment for all parties concerned, including the "centers", not only in manufacturing but also in energy and food production. Let developing countries build their own new economic order, without relenting their efforts to persuade the "centers" to change their policy and participate in a development policy according to their long range economic and political interests.

This book is timely. And K.B. is wise in publishing it. We should not let the torch of long-run development be extinguished by adverse short-term events.



Raul Prebisch
Former Secretary General of UNCTAD

11 February 1982
Washington, D.C.

Preface

MORE THAN NINE years ago, on the eve of my departure on a second tour of duty at Brussels, I delivered a lecture under the auspices of the Jawaharlal Nehru Memorial Museum and Library on "Nehru and International Economic Cooperation". At the end of the lecture, I was approached by a representative of an international publishing firm with an offer to publish in book form a selection from my speeches. As I mostly spoke extempore and very few of my speeches had been converted into articles, I found it impracticable to make a positive response. On arrival in Europe, I tried to see whether old typescripts or tape-recorded versions could be collected. Fortunately, the effort yielded a rich harvest. I have since tried to maintain a contemporaneous record of the tape-recorded versions of my speeches.

By the time I completed my second tour of duty abroad, a fairly voluminous collection had been built up. On my return, several friends pressed me to write about my varied experiences relating to development, diplomacy and defence. But I had not kept a daily diary of my work, nor copies of any notes or correspondence. I was also not prepared to begin so prematurely to live in the past. On the contrary, I thought the time was opportune for me to enrich my experience through activities in areas not open to me while I remained in civil service.

A fairly full record of speeches delivered in Brussels, Geneva, London, and New York was available in my collection. But no such record of speeches delivered at the meetings of the non-aligned and Group 77 or of regional and national organisations in Asia and Africa could be assembled. There were obvious gaps, especially on matters relating to national policies, evolution of economic relations with centrally planned economies, and development of cooperation with developing countries. Much of the material seemed to be of historical interest. But it did carry thoughts and views relevant to current situations. Tentative selections were made by me and opinions sought on their utility from friends in India and abroad.

Though varied views were offered, they generally agreed that these selections contained insights into economic and political processes unlikely to be available elsewhere in a single volume. These views encouraged me to develop a thematic criterion for selection and to apply it rigorously.

I received a great stimulus when I joined the Jawaharlal Nehru University as a Visiting Professor in 1978. In an academic environment, it was easier for me to appreciate the value of detached reflection on the past and the need for objective analysis of forces at work at the national and international levels. A multi-disciplinary approach was generally recognised to be essential for comprehending emerging problems and possibilities. In that context, it occurred to me that if the speeches devoted to international cooperation could be carefully sifted and thematically arranged, their publication would possibly prove of some value to those interested in national and multinational efforts to advance it.

For me, as also for many others interested in international economic relations, the inspiration in the main was derived from Jawaharlal Nehru's farsighted vision. For it was Nehru who saw ahead of others the close—indeed, indissoluble—connection between political and economic transformation, between political freedom and economic emancipation. Clearly, the touchstone for selection of material should be “the struggle for change”—or, in other words, the struggle for transmutation of political independence into economic self-reliance within the parameters of one world. As I applied this touchstone, the selected pieces fell into their place, acquired a cohesive form and an enduring significance.

Every page of this book carries the imprint of Nehru's ideas and ideals. It was Prime Minister Nehru and his colleagues who gave me exceptional opportunities to orient commercial policies to development needs, negotiate agreements with developed and developing countries, and devise a pattern of trade and payments to expand economic relations with socialist countries. Towards the end of 1961, I was entrusted with the responsibility for establishing the first Indian Mission to the European Economic Community. I was also required to function concurrently as India's Special Representative for Economic Affairs to Western Europe, to the Six and the Seven, and as India's Permanent Representative to GATT. This assignment brought me in intimate touch with multilateral diplomacy and exposed me to the winds blowing from the East and

the West, the North and the South, across the arena of international economic relations. On me personally, and on my work in this field, Nehru's influence was all-pervasive. Consciously or unconsciously, I was guided in my activities, big and small, by his writings and speeches. I owe a deep debt of gratitude to him for his generosity, guidance and encouragement, and for his indulgence on occasions when I ventured into uncharted areas or took innovative initiatives for which there were no precedents. This is why I have in all humility dedicated this book to him.

THE DETERIORATION TOWARDS the close of the Second Development Decade in the climate for development persuaded me to overcome some of my earlier hesitations. In the closing months of 1978, a broad-based, interdisciplinary group of some of India's leading academic, government and private sector economists were invited to survey the national and international scene in the context of the need for faster economic and social progress in the country. They found that at a time when international action was most needed, North-South negotiations were turning to become a dialogue of the deaf. While the world economy was caught up in a crisis and the developing countries most seriously affected by it were struggling against heavy odds to maintain the tempo of their development, India's effort to strengthen international cooperation seemed to be faltering. And the policy framers were finding it difficult to keep up the role Nehru had conceived for India on the international stage. It was urgent to take some steps, howsoever small, to reinforce the nation's political will and help develop the country's potential and capabilities in this regard. To this end, a Steering Committee was set up to organise research on international economic relations. This has since grown into the Indian Council for Research on International Economic Relations.

The Council is focusing its work on research into interaction between international environment and national development with a view to achieving a deeper awareness of its impact on the country's economic and social progress and promoting an understanding of how it can be made more favourable. Having regard to the setback over the recent years in national and multinational efforts to promote world-wide progress, the need to revive interest in the objectives set by Nehru for international cooperation and to revitalise the movement towards realising them is obvious. In this context, a

publication which recalls these objectives and recounts the efforts inspired by Nehru to secure a world should prove to be timely. I trust this book will bring out the "ups and downs" in the global environment and help identify the reasons which weigh with governments in withholding their full cooperation from the effort to bring about a steady improvement in it.

THE SCHEMATIC PATTERN of the book can be explained simply and logically. Within a few years of India gaining its political freedom, it became clear that the rules and practices governing international economic relations would require change before the newly independent countries achieved their economic emancipation. In this context, Nehru conceived of international cooperation as a means to reduce domination by the erstwhile colonial powers and extend the developmental process to the periphery of the globe. While *The Setting* gives a connected account of the inter-play between domestic developments and external environment, Chapter I describes the genesis of international economic cooperation and gives a panoramic view of India's role in internationalising development issues and influencing trade and capital flows in directions favourable to the cause of development. The main concern of the book is with the struggle to modify the international order so as to accelerate the pace of progress in the areas that lagged behind in the colonial era and introduce equity and balance in the operation of the international system.

In retrospect, two phases of this struggle can be clearly discerned. The high point of the first phase is reached on 16 June 1964 at the conclusion of UNCTAD-I. The Declaration on the New International Economic Order adopted by the Sixth Special Session of the U.N. General Assembly on 1 May 1974 provides the centre-piece for the second phase. The book principally consists of two Parts, each of eleven chapters, arranged (with the exception of the first chapter) chronologically. Part I is devoted to the First Development Decade and Part II to the Second. Each chapter is an edited version of my contribution to the successive stages of the struggle. The occasion for the contribution is identified in the notes and its place in the perspective of national and international developments described in *The Setting*. The message sought to be conveyed and the arguments in support of it have been abstracted in italics at the beginning of each chapter.

Towards the end of the fifties, there was a general apprehension that with industrial nations achieving economic miracles and the post-war economic order providing no succour to the weak, the international community could be split into two worlds, the rich and the poor. Part I offers insights into the forces and ideas at work to induce developing and developed countries to reach a consensus on the means to avert this split and achieve development through cooperation. The message of UNCTAD is carried to wider audiences, Europe's responsibility to aid democratic development is emphasised and arguments to overcome doubts and hesitation in the United States are advanced. Some aspects of the slippage on the part of industrial nations in fulfilling their commitments and its interface with inadequate performance on the part of developing countries are analysed in the context of the Indian experience. The importance of strengthening the solidarity of Group 77 has been emphasised and the need to exert collective pressure to accelerate the pace of change underscored. But concrete achievements by the end of the decade turn out to be meagre.

The disappointing outcome of the First Development Decade causes disillusionment in the developing world. But no attempt is made on the part of the industrial nations to go back on the concept of partnership in progress. In fact, the strategy for the Second Development Decade renews earlier commitments and aims at quicker advance. However, the monetary crises of the early seventies inflict considerable hardship on the developing countries and the decline of commodity prices in real terms causes them much distress. Commercial, financial and political factors combined to ignite the first explosion in the oil market. The four-fold increase in its price reveals in a flash the weaknesses of the prevailing economic order and the true nature of the dependence of industrial nations on the developing world. The focus of Part II is on the New International Economic Order, its genesis, and its implications for industrial nations as also for the oil exporting and oil importing developing countries. As development cooperation gets entangled in the coils of petro-politics, industrial nations pursue dilatory and diversionary tactics. To recall them to the path of partnership, their stake in global action to promote world-wide development is recounted in detail. At the same time OPEC is faulted for its lack of success in providing effective leverage to Group 77. Triangular cooperation between industrial nations, developing countries with surplus finance, and those with

surplus skilled manpower is advocated as a possible strategy for reviving the world economy. Over the years, India has played a pioneering role in furthering international cooperation. The current conjuncture of political and economic circumstances casts an indispensable obligation on India to strive to achieve a new balance in the emerging economic forces. It is only by determined efforts to bridge the gaps dividing the developing world that a fresh momentum can be imparted to the movement for the establishment of a new international economic order.

Currently the movement seems to be moving into the reverse gear. The member-states of the United Nations and the various groups in which they are divided suffer from internal stresses and strains. They are turning inwards to secure relief from their suffering. The proposal for global negotiations is enmeshed in interminable negotiations about negotiations. The international community may be heading towards an explosion of greater intensity than the one that engulfed the world in October 1973. In Part III, I have attempted to look ahead, *Into the Nineteen Eighties*, and ventured to share with the readers my perceptions of the international scene. In the two preceding decades, the international community succeeded twice, in 1964 and again in 1974, in evolving a consensus on the concepts and objectives of change in international economic relations but failed in the following years to translate them into action. In the current decade, there is practically no nation in the world which is not confronted with tough problems. The mounting pressure of these problems could compel the member-states of the United Nations to learn from past failures and persuade them to turn away from confrontation towards mutual cooperation with a view to combining welfare with security and peace with progress.

MY WORK in the multilateral field brought me opportunities to work with towering personalities from different parts of the world in the common quest for a smooth and steady transition to a better world. It was in 1964, at the time of UNCTAD-I, that I came in close touch with Raúl Prebisch. His contribution in the realm of ideas and his outstanding services to the international community are well known. At UNCTAD-II in New Delhi we worked hand in hand to secure concrete progress in implementing at least some of the provisions of the Final Act negotiated at the end of UNCTAD-I. Eventually, only a small step forward could be taken. His experience

and eminence, above all his wisdom, constitute an invaluable asset for the development community around the world. I am beholden to him for his prompt and generous response to my request for a Foreword to this publication.

I owe so much to so many, from different walks of life and from varying socio-economic situations, that it would impair the quality of my indebtedness if I were to name only a few of them. But I must acknowledge the help I received from two of my colleagues in remedying the deficiencies in the material available with me. I have earlier referred to the gaps in it. When Nitin Desai and I put our heads together, we discovered that these gaps could be bridged through a prologue giving an account of *The Setting* in which the various speeches were delivered. I am grateful to him for his collaboration in placing the chapters of this book in the perspective of the history of the struggle for change in international economic relations over the fifties, the sixties, and the seventies. To Shyam Ratna Gupta goes the credit for applying the discipline of the print culture to my spoken words, for deleting dated references and yet retaining their original flavour. I thank him for his invaluable suggestions and support which helped to remove the weaknesses from the original typescript and sustained me in my effort whenever it flagged under pressure of other preoccupations.

The opinions expressed in the book are entirely my own and, notwithstanding the suggestions I received from so many friends, the responsibility for them must rest on me.

K.B.

15 August 1982
New Delhi

Acknowledgements

IN THE NOTES appended to each of the 22 chapters in a separate section, the origin, source, venue and occasion of the material published in the following pages have been fully documented. I acknowledge with thanks the courtesy extended to me by the Jawaharlal Nehru Memorial Museum and Library, New Delhi, for permitting me to reproduce with some modifications one of my lectures, published in *Indian Foreign Policy—The Nehru Years*, edited by B.R. Nanda (Vikas), and to Jawaharlal Nehru University for another carried in their quarterly *International Studies*. For any omission in the attribution or identification of the sources, I apologise in advance.

Abbreviations

ADB	- Asian Development Bank
ASEAN	- Association of South East Asian Nations
CIEC	- Conference on International Economic Cooperation
CMEA	- Council for Mutual Economic Assistance
(COMECON)	
DAC	- Development Assistance Committee (of OECD)
DD	- Development Decade
DCs	- Developed Countries
EEC	- European Economic Community
ECDC	- Economic Cooperation among Developing Countries
ECOSOC	- Economic and Social Council (of the U.N.)
EFTA	- European Free Trade Association
ECLA	- Economic Commission for Latin America
ECAFE	- Economic Commission for Asia and the Far East
ESCAP	- Economic and Social Council for Asia and the Pacific
FAO	- Food and Agriculture Organisation
GNP	- Gross National Product
GATT	- General Agreement on Trade and Tariffs
GSP	- Generalised System of Preferences
IAEA	- International Atomic Energy Agency
IBRD	- International Bank for Reconstruction & Development (World Bank)
IDA	- International Development Agency
ILO	- International Labour Organisation
IMF	- International Monetary Fund
ITO	- International Trade Organisation
LDCs	- Less Developed Countries
LAFTA	- Latin American Free Trade Association
MTN	- Multilateral Trade Negotiations
MSACs	- Most Seriously Affected Countries
MFA	- Multi Fibre Agreement
MFN	- Most Favoured Nation