

Studies in
International
Political Economy

**THE
NORTH-
SOUTH
DIALOGUE:
A Brief History**

CHARLES A JONES



The North–South Dialogue

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Charles A. Jones

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The North–South Dialogue

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*For
Linda
and
Kate*

PREFACE

My intention has been to provide a short narrative of the dialogue between rich and poor states in international organizations during the eventful decade which began in 1973. In telling this story I have tried to hint at the ideological disputes, political conflicts, historical antecedents, and economic technicalities which make the dialogue so intriguing to a wide range of specialists in the social sciences, to indicate the multiplicity of forums in which the single dialogue has been pursued, and to do so without ever losing touch with the central chronological line.

That the book came to be written at all was because, when talking with undergraduates reading economics, I often observed how difficult it was for them to place recent debates between economists in their institutional context and so recognize and discount the ideological and polemical content of the avowedly technical papers they were directed to read. In consequence they often appeared to be getting very much less pleasure out of the discipline than they might, which seemed a shame.

Looking for a work to recommend to such students I found many excellent papers and rather fewer full-length works on the recent period. Naturally, however, there was a considerable lag between the occurrence of important events and their treatment in academic periodicals, and still more, in scholarly monographs. There were also few if any general works, most being concerned with a single forum, and the stress was almost always on political or economic rather than historical analysis, a point which struck me most forcibly. I felt confident that if I were to rely entirely on secondary works and conclude with a chapter based principally on the daily press, I could produce an analytical narrative which saw the dialogue safely round the corner it began to turn in 1978 and on to a new course. It would be a first approximation, and experience suggested that the result might be condemned for a somewhat eccentric and hybrid methodology, but this seemed a small price to pay for a text which, at least for a year or two, might be better able than most to give readers new to the subject a feeling for how current events linked up with the recent past.

I have not weighed the book down with any discussion of terms. It is assumed that the reader has a rough understanding of what sorts of nations consider themselves to belong to a Third World distinct from the relatively rich states of North America, Western

Europe, and Australasia on the one hand, and the centrally-planned economies of the Soviet bloc on the other. I have taken the Third World, the South, and the Group of 77 to denote sets of states which overlap so closely that the terms may generally be used as synonyms. I have not bothered unduly about allotting marginal cases such as South Africa, Israel, Portugal, Spain, Yugoslavia, Argentina, and the like.

I have followed the convention of employing abbreviations and acronyms freely even though I know that many readers find it either offensive or confusing. To the former I can only reply that the convention exists, and that part of the duty of the author of an introduction must be to familiarize readers with just such quirks as this in the more specialist literature. To the latter I would point out the table of abbreviations which follows this preface and is intended to serve the same sort of purpose as those long lists of characters and their relationships which are generally to be found at the start of English translations of the Russian classics. I can only hope that it will enlighten more than it deters, and add that in the text I have tried to mention institutions by their full titles more than once before resorting to the abbreviation and to use the full title again when returning to them after a lapse of more than a few pages.

It remains to thank my wife, Linda, for her help, which was appreciated all the more since the book was written at a time when her own career and our growing family were making strong demands on her. It was my post at the University of Warwick which first led me to take an interest in North-South relations and a period of sabbatical leave which provided the respite from teaching duties which allowed me to write the book. My thanks go also, therefore, to the University and to those of my colleagues who have kindly taken over the mercifully light administrative tasks I normally perform or who have otherwise helped with the book. My particular thanks go to Joy Gardner, Barry Buzan, and Gowher Rizvi.

ABBREVIATIONS

ACP	African Caribbean and Pacific
ANCOM	Andean Common Market
ANRPC	Association of Natural Rubber Producing Countries
ASEAN	Association of South-East Asian Nations
CAP	Common Agricultural Policy (of the EEC)
CFF	(IMF) Compensatory Finance Facility
CIEC	Conference on International Economic Co-operation
CIPEC	Conseil Intergouvernemental des Pays Exportateurs de Cuivre (Intergovernmental Council of Copper Exporting Countries)
COMECON	Council for Mutual Economic Assistance
CTC	(UN) Centre on Transnational Corporations
CTN	(UN) Commission on Transnational Corporations
CVD	Countervailing Duty
DC	Developed Country
DFI	Direct Foreign Investment
ECLA	(UN) Economic Commission for Latin America
ECOSOC	(UN) Economic and Social Council
EEC	European Economic Community
EEZ	Exclusive Economic Zone
EUA	European Unit of Account
FAO	(UN) Food and Agriculture Organization
FNLA	Frente Nacional de Libertação de Angola (National Front for the Liberation of Angola)
GAB	General Agreement to Borrow
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GSP	General (or Generalized) System(s) of Preference
IAEA	International Atomic Energy Authority
IBA	International Bauxite Association
IBRD	International Bank for Reconstruction and Development
ICA	Individual Commodity Agreement
ICA	International Coffee Agreement
ICNT	Informal Composite Negotiating Text
IDA	International Development Association
ILC	(UN) International Law Commission
ILO	International Labour Office
IMF	International Monetary Fund

INRA	International Natural Rubber Agreement
IPC	Integrated Programme for Commodities
IRB	International Resources Bank
IRC	(UN) Information and Research Centre (on TNCs)
ISA	International Seabed Authority
ISA	International Sugar Agreement
ISI	Import Substituting Industrialization
ITA	International Tin Agreement
ITO	International Tin Organization
LAFTA	Latin American Free Trade Area
LAIA	Latin American Integration Association
LDC	Less Developed Country
LLGDS	Land-Locked and Geographically Disadvantaged States
LTA	Long-Term Arrangement (regarding Cotton Textiles)
MFA	Multifibre Arrangement
MNC	Multinational Corporation
MNE	Multinational Enterprise
MPLA	Popular Movement for the Liberation of Angola
MTN	(GATT) Multilateral Trade Negotiations
NAFINSA	Nacional Financiera (Mexico)
NAM	Non-Aligned Movement
NIC	Newly Industrializing Country
NIEO	New International Economic Order
NPT	Nuclear Proliferation Treaty
NSG	Nuclear Suppliers' Group
NTB	Non-Tariff Barrier
OAPEC	Organization of Arab Petroleum Exporting Countries
OAU	Organization of African Unity
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
ORS	Open Register System
PLO	Palestine Liberation Organization
RTA	Reciprocal Trade Agreements (Act)
SALT	Strategic Arms Limitation Talks/Treaty
SDR	Special Drawing Right
STABEX	Stabilization of Exports (EEC/ACP)
SUNFED	Special United Nations Fund for Economic Development
TNC	Transnational Corporation
TNE	Transnational Enterprise
UN	United Nations
UNCLOS	United Nations Conference on the Law of the Sea

UNCSTD	United Nations Conference on Science and Technology for Development
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNCTCDC	United Nations Conference on Technical Co-operation between Developing Countries
UNIDO	United Nations Industrial Development Organization
UNITA	National Union for the Total Independence of Angola
WIPO	World Intellectual Property Organization

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1 THE THIRD WORLD ADOPTS A COLLECTIVE STRATEGY

'North-South Dialogue' is very much a phrase of the 1970s. Arab oil-power and American humiliation in South-East Asia combined to direct the attention of western politicians, journalists, and publics increasingly toward the interminable succession of technically complex international negotiations on trade, money, and a host of lesser issues, in which it appeared that a new balance of power was to be struck between the industrialized West and the successor states of the old European empires in Africa, Asia, and Latin America. Satisfactory outcomes in these negotiations were regarded by third-world states as essential to healthy economic and political development because it was widely assumed that the prevailing structure of international institutions served the narrow interests of powerful industrialized states at the expense of the poorer countries of the South.

There are therefore two key sets of questions to be faced before addressing the events of the 1970s directly. First of all, why did so many third-world states think it politic to adopt a strategy of collective peaceful confrontation with the West in international negotiations as a leading element in their foreign policies from the 1960s. Why was this strategy adopted just when it was? Why was it thought likely to prove effective? Why was it preferred to alternative available strategies? Second, what was the condition of the various international organizations which were to provide the stage for North-South debate on the eve of the conflict? What made third-world leaders think that they might be able to work effectively through an institutional structure which they believed to be biased against them from the start and which it was their intention to transform?

The first two chapters of this book attempt to answer these questions. In the remainder of this chapter the origins of the collective strategy are explored. Some account is given of the way in which the United States and Britain encouraged the growth of assumptions about material progress and industrialization in third-world countries during the Second World War but subsequently frustrated any expectations they might have aroused as they became enmeshed in the logic of the Cold War and the political quagmire of decolonization. The very different world view of the Latin American nations is traced. Then the variety of strategies open to independent third-world states in the post-war world and the limitations of these

2 *The Third World Adopts a Collective Strategy*

strategies are surveyed before the evolution of an ideology and a set of practical circumstances supporting the adoption of a strategy of collective negotiation in international forums is finally examined.

The Second World War

The effects of the Second World War on the colonial territories and independent states of Africa, Asia, and Latin America were profound and diverse. For some the war offered great economic opportunities. The belligerents were large-scale buyers of food and raw materials at prices above the low levels reached by many commodities between the wars. By devoting their industrial capacity to war production and rationing shipping space severely, the belligerents encouraged import-substituting manufacturing industry in their former export markets. At the same time, however, they undoubtedly hampered the growth of new industrial economies by their inability or unwillingness to provide the inputs of capital, technical expertise, and machinery which would have been available in peacetime and by the sheer strength of the countervailing demand they exerted for traditional unprocessed exports. Non-belligerents far from the theatres of war, in Latin America especially, found it frustrating to see the proceeds of their vast sales of raw materials to Britain piling up in the form of sterling balances in London which could neither be converted to United States dollars nor used to buy British machinery and sophisticated manufactured goods to assist further industrialization at home.

The Latin American states were at least spared the pain and indignity of invasion and occupation and the social dislocation of extensive military mobilization. In the Old World the experience of colonial troops, some of them fighting on European soil, widened horizons and destroyed illusions of European superiority and invulnerability. Early Axis victories in Europe and Asia, especially the ignominious defeat of France in 1940 and the spectacular victories of the Japanese early in 1942, provided further evidence of the weakness of the colonial powers. More than this it put the British and the Free French in a weak position when negotiating with their colonial subjects for political support during the remainder of the war. Promises of greater autonomy had to be made to local groups in those territories where military control was retained, though concession coexisted uneasily with repression of those leaders and organizations whose nationalism had about it the least breath of disloyalty or subversion. In South-East Asia it remained to be seen whether European political authority could ever be re-established in

territories where the always perilous legitimacy of the imperial regimes had been shattered by military defeat and the Japanese had been able to project themselves, not entirely unreasonably, as liberators. Elsewhere the nominal independence of states such as Iran, Egypt, Libya, and Thailand was trampled on as the belligerents single-mindedly pursued their strategic objectives.

It was certainly not until 1943 that any clear sense of the significance of this diversity of experience or the tendency of great power policy towards the lesser powers and the colonial empires became apparent. How could it when the eventual outcome of the war was still undecided and the chief participants had still to settle firmly on their post-war international economic policies? But from the middle of 1942 it became apparent that a combination of the administratively ingenious British rationing and industrial mobilization systems and the sheer scale of United States shipbuilding programmes had defeated the German strategy of isolating Britain within a U-boat cordon. In the East, United States victories over Japan near Midway and on Guadalcanal Island in mid-1942 were followed early the following year by the powerful psychological blow of German defeat at Stalingrad. So 1943 became the year in which policy-makers at the highest levels in the United States and Britain, now confident of ultimate victory, paused to examine and unravel the skein of preparations for the post-war era which their officials had woven for them.

It happened that the external economic policy of leading figures in the United States administration at this time was liberal almost to the point of Utopianism. In so far as it was to affect the poorer independent countries of the world, this policy had two chief strands. The first was a commitment to encourage economic development by means of rapid industrialization, in the belief that the loss of exports of traditional products from the United States would be more than compensated for by remitted profits from subsidiaries of United States firms engaged in local manufacture of those same products in Latin America, together with the enlarged exports of United States capital goods and new kinds of consumer goods which would result as Latin America developed larger firms and better paid industrial workforces and adopted North American patterns of life. This view of the future appears to have been accepted by the United States administration from the mid-1930s and was soon after acquiesced in by the British. A senior official at the British Board of Trade, voicing what he termed 'our general view' early in 1942, argued that 'collaboration with the South American States in their natural development will help our own

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industries best in the long run' and that 'our own best hope . . . may be to develop the more modern industries and abandon those that can no longer compete'.¹

But was this official encouragement of peripheral industrialization to be envisaged within autarkic trading blocs or economic empires, each dominated by one or other of the great powers, or was it, by contrast, to be achieved within an open world economy in which multilateral systems of trade and payments allowed a full play to the principle of division of labour in accordance with comparative advantage? Much of the evidence of the 1930s pointed to the first of these two alternatives. Britain had adopted many of the same nationalistic economic techniques as Germany and Italy: exchange controls, higher tariffs and quantitative controls on trade, and, in 1932, imperial preference. The United States too had imposed serious barriers to international trade and triggered similar actions from other trading nations by raising its tariff in 1930. Although the USA had begun to reverse this nationalistic policy under the Reciprocal Trade Agreements Act of 1934, powerful protectionist opposition persisted at very high levels of the bureaucracy and the legislature to this, as to so many of the policies of the Roosevelt administration, so that as late as the early 1940s there was still a lobby with support within the State Department pushing the idea of a formal system of western-hemisphere trading preferences that would bind Latin America to its powerful neighbours and bring about a marked diminution in the formerly strong economic positions held by Britain and Germany in many of the republics.

If it is clear retrospectively that the USA was firmly set upon a liberal course after 1934, it was less clear to her allies at the time. Import duties collected, which had amounted to 51 per cent of the value of dutiable imports in the first half of the decade, fell to 39 per cent during the later 1930s, and there was a substantial increase in United States trade during the four years after the RTA Act passed Congress. However, although the RTA Act was multilateralist in intent and stipulated that each bilateral trade agreement negotiated under it should include an unconditional most-favoured-nation clause extending any particular concessions made to *all* trading partners of the USA, the practical effect by the end of the decade had been to extend US trade with countries with which agreements had been concluded very much faster than total trade. US exports to trade-agreement states rose by 63 per cent in the period 1934/5-1938/9, and imports from them by 22 per cent. In the meantime exports to and imports from states with which the US had no such agreements rose by only 32 and 16 per cent respectively. Moreover

many of the trade agreements concluded before 1939 were with other American states including Canada, Brazil, Cuba, Haiti, Colombia, Guatemala, and Nicaragua, and to this extent the policy was consistent in practice, though not in theory, with a hemispheric approach to international trade. The sorts of concessions yielded by the US in negotiations with other American states were likely to be of more use to the remaining non-agreement Latin American states than to industrialized countries such as Britain or Germany, which had a quite different spectrum of exports. Agreements with Belgium in 1935 and France and the Netherlands the following year may have helped redress the balance. Yet as late as 1960 over 400 industrial products still faced high US rates of duty dating back to 1930.²

By 1943 most remaining doubts about the ambiguous tendency of US commercial policy had been quelled, and even the British, who harboured deep suspicions of American intentions south of the Rio Grande, were persuaded that Secretary of State Cordell Hull and multilateralism had won the day.³ Thereafter it became possible for the Allies to depict the war not simply as a struggle between Fascism and representative democracy, but as a contest between what now became identified as the Axis concept of tightly controlled autarkic economic empires and their own more liberal idea of an open world economy.

This simple if less than totally honest dichotomy became the foundation stone of an Anglo-American liberal historiography, which was to influence attitudes toward the North-South dialogue thirty years later quite directly. The story would go like this. Economic nationalism and restrictionism in the period between the two world wars, initiated by Germany and its future allies and indulged in by Britain and the United States only with the greatest reluctance, were to be regarded as a major cause of the 1939-45 conflict; indirectly, because they had caused dislocation, unemployment, and political turmoil in Germany and Japan; directly, because the expanding web of restrictions in the 1930s had been unashamedly used as a means of aggrandizement and tool of foreign policy by Germany, especially in Eastern Europe.⁴ The system of managed liberalism set up by the Allies in the mid-1940s under United States leadership was to be regarded, therefore, as an essential peacekeeping system and a democratic response to fascism. Precisely because it was unwritten and supported in a way that permitted the relatively free operation of market forces, the international economic order underpinned by the Bretton Woods institutions and the General Agreement on Tariffs and Trade exhibited a most remarkable tendency towards increased international trade and unprecedentedly rapid