

### Lecture:

It was hoped that the end of the Cold War would result in an international peace dividend that would release funds spent on armaments to the economic development of developing states in the Third world. The bulk of the world's population of over 6 billion resides in the Third World. Much of this population lives an existence of abject poverty, poor health (as the [HIV/AIDS](#) pandemic is sweeping across much of sub-Saharan Africa) wreaking havoc on the efforts of the [least developed states](#) of world society to attain the goal of economic modernization. 600 million people live in 49 states that have been classified as the least developed of the developing countries. They live in a condition in which their basic human needs, such as food security and adequate housing, are not satisfied.

In the developing world as a whole, it is estimated that about 1 billion people live in a state of abject poverty, trying to survive on less than a dollar a day. The goal of the United Nations and other elements of the international community is to cut the number of people living in poverty to one-half by 2015.

The central question is how this can be achieved, since it is generally considered that there are two fundamental models that can be followed by a state that seeks to economically modernize and satisfy the basic needs of its population. One model is for states to modernize through their own internal efforts by mobilizing their own resources. The other model is to rely on aid from the international community.

### Take-Off

The critical question then, is one of determining the appropriate strategy for economic development in an age of globalization. Some developing states have been able to make the economic transition successfully, and have undergone a "take-off" stage, moving from being a pre-industrial, agrarian society to becoming a semi-industrialized or even industrialized society. Some developing countries, especially those that have been dubbed Newly Industrialized Countries (the East Asian "tigers" such as Hong Kong, Singapore, Taiwan, and South Korea as well as Brazil) have increased their GNP per capita and moved into the range of middle level income countries. These are examples of countries that have moved from the periphery of the world economic system upward into the ranks of semi-peripheral states, or even core industrialized states.

However, as we enter the New Millennium, it would seem that most developing states are not benefiting from the positive aspects of globalization, and indeed are being left out of the process and marginalized as globalization continues. Globalization is resulting in a widening of the income gap which separates the developed from the developing states.

### The Legacy of Colonialism

Economic modernization is considered to be a desirable goal by most developing countries. Developing countries (which do not form a cohesive, uniform bloc, but which differ greatly from one another in terms of level of economic development) have pursued a number of different strategies since the end of the era of colonialism in their efforts to join the ranks of the



industrialized world. However, a number of developing countries believe that their efforts to do so are path dependent, because they cannot break free from the legacy of their colonial past, even though a number of them have been independent for four decades.

The concept of Wilsonian self-determination and nationalism, combined with the exhaustion of colonial powers such as the United Kingdom at the end of the Second World War, resulted in the rapid decolonization of their empires, and the emergence of scores of newly independent states in the Third World.

Advanced, industrialized states in the West took the position that the newly emerging states of the Third World should follow the Western, capitalist model of economic development. On the other hand, during the Cold War, as the East and West battled for influence in the Third World, a number of developing states rejected the Western capitalist model of economic development, and opted instead for the socialist model, which was based on the predominant role of the state and public sector in planning and regulating the economy.

### **Dependency Theory**

Furthermore, **dependency theorists** argued that developing societies may have achieved nominal political independence, but were still economically dependent on their former colonial rulers, or the multinational corporations of advanced industrial societies which still practiced a form of neo-colonialism. Dependency theory, which represents a neo-Marxist approach to international relations, argues that in the world economic system, developing countries have been relegated to the periphery or semi-periphery of the industrialized core of world society. According to this theory, multinational corporations from developed states exploit the raw materials and cheap labor of developing societies. The multinationals also maintain their influence in the host states by forming alliances with local political elites, who benefit economically from this arrangement.

### **Commodities**

Dependency theorists also argue that developing countries are not provided with an [equitable](#) opportunity to participate on an equal basis with the advanced, industrialized states in the world economic system. For example, a number of developing countries rely on earning hard currency (such as dollars, marks, and yen) through the exportation of commodities to the world market. In some cases, a developing country may possess only a single commodity which can be exported abroad. Commodities are subject to the vagaries of natural disasters, as killer hurricanes can wipe out banana crops in Central America, or insects can destroy a crop in an African state. Commodities are subject to volatile price fluctuations, and generally, the price of commodities has been dropping over the past several decades. At the same time, developing countries must pay more, dependency theorists argue, for the importation of manufactured and semi-manufactured products.

### **The New International Economic Order**

Consequently, in the 1970s, at the United Nations and other international fora, the developing countries, called for the creation of a New International Economic Order.

### **The Oil Shocks**



The demand for a New International Economic Order had been stimulated by the success which OPEC (the Organization of Petroleum Exporting Countries) had experienced in increasing the price of a barrel of oil in 1973. This was the first of two oil shocks which reverberated throughout the international economy in the 1970s. The second oil price hike occurred in 1979, following the Iranian Revolution.

In 1973, the price of a barrel of oil was increased about 400%. The result was a massive transfer of capital from the industrialized states to the oil producing countries. This led the developing countries to conclude that other commodity based cartels could be successfully formed, modelled along the lines of OPEC. Consequently, the cry went up in the developing world to form one, two, many OPECs. Connected to this was the drive to gain recognition of the principle that developing states had national sovereignty over their natural resources, as an integral component of the New International Economic Order.

The demand for the creation of a New International Economic Order was nothing less than a call for the radical restructuring of the entire world economic system. This demand for economic justice was also based on a moral or ethical argument that Western powers were obligated, in a sense, to repay the developing countries reparations, for the centuries of exploitation that they had been subjected to during the colonial era. The demand for a New International Economic Order called for the massive transfer of wealth from the industrialized core of world society to the developing states.

### **Charter on the Economic Rights and Duties of States**

A special session of the United Nations was held in 1974, in which a Charter on the Economic Rights and Duties of States was adopted. The Charter took the form of a UN General Assembly Resolution, but in a sense, amounted to a massive informal amendment of the original Charter of the UN itself. It was clear that the developing countries wanted to transform the UN, that had been created by mostly Western states in 1945, into a kind of World Development Authority that would oversee the construction of the New International Economic Order.

The UN Charter on the Economic Rights and Duties of States recognized the principle of the national sovereignty of the developing states over their natural resources, called for providing developing countries with preferential access to the markets of the developed states, called for the elaboration of a code of conduct to govern the transfer of technology from the North to the South, and called for the creation of international commodity price support funds. The demand for the creation of a new international economic order, also called for a massive industrial redeployment which would result in the relocation of 25% of the world's manufacturing capacity from the North to the South or the developing world.

The demand for the creation of a new international economic order was made within the context of the Cold War, and was supported by the Soviet Union. However, the Soviets disavowed any responsibility to contribute to the NIEO (New International Economic Order), since they argued that they never had been colonial powers anyway.

However, the demand to construct a New International Economic Order, failed. The Western, industrialized countries argued that they had no responsibility to pay reparations to expunge their colonial past. Moreover, the West rejected the call for an NIEO, because it smacked of statist planning on a grand, international scale, a strategy which was anathema to the Reagan



administration in the 1980s. Consequently, what ensued was a "dialogue of the deaf", in which neither side listened to the other.

### **The External Debt Problem**

Furthermore, the 1980s emerged as a lost decade because the energies of the developing countries were absorbed with the problem of paying off the enormous external debt which they owed to Western commercial banks and governments. The roots of the external debt crisis lay in the oil price hikes which shook up the international economic system in the 1970s.

This resulted in a recycling of dollars and hard currency. Dollars flowed to the oil producing countries, which then were recycled back to Western banks for investment. The Western banks in turn made a number of risky loans to governments in the Third World. The developing countries which had borrowed heavily from the West discovered that they could not generate enough hard currency from their exports, to pay off the interest, let alone the principal which they owed. Furthermore, much of the money that had been loaned to the developing states had been squandered and siphoned off by corrupt elites.

There was a fear that the entire international financial system would crash. However, a number of ingenious schemes, involving buy-backs of debts at a percentage of their real value, renegotiating debts on more favorable terms with more time to repay, and the Brady bond plan, prevented the collapse of the international financial system. The point is that the developing countries did not have enough capital to invest in their own economic modernization because the need to repay their external debts absorbed the hard currency earnings derived from their exports.

### **Sustainable Development**

The failure to create a New International Economic Order resulted in a new strategy by developing countries. Environmental protection was linked to economic aid to create the approach known as **sustainable development**. This approach emerged at a UN Conference on Environment and Development which met in Brazil in 1992. The developing countries took the position that they could not really afford to meet the rigid environmental standards demanded by the West, because that would constrain their efforts at economic development.

At the Rio conference, a massive blueprint, known as Agenda 21, was adopted which called for multi-billion dollar economic aid for the developing world in return for its support for the adoption of international environmental protection treaties. In return, the developing countries would promote sustainable development. Another words, their economic development would be undertaken in a fashion that would ensure the protection of the environment for future generations to come. However, the idea of linking Western economic aid to sustainable development has not turned out to be an effective strategy either.

### **Collapse of the Socialist Model of Development**

The decade of the 1990s also saw further changes that affected the approach of the developing countries to economic development. One of the most important changes was the collapse of the Soviet Union, which meant that the socialist model of economic development was discredited in the Third World.



More emphasis in the Third World was placed on liberal economics, the free market system, and the mobilization of domestic resources to promote economic development. It should be pointed out that an approach known as import substitution had been tried in developing countries earlier and had failed. This was based on the idea of constructing factories to produce your own goods, instead of importing them.

On the other hand, Western countries like the U.S., tended to favor the export-led growth model of economic development. A country could economically modernize by exporting manufactured products, to generate hard currency earnings which then could be reinvested in the further development of the economy. In this connection, it was better to begin with labor-intensive industries such as textiles. Until the Asian financial meltdown in 1997, the East Asian "tigers" were seen as leading examples of the export-led growth model of development.

### **Financing for Development**

However, the financial problems which some of the Asian economic "success" stories experienced in 1997, along with the Russian default in 1998, and the economic problems which Brazil experienced at that time, resulted in a new approach to development. This is called for Financing for Development.

The basic theme of this approach is that international financial institutions such as the International Monetary Fund and the World Bank, as well as the World Trade Organization, should play a more important role in helping Third World countries develop. This approach is also linked to the need to reform the international financial architecture, following the financial shocks that took place in 1997 and 1998.

This approach emphasizes that developing countries should also take more responsibility for promoting their own economic development by mobilizing their domestic resources themselves, in which the state should involve civil society and the private sector in the process. The developing countries themselves have the responsibility to create the conditions that will attract foreign investment by reducing corruption, practicing good governance (such as following the rule of law) and creating a coherent investment environment that will attract FDI (Foreign Direct Investment).

Since the end of the Cold War, there has been a marked increase in the flow of private capital to the developing countries (although just a small number of developing countries like China attract the lion's share of the capital), while at the same time there has been a reduction in ODA (Official Development Assistance). There should be a reversal of this trend, so that industrialized states will meet the target of providing 0.7% of their GNP (Gross National Product) for ODA. This is important because ODA is the only source of external aid for some developing countries. Finally, given that globalization is pushing some developing countries to the periphery of the world economic system, the industrialized countries should provide the Third World with greater access to their markets on more preferential terms.