

## **Part II**

# **The North-South Negotiating Process: Obstacles and Progress**

## **Section 1**

### **Aspirations and Developments**

#### **The Development Problem**

2.1 In the post-war period, national and international efforts to accelerate the development of the poor countries have not been without some success. As a result, a number of developing countries have emerged as middle-income countries, some because of favourable resource endowments and others because of special efforts to transform their economies and become significant exporters of manufactured goods. In recent years significant progress has also been made in food production and distribution in some large low-income countries in South Asia.

2.2 But huge disparities remain between rich and poor nations. Nearly half the world's population lives in countries with an overall average income of US\$260 per annum, less than three per cent of that of the industrial market economies. Moreover the gap continues to widen; between 1950 and 1980 real per caput income in these low-income countries grew by a mere \$80; in the industrial market countries it rose by \$6,530. A large proportion of the population of developing countries suffers from endemic poverty. About 800 million people, nearly one in three of those living in low-income countries, and over one in six of the world's population, live in absolute poverty — at the very margin of existence with grossly inadequate food, shelter, health and education.

2.3 The prospects for alleviating poverty significantly are not good. The World Bank's World Development Report for 1982, even under its

optimistic 'high case' scenario, projects a per caput income growth rate for the low-income countries of just 1.8 per cent in the decade to 1990, a lower rate than the post-war average. The situation would be substantially worse, of course, if the 'lower case' scenario were to be realised. As of now, the indications are that little progress will have been made in reducing the numbers facing absolute poverty by the end of this century. Even an increase cannot be ruled out.

2.4 The problem of development and elimination of poverty is not often that of lack of the resources or technical knowledge required to make progress. It is very largely a problem of social and economic organisation, and of political commitment. It requires long and sustained efforts, at both national and international levels, to bring about structural transformation of the economies concerned. Through its vicious circularity and the political instabilities which are its unavoidable consequences, poverty itself imposes severe constraints on the application of remedial measures. Moreover, superimposed on the underlying and inherent problems in overcoming poverty, are often the adverse external circumstances with which domestic economies have to deal in the course of their development.

2.5 In recent years, the worsening external economic environment has had a particularly severe effect on the development efforts of the developing countries. Concessional resource transfers have remained relatively stagnant, at only half the long-standing target of 0.7 per cent of GNP. In fact, the amount of Official Development Assistance (ODA) from member countries of the OECD Development Assistance Committee (DAC) actually declined in real terms in 1981. Of even greater significance is the fact that the prices of commodities, on which the poorer countries still have a high dependence, have fallen sharply and are unlikely to become buoyant unless growth rates in the industrialised countries return to the levels of the 1960s and early 1970s. The deep and persistent recession has resulted in the IMF index of commodity prices (excluding gold and petroleum) falling to its lowest level in the post-war period.

2.6 The deepening recession and anti-inflationary policies in developed countries have also meant that unemployment is continuing to rise in these countries, which in turn has led to increased protective barriers against the exports of developing countries, posing great obstacles not only to the newly industrialising countries (NICs) but also to the attempts of other developing countries to emulate them. It seems particularly unfortunate that, just when developing countries have begun to adopt a more outward-looking orientation in their economic policies, a development generally favoured by the developed countries, protectionism should render that strategy unattractive. The new

protectionist measures, of course, fall heavily on the NICs. Their adverse effects have been attenuated by these countries diversifying into exports whose access has been less constrained. But this is becoming more difficult with the current stagnation of world trade. Recent developments indicate that even the middle-income developing countries, which have so far managed to achieve remarkable rates of growth, are not immune from the increasing stresses in the world economy.

2.7 Symptomatic of increased stresses in the world economic and financial system, and serving to increase the vulnerability of a growing number of countries, is their increasing debt burden. The middle-income countries, which have been the main borrowers from the international commercial banks, stand particularly exposed. That debt service commitments have risen substantially at a time of great uncertainty about recovery and access to markets, and at a time when the needed adjustment itself requires increased external finance, is a measure of the extent to which the problems require bold action of a kind which cannot be taken at the national level alone.

2.8 While the present problems of protectionism and debt are closely related to the recession, they should not be seen necessarily as temporary. Not only do they pose a serious potential threat to the whole international economic system, but the persistence of the recession, which is responsible for their exacerbation, is an indication of a serious malfunctioning of that system. Even if the long-awaited recovery were soon to emerge, there are great uncertainties about its strength, about whether it would be sustained and about whether it could make any substantial impact on structural unemployment in developed countries. And without a strong recovery even less impact than in the past will be made in helping to eradicate poverty in the Third World.

2.9 The difficulties created for developing countries by inadequate resource transfers, declining terms of trade, deteriorating market access and increased debt servicing payments serve to highlight the extent to which development in the South is dependent on the restoration of strong and sustained economic growth in the North. What is not, however, always clearly understood or fully appreciated is that, in an interdependent world, the problems of the South, if allowed to remain unresolved, could seriously rebound on the North itself. On the other hand, accelerated progress in the South could make a very significant contribution to a sustained recovery in the North. There seems to remain a wide gap between the reality and the perception of the extent to which the economies of the world have become interdependent.

## **Interdependence and International Cooperation**

2.10 The growth of interdependence is attested by the fact that for most of the post-war period world trade expanded about twice as fast as world output. While all countries, developed and developing, benefited from this process, certain developments in the 1970s further deepened North-South linkages and helped to highlight them. The increased leverage of OPEC underlined the dependence of the North on the South for supplies of its most essential and strategic commodity. The sharp rise in earnings from oil and manufactured exports by some developing countries and the large-scale recycling of the OPEC surpluses encouraged expanded trade and deepened economic relationships between North and South. It is now well documented that the continuing growth of imports by the South, assisted by the capital recycling process, greatly helped to prevent an even more severe recession in the North.

2.11 The proportion of exports of manufactures from the developed countries which goes to the developing countries now exceeds a quarter compared with under a fifth ten years ago. Developing countries now take more than a third of the manufactured exports of the EEC and the United States and nearly a half of those of Japan. In 1981 it was the markets of the South which accounted for three-quarters of the increase in world trade in these products. The South, moreover, provides a market for a flow of exports from Northern manufacturers which is four times the flow in the opposite direction.

2.12 But if the importance of each side to the other is substantial for trade in manufactures, it is critical for trade in primary and processed products. Primary producers in the South depend on Northern markets for by far the largest proportion of their foreign exchange receipts; consumers and manufacturers in the North depend on Southern producers for supplies of a wide range of commodities, some of which, like oil and some metals, are of strategic value to the economies concerned. An important aspect of this interdependence is that, while the prevailing low prices for commodities are naturally having a severe adverse effect on the economies of the developing countries, and have reduced the flow of investment for resource exploration and development, they have also important implications for the countries of the North, particularly in terms of the long-term adequacy of supplies of important raw materials.

2.13 International trade and capital flows are two of the most important strands in the web of economic ties and mutual interests that link nations together. A break in one has repercussions on the other: for example, increased protectionism by the North reduces exports by the

South and thereby lowers not only its incomes but also its debt servicing capacity. This, in turn, weakens the international financial and monetary system on which both the North and the South must depend to provide a stable and favourable economic environment. Both North and South have an interest in seeing that the problems arising from the rapid growth of debt service obligations are kept under control and wide-spread economic collapse in developing countries avoided. The financial difficulties of the South could have a cumulative effect on the world economy as a whole and, in particular, hurt the exporters of the North, thus aggravating further the protectionist tendencies in the latter. Interdependence has also other strands. Some, such as population, have consequences for the long-term adequacy of resources and others, such as industrial development or deforestation, have implications for the protection of the environment.

2.14 Increasing interdependence calls for cooperative efforts to facilitate progress and promote stability. It necessitates greater coordination of domestic policies and joint international action, notably shared management of the international system and more attention to devising rules to govern the deepening relationships between countries. One example of the many new calls on the international system is the increasing need for regulation of the use of the international commons. Without a cooperative approach in an interdependent world, the risks for all from uncoordinated action by a few would be increased.

2.15 The world economic crisis, we are convinced, is largely a consequence of the growing and unrealised need for improved policies for global management. In their absence, nations are turning inwards for solutions to economic problems which have substantial international dimensions. We have pointed to a number of problems which are becoming more insistent and whose solution calls for bolder international action — protectionism, structural adjustment, international debt, balance of payments adjustment, investment in resource exploration and development, population expansion, and endemic and extensive poverty in the poorest countries. In order both to accelerate the development of the poorer countries and to promote greater harmony in relations between nations, development of a new and purposeful internationalism is essential. This is, of course, essentially a matter of political will and changing attitudes. But the experience of the North-South negotiations indicates also that changes in international mechanisms and negotiating processes are vital for the development of this new internationalism.

### **Evolution of North-South Negotiations**

2.16 The need to eliminate poverty and reduce fundamental

inequalities in income, trade, technology and finance through accelerated development has been the basis for the Third World demand for a New International Economic Order and the focus for the North-South negotiations. As the North-South negotiations evolved over several decades, the North, while remaining generally receptive to calls for facilitating development, has resisted reform and fundamental changes in the system. The resulting impasse in the negotiations can, perhaps, best be understood by looking at their evolution.

2.17 In the early post-war period, the establishment of the Bretton Woods institutions — the International Bank for Reconstruction and Development (IBRD) or World Bank and the International Monetary Fund (IMF) — represented a major achievement for internationalism. They promoted international solutions to national economic problems and embodied multilaterally agreed rules for international economic relations. This approach was extended to the area of trade relations through the establishment of the General Agreement on Tariffs and Trade (GATT), even though the Agreement was much less comprehensive than the original proposals for the International Trade Organisation (ITO). Naturally, these institutions and arrangements reflected the political and economic realities of the time and their establishment did not involve the developing countries to any significant extent.

2.18 As the post-war reconstruction was successfully completed, however, attention shifted, at least in the World Bank, to the longer-term task of the development of the poorer countries. For a number of reasons, ranging from humanitarian concern to power political considerations in the context of the cold war, most of the major western industrialised countries also began to adopt national programmes of assistance. While in historical terms these programmes represented an unprecedentedly enlightened approach to the problems of others, they did not involve negotiations with the recipients, in the sense that the parties concerned sought to agree on mutual needs and obligations. In the North-South context, as that phrase is now understood, this was a period of 'non-negotiation', of essentially unilateral action by the developed countries, even though development had emerged as an important preoccupation for national policy in both the developed and developing countries. This period also saw the establishment of the UN regional economic commissions and the UN technical assistance programme, mainly in response to the developing countries' initial attempts to voice their own concerns and interests.

2.19 It was perhaps in the mid-1950s, particularly at the Afro-Asian Conference in Bandung, Indonesia, that the first seeds were sown for a new type of relationship between developed and developing countries,

and for the conceptualising of two separate groups which eventually came to be known as 'North' and 'South'. The acceleration of the decolonisation process in the late 1950s and early 1960s, which led to more than one hundred new sovereign nations coming into existence, together with equally dramatic developments in the fields of communication, transport, trade and capital movements during the increasingly prosperous post-war years, served to underline the need for more multilateral mechanisms for international negotiation. The Third World began to establish institutional arrangements of its own: the Organisation of Petroleum Exporting Countries (OPEC, 1960), the Non-Aligned Movement (1961), the Organisation of African Unity (OAU, 1963) and the Group of 77 (1963). These were intended to organise and structure both relations between the Third World countries themselves and their relations with the developed world. They, together with the earlier regional commissions of the UN, were to provide a framework for much of the diplomatic and political activity of the South in its relations with the North. Each embodied, to a greater or lesser extent, the principles which have shaped the South's approach subsequently: commitment to group action; acceptance of the sovereign equality of members and of consensus as the preferred basis of decision-making; and utilisation of numbers to take advantage of the quasi-democratic nature of the UN system.

2.20 This was thus a 'preparatory phase' in the long evolution of the North-South negotiations, particularly as far as the South was concerned. Developed countries, preoccupied with their own internal affairs and with East-West relations and tending to see decolonisation as an end rather than a beginning, were generally slow to realise the fundamental changes that were taking place in both the political and economic arenas. It is true that some initiatives of considerable benefit to developing countries — including the establishment of the International Finance Corporation (1956) and International Development Association (1960) — commanded the general support of the developed countries. These, however, did not give any significant scope for the participation of the new countries of the South in international affairs, as actors concerned to shape their own future. There was an increased feeling in the Third World that developing countries were not sharing sufficiently in the fruits of the world's increased prosperity; more particularly, it was recognised that the terms on which they were participating in the expanding world trade had deteriorated markedly during the 1950s. This preparatory phase thus culminated in a call for a United Nations conference on trade and development. A resolution to this effect was passed by the UN General Assembly in 1962, despite opposition from the major industrialised countries. The result was the first United Nations Conference on Trade and Development (UNCTAD I, Geneva 1964), which saw the need,

inter alia, for a “very tenacious campaign to stabilise and increase the developing countries’ income from primary commodities, to expand their exports of manufactured goods and to make more capital available for development programmes”.

2.21 The convening of UNCTAD I heralded what might now be called an era of relatively ‘insistent persuasion and marginal results’ which was subsequently to fuel the frustrations of the South and led to demands for ever more far-reaching changes in the international economic system. Criticisms at UNCTAD I of the GATT’s inadequate response to the needs of developing countries led in 1965-66 to the addition to the GATT of a section (Part IV) dealing specifically with the trading problems of these countries. Later, at UNCTAD II (New Delhi, 1968), a resolution was passed clearing the way for the establishment of a Generalised System of Preferences (GSP) for Third World exports to developed countries. Later, as world economic conditions deteriorated, no significant results were achieved at UNCTAD III (Santiago, 1972) with regard to the main issues considered at the Conference. Meanwhile, attention had shifted to the aftermath of the dollar crisis of 1971 and the abandonment of the Bretton Woods system of fixed exchange rates, and to international monetary reform which came to the fore of the international economic discussions. The establishment of the IMF Committee of Twenty in 1972, with the participation of both developed and developing country representatives, and the fact that the Committee was able to reach a large measure of consensus represented one of the more constructive phases of the North-South negotiations, even though the conclusions reached were not subsequently implemented to any large extent.

2.22 After almost a decade of attempts at negotiating specific and relatively limited areas and aspects of North-South relations, a ‘great challenge’ was launched by the South in 1973, when the fourth summit meeting of the Non-Aligned Conference (Algiers, 1973) outlined the basic conceptual framework of the New International Economic Order (NIEO) and the OPEC quadrupled oil prices. The price of oil was the main preoccupation of the industrialised countries as they entered the UNGA’s Sixth Special Session (New York, 1974). But the developing countries insisted on linkage — that energy should be discussed in a broader context, encompassing other crucial development issues of concern to them. After a debate whose tone was generally acrimonious, and with most developed countries expressing a large number of reservations, the Session adopted, without vote, a Declaration and Programme of Action on an NIEO. Later the same year the UNGA adopted by majority vote a Charter of Economic Rights and Duties of States which spelled out 15 ‘fundamental’ principles of international relations.

2.23 The continued concern of the developed countries with energy supply and prices and the insistence of the OPEC and other developing countries that energy issues be discussed as part of wider negotiations led to some reassessment on the part of the developed countries of their position with regard to North-South issues after the Sixth Special Session. They adopted a more conciliatory approach, at least to the extent that specific issues (including their own concerns such as the new energy situation), as distinct from the economic system as a whole, were to be negotiated. This was evidenced by the more constructive discussions at the UNGA's Seventh Special Session (1975) and the agreement reached at UNCTAD IV (Nairobi, 1976) to launch a series of negotiations to establish an Integrated Programme for Commodities. Agreement was also reached to hold a special negotiating Conference on International Economic Cooperation (CIEC, Paris, 1975-77). Participation at the Conference was restricted to 27 countries: 19 from the Third World (of which 7 were OPEC members) and 8 developed market economies. The Conference discussed a wide agenda — raw materials, trade, development, money and finance as well as energy — and, although it ended without significant tangible results, it was an important event in the evolution of the North-South negotiations.

2.24 Later, as the impact of OPEC action eased and the North became increasingly concerned with inward-looking solutions to the emerging problems of sluggish growth and recession, it adopted an increasingly negative attitude in a number of negotiations which became protracted without yielding any significant practical results. There were however a few exceptions, e.g. the agreement on Official Debt Relief (UNCTAD, Geneva, 1978). The last UNCTAD (Manila, 1979) was particularly barren of results. In fact, even the negotiations which did not involve the South to any great extent, e.g. the Multilateral Trade Negotiations (GATT, 1973-79), encountered delays and major obstacles during this period.

2.25 In consequence, the fifth summit of the Non-Aligned Conference (Havana, 1979) called for a new round of negotiations that would encompass all the major issues of the North-South dialogue. Later that year, the thirty-fourth session of the UNGA decided by consensus to "launch at its special session in 1980 a round of global and sustained negotiations on international economic cooperation for development", and set out as major agenda items issues in the fields of raw materials, energy, trade, development, and money and finance. It also decided that the negotiations should be action-oriented, should ensure a coherent and integrated approach to the issues under negotiation, and should take place simultaneously within the UN system. It further decided that the Committee of the Whole of the UNGA should act as the preparatory body for the Global Negotiations and prepare and

submit recommendations on the procedures, time-frame and detailed agenda to the Eleventh Special Session. The Negotiations were given added impetus by the Report of the Brandt Commission, published in early 1980, but the Session could not reach agreement on procedural matters. The regular sessions of the UNGA in 1980 and 1981 also failed in this respect, as did the selective North-South Summit held at Cancun, Mexico, which was specially concerned with this problem.

2.26 The present impasse or stalemate in the North-South dialogue is largely concerned, at least in procedural terms, with the precise role of the central organ of the conference in relation to the issues which come under the competence of the specialised agencies, particularly the IMF and the World Bank. While many important issues of substance lie behind the procedural difficulties, the latter will have to be overcome if discussions on the former are to be undertaken as agreed. It should certainly not be beyond the ingenuity of the parties concerned to find a satisfactory formula that would at least permit the substantive negotiations to commence. In this connection it is our hope that the opportunities presented by the forthcoming meetings concerned with North-South issues will not be missed. The thirty-seventh regular session of the UNGA must overcome the procedural difficulties and launch the Global Negotiations. At the GATT Ministerial Meeting (Geneva, November 1982) and at UNCTAD VI (Belgrade, June 1983) assiduous efforts should be made to put relations between developed and developing countries on to a new and more constructive path.

### **Form of North-South Negotiations**

2.27 Before attempting an evaluation of the results achieved so far, it might be of interest to note that the form of negotiations and the forums in which they were conducted, have had an important bearing on the outcome. The institutional developments and changes in the form of negotiations during the post-war period are of considerable significance for the future of the North-South negotiations.

2.28 Basically a struggle has been taking place between two different concepts of international negotiations. The South favours a universal, multilateral system of public negotiation which gives due recognition to the weight of numbers. It wants comprehensive negotiations dealing with packages of issues and giving full weight to the linkages between them. It believes that needs, equality and redistributive justice, rather than power, should be the criteria adopted. The North, on the other hand, favours traditional bilateral forms of negotiations or those involving limited participation, and views multilateral diplomacy in the North-South context sceptically, both on technical and political grounds. It prefers negotiations which are specific and issue-oriented. It

believes that economic power and responsibility for the implementation of decisions must be fully reflected in the negotiations, and it has been stressing technical soundness in considering proposals. In this situation, neither side is able to prevail entirely and the outcome is a compromise which attempts to fit together bits of each approach in a way which reflects political realities more than rational consistency. The North-South dialogue is largely about what the precise nature of this compromise should be.

2.29 The developed countries have on the whole preferred substantive negotiations on many economic issues to take place as far as possible within those forums where they exercise an overriding influence and control, either through weighted voting, as in the IMF and the World Bank, or through the nature of the operating procedures, as in the GATT. However, a number of changes have taken place in these institutions over a period of time which constrain to some extent the effect of the North's preponderant position. While the developed countries still hold a majority of the votes in the Bank and the Fund, there has been some gradual dilution of their preponderance and, in any case, the practice of taking decisions by consensus has been ameliorative. Similarly, while the GATT practice of bargaining, on a bilateral or plurilateral basis, reciprocal concessions to be extended multilaterally has meant that the concerns of the developed countries have continued to dominate that institution, in recent years greater attention has been paid to the difficulties of the developing countries.

2.30 The changes in the Bretton Woods institutions, however, have not been swift enough or sufficiently far reaching to modify the preference of developing countries for holding negotiations within the UNGA and its subsidiary bodies, especially UNCTAD, over which they have greater influence. The South had intended UNCTAD to be largely a negotiating forum, but resistance by the North meant that in its early years it was largely deliberative. However, as certain subjects were not within the mandate of any other institution or forum, they were first discussed and subsequently negotiated at UNCTAD. The Integrated Programme for Commodities may be the most notable example, but there have been many others, including trade preferences (GSP), shipping, technology transfer and restrictive business practices. In some areas, nevertheless, notably finance, developed countries have been especially concerned to limit UNCTAD to a largely deliberative role.

2.31 As already mentioned, it is critically important that early agreement is reached on the role of the Bretton Woods institutions in the context of the Global Round if the present impasse in the North-South negotiations is to be overcome. At the same time, it has to be recognised that other negotiating forums also need to be improved

and strengthened considerably in order to realise the full potential of the North-South negotiations. In particular, the regular and special sessions of the UNGA, which have dealt with general measures of international economic cooperation for development, have been largely deliberative, and usually have led only to agreement to hold further discussions. Examples of practical decisions which have led to later implementation, such as the Seventh Special Session's decision to establish an International Emergency Food Reserve, have been few. There is also much duplication and overlap in the plethora of institutions in which North-South issues are at present discussed and negotiated. This is to some extent unavoidable and not wholly without positive effects; but it is also the cause of many impediments to the dialogue, a matter to which we return in Section 3 below.