

Politics of International Economic Relations

EDITED BY
RAMASHRAY ROY

ICRIER/CSDS

POLITICS OF INTERNATIONAL ECONOMIC RELATIONS

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Preface

IN response to the felt needs of policy makers, academics, professional managers and entrepreneurs, a broad-based multi-disciplinary group of some of India's leading men interested in politico-economic affairs, drawn from the academic, government, public, and private sectors, came together in November 1978. As the group surveyed the national and international scene, a mixed picture of the global economic situation, dominated by the following sombre trends, presented itself:

- North-South dialogue seemingly becoming a dialogue of the deaf at a time when international action is most needed;
- the world economy caught up in a crisis, with slower rates of economic growth in prosperous areas and threats of negative growth in its poorer regions;
- the industrial nations, major beneficiaries from the current economic system, turning away from some of its beneficent aspects towards restrictive policies;
- the developing world ruptured by political and economic divergencies, experiencing difficulty in functioning effectively as a cohesive group to confront the North or to organise cooperation mechanisms and patterns within itself;
- energy-exporting countries endeavouring to diversify their economic structures and promoting horizontal cooperation; and
- poor, populous countries, struggling hard to meet the challenge of development, including fulfilment of their basic needs, and to contribute simultaneously their skills and services to the diversification of productive structures in the developing world.

In the light of the discussions, among themselves and with other eminent individuals, the members of the group agreed

to form themselves into Indian Council for Research in International Economic Relations (ICRIER), with a nucleus office in New Delhi. They also decided that it was essential to broaden and deepen the ambit of research and communication on international economic issues to assure steady and faster economic and social progress in the country. Accordingly, ICRIER, over the last two years has been endeavouring to develop, initially with the support of funds provided by the Ford Foundation, an international economic programme aimed at strengthening research capabilities and upgrading skills in international economic relations at institutional and individual levels. This programme is expected to augment the stock of knowledge and improve the quality of research on international economic relations and promote, in the consideration of pertinent issues, systematic interaction between academics and other engaged in economic operations and or policy making tasks.

At its first formal meeting, held in January 1979, ICRIER decided to focus on four main sectors of international economics: Trade and Industry, Technology, International Finance, and Politics of International Economic Relations. A Sub-Committee of ICRIER has been constituted for each of these sectors. The Sub-Committees, which hold their meetings as often as is necessary, are responsible for monitoring the research programmes in their respective areas and organising seminars and workshops on them under the overall supervision of ICRIER's Chairman and Secretary.

In pursuance of a decision taken by ICRIER, a workshop was held on "Politics of International Economic Relations" in collaboration with the Centre for the Study of Developing Societies, Delhi, in October 1979. The purpose of this Workshop was to bring together experts and scholars working in various branches of knowledge for mutual inter-action on the many issues that arise in the course of the struggle for a new international economic order (NIEO), the political perspectives for this struggle, and their impact on economic advance and social change in India.

The discussions at the Workshop were wide-ranging, and may, for the sake of convenience, be grouped into four broad

areas. First of all, the concept of interdependence was highlighted, along with the differing perceptions and interpretations of the term, "interdependence" by countries of the North and those of the South. The differential angles, it was suggested, stemmed from the requirements of national well-being requirements that were inevitably determined by differing historical experiences and variations in the structures of economic organisation, pace of socio-economic changes, inherited inequities of mutual relations, and national perspectives of needs and expectations from the emerging world order. It was generally felt that the struggle for NIEO is basically and primarily a struggle for evolution of a more equitable, balanced and efficient pattern of interdependence.

Secondly, the discussion focussed on the models of economic development adopted by countries of the South and the far-reaching implications of the choices made by them. One of the methods adopted by most countries of the South for modernizing their society was through the transfer of sophisticated technology and other concomitants of Western style industrialization. In their anxiety to make up the leeway in economic progress, it was argued, a growing tendency had developed among some leading elements in most Third World countries to adopt consciously or unconsciously a Western model of development that emphasized consumerism and proliferation of material wants. Consequently, they failed to take due cognizance of the likely hazards commonly associated with such a strategy of development.

In the current economic and military hierarchy of the international system, trade exchanges in commodities and consumer goods, together with financial flows and arms transfers, have tended to become primary instruments for reinforcing, rather than moderating, hierarchical trends in the emerging pattern of international relations. Inevitably, in some areas, inequality within and among nations has widened, the affluent becoming relatively more prosperous and the weak more dependent.

Against this backdrop, it is pertinent to reflect on the Indian experience which has in many ways been truly *sui generis*. There has been no blind imitation of any foreign

model. On the contrary, the liberated national ethos has been at work, selecting from the experiences of nations in the vanguard of progress elements adjudged to be compatible with national needs, and adapting them for incorporation into an indigenous package of plans and programmes designed to attain the goals set for economic growth and social advance. An objective evaluation of the strategy followed in India and a candid appraisal of its achievements and shortcomings, as also its costs and benefits at the international level, would prove to be of special value in making policy choices for the 'eighties.

In the third place, attention was focussed on the measures countries of the South could adopt to strengthen their bargaining position *vis-a-vis* the North, bring about a diminution in their dependence on others and promote a more balanced pattern of international relationships. One of the ways suggested was for primary producers to follow the pattern of OPEC and try to secure prices of their commodities rise with the rising cost of their imports. Reference was also made to development of managerial and scientific skills and application of industrial techniques to production processes to enhance productivity. The value of economic cooperation among developing countries as a means to strengthen collective self-reliance was particularly emphasised.

Clearly, each of these suggestions suffers from inherent limitations and is valid for gaining limited objectives; it is only through a wide-ranging mix of joint policies and measures that the South can hope to acquire the strength to exert effective pressure on the International Community.

Over the years, despite enormous exertions, Group 77 has not been particularly successful in deploying its unity for the benefit of all its members. When unity is based on a maximalist approach, negotiators do not have the best chance to succeed. If their sights can be lowered and attention focussed on the more urgent issues it is easier for them to be flexible and pragmatic.

The diversity of political configuration, the differentiated nature of economic endowment, the wide variation in inherited and acquired experiences, and, above all, divergencies in

economic interests and development goals have been identified as obstacles to cohesion in the South. Conceivably, these obstacles are convertible into stepping stones if the complementary aspects of diversities and divergencies in national environment are studied and successfully exploited; it is through efficient concertation of production factors, unevenly distributed over the Third World, that the South can expect to generate more wealth and add to its politico-economic muscle.

The uneven international economic relations affect all countries adversely. The need for change is felt universally. Neither the North nor the South is monolithic. It is only within a global frame of concepts, objectives, and mechanisms that combinations and permutations of collaborative ventures and cooperation programmes within and between them may be expected to yield significant opportunities for trade-offs in their mutual relations. This will require patient research, negotiating acumen, and sympathetic vision. Through stimulating intellectual interchange and promoting joint studies, ICRIER hopes to generate ideas and develop insights for the International Community to move towards a more efficient and equitable order.

Finally, the seminar turned its focus on the concrete problems India faces in its bid to quicken the pace of economic and social advance. After three decades of planned progress, the picture is still somewhat patchy. Despite the bright features the prospect at the moment is none too pleasing. The performance of the national economy, measured in terms of conventional economic indicators, would by international standards be rated from poor to modest. Achievement in productive sectors has tended to fall short of targets and progress towards our avowed objectives in the field of distributive justice has been woefully inadequate.

And yet over the years the potential of the economy for faster growth and fairer distribution has been built up to an impressive level. Towards the end of the 70's it seemed the nation had secured reasonable freedom from the twin constraints of the food and foreign exchange. But the continuing disarray in the world economy, ever increasing oil prices and deteriorating

terms of trade pose new challenges for the 80's. How can these challenges be met? Are there any elements in the national and international situation which make it possible for these challenges to be converted into fresh opportunities for accelerated advance? What priority should be accorded to discovery and development of our hydro-carbon reserves? How can alternative source of energy be more efficiently utilised? Is it possible to raise the financial resources needed to overcome the new difficulties that confront us? Would it strengthen the world economy if exporters and importers of petroleum from the developing world succeed in their efforts to develop their reciprocal relations on a basis of better balance and mutual benefit? Is a new strategy for the development of science and technology called for?

The discussions revolved around these and other related issues. It will be ICRIER's aim to research and analyse these issues more precisely, endeavour to indentify possible options and find feasible solutions. The papers collected and published in the following pages were read and discussed at the Workshop. It is my ardent hope that this volume will be of use to policy-makers and students of international economic relations in understanding the dynamics of political forces and visualising their impact on changes in socio-economic structures.

I take this opportunity to thank the participants of the Workshop, the Centre for the Study of Developing Societies, which assumed the major responsibility for organising it, and the Ford Foundation, Delhi, for financial and other support they rendered in making this project a success.

New Delhi
December 1, 1981

K.B. Lall

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Introduction

Ramashray Roy

AFTER the Cold War, the one issue that has dominated the world scene is the restructuring of the world economic system in a way that permits and facilitates the economic development of the poor countries. There is today wide-spread recognition of the necessity for poor nations to develop economically for improving the standards of living of their populations in general and of deprived social segments in particular. Development is also considered necessary for bridging the dangerous gap between the rich and the poor countries.

The need for enabling the poor countries to come into their own is justified on several grounds. First, it is argued that the wide gaps in the material well-being among nations lead to the breeding of discontent, disaffection and conflict. Just as in a nation-state, profound disparities in wealth, status and power lead to discontent and conflict when the normative elements supporting such disparities have been eroded of their legitimacy, so also in the international arena disparities have the same consequences. The existence of wide disparities promotes competition for access to and control of scarce resources and eventually leads to war. In order, therefore, to prevent war and insure international peace for assuring the growth and stability of all nations, disparities must be reduced if not altogether eliminated.

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Another aspect of this relates to the tendency of the strong to dominate the weak in international politics. In an anarchic international political situation where 'national security' provides the basic thrust of foreign policies of nations, the existence of wide disparities in wealth, status and power provides impetus to the strong for self-aggrandizement. The preservation of security calls for ever more accretion to national power—military, economic and political. The urge to enhance power stimulates strong nations to seize, or at least to control, the resources of other nations to the exclusion of the rival powers. Since there are competing powers who work relentlessly for "national security" and, as a consequence, seek greater and ever greater power, the pattern of interaction in the arena of international politics comes to be characterized by intense rivalry and a tendency towards carving out colonies, zones of influence, etc. This means that the strong powers, since they want to retain their strength, have a vested interest in existing disparities which facilitate their self-aggrandizement.

The self-aggrandizing tendencies of the strong powers, it is true, do not always result in widespread conflagration. But this is not because the strong powers have completely given up their aspirations for ascendance and monopoly of power. It is rather the phenomenon of "mutual deterrence" and balance of terror" which compels them to exercise caution.

In such a situation, the maintenance of *status quo* becomes the prime value of international politics. Further, not only is the weakness of the weak nations never remedied but the international structures ensure that they remain pawns in the game and that their resources remain subject to exploitation by stronger nations. When the resources of a country are 'mortgaged' to another, it is clear that, to that extent, they are unavailable for serving national purposes. Thus the distortion of national purpose is a direct consequence of the existence of disparities among nations.

Even more debilitating in consequence is the concept of national security that goes beyond the military security of the strong nation. The convergence of industrial might, military power and political ascendance has made the strong nations

the preservers of particular "civilizations". These stand out like isolated islands in the midst of widespread want, poverty, misery, ignorance and destitution. Often characterized as "areas of darkness", they are feared as encircling the "civilized", strong nations and threaten their very existence. The strong nations have, therefore, devised ways to slowly transform these nations by modelling the "sea of barbarism" in their own image so that the threat of being swamped by this sea may recede. Thus in addition to military, economic and political domination, the poor countries also experience cultural and intellectual domination.

Some make the case for the removal of disparities on the basis of equity. Equity includes two distinct facets, the notion of restitution and what Vattel calls *offices d'humanite*'. The latter concerns humane considerations that inspire rich and strong nations to come to the aid of the poor and the weak nations. Since *offices d'humanite* cannot be morally and legally binding on a particular nation, that is to say, they cannot be enforced against states against whom they are asserted. . ."¹ and since the notion goes against the natural sovereignty of states, the concept of restitution has come to play a greater role in the demand for the transfer of resources from the rich to the poor countries.

"Restitution" refers to the phenomenon of colonial exploitation of the Third World. Many of the Third World leaders argue that the poverty prevalent in their part of the world is due to no fault of theirs. The colonial masters were interested not in the development of the colony as such but only in extracting necessary raw materials and other resources for their own use. Even the political-administrative system that the colonial powers built was to serve this primary purpose. That it ultimately spread education, modern consciousness and nationalism in the colonies was an unintended consequence. The fact remains that the economic exploitation was the prime motive of colonialism. As Worsley points out:

(The ex-colonial countries) . . . share a common past of domination by the White Other, a linked history of struggle for independence, and a common present of struggle against poverty

The most serious legacy of colonialism is in the economic

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sphere, in the form of backwardness, mono-cultural economies, foreign ownership of major resources, uneconomic 'dwarf states', poverty and an extremely poor economic base for the kind of political 'rationalization' that Pan-Africanism envisages.²

The historical fact of the exploitation of the Third World countries and the draining off of their vital resources, it is argued, has left them poor and has robbed them of their capacity to initiate and speed up economic development. It is for making good the colonial exploitation and economic debilities resulting therefrom that the countries of the Third World demand transfer of resources from the rich to the poor countries.

There has certainly been some flow of aid and technology to the poor countries and some liberalization in international trade policies in earlier decades (a trend that has since been reversed). However, the benefits of these to the poor countries have been very meagre indeed. Aid is tied and not disinterested. The markets of the DCs have, to certain extent, been opened up for the goods and manufactures and semi-manufactures of the LDCs, but the protectionist policies have negated the benefits. Moreover, the demand for the goods of the LDCs and their prices are subject to great fluctuations and therefore export earnings for the LDCs fluctuate wildly. As the aid must be returned, the debt repayment burden on the LDCs has been growing precipitously.

To add to all these difficulties, the international institutions relating to trade and finance, institutions like, IMF, World Bank and GATT, reflect the dominance of the rich, industrialized Western countries. They could very well have been the appropriate instruments for safeguarding and promoting the interest of the LDCs. However, since these institutions represent the dominant interest of the DCs, the viewpoints of the LDCs have not been given due hearing and acceptance in these forums. Thus, the institutional structure of international economic relations is decidedly weighed against the Third World countries. They have to fight hard to get a proper hearing.

In view of this, the Third World countries make continuous

demands not only for the transfer of resources from the rich to the poor countries but also for the reformation of the international institutional mechanisms. In short, they are fighting for a new international economic order in which, first the institutional structure truly reflects their aspirations and works towards their realization and, second, their interests are recognized and everything possible is done to help them in their effort to improve the material base of their societies. To put it differently, the demand for a new international economic order reflects the determination of the LDCs to do away with an international system that has been erected to preserve and protect the *status quo*, one that gives preponderance to the growth and power considerations of the rich, industrialized countries and is geared to keep the backward countries depressed and dependent on the rich countries. The Third World countries are committed to correct this imbalance.

The industrially advanced countries have belatedly and perhaps still reluctantly, recognized the need for enabling the poor countries grow economically and reform the international institutional set-up. As the Trilateral Commission points out:

First, there is need for a general restructuring of North-South economic relations for the purpose of creating a more just and workable world economic order

Second, there is need to deal with the desperate plight of nearly one billion people in some 30 resource poor developing countries whose governments cannot pay the increased bills for oil, food, fertilizer and other products.³

Despite such awareness of reducing disparities and correcting the imbalances in the international institutional structure, however, concrete actions in these areas have been lacking. Good intentions have still to be translated in timely and suitable action plans. Negotiations have got bogged down in conflicting national perspectives and the dream of a new international economic order remains only on paper. Interdependence is recognized as a basic characteristic of the world economy today and the need to help the poor countries to pull their economies from stagnation and backwardness is felt by all. To quote the Trilateral Commission again:

We believe the time has come for new policies and new

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actions by the Governments of the Trilateral region in their relations with developing countries. Interdependence is now a persuasive fact as well as a convenient slogan. The developing countries need the aid, technology, know-how and markets of the Trilateral world. The Trilateral countries increasingly need the developing countries as sources of raw materials, as export markets, and, most important of all, as constructive partners in the creation of a workable world order. In our approach to this subject, we reject any idea of a "rich man's club" forming defensive alliances against the poor. On the contrary, we seek a new international economic order based on cooperation between developed and developing countries, corresponding to the new balance of economic and political power, and responsive to growing demands for welfare and justice. We are convinced that an international economic system cannot successfully endure unless both rich and poor countries feel they have a stake in it.⁴

The expressed desire to restructure the international institutional structure and to help poor countries in their economic development has still remained unfulfilled. The failure to move ahead on these two fronts lies, as I have shown elsewhere in this volume,⁵ in the divergence between world order dreams and harsh national realities. Even while the rich and the poor countries use the same language, refer to same sets of concepts and show their willingness to shape the world order in the image of these concepts, the meanings of these concepts differ in the rich and in the poor countries. For example, for the rich countries interdependence means complementary interdependence which preserves the existing international division of labour and keeps the poor ones in the status of "hewers of wood and drawers of water" for the developed world. The poor countries reject this notion on the ground that it is precisely the existing pattern of international division of labour that has kept them economically depressed and exploited. Instead, what they opt for is competitive interdependence which allows them to compete successfully with the developed world in its own market. This is one of the basic divergences between the rich and