As South Confronts North

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One way of looking at nations involved in the North-South confrontation is to group them as aid-givers (the industrialized rich nations) and aid-receivers (the poor Third World). Of course it is more complicated than this. Some countries of the Third World group, the Middle East oil states, are extremely rich. These played a special role in heating up the confrontation. Even among the others, not all are equally poor, but the distinction between aid-givers and aid-receivers is generally true. In fact, a great deal of the dialogue between the two groups is about how the North can more effectively assist the South in its desperate struggle to escape poverty.

There are some curious features in the confrontation. The unpopularity of individual northern countries seems to vary in direct proportion to the amount of aid they give. Conversely, some of the most hostile, or at least most vocally hostile, among the Third World are the largest recipients of aid.

Nor is this apparently perverse outcome of aid-giving confined to the non-Communist states. The Soviet Union was the sole provider of financial and technical assistance to the People's Republic of China from its foundation in 1949 until 1960. Today China is the implacable enemy of the USSR. Egypt received enormous supplies of military hardware and some economic assistance from the Russians. It has not been a happy experience for the Russians.

Then we have the odd case of Switzerland. The Swiss offer no aid to anybody, although they have the strongest currency and are one of the richest countries in Europe. What is more, their system of secret bank accounts is believed to be patronized widely by corrupt politicians and officials and nervous businessmen of the Third World, thereby creating a reverse flow of capital from poor to rich. Switzerland has done all this without incurring the rancor of any poor country.

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Today there is disenchantment on both sides. The North-South dialogue is often marked by public acrimony, and there does not seem to be much hope of an early resolution of differences. What has gone wrong? Clearly, many things. Here we shall confine ourselves mainly to the economic aspects of the subject. Though for a complete explanation we need to look at other fields, it is a good starting point. For the whole object of aid is to assist countries of the Third World to achieve economic growth at a faster pace and with less hardship than would otherwise be possible.

Twenty-five years ago Third World countries were emerging into independence by the score. There was a mood of confidence, even euphoria, that free of colonial rule people everywhere would march forward rapidly to achieve the material progress and social advance that had been denied them under colonial rule. On September 25, 1961, the President of the United States, addressing the U.N. Assembly, proclaimed the 1960's as the U.N. Decade of Development.

The reasoning that supported such beliefs, if simplistic, is by no means faulty. The main arguments rested on the following propositions. Poverty is the result of ignorance, which prevents the use of improved working methods in farms, industries, transportation, and other spheres of economic activity. Knowledge of how to do things better exists and can be obtained through learning or by engaging foreign experts. Vanquishing poverty and achieving the better life is largely a matter of applying knowledge and techniques already in use in other parts of the world, suitably adjusted to local circumstances. It is accepted that this will take time and effort. It is also true that the application of scientific methods to production requires not only trained personnel but also capital equipment, which would have to be imported in nearly all cases. This is the rationale for foreign assistance both in regard to the flow of funds and the supply of technical assistance.

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It seemed in those early years that all a poor country need was to use its resources judiciously, establish training and educational institutions to promote technical and scientific knowledge among its nationals, and in general encourage new and improved methods of production. The ferment of capital funds and technical knowhow would increase output progressively and thereby raise living standards, slowly at first, but with gathering momentum.

Except for a few countries, things have not worked out this way. Why the failure? Despite enormous research, unending conferences, and a vast proliferation of literature, no consensus has emerged among economists as to why Third World countries have generally failed to take off into self-sustaining growth. But there is no questioning the dire troubles in which the poorest of them find themselves.

In his 1973 address to the World Bank meeting, Robert McNamara stated that the poorest of these countries had a total population of 1,000 million. In the four years preceding 1973 the increase in their per capita income was a miserable 0.5 per cent a year. Since the oil crisis, decreases have set them back to the starting point. If capital flows in the rest of this decade could be sustained at past rates, these countries will achieve in the present decade an annual increase in per capita income of 0.2 per cent.

The foreign aid received by Third World countries has increased the burden of debt service payments—interest and capital repayments. The World Bank estimates that in seven countries debt service payments used up more than 20 per cent of total foreign exchange earnings in 1973. Another five countries spent between 15 per cent and 20 per cent of foreign exchange earnings on debt service payments, while another thirty devoted 10 per cent to 15 per cent on these payments. It goes without saying that the growth rate of annual debt service payments far exceeds the rate of GNP or of export earnings.

It was while in such a desperate condition that these countries witnessed the stunning success of the OPEC cartel—a success that, in their perception, was achieved by united international political action. Until then they had worked in conferences between the rich and poor in various international forums—in UNCTAD and other U.N. agencies, and in institutions like the World Bank and the International Monetary Fund. Limited and grudging concessions were extracted from the rich, after years of apparently interminable negotiations. These stood in sharp contrast to the spectacular bonanza produced by the OPEC coup. Both of these Third World groups saw mutual advantage in joining forces. The poor thought that OPEC's strong bargaining position could be used to prize more concessions from rich countries. The OPEC states thought that the support of the largest voting group in the U.N. would lessen the risk of reprisals against them.

One result was that Third World countries became more aggressive in their dialogue with the rich. In particular, the renewed demand for a new international economic order became more insistent and the tone of righteous indignation more strident.

It is not easy, however, to see what is novel in the concept of a new international economic order, apart from the startling proposition that bankers and industrialists should be motivated by compassion and not by profit. Doubtless many problems can be resolved if businessmen become philanthropists, but nobody seriously expects this to happen. As for practical ideas, commodity price stabilization schemes have high priority. But these can hardly be called innovative. Such schemes emerged by the dozen in the aftermath of the Great Depression of the 1930's.

Then there is the proposal for the reduction of tariff and other barriers to ease the flow of manufactured goods from poor countries to the rich. The cry for free trade goes back as far as Ricardo, and even Adam Smith. As regards more aid on better terms, this is a hardy perennial. Even the proposal for a moratorium on debt, or debt cancellation—a proposal that startled the financial world—is old hat. It has many respectable precedents, including West European experience after World War I.

But even if the poor countries get what they want in aid from rich countries—to increase this to 0.7 per cent of the latter's GNPs by 1980—it is likely to leave things much as they are.

In these circumstances it is difficult to understand what the excitement is about. Although the hostile reaction among the media of rich countries and even in some academic circles is understandable, it seems to miss the real point. Harsh words like blackmail have been used. Blackmail implies a capacity to harm the victim. It is difficult to see how the poor states can harm anyone but themselves. The media now delight in projecting a new stereotype of the poor countries: They have corrupt leaders, grossly immoral inequality of wealth between rich and poor, and repressive, authoritarian governments. No doubt such strictures are by no means inaccurate in the general case, but again they miss the essential point. What is not realized is that these are not the intended results of policy, nor are they the outcome of moral depravity among poor people and their leaders. They are the usual consequence of dismal failure of economic development policies in these unhappy states.

What *is* the right thing to do? Clearly one has to distinguish between the rich and poor members of the Third World. The oil states and their cartel constitute a problem quite distinct from that of poor countries. But even here, however painful the impact of their action, the oil states cannot be accused of acting contrary to the rules of the game. Moreover, these rules cannot be changed other than by the use of force, a course of action few would care to contemplate.

As for the poor countries, aid should not be reduced or discontinued. It might help defuse the situation if less aid is supplied through bilateral arrangements between governments of poor and rich countries and more of it channeled through international agencies of the U.N. set up for this purpose—the World Bank, the IMF, and regional banks like the Asian Development Bank. The World Bank's policy is to concentrate whatever aid is available to the poorest of the poor. Further, these

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agencies have technical staffs to evaluate the feasibility of projects on which aid funds are to be spent and in this way safeguard against misuse of funds by recipient governments.

At the same time, both sides must guard against unrealistic expectations of what aid can produce. Aid proponents in rich countries sometimes speak as if it is within their dispensation to determine the success or failure of poor countries to develop. In part it is the disappointed hopes of both rich and poor countries about the effects of aid that have led to the present mutual disenchantment. All that aid can achieve, given the volume that can be expected realistically, is to prevent things from getting worse.

If we expect aid to fulfill a role no greater than that of a holding operation, we may not be disappointed. Despite its modest objectives, this is a worthwhile effort. Eventually, people find some way to learn from past mistakes and find new methods whereby modern technology and capital funds do produce the catalytic effect on backward societies that propels them forward—an objective hoped for but rarely achieved in the poor countries of the Third World. The real problem is not *what* to do—this has been argued ad nauseam—but *how* to do it. Most likely, these countries have to work out new systems of social organization to replace existing institutions that have clearly failed. But nobody knows just how this is to be done.

What can the ASEAN states—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—do to ease the confrontation between North and South? As a group the ASEAN states generally exercise a moderating influence in Third World councils at which they are present. This is hardly surprising. The ASEAN countries have consistently achieved better economic performance than the general run of Third World countries. In most of the last ten years their individual annual GNP increases ranged between 6 per cent and 14 per cent; even during the recent recession years, growth rates were maintained at between 4 per cent and 7 per cent a year. The reason for better than average performance is twofold.

First, the ASEAN states have a more favorable resource-to-population ratio than the overpopulated states of the Third World. Apart from the islands of Java and Singapore, there are vast stretches of virgin territory awaiting development. There are also important natural resources, minerals, and oil.

Second, the experience of the ASEAN states with the free enterprise system has not been an unhappy one. Private investment from abroad is widely encouraged through domestic policies on tax and other incentives. Shrill condemnations of multinational corporations are not heard among government leaders, though governments try to strike the best possible bargain with them in enterprises concerned with natural resource development. This is not an irrational attitude.

This is not to say that the ASEAN states are free of the vexatious problems afflicting other Third World countries. Nearly all of the problems are present—a backward and ignorant peasantry, urban drift leading to visible and substantial unemployment in cities, weaknesses in economic administration, inequality of wealth. In addition, the region has special problems of its own—in particular, the threat of externally assisted Communist insurgency. After the fall of Vietnam this has become a matter of concern. But these states have not been reduced to the level of despair and desperation that is apparent in the poorest of the Third World countries. This is due mainly to their superior economic performance of past years. But only the future will tell whether this cautious optimism rests on solid grounds. And whether other Third World countries can achieve such optimism.