

U.S. Foreign Policy and the New International Economic Order

**Negotiating Global Problems,
1974–1981**

Robert K. Olson

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About the Book and Author

*U.S. Foreign Policy and
the New International Economic Order:
Negotiating Global Problems, 1974–1981*

Robert K. Olson

This is an up-to-date, authoritative account of the development of U.S. policy toward the New International Economic Order (NIEO) from its inception in 1974 through the Eleventh Special Session of the General Assembly in August–September 1980. Mr. Olson concentrates on the latter stages of the North-South dialogue, analyzing U.S. policy in the context of broad foreign policy objectives pursued since the end of World War II and also in light of events of the seventies and the 1980 Soviet invasion of Afghanistan. On the premise that policy is, ultimately, what happens at the negotiating table, he also specifically examines the record of U.S. negotiations on the Common Fund, UNCTAD V, and other major North-South meetings during 1979–1980. This material, together with an examination of how policy is made within the U.S. bureaucracy, who makes it, and why, provides fresh insight into a complex process.

Mr. Olson seeks to determine if and to what extent U.S. policy serves basic U.S. interests and whether the negotiating process has been an effective medium for global problem solving. He concludes that although U.S. policy and practice do serve traditional U.S. foreign policy interests, the political cost is high. He also concludes that NIEO negotiations have not been an effective means for global problem solving and that rapid change in political and economic realities has rendered obsolete the basic concepts—the very mechanisms for problem solving—on both sides.

Robert K. Olson is a retired U.S. Foreign Service officer and a former official of the U.S. Department of State. He was directly involved in the early stages of the negotiations described in this book and recently spent two years at the University of Oxford studying the diplomatic processes for global problem solving.

Future historians may view the second half of the twentieth century not so much as a power conflict between the Soviet Union and the United States, but as a period of challenge to the North Atlantic Community, thrown out by the unexpectedly rapid rise of non-Western peoples to an ever-growing voice in world affairs.

—Hans Kohn
Is the Liberal West in Decline?

Abbreviations

ABM	antiballistic missile
ACAST	Advisory Committee for the Application of Science and Technology for Development (UN)
ACP	African, Caribbean, and Pacific (countries signatory to the Lomé Convention)
AID	Agency for International Development (U.S.)
CERDS	Charter of Economic Rights and Duties of States (UN)
CIEC	Conference on International Economic Cooperation
COW	Committee of the Whole (UNGA)
DAC	Development Assistance Committee (OECD)
DC	developed country
EB	Bureau of Economic and Business Affairs (U.S. State Department)
EC	European Community
ECDC	economic cooperation among developing countries
ECGF	export credit guarantee facility
ECOSOC	Economic and Social Council (UN)
FAO	Food and Agriculture Organization (UN specialized agency)
G-77	Group of 77: developing country economic negotiating bloc
GA	General Assembly (UN)
GAO	General Accounting Office (U.S.)
GATT	General Agreement on Tariffs and Trade
Group B	Western developed country members of UNCTAD
GSP	generalized system of preferences
GSTP	global system of trade preferences among developing countries
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	International Commodity Agreement
IDA	International Development Association
IEA	International Energy Agency (OECD)
IFTD	international fund for trade and development

ILO	International Labour Organisation (UN specialized agency)
IMF	International Monetary Fund
IO	Bureau of International Organization Affairs (State Department)
IPC	Integrated Programme for Commodities (UNCTAD)
IWA	International Wheat Agreement
IWC	International Wheat Council
LDC	developing country (less developed country)
LLDC	least developed country
MBFR	mutual and balanced force reduction
MDB	multilateral development bank
MNE	multinational enterprise
MTN	multinational trade negotiations
NATO	North Atlantic Treaty Organization
NIEO	New International Economic Order
NTB	nontariff barrier
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
OMB	Office of Management and Budget (U.S.)
OPEC	Organization of Petroleum Exporting Countries
RBP	restrictive business practice
RDB	regional development bank
RTA	retroactive terms adjustment
R&D	research and development
SALT	Strategic Arms Limitation Talks
SDR	special drawing rights
SEATO	Southeast Asia Treaty Organization
STABEX	European Community LDC export commodity stabilization system
STO	state trading organization
S&T	science and technology
TDB	Trade and Development Board
TNC	transnational corporation
UNCSTD	UN Conference on Science and Technology for Development
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific, and Cultural Organization (specialized agency)
UNGA	United Nations General Assembly
UNIDO	United Nations Industrial Development Organization (specialized agency)
WCARRD	World Conference on Agrarian Reform and Rural Development
WHO	World Health Organization (UN specialized agency)
WIPO	World Intellectual Property Organization

Preface

The most pervasive factor dealt with in this study is change. During the writing of this book, the central subject, the foreign policy of the United States, has undergone a sea change following the invasion of Afghanistan, from a mood of withdrawal from overseas commitments to resumption of a global outlook and, following the 1980 elections, to a mood of confidence and self-assertion. International relations, as in the Middle East, seem constantly to fluctuate and change. We are ever aware that the world is moving *inexorably into a new era dimly perceived but promising to be radically different from the present*. It has become fashionable to see the times in terms of instability and revolution, and U.S. leaders have repeatedly referred to this era as one of tumult and disorder.

I have, therefore, tried to anchor this study on fundamental concepts and primary sources in which a measure of authority may be found. I have endeavored to discover continuities and constants amid the changing pattern of events. It is essential to do so, I believe; for without some baseline from which to work, the daily deluge of alarms and excursions in the world is merely a tale of "sound and fury, signifying nothing."

Nevertheless, it would be presumptuous to pretend to final authority or infallibility for my views. I can only hope to have asked the right questions and to have provided an introduction to a complex and swiftly changing subject. No one could be more aware than I am that this work can only be a tentative attempt to rough out a chapter in the diplomatic history of U.S. relations with the Third World. There is much published as opinion and much on the various substantive issues, but, as yet, very little has been published on the diplomatic dimension. A definitive history will not be written for decades, if at all, and can only result from the combined efforts of myriad students.

I am, therefore, vividly aware of the debt owed to others working on related aspects of this field. It would be impossible to name them, and the literature is so vast that the bibliography can only be suggestive. However, I feel constrained to mention the work of organizations like the Overseas Development Council in Washington, D.C., and the Overseas Develop-

ment Institute in London, which consistently produce intelligent, timely, and balanced studies of aspects of the North-South dialogue.

I wish to express my thanks to those whose names do not appear in the bibliography. They are the officers and staffs of the Department of State and of U.S. missions and embassies abroad and the officers and staffs of UNCTAD, UN agencies, and the Commonwealth Secretariat, who have, without exception, given generously of their time and physical resources. I also wish to note that, again without exception, none have betrayed to me any partisan feelings or provided one-sided views as might reasonably have been expected. None showed resentment over North-South differences; rather, all displayed a professional understanding of the problems and of the difficulties of working them out in a world of men and institutions.

Nothing, therefore, should suggest that the views expressed or any errors of fact or interpretation are other than my own. In no case has anyone tried to influence my judgment. I have portrayed events as they appeared to me, sedulously drawing my own conclusions and preferring to live with my own mistakes.

I am deeply grateful to the University of Oxford for providing the incomparable atmosphere and facilities without which this work could never have been undertaken. Particular thanks go to Professor Hedley Bull, Balliol College, whose gentle guidance and advice proved to be invaluable and infallibly correct; to C.I.W. Seton-Watson, Fellow of Oriel, for his cheerful hospitality and assistance; to the staffs of Queen Elizabeth House and the Bodleian Library; and to friends and colleagues who, each in his or her own way, helped to make residence at Oxford pleasant as well as productive.

But it is appropriate that the final pages of this study should be written in Washington, D.C., a very different place from Oxford, a city where change is the basic and dominating fact of life. Here the past is merely prologue so that this book is, at best, but an introduction to another already being written by the new administration. Already the Reagan team has proposed sweeping changes in North-South philosophy and policy, which mark a sharp break with those of the Carter administration so that even my conclusions are only a preface.

R.K.O.
Washington, D.C.

Introduction

During the early seventies, the traditional concerns of foreign relations—bilateral political and economic relations—began to give way to, even in the operational sense to be overwhelmed by, a wave of global issues such as the problems and consequences of population growth, food and energy shortages, economic imbalances, poverty, environmental degradation, and atomic proliferation. At the same time, it became apparent that the traditional machinery and institutions of international relations were not designed to cope with generalized problems of such magnitude, nor were most of the leaders equipped with the intellectual concepts and moral perceptions needed to cope with *them constructively*. Nevertheless, the decade generated many serious recommendations and attempts to cope with many of these problems.

The North-South dialogue between the industrialized nations and the developing nations is one of the major efforts to deal with some of these problems. It may not be comprehensive, but it is a key element among such efforts as it does involve food, population, energy, the environment, the world economy, and many more fundamental economic, social, and political issues. The Third World proposal for a New International Economic Order (NIEO) has become the central issue around which the dialogue has revolved—or raged (for a fuller explanation of the NIEO, see Chapter 4). The NIEO proposal, launched in 1974 in the United Nations, includes almost all aspects of the North-South dialogue but with an interpretation of the world political economy that has crystallized attitudes—North and South—into seemingly irreconcilable positions. The Third World claims that the world economy continues to exploit the developing nations for the benefit of the developed; that despite a quarter century of development assistance, the gap between the rich and the poor is increasing, and that nothing less than a new international economic order is required to change the trend. The developed countries reject both the diagnosis and the cure. Nevertheless, the dialogue continues in the search

for common solutions to what are truly common problems. The extent to which it succeeds or fails is of profound importance to all.

I have concentrated on the U.S. role. The United States, because of its size and influence, has been the crucial factor in determining how and to what extent this historic and multifaceted process will develop and progress, assuming the process is amenable to direction at all. No single power can effectively channel or dominate the tides of change now flowing, but the role of the United States is decisive to any collective effort. Indeed, the key to North-South matters lies on the banks of the Potomac if it lies anywhere. *Of central importance, therefore, is knowing what U.S. interests and the policies designed to serve those interests are.* I have tried to define U.S. policy toward the NIEO from two points of view: (1) as an expression of broad U.S. policy interests and (2) as the record of U.S. performance at North-South negotiations. By relating the two aspects of U.S. policy, the conceptual and the pragmatic, I hope to produce a coherent picture of U.S. policy toward the NIEO as it has developed during the latter half of the decade of the seventies and to determine whether U.S. practices at negotiations have been supportive of U.S. interests.

Finally, the book draws these two principal factors, the NIEO and U.S. policy, into a coherent account and follows their relationships through the major negotiations of the past half decade. In so doing, I hope to shed some light on the dynamics of the North-South dialogue and the problems or obstacles faced in attempting to solve global problems through the mechanism of multilateral negotiations.

Methodology

I have taken the historical or sequential approach on the premise that foreign policy is best understood in its historical context. There has been a good deal written about international relations from the functional point of view and a good deal of functional thinking—some useful, some nonsensical—by policy analysts in and out of government. For example, in trying to deal with global issues as functional problems, we are reminded that these issues or problems are not abstract but turn up at the negotiating table as peoples and nations, as rights, obligations, and ideologies, and as debts and disasters. It is in those terms, ultimately, that solutions have to be molded.

I have, nevertheless, resorted to analysis in order to discern the reality behind the rhetoric of North-South affairs. The study therefore examines the North-South dialogue, not as arguments over conflicting social and economic systems, but as negotiations. That is, my analysis is based on the premise that a country's real policy is what it does at the negotiating table

rather than what it professes to do in public statements, however well intended. The perceptions and the dynamics of negotiation erase some features and emphasize others, frequently producing a quite different result than what is presented to the public or even planned for.

Parameters

The natural time span of this study seems to be the decade of the seventies during which time the spotlight was on global issues and the North-South dialogue. The decade of the seventies was also a period of coherence in American life, a period of withdrawal from overseas commitments and a period with a special flavor and nature of its own. Because of the importance of the United States, the fortunes of the North-South dialogue cannot be properly evaluated without recognizing the American attitudes that were prevalent during the period.

It is impossible to do justice to a whole decade in a study of this size, and no attempt has been made to do so; the history of the North-South dialogue has yet to be written. This work concentrates on Phase 2 of the dialogue, from the special meeting of Third World leaders in December 1975 at Arusha through September 1980 and the Eleventh Special Session of the General Assembly, although earlier events are summarized in the opening chapters. Rather than to attempt to cover the whole range of North-South events and issues, I have focused on the negotiations at UNCTAD V, which cover the central aspects of the NIEO.

Neither does this study attempt to address the traditional aspects of U.S. policy—development assistance, security assistance, and food aid—that constitute the principal U.S. economic and political commitments to Third World countries. These programs do get entangled and confused with the NIEO and its aims and objectives, but they are not central to it. The NIEO is primarily concerned with trade and the working of the international economic order. The U.S. response to that concern is what this book is about.

Sources

With regard to the negotiations, I have relied almost entirely on official records—documents, position papers, reports, communications, and studies produced by the U.S. government and international organizations. This material has been supplemented by interviews with U.S. officials in Washington, D.C., Geneva, London, and Brussels, who have been involved in the formulation of policy and have represented the United States in negotiations. Readers may question the frequent reference to “official

sources" with no further information given. This type of citation has been required by the Department of State in lieu of specific documentary references that could not be cited or in cases where individuals did not wish to have their names used. I have based the analysis of U.S. interests on published statements of key administration officials.

I have also drawn on a wide range of published material. This includes books, articles, and monographs by reputable scholars and former officials, such as George Ball and Senator Daniel P. Moynihan; materials produced by news media and the UN, UNCTAD, the IMF, and the World Bank were also consulted. I make no claim to originality for those sections that are based on this secondary material, except, perhaps, in the arrangement of ideas. Nor do I make any claim to have exhausted all available material, tested every hypothesis, or evaluated every judgment. To have done so would not, in any case, have been relevant since the basic argument of the work stands on primary sources not hitherto evaluated.

Organization

The organization of the book follows from an attempt to answer two basic questions: Does U.S. policy, as carried out, support basic U.S. interests? and Have negotiations in the NIEO been an effective process for global problem solving? Chapter 1 describes the origin and development of U.S. foreign policy interests during the post-World War II era and the impact of the crises of the seventies and the Third World challenge exemplified by the NIEO. Chapter 2 traces U.S. policy toward the NIEO during Phase 1 of the dialogue, which ended in 1978, and Chapter 3 introduces Phase 2 of the dialogue—the preparations for UNCTAD V and the reiteration of established policy on the part of the North and the South. Chapter 4 analyzes in detail the UNCTAD V negotiations across the broad range of the NIEO. Chapter 5 traces post-UNCTAD V events, including the World Conference on Agrarian Reform and Rural Development (WCARRD), the UN Conference on Science and Technology for Development (UNCSTD), proposals to convene a new round of comprehensive negotiations, and the Sixth Non-Aligned Summit in Havana in September 1979. Chapter 6 follows the events of 1979–1980, from the Thirty-fourth General Assembly to the Eleventh Special Session, including an account of the effects of the Soviet invasion of Afghanistan, of the Third Conference of the United Nations Industrial Development Organization (UNIDO III), and of the Venice Summit. Chapter 7 provides an integrated account of U.S. policy toward the NIEO in the light of overall U.S. foreign policy interests and the record of negotiations and examines how, why, and by whom that policy is made.

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U.S. Policy and the Third World: The Postwar Era

To understand U.S. policy toward the NIEO, one must see it in the wider context of world events, especially of U.S. foreign policy since World War II. The NIEO negotiations may be unique in many ways, but they are, nevertheless, only the latest episode of a relationship toward the Third World that goes back many years. The history, dynamics, and evolving nature of this relationship has had a life of its own, which directly affects the question of the NIEO. In a phrase, it may be seen as a record of a basically liberal U.S. policy distorted and sometimes overshadowed by even more-powerful political, economic, and military considerations. Thus, throughout the era, there has been a tug-of-war among competing objectives and interests in which special Third World interests have had to compete.

U.S. Interests and the Postwar World

The basic U.S. attitude toward Third World countries is derived from Wilsonian liberalism and the principle of self-determination of nations and an overt dislike of empire and what it stood for. Self-determination, in a simplistic way, is embodied in the Declaration of Independence and was the very principle for which the American colonies fought the Revolution. In 1941 Franklin D. Roosevelt and Winston Churchill bickered over the phrasing of the Atlantic Charter—whether and to what extent it applied outside Europe—and Americans were outspoken about their reluctance to die to preserve the British Empire (as they saw it). Presidential candidate Wendell Willkie, during his 1942 world tour, declared that the war must mean the “end of the empire of nations over other nations.” Churchill, provoked, declared that he had “not become the King’s first Minister in order to preside over the liquidation of the British Empire.”¹

U.S. opposition to empire was not only political but economic as U.S. negotiators, haunted by the depression of the thirties and the need to find markets for a greatly enlarged U.S. productive capacity after the war, concentrated on making an open-trading world. It was thought that not only are closed economic blocs inefficient and protectionist, but they develop into competing political blocs. This philosophy was embodied in Article IV of the Atlantic Charter and in the 1944 Bretton Woods agreement that set up the international monetary system. In 1945, in return for a \$3.8-billion loan from the United States, the United Kingdom wearily agreed to dismantle its imperial trading system. France, to Charles De Gaulle's consternation, was forced to accept the same conditions.²

But this strategy for the creation of an open postwar world was quickly checked after 1945 by Soviet power in Europe and, increasingly, in the Third World. The Cold War began in Europe, but by 1949, it had spread to the Pacific and swept over the countries of the Asian perimeter from Greece to Korea. Defense of the free world became the principal objective of U.S. foreign policy.

Those three elements—political self-determination or national independence, an open world-trading system, and collective security against Soviet communism—became the United States' basic international interests after the war and they provided the framework for U.S. foreign policy, including relations with the Third World in the years to follow. However, they were and still are only guideposts or ideals rather than absolutes or unvarying standards; inevitably, they are subordinate to practical realities, but not uniformly so. The U.S. commitment to an open, free-market economy has often been tempered by unilateral trade and monetary restrictions to meet some temporary exigency. Opposition to communism has been modified as perceptions changed, the "monolith" broke apart, and détente developed. But those changes have been more of degree than of kind. The commitment to Third World "independence," however, has been equivocal and confused.

The commitment to the ideal of Third World independence was difficult to live up to. The United States did put pressure on the Netherlands to grant Indonesia independence after the war but refrained from interfering directly in relations between the United Kingdom and France and their colonial dependencies. As the Cold War deepened, solidarity with U.S. allies took priority over the commitment to independence. Indeed, the United States eventually found itself filling the power vacuum left by the withdrawal of European authority in Southeast Asia and the Middle East. In doing so, it slipped out of the role of the liberator and protector of new nations and became, increasingly in the eyes of the Third World elites, the neocolonial oppressor. Only during the Suez crisis in 1956 did the United