

New Perspectives in North-South and South-South Economic Relations

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Research and Information System
for the Non-Aligned and
other Developing Countries



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New Perspectives in North-South
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Relations

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About RIS

The Research and Information System (RIS) for the Non-aligned and other Developing Countries is an autonomous body set up in New Delhi (India), with the financial support of the Government of India.

RIS is a forum for providing analytical support to the developing countries on the various international economic issues of concern to the process of their development.

Its aims and objectives, include among others, promotion of the concept of self-reliance among the non-aligned and other developing countries and forging and maintaining a system of effective links amongst the various research institutions of these countries with a view to utilise their research capabilities for the maximum common benefits. It also seeks to serve and effectively function on a continuous basis as a data bank/information storage, retrieval centre on global and regional problems bearing on the interests of non-aligned and other developing countries.



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Preface

Research and Information System for the Non-Aligned and Other Developing Countries (RIS) is an autonomous body, established with the financial support of the Government of India. Its aims and objects, among other things, include promotion of economic cooperation and "collective self-reliance" among non-aligned and other developing countries; storage and dissemination of information and data relating to diverse aspects such as trade, industrialisation, finance, energy, raw materials, technology transfer, etc. in such form and manner as to strengthen the unified position and approach of the non-aligned and other developing countries. The RIS would also foster and maintain a system of effective links among the various research organisations, information centres, experts and policy makers of the developing countries.

The RIS has initiated different types of publication series—Occasional Papers, Discussion Papers, Reprints, Digest on Current Issues and Events, etc.—with a view to generating debate on and awareness of current international economic issues among different sections of the Third World community.

This volume presents the proceedings of the seminar on New Perspectives in North-South and South-South Economic Relations organised by the RIS on 26 September 1984 in which Dr. Raul Prebisch delivered the keynote address. Dr. L.K. Jha, the then Chairman, Indian Economic Administrative Reforms Commission, presided over the seminar. The list of the participants in the seminar is given in the following page. We are pleased to release the proceedings of the seminar along with the

text of the keynote address of Dr. Raul Prebisch with the hope that this would generate wider debate on the various interesting issues raised in the keynote address and the discussions that followed.

The views expressed in this Occasional Paper are those of the participants and not necessarily those of the RIS.

V R PANCHMUKHI
Director

SEMINAR ON
NEW PERSPECTIVES IN NORTH-SOUTH
AND SOUTH-SOUTH ECONOMIC
RELATIONS HELD ON
26 SEPTEMBER 1984

LIST OF PARTICIPANTS

Prof Sunanda Sen
Centre for Economic Studies and Planning
School for Social Sciences
Jawaharlal Nehru University
New Mehruali Road
New Delhi-110067

Prof Ashok Guha
Department of International Trade and Development
School of International Studies
Jawaharlal Nehru University
New Delhi-110067

Prof Prabhat Patnayak
Chairman
Centre for Economic Studies and Planning
School of Social Sciences
Jawaharlal Nehru University
New Mehruali Road
New Delhi-110067

Shri L.K. Jha
Chairman
Committee on Financial Year
10, Janpath
New Delhi-110015

Shri K.B. Lall
Chairman
Indian Council for Research on International Economic
Relations
40 Lodhi Estate
New Delhi-110003

Dr K. Krishnamurthi
Director
Institute of Economic Growth
University Enclave
Delhi-110007

Shri S.K. Modwell
Director General
Indian Institute of Foreign Trade
Ashok Bhavan
93, Nehru Place
New Delhi-110019

Dr V.K. Pande
Indian Institute of Foreign Trade
Ashok Bhavan
93, Nehru Place
New Delhi-110019

Shri U.S. Bajpai
Director
India International Centre
40 Lodhi Estate
New Delhi-110003

Dr V.L. Rao
Research Professor
Centre for Policy Research
Dharma Marg
Chankyapuri
New Delhi-110021

Dr A.K. Sengupta
Special Secretary to the Prime Minister
PM's Secretariat
South Block
New Delhi-110001

Shri Romesh Bhandari
Secretary
Ministry of External Affairs
South Block
New Delhi

Dr S. Vardarajan
Secretary
Department of Science and Technology
Technology Bhavan
New Mehruali Road
New Delhi-110067

Shri Abid Hussain
Secretary
Ministry of Commerce
Udyog Bhavan
New Delhi

Shri I.S. Chadha
Additional Secretary
Ministry of External Affairs
South Block
New Delhi

Dr Nitin Desai
Adviser
Planning Commission
Yojana Bhavan
New Delhi

Shri T.S.R. Subramanian
Joint Secretary
Ministry of Commerce
Udyog Bhavan
New Delhi

Shri K.A. Sivaramakrishnan
Deputy Secretary
Ministry of Commerce
Udyog Bhavan
New Delhi

Dr Deepak Nayyar
Economic Adviser
Ministry of Commerce
Udyog Bhawan
New Delhi

Dr A.M. Khusro
Member
Planning Commission
Yojana Bhavan
New Delhi

Shri R.R. Pradhan
Delhi School of Economic
University of Delhi
Delhi 110007

H.E.S. Fernandez Escalante
Ambassador
Embassy of Argentina
New Delhi

H.E.L.L. Mehrotra
Ambassador
Indian Embassy
Argentina

PARTICIPANTS FROM OUTSIDE DELHI.

Dr S. Guhan
Senior Fellow
Madras Institute of Development Studies
79, Second Main Road
Gandhi Nagar
Madras-600020

Dr R.M. Honavar
Director
Institute of Financial Management and Research
30, Kothari Road
Numgambakkam
Madras-600034

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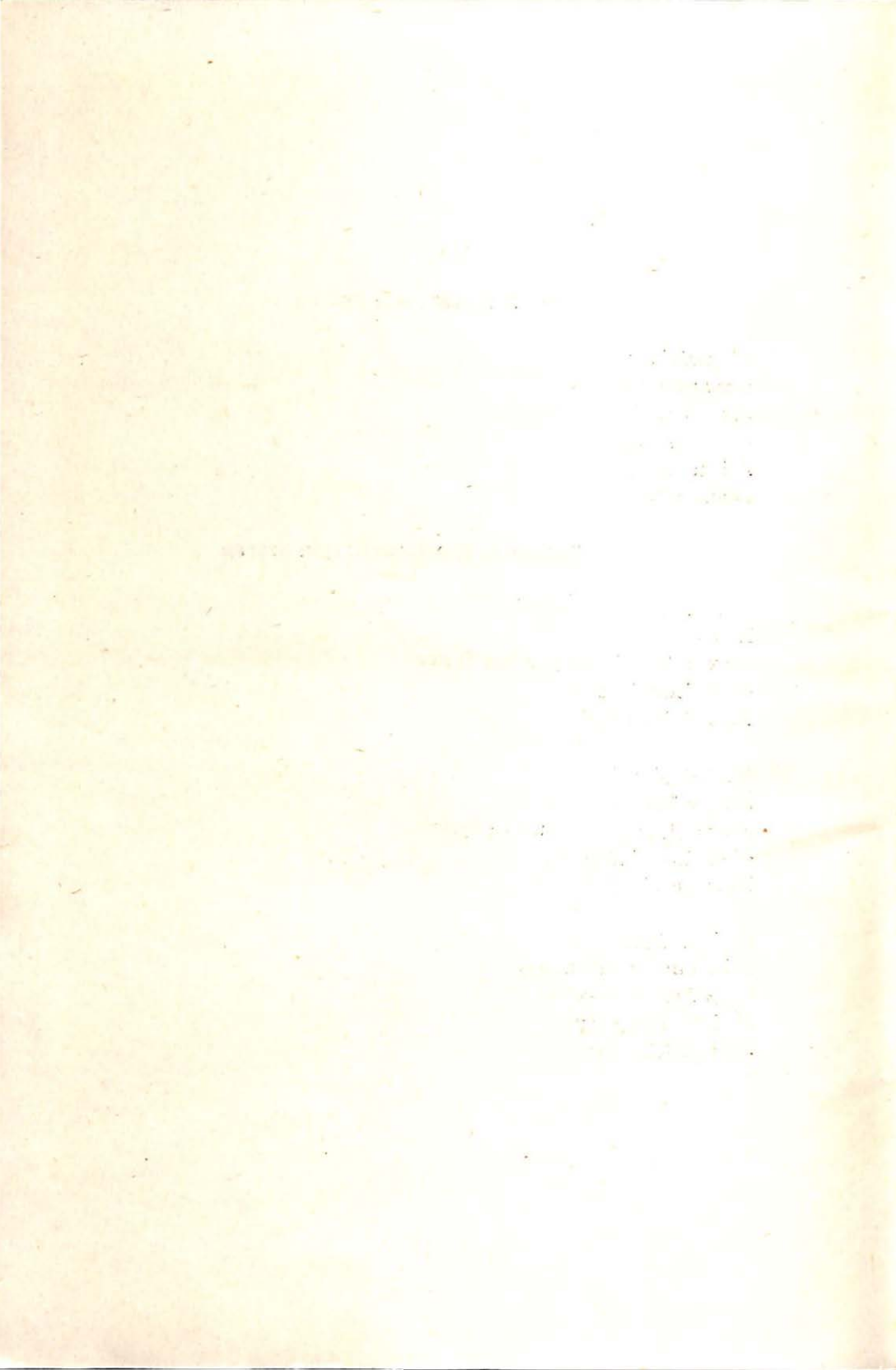
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FROM RESEARCH AND INFORMATION SYSTEM

Dr. V.R. Panchamukhi
Director
Research and Information System
40-B, Lodhi Estate
New Delhi-110003

K.M. Raipuria
Senior Fellow
Research and Information System
40-B, Lodhi Estate
New Delhi-110003

Shri C. Gururaj Rao
Miss Sonika Jethwani
Miss Savitri Vaswani
Shri Surender Kumar
Shri Tish K. Malhotra



First Session

Welcome Speech of Dr V R Panchamukhi

Your Excellency, Dr. Raul Prebisch, Shri L K Jha, and your Excellencies and friends.

On behalf of Shri G. Parthasarathi, Chairman, Prof. S. Chakravarty, Vice-Chairman and other members of the Governing Body of the Research and Information System for the Non-aligned and other Developing Countries (RIS), and also on behalf of myself and my colleagues at our Institute, I have great pleasure in extending a hearty welcome to H.E. Dr. Raul Prebisch to this seminar on "New Perspectives in North-South and South-South Economic Relations." We are indeed grateful to Your Excellency for having agreed to deliver the keynote address on this seminal topic of current interest.

I have great pleasure in welcoming the distinguished members of the Indo-Argentina Trade Delegation of which H.E. Dr Raul Prebisch is the leader.

I would also like to take this opportunity to welcome Shri L K Jha, former member of the Brandt Commission and Chairman, Economic Administration Reforms Commission, who has kindly agreed to preside over the seminar. I extend a warm welcome to all the distinguished participants from Delhi and outside, who have responded to our invitation.

For many of us in the Third World Dr Raul Prebisch is a great intellectual revolutionary of the Third World in the cause of the Third World. His revolutionary ideas and their effective revelations—to name only a few: thesis of terms of trade de-

terioration for the developing countries, centre-periphery theories, crisis of capitalism and the periphery, limitations of the market forces, etc.—have all inducted a new sense of mission and commitment in the developing world. It may not be any exaggeration if we state that the urge for NIEO and the aspirations of the Third World owe their origin to the significant innovative ideas, H.E. Dr Raul Prebisch introduced in the early sixties, as the First Secretary-General of UNCTAD. We feel extremely proud and privileged to have got the opportunity of organising this seminar with an inspiring personality like H.E. Dr Raul Prebisch as the key figure to deliver the keynote address. We are, indeed, grateful to H.E. Dr. Raul Prebisch, for having accepted our invitation.

A word or two about this new set up, RIS, I presume, Sir, may not be out of place. RIS has been set up as a follow-up of the New Delhi Summit of the NAM, held in 1983. India is one of the six coordinating countries designated by NAM for setting up a Research and Information System for the Non-aligned and Other Developing Countries—the other five coordinator countries being Mozambique, Peru, Sri Lanka, Tunisia and Yugoslavia.

The aims and objects of RIS, set up in India, as a national focal point, among the other things, include conducting research on current international economic issues, promotion of economic cooperation and collective self-reliance among the developing countries, storing and disseminating information on current events and data on trade, technology, resource endowments, growth strategies, etc. in such form and manner as would facilitate better understanding and cooperation among the developing countries.

RIS has been set up as an autonomous body, with the initiatives and financial support of the Ministry of External Affairs, Government of India and it is now about eight months old in its effective functioning. We have plans to work in close coordination with the Group of 77, UN bodies such as UNCTAD, UNIDO, ECLA, ESCAP, etc. with a view to generating operational programme and strategies in the context of fostering a New International Economic Order. We have taken initiatives to develop a system of network with a large number of research

institutions and experts all over the world. We are, in particular, greatly interested to have close rapport with the experts and institutions in the Latin American world, as we feel that there is lot of scope for exchanging our experiences and thoughts on theory and practice and also that there is commonness of purpose. The tasks set before RIS are quite challenging, but we do hope that with the inspiration and encouragement of leading personalities like Your Excellency, we will be able to break new paths and introduce innovative ideas to fulfill our aims and objects.

Without taking much of your time, I once again extend our hearty welcome to Your Excellency and all the distinguished participants to the seminar. May I now request Shri L K Jha to kindly preside over the seminar and conduct the same. Thank you Sir.

Introductory Remarks by Dr L K Jha

Let me begin by my word of welcome to our distinguished guest Dr Raul Prebisch whom I would like to refer to as old friend, though he never gets old, and so it would be very difficult to use that phrase in respect of him.

I do not think that I need to say much in introducing Dr Raul Prebisch because you all know his background of tremendous achievements. I think the UNCTAD, of which he was the first Secretary-General grew to be what it is, mainly, if not exclusively, due to his able guidance and stewardship. In the Economic Commission for Latin America he was again a father-figure. In promoting free trade agreements in South America and the Caribbeans and in Latin America, again, he has played a leading role. Time and again, in international gatherings his guidance has been sought because everyone knows that when he speaks, what he says, comes from a fund of wisdom in which economic analysis and an appreciation of the grim realities of the world of today go hand in hand to produce constructive ideas for cooperation and development. The last time when I had the pleasure of working with him was when the FAO called a conference on World Food Day a couples of years ago. Immediately he was chosen to be the Chairman as soon he arrived and then he made me chairman of the drafting committee in order that he could join that committee as a member

and prepare the final draft, which he did and it was carried out without difficulty.

Dr Raul Prebisch

Thanks to you.

L.K. Jha

In purely theoretical terms, in the field of international trade, he has given expression, an analysis, to the problems of trade as they afflict developing countries and that now famous "Prebisch Hypothesis" which was the starting point of so many new initiatives.

Lately, he has been speaking of the second crisis of capitalism. He did so on the occasion of the Jawaharlal Nehru Award for Peace and International Friendship which he got here; again when he got the Third World Prize, as well as in other forums, including when he was called upon to deliver the Raul Prebisch Lecture organised by the UNCTAD, he expanded on this theme. It is great honour to a man that a lecture was organised in his honour by an institution of which he had been the founding father.

I do not want to speak about this second crisis because he may be developing the theme much better himself. But he relates it to the first crisis which resulted in the Great Depression of the thirties when Keynes came up with some ideas to deal with that situation but did so within the parameters of a national society, the British colonies being for him, in a sense, the world. Since then, events have been a new phase.

High productivity in the developed countries with their technology has not just led to prosperity, it has also led to unemployment. Inflation has been widespread. And it has also led to a new kind of world monetary crisis which we are witnessing today, characterised by the indebtedness of developing countries a fact which is much commented upon. But the fact is that the United States of America itself has been a very heavy borrower, financing its deficit by drawing upon the capital resources of the rest of the world. This kind of a situation is, indeed, one of grave danger and the noises that we get from Washington—and I am referring to the meetings going on currently of the World Bank and the International Monetary Fund—do not give much

encouragement or hope. In such a situation, we are fortunate to have Dr Prebisch speak to us and to inaugurate this seminar.

I regret to say that owing to his pressing engagements he will have to leave us around 11:30 a.m. or so. We shall not have the benefit of having him participate in the discussion later on. I would therefore suggest that the participants who want to put questions to him may put them down in writing and pass them on to me in advance so that after he has spoken he may attempt to address to as many of them as possible.

Having said all this, I do not want to delay his speech or encroach upon the limited time for which we have him with us. Dr.Prebisch.

Keynote Address by Dr Raul Prebisch

Thank you Ambassador Jha, my young admirer friend, for what you said.

I may first of all express my appreciation for this very kind invitation of this Institute whose existence is very important from the point of view of the Third World, and its relations with the important 'centres' of the world. I also thank Dr Panchamukhi for his kind and very generous words.

Let me now take up the subject. May I make a short reference to the characteristics of the historical process of development of the 'centres' of the world—the historical process in which the capitalist system suffered its first crisis in the world depression of 1930's. The basic characteristic of this development process was that there was a great concentration—for good or evil—of the fruits of technological development in the industrial countries, while the technological innovations flourished continuously. The 'periphery' of the world economy, that is to say the Third World, was left at the margin of the process of industrialisation. The developing countries had, as we all know, a purely secondary role of providing primary products for the 'centres' and they could not experience simultaneously with the 'centres' the process of industrialisation. This process of industrialisation gathered momentum and continued during the First War and mainly during the Great Depression. But it could not overcome the fragmentation of our countries; that was not an

arbitrary result of our behaviour but of the way in which the world system was functioning. The fact is that the developing countries were allowed to play only a secondary role and they could not industrialise themselves. This explains as to why the developing countries had to direct their efforts only towards the 'centres' with very little exchange of economic activities among themselves. Another consequence of this was that the 'centres' continued to acquire more and more of technological and economic superiority over the 'periphery'. The Great Depression in bringing about industrialisation tended to correct this lack of symmetry into the process of world industrialisation, but not the fragmentation of the 'periphery'; however, the technological superiority of the 'centres' continued to grow. So, we have inherited a system for the 'periphery' which we have now started to integrate partially, rather very weakly, into the economy of the world. This process of integration is, however, very slow and weak due to the fact that we are lagging behind as a result of consistently growing technological superiority of the 'centres'.

The first world crisis then had begun to break the old pattern but in a modest and very incomplete way. Now, we have to remove the two things: first, the fragmentation of the 'periphery' and second, its technological and economic inferiority. These two factors—fragmentation and inferiority—compel us to industrialise on the basis of protection. I am not ashamed of protection. I think that protection was and continues to be absolutely necessary, provided that it is a rational one. If I emphasise today on this it is because I read yesterday a speech delivered in Washington in which the leader of a big country condemned the strategy of protection and import-substitution in the 'periphery'. It is, therefore, necessary to emphasise and justify protection and import-substitution as a rational measure of development provided, of course, that it is rightly done. Well, now we have to take advantage of the second great crisis of the capitalist system to solve the two problems I pointed out: the problem of fragmentation and our inferior technological development. As a consequence of our lagging behind in the process of industrialisation, it has been always our inherent tendency to experience an external imbalance in the relations with the 'centres'. This is due to the fact—a well known fact—that while

the demand in the 'centres' for our primary products and now for our manufactured goods based on simple technology that we export, tends to grow at a very sluggish rate, our demand for the products of the 'centres' tends to grow at a much faster rate. This is due to the elementary fact that as income grows, the demand tends to grow continuously in favour of diversified goods and services. It is a characteristic of the modern technology not to produce the same thing at lower costs but to produce new things, new shape of things, and new forms in the course of diversification. Thus, we in the 'periphery' will always continue to have a tendency to have external imbalance in our accounts until we have ourselves reached a certain technological stage in production so as to be able to keep pace with the same diversification. It is not the monetary mismanagement that accentuates the process, but it is a result of retarded process of development of our countries.

A few days ago, a high official of the World Bank visited Chile and Argentina; and she strongly condemned import-substitution. We know the World Bank, in their reports, is projecting gloomy prospects of development of the world in the world in the next few years, which means lower demand for our products, and also the prospects of increased protection against our products. In such a situation, how can they condemn import-substitution by us as an evil that should be avoided? This issue also came up yesterday at the meeting of the two Brettonwoods institutions in Washington. I think that this is partly due to lack of understanding of our problems by the 'centres' resulting from their dogmatic views and also in some cases, to a large degree, due to the fact that the dominating countries shape their philosophy according to their own interests, overlooking the interests of the developing countries. This is a clear proof, among many others, of the way in which certain ideologies are perpetuated. Ideologies are — notwithstanding their logical force — responding, in one way or another, to the dominating interests of the world, and everything that is a deviation from this, is condemned.

What should be done in order to gradually remove the fragmentation of the 'periphery' of the world? In other words, what can be done for the increased South-South relations? We all know that industrialisation in different countries—even in

the countries that have a very large population—cannot be desirable in the framework of watertight compartments. It is necessary to combine our efforts with those of other countries in order to get maximum benefit from industrialisation. This is a problem that we raised in Latin America a quarter of a century ago and advocated a gradual formation of a Latin American Common Market. The original idea, if I may say so, emerged even before the idea of the European Common Market. Ours was not a copy of it. But it was an idea too pretentious, trying to establish in the Latin American area, South-South relations on the basis of a gradual and progressive reduction of duties and restrictions. However, this was an utter failure—notwithstanding what Governments say in the anniversaries to applaud each other. It was an utter failure. Very little was done. There are figures that show some increments in trade, may be in some case, sizeable increments in trade—but the idea as such is in shambles. Why? There are many reasons which can be cited for this. The first of these reasons is that the problem is not so much of interchange of shoes with textiles or furniture but to solve the problem of imbalance with the ‘centres’. In other words, if the centres do not allow access to our exports either due to their low rate of growth or for protectionist reasons; if they do not allow our exports in a dimension necessary for the ‘periphery’ to afford essential imports for our economic development, there is no other way out than to try to cut that part of the import that we cannot pay and substitute by internal production and South-South trade. In regard to the latter, we made a mistake in believing that expansion of South-South trade would be achieved only or essentially through the general lowering of the tariffs among participating countries and maintaining protection vis-a-vis the rest of the world. The general lowering of duty had to be applied to every product and this created some difficulties in those industries that were subject to the competition of other countries. We created new problems without solving the fundamental problem of the import from the ‘centres’. We should have concentrated in some dynamic lines of demand which we could satisfy through internal production with the objective of diminishing the imports from the ‘centre’ and in order to have room for imports of other more essential products or capital goods essential for our develop-

ment. We did not follow, with necessary intensity, this selective process. We were in favour of a general process and this was a great mistake. Given the fact that the idea of South-South cooperation is reviving, I insist that we should avoid this mistake in the future.

The other mistake of the past was the following: to base the development of this idea of South-South cooperation on tariff preferences. More I think on this matter, the more I am persuaded to believe that preference given by a country, say a relatively less industrialised country to the import of capital goods from the relatively more advanced countries of the 'periphery' implied that the former will have to bear with extra-cost of the import of capital goods—the capital goods that were having higher prices compared to the centre. In this scheme, the sacrifice would fall mainly on the less developing countries of the preference region to the benefit of the more developed countries. I am wondering if instead of that we were to develop a new scheme in the next few years, we should now use the system of subsidies. The more advanced countries in the preference area that export capital goods to the less advanced countries of the area should subsidize their exports to make their prices competitive with the prices of the 'centres' even the most advanced 'centres' of the world. The incidence of the policy should fall on the shoulders that are better suited to afford it. Anyhow, system of preferences means a subsidy. In brief, the idea is that the subsidy should be paid by the countries exporting capital goods and not by the countries importing them. I would suggest that there is a need for studying this modified system of trade stimuli in order to avoid the inferiority of the weaker part of the system and promote also, along with other measures, the industries producing goods or input of higher and higher technology hitherto imported from the 'centres'.

It is regrettable that the 'centres' are not against protection or against import-substitution as a general ideology but are against it whenever it is a question of promotion of concerted production and trade in specific lines in the 'periphery' which might compete with the production of the 'centres'. This a very narrow idea that I have come across many times in my life. When we were trying to plan a Common Market in Latin

America, a quarter of a century ago, I visited the IMF to talk to some friends and to explain our attempt to avoid a sudden and adverse reaction to the Plan from the 'centres'. However, the reaction of my friends from the 'centres' was quite adverse and discouraging. What I told was that Latin America do not produce cars (of course, now the production is rather excessive) as this is meant for the high income groups and the penetration of the cars into the middle strata of the population would be at the expense of capital accumulation. I further explained the idea. I told that we can now absorb the technology of making cars and trucks and let us produce them. They reacted: "No. Don't do that. This would harm our production and our exports of cars and trucks to Latin America." I replied: "Look, it is true that this would harm your exports but the fact that we produce cars and export them, would generate for us sufficient foreign exchange which would enable us to buy other goods of growing importance and growing technology from you which we cannot afford to produce yet. We can afford to produce cars; but we cannot afford to produce many other things, and thus our plan will not result in the lower imports but would only imply a change in the composition of our imports." It is a very simple idea in my view, but I was astonished to see how diffident they were. Somehow, we managed to produce cars and now we export cars. But their apprehension was that if we produce cars, we may not import other things from them.

In the process of promoting division of labour among developing countries, the financial resources would have an important role. For this what is necessary is to exercise persuasion to convince the developed countries that in the ultimate analysis transfer of resources in the 'periphery' is beneficial to everybody because we will use those resources for taking technology from the 'centres' and will pay for that technology in so much as we cannot have it on our own. Further, there may also be the possibility of joint ventures with the private initiatives of the "North" and increased rate of growth will provide to the 'centres' the possibility of larger exports of goods, particularly capital goods and products of high technology that we cannot produce. More I think in this matter, more I am persuaded to believe that the world is lagging behind the complexity of the phenomena and the new developments of facts and this prevents the 'centres'

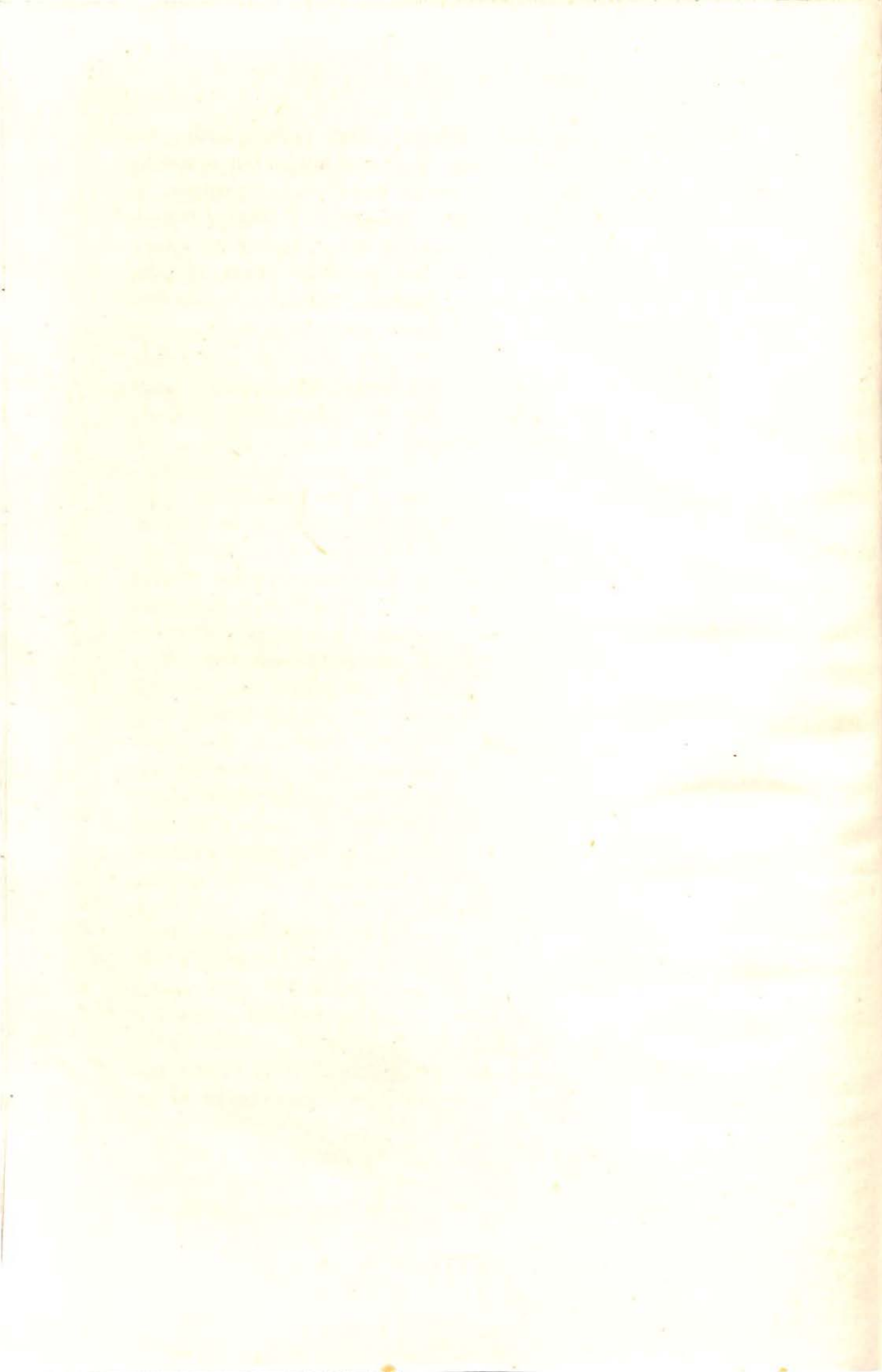
from enlarging their intellectual perception of the new needs of the world economy so that we could arrive at proper coordination of interests of the 'centres' and the 'periphery.'

I have been speaking to you probably in a very general and somewhat schematic terms about Latin America. Now let me talk about Argentina's relations with other parts of the world. If we are here in India, it is due to our clear perception of the possibilities of increasing trade on the basis of concerted actions, in regard to certain specific goods and perhaps services too. Our Indian friends, for instance, have told us that India can buy from Argentina considerable and growing amounts of vegetable oil. It is all for the good. But what happens? Argentina has been exporting grains to you (India) and has not been importing what she could have imported from you. It is a typical attitude that promoting exports is enough, without considering the possibility of promoting corresponding imports. We should like to avoid this mistake. If we are here, it is not only to look for larger exports from Argentina to India but also for larger imports from India by Argentina. This is because we do not believe in unbalanced trade. In the last few days we have come across very promising opportunities for increased trade. This is a country producing, according to our information, high class railway materials, very advanced locomotives. Argentina has to renew its system of railways. This provides us a good opportunity to compensate for what Argentina is selling or could sell to India, may be even industrial goods if grain production in India increases to such a extent that there is no need for sizeable imports of grain. In these few days we have been exploring such possibilities with our Indian colleagues and we are satisfied that by intensifying our examination of facts and by sending people from one country to another to examine such possibilities, it would be possible to have very positive results. But this will not be achieved by trying to import from India the goods that are produced at reasonable prices in Argentina or by asking India to import goods that India is producing at reasonable prices. Our efforts should be concentrated on substituting lines of imports from the 'centres' into our two countries. There is no need to hurt any existing industry that is producing for domestic consumption, but to establish new lines of production which substitute imports from 'centres' by goods produced either in

India or Argentina. In other cases,—perhaps, if I am not dreaming—it may be possible to establish some forms of action not necessary only on bilateral lines but on trilateral or multilateral lines. I think that we have to use bold imagination in this matter. If we consider that this could be achieved only through preferences, we are bound to create many problems. We will run the risk of splitting the developing world again into a mosaic of trade operations. This is why I insist on the need—I am not proposing a concrete formula—to explore the possibility of using subsidies as against preferences. This is going to solve many problems and would enable an open arrangement. If country A gives a subsidy to exports of certain capital goods, to be exported from country A to B, and if country C wishes to enter into this arrangement, it is welcome. If subsidies are given by A country, naturally certain conditions will be imposed towards equality of treatment and the third country C should be offered benefits similar to what country A and country B are giving to themselves. There are many many problems of this type. I mean to say that we have to avoid the risk of the division as a mosaic of the relations between our countries and I insist on this in the light of bad experience of Latin America, so that we do not reproduce in this part of the Third World, the same pattern of trade that was historically developed between the ‘centres’ and the ‘periphery’, that did not consider certain countries’ technological and economic inferiority. We should not perpetuate that type of pattern. We should, from the beginning, consider the weaker parts/parties of the area, not only for reasons of an elementary equity but for reasons of mutual interest. Because we have seen that if we do not take into consideration the interest of the weaker parts of the system, no permanent and beneficial system could develop. In such a situation, the solution for the weaker countries would be, of course, to adopt more and more protection and more and more inward-oriented policy as against other countries of the Third World. If developed countries of the Third World were not to take into consideration the interests of the weaker elements, the chain of South-South cooperation would be broken, in the weaker part of the link.

Well, my Ambassador is calling my attention to the time factor. I may say to you, with all excuses, that it was my intention to stay here until 12 or 12:30 to have the opportunity for

a very productive discussion with you. But, unfortunately, we have to make an official visit that was not on our schedule earlier. So, I am compelled to put an end to my exposition. It was not, unfortunately, a dialogue, though this is what I would have desired to get better understanding and critique of my ideas. I would like to say how grateful I feel for the invitation of this Institute which offered me the possibility of talking to you and the opportunity of seeing old friends.



Proceedings of the
Question-Answer Session

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Outline of the Major Problems and Issues Raised in the Keynote Address of Dr Raul Prebisch

1. Dr Raul Prebisch has made the point that the process of rapid industrialisation and technological advancement in the countries of the North has provided to the countries of the South a secondary role and thereby encouraged fragmentation and economic inferiority of the South. In other words, the fruits of industrialisation and technological advancement in the North have not adequately percolated down to the South. Dr Raul Prebisch has called for suitable measures to remove the fragmentation and economic inferiority of the South.

2. Import substitution for replacing products imported from the North, by domestic production within the South, according to Dr Raul Prebisch, should be pursued vigorously in the coming years so that economic and technological inferiority of the periphery could be gradually eliminated. For this, South-South cooperation should play an effective role.

3. Tariff preferences for encouraging South-South trade imply that the economically weaker countries have to bear the extra burden of trade creation and trade diversion. Dr Raul Prebisch has advocated that instead of tariff preferences by the importing countries, it is advisable that the exporting countries, which have relatively greater economic strength, should



provide subsidy for their exports to the countries which are relatively weaker. The approach of subsidies, instead of preferential tariffs according to Dr Raul Prebisch, would induce greater equity and faster growth in the South as a whole.

4. In the context of South-South trade and cooperation, it is important to prepare operational schemes of exchange either on bilateral, trilateral or multilateral basis in such a manner that more intra-South trade is generated. Adequate attention should be given to the possibilities of bilateral balance of trade.

FIRST SESSION OF DISCUSSIONS

Statement by Dr L K Jha

I must say that one of things which, in my experience, Dr Prebisch has always done is to speak *extempore*, to speak logically and to finish at exactly within the time which he had set for himself in the beginning. Before he began to speak, the Ambassador had told me that he would speak for thirty minutes. I have timed him and it has been precisely thirty minutes that he has been on his feet, and yet he has injected a very important issue to ponder over, namely, whether instead of the preferential system in which the burden of the higher price falls on the importing country and places the country in a great dilemma would it not be better for the exporting country to carry that burden to make up the cost difference by subsidisation? I think it is a very useful, interesting and novel thought. So let us know have comments and suggestions. We could also have some questions to be posed to Dr Raul Prebisch which I am sure, he would oblige us by replying during the limited time he is with us.

Comments by Dr A M Khusro

This is hardly a question or a set of questions, Mr Chairman, but two remarks raising from what Dr Prebisch has said.

About the crisis of capitalism I thought I might share a thought with the audience here. It is possible that Dr Prebisch might have had this in mind when he talked about that aspect. When everyone is concentrating on short-term phenomena, one major thing that has been happening to the highly developed

countries, and one that escapes attention is that many an industry in these countries has reached a kind of saturation-point. The list of such industries is rather large. Could this be the reason why recessions get prolonged, and the latest among them—1980-83—becomes a kind of great recession, as you might call it, though not a great depression yet? The West does not seem to realise how general the malaise is. For instance, the housing industry in Europe and perhaps on a lesser extent in the United States, is in a state of near saturation. The net investment in this line is running at zero level, and gross investment is equal to depreciation. Moreover, nobody is going to eat any more food in the United States or Europe and that industry too is in doldrums. No one is going to wear any more clothes in the United States and Europe, barring fashion changes and replacement demand. There is not going to be a single additional railway mileage installed any more. The airlines are more or less in surplus capacity and while technologically more efficient planes will substitute older planes, seat mileage is not likely to increase. The automobile industry too is in a state of near saturation and the ratio of cars to families has risen so high that there is not likely to be any major outburst of demand for automobiles. Consequently, in highways construction not much addition is going to take place. By the time you put these life-giving, life-sustaining industries together these would make a great bulk of economic activity. In these great lines, entrepreneurs in Europe and the United States do not have new projects to launch. There are no major projects on the shelf. Therefore, there is a tremendous inability to generate demands through the running of new projects. The new fangled things like electronics and microprocessors that are coming up now are no substitute for these major industries. Thus the Western entrepreneurs in these lines do not know what to do and what to sell. They are looking for opportunities to sell elsewhere. But selling elsewhere in the world is also very difficult because Africa is in great indebtedness, Latin America has its debt problems too and many an Eastern European country is indebted to Western banks. This constrains the saleability of the products of the first world. Truly, this is a crisis situation.

Trade is one way through which they can get over this and it is astonishing that people in the countries of the North do

not realise how serious this matter is. Of course, there are certain areas like the Indian subcontinent and China and parts of Latin America which are high demand countries, where the growth of the national products is still high. But it occurs to me—and I would like to share the thought with you—is it not very important for the North to realise that it is the continuous growth of the national product of the South countries, particularly those that are already doing well, that is the most important thing for them from the point of view of sales of their products or their technologies? Therefore, should they not become partners in the development of the South rather than look with suspicion upon all the development and things from their side which in fact terminate growth, depress development and prevent the national products from rising? I do not know what kind of philosophy and what kind of prejudice it is that does not enable them to see their own self-interest. Truly it is a crisis of capitalism and I would like to add this slant in the hope that this argument is correct.

Secondly, on the common market idea I would like to say that not only in Latin America, but in Asia too we had the Asian Common Market discussion a quarter of a century ago. The same phenomenon was discussed in some detail and it turned out that all the countries of the South, let us say, Asian countries, have a similar pattern of production, all are importers of industrial goods and all are primary producers, etc. They have not much to give and take, they have no complementarity; they are all competitors of each other and therefore there is nothing they can do for each other. It was agreed that the basic thing in a common market, viz. the possibility of trade itself does not exist.

Now, twenty-five years have gone by. Things have altered. economic growth has taken place in many a countries and the structure of production has altered. Surely, there are many countries within the South bloc that have, as Dr Prebisch has mentioned, sophisticated goods, capital goods and even technologies to sell. And I am surprised that we never get together on these questions, even to list the possibilities. Actually we ought to go much farther. We ought to study the basic endowments within our economies, and then decide, on the basis of these endowments what kind of give and take can follow on a medium

or a long-term basis. While such a study will take its own time, why should we not get busy immediately with the listing of the possibilities of trade and finance among the countries of the South and begin to set up the mechanism for launching enlarged trade, finance and investment cooperation. Dr Prebisch mentioned the sophisticated railway equipment that India could supply including the railway engines and other sophisticated things. Why was this not discussed five or seven years ago? Maybe things were not so ripe at that time. As Dr Prebisch mentioned, there is now scope for listing of new opportunities of trade and investment between the countries of the South within the regions of the South and within the South as a whole. This exercise must begin right now.

The great difficulty here is that if a country like India, which may be regarded as one of the suppliers of sophisticated goods, wants to supply to Africa some capital goods and technologies, the question of financing immediately comes up. Who will finance this trade in capital goods and technologies? This will involve long-term lending on the part of the supplier on credit, and here I admire the suggestion that Dr Prebisch made about substituting the system of preferences with a system of subsidies. I also appreciate Mr Jha's remarks that the subsidy itself should come from the suppliers rather than the importers of these equipments. I think, Sir, what you have launched before this audience today really needs serious consideration and I think our minds must soon be made up about a much larger onslaught on trade within the South, substitution of certain goods which are coming at the moment from the North and which we can substitute, while continuing to press on the North-South issues. We must also realise that eventually, and for years to come the most sophisticated things and technologies would have to come from that part of the world, which we call the North.

L K Jha

There are two questions which have come. One has asked why you have said nothing about the terms of trade and secondly, to what extent domestic policies could be responsible for declining terms of trade.

Dr Raul Prebisch

Let me answer the question, why I have not made a reference to the terms of trade. This is because I have been talking about terms of trade during the last fifty years—and I have many things to say on that matter. First of all, what I wrote in the beginning was considered as if I was saying that there is an inherent tendency in the terms of trade to deterioration. My thesis was rather simple and aimed at underlining the role of industrialisation. Because we were recommended by the 'centres' that instead of industrialisation we should emphasise productivity in our primary goods in order to penetrate the markets of the centres of the world. I remember that when at the beginning of the fifties, in the Economic Commission for Latin America we were preaching industrialisation an eminent professor on trade of the United States, a brilliant man, Jacob Viner, went to the University of Brazil and criticised strongly the idea of industrialisation. He said: "You should not enter into industrialisation, that is nonsensical; you should develop your exports of primary commodities and you should introduce technical improvements in their production in order to export more." I went after a month to the same university and explained the matter. I said that if we introduce technological improvements in our primary production and this leads to redundant manpower, in agriculture for instance, and this redundant manpower is not absorbed in other activities, the fruits of this increase in productivity will go to the centres through the deterioration in terms of trade. So one of the reasons why we need industrialisation as well as the services coming with industrialisation and development in general is to absorb manpower. I said protection would be necessary when there is a tendency for prices to get lower and lower. Protection is also necessary to develop industries which absorb the redundant manpower.

I was really innocent in believing that this argument could be persuasive with the centres. In fact, they were precisely trying at lower and lower prices for our exports and this was to their direct convenience but not to the benefit of the developing countries. I may discuss this problem further, but I would only make this remark that they do not accept any idea of deterioration in terms of trade, because they consider that the market

will solve the problem including those of transfer of manpower and capital from those lines where there is deterioration to other lines of production. But, it is well known that the United States have protected the terms of trade for their agriculture for several years, from the period before the First World War and they continue to do it in many ways now. They are restricting production and using stocks of grain to subsidise or to restrict production. They say that they are only checking the deterioration in the prices of grains. What the European Community is doing is to fight against both the internal and external deterioration of their terms of trade.

L K Jha

There are two questions regarding trade liberalisation among developing countries. For reasons of time, I will compress them. First question is that would the assymetry among different developing countries at different levels of development not mean that any regime of trade liberalisation among them would perpetuate unequal exchange and accentuate the disparities rather than reduce them?

The second question is again about trade among developing countries. The question is posed whether it is not necessary to start with the coordination of investment and production activities than by starting off with trade; in other words that you plan your investment and production rather than take trade as a starting point in cooperative endeavours.

Dr Raul Prebisch

In answer to the first question, Mr Chairman, I may say the following. The problem of trade liberalisation between developing countries should not be solved through global and overall measures but through a selective process of combining production and trade in substituted imports from the North. That should be our strategy.

The second point follows from the first. We need to plan reciprocally some sort of investment geared to this objective. If we want to develop certain lines of production substituting imports from the 'centre' and establish plants in country A and plants of other goods in country B that result in substitution and promote exchange, and/or if we agree to establish a joint

venture between country A and country B, and perhaps C and D, we have to cooperate in investment.

L K Jha

In the world today there are wholly new forces due to technological process in new fields like genetics. The two main things which were so relevant in determining the level of prosperity between different countries, namely, natural resources and manpower, are diminishing in importance. In such a world, how will the developing countries equip themselves to stem the rising tide of imbalance?

Dr Raul Prebisch

The answer is that by having an internal imbalance we may be able to increase productivity but at the same time, to a corresponding degree, it would increase unemployment. To put the matter in these terms is to simplify and ignore the other related aspects. Increase in productivity of course means increase in the potential for capital accumulation. However, I would be more worried of the adverse effects in case the increase in productivity is not matched by a corresponding increase in the rate of capital accumulation and it is likely to result in a decrease in the rate of employment. So the real problem is of macro-economic management, of increasing the rate of capital accumulation of the economy, and this cannot be solved by the play of market forces alone. The more I think about this problem, the more I feel that the incentives and the play of market forces are both equally important to a system either capitalist or socialist, if we want to solve the problems created by technological progress and would like to increase the rate of capital accumulation.

L K Jha

The next question is one which we could well address to ourselves rather than to Dr Prebisch. It will apply to all. Namely, why in international conferences we always begin to focus only on North-South issues and give a secondary place to South-South cooperation. Sometimes, even though we start with South-South, inevitably the thinking and discussion in all

international meetings have a tendency to shift to issues of North versus South.

Dr Raul Prebisch

Well, Ambassador Jha, you have seen many times our tendency not only to imitate advanced forms of consumption of the 'centres', but also the ideas from the 'centres'. This dependence of the 'periphery' on the ideas of the 'centre' is one of the most persistent phenomena that I have seen from my youth onward. We do not yet use our resources to develop our own ideas. The fact that the 'centre' condemns import-substitution and subsidies has a tremendous impact on the course of development and choice of strategies in our economies, especially those going to the 'centre'. When these people absorb the 'centre's' ways of thinking, it is very difficult to change them, whether in trade or monetary matters. We complain about certain ideas of the International Monetary Fund. When there is a balance of payments problem, a developing country has to compress its economy and its employment in order to reduce imports and reduce the balance of payments deficit. This is an article of faith preached by the 'centre'. It so happens that many of the top experts of the institutions coming from the 'periphery' or those joining the Board of Directors in their official capacity think the same way as 'centres' because they have been born in these 'centres' and believe in the sanity of their way of thinking. This is a tremendous obstacle to the formation of new ideas as also to the penetration of new ideas. This is why I welcome the formation of research centres such as this (Research and Information System for the Non-aligned and Other Developing Countries) which would promote new ways of thinking, and a dialogue not only between us but between us and the developing countries. This is a modest role that the Economic Commission for Latin America started to play more than thirty years ago and the idea began to penetrate widely into Latin America. You know, Ambassador Jha, what happened. In order to counteract our modest intellectual influence, which began perhaps in a primitive way, the 'centres' started a programme at the headquarters of the Commission at Santiago (Chile), aiming to train our economists in the universities of the United States, notably the famous Chicago University. Economists were given

very generous fellowships. Professors were supplied to our universities free of cost. After a few years we felt the consequences of this development. And it so happened that with military government in Chile the economists proceeding from Chicago as well as other American universities, who had been brainwashed, came to power and they initiated reduction of protection, the restrictive monetary policies. What they said is that it is desirable to wait a minute the since resulting depression is only temporary and constructive. As the labour unions would not insist on increasing their wages they felt this would enhance profits of enterprises and accelerate investments. All the theories that they learnt at the 'centres' were applied in a consistent way. The famous Prof Milton Friedman went to visit the top personalities of Chile, Argentina and other countries of Latin America and encouraged the pursuit of the Chicago school of thought. He told them that these policies would not bring results in two or three years, it will take eight or nine years to produce their fruits. Well, it was a gift from heaven for the top politicians and as such advice from a high calibre scientist of the world enabled them to stay in power for eight or nine years more. I am not exaggerating. This virus penetrated into many countries of Latin America. The experience in my country was still worse. Industry after industry was closing down in a rapid way, waiting for the final result of promoting development on sound lines of free trade conceptions. I was then a director of our Central Bank and I was then organising my views and I had the experience of what role the Central Bank should play in trying to counteract certain depressing tendencies from the 'centres', and in controlling the counter-movements of capital. But, since we were to be a part of the financial world, we had to assure the freedom of movement of capital. This process of free flow of capital induced growing indebtedness. According to the Chicago school, the market forces must be allowed to decide as to how this capital should be used in the different sectors. But, what was the result of this allocation of resources? The result was that the short-term credit was used for long-term investment, for conspicuous consumption, for military expenditure, and we are now suffering the consequences. We complain about the lack of foresight of the bankers of the 'centres', but we were equally responsible for our lack of foresight, to get

indebted, without having any idea about what to do and how to play. Thus, it was a convergence of irresponsibility of the North and the South.

L K Jha

He referred just now to the importance of the Third World attempting at its original and indigenous thinking on economic problems. One of the steps in that direction was taken at the NAM Summit in appointing a group of five experts, all from developing countries, to study the question of reform in the international monetary system and to pave the way for an international conference on money and finance for development. Prof Khusro, who is present here, was the Chairman of that Group. The Group has just completed its work and its report is here, which, with his compliments, I present to Dr Prebisch.

Dr Raul Prebisch

Congratulations, Mr Jha, for this. I will read the report with great interest. I have already read the prologue of Mrs Indira Gandhi to this report and I agreed with her from the beginning. What we face today is not a cyclical crisis, this is a structural crisis. The report is very timely in that context.

L K Jha

I think I speak for everyone here when I say how very enlightening, refreshing and original Dr Prebisch's thoughts have been.

SECOND SESSION OF DISCUSSIONS

The Second Ssssion, which began after the tea-break, was devoted to intensive discussion by the participants. Dr Raul Prebisch could not be present during this session, due to his other urgent engagements. Dr L K Jha was in the Chair and he called upon the participants to present their views and comments.

Dr Abid Hussain

I do not wish to take much of the time of my colleagues round

this table except that I would like to highlight two or three issues in which perhaps we in the Ministry of Commerce are definitely interested.

Dr Prebisch raised a point relating to industrialisation and suggested that there should be a proper correlation between protection and import-substitution. I thought this was a very important issue which we are facing in India in the context of our import liberalisation policy and at the same time taking care of the indigenous capabilities which we have created so far. When we try to adopt the policy of protection what we find is that by using the physical or fiscal measures we are actually delaying the process of industrialisation.

If, on the other hand, we say that we have got to forget about import-substitution then we run into the other difficulty that we destroy the very base which we have created. Surely, that is not the idea when we talk of liberalisation policies. We want to have a very healthy mix between the two. I think it will be nice if we could get some of the participants' perceptions on the issue of the correlation between these and the question that should we not have some sort of a time-schedule and cost considerations in mind when we are thinking of import of import-substitution and providing protection for this.

The second point was on technology. There again sometimes we are misunderstood when we say that let all technologies be on the schedule of Open General Licence (OGL). Because the idea that we want to convey is not to get anything from anywhere for import in India, nor to get second-hand technology, but the aim is to get the best of technologies which will lead to greater productivity and higher capital accumulation. Technology is not easy to get either. Access to technology is becoming difficult. Sometimes, we are under an impression as if all doors are open for importing technology and we are hesitating to walk in. As a matter of fact, all doors to technology are not open. However, we want to have a more liberal regime for import of technology. It will certainly lead to unemployment somewhere and some instabilities to which Dr Prebisch made a reference. I think the time has come when we have to take a very pragmatic view in this regard and arrive at some sort of a consensus.

The third point relates to the mosaic of trade operation itself. Dr Prebisch has come out with the idea that instead of

the preferences system we should go in for the subsidy system. I am not afraid of the rules and regulations of GATT in this matter. But what we must consider is that if we recommend subsidies there is a cost and somebody has to bear the cost. How do we bear that cost among the developing countries? Here I would like to convey one thought to you. Though we do not have subsidies in the manner in which Dr Raul Prebisch was thinking, we have cash compensation support and several other schemes whereby we try to take away some of the burden (of high cost economy into which we have run and the burden) of taxes which we have in India. But even these have come to be criticised in Parliament. Our Parliamentary Committees and others which have gone into the study of the subsidies, the cash compensation schemes and other incentive schemes, have been very vigorously criticising them. There was a lot of vigour and heat generated whenever this particular problem has come in. The question arises: if we have to move from preferences to such open, vivid, perceptible subsidies, what are the implications? I think at a time when we are working out the dimensions of the new liberalisation policies, some indication of the mind of this house on this question would be important.

The last point that I have is about the tactics. Dr Prebisch was saying that we should start where the chain is the weakest because he said the weaker part should be taken up first in moving forward. I, for one, would not believe in that particular theory. There are several socio-political considerations which come in when we take care of weaker sections, weaker bodies, the areas of zero rate of growth, zero industrial areas and things of that type. I feel that when a country is passing through a phase of development, as it is in India, perhaps we have got to put all our efforts where we are strong and where we become really heroes of the world. If there are exportable commodities to be promoted, let there be a few of them where we are the best in the world, rather than trying to promote those in which we are weakest. If we have certain social and other aspects of it, that can be taken care of. So I am taking a narrow view, Sir, about the term 'weak'.

Further, when you are thinking of a country of India's size and some other such developing countries one will have to consider those areas for promotion which are graduating into a

position of boom and are ready to receive new, modern and best technology, rather than taking care of the sick industries or pampering weak industries for ever and ever.

Shri I S Chadha

I do not have very much to say. The subject of the seminar is "New Perspectives in North-South and South-South Economic relations." I have been asking myself what new perspectives can we bring to bear today. Unfortunately, in the last few years the experience all too often has been that you put forward some ideas but they are not acted upon, yet soon thereafter you are again asked to put forward new ideas. If you repeat ideas which have not been acted upon they say this is an old idea. I think there is nothing wrong with old ideas. The problem is lack of action and implementation.

In North-South relations, today, I think it is right to say that we are facing a total deadlock. In all the forums, efforts to move forward have met with stiff resistance. At the Seventh Non-Aligned Summit (New Delhi) we received a considerable degree of praise for our success in moderating the posture of the developing countries and also for some of our proposals which were very practicable and reasonable. But, successive efforts to move forward on the basis of those proposals have not met with success. So the question arises, what changes, if any, should be made in the tactics of the South in order to achieve greater progress in the North-South dialogue?

Perhaps the right answer is that instead of trying to do too much on too many fronts we try to be somewhat selective. In the last two or three years, the main platform of the South in the negotiations with the North has been the so-called 'Global Negotiations'. The hope was that the new found strength in the South, particularly due to the OPEC countries, could be used to increase the bargain strength to secure concessions from the North in certain areas. So the effort was made to pursue 'Global Negotiations' in which all various sectors would be negotiated simultaneously in an effort to get a package deal. These efforts have not succeeded. I think at last everybody in the South has realised this. It took them a long time, much longer than it took us in India. But, I think everyone has come to the conclusion that there is no future in the 'Global Negotiations' Whatever

be the reasons, in which we need not go, it has become obvious to everyone that 'Global Negotiations' approach will not succeed. I do not think anybody is now even pursuing that.

The approach that we should now try to pursue is to concentrate on a more limited range of issues. The issues on which we are now trying to concentrate are those in the area of money and finance. Reference have been made to the Khusro Group report which has just come out and has been published. Our effort will now be to see how and where to start a dialogue on this subject.

You, Mr Chairman, have been to the capitals of many countries and I was with you. We have explored possibilities of starting a dialogue which could be acceptable to all concerned. We have pointed out that at one extreme is the position taken by the developed countries that the only place where they are willing to have this dialogue is in the existing Brettonwoods institutions, an option which is not acceptable to a large number of developing countries, certainly not to the socialist countries. At the other extreme is the suggestion made by the developing countries, that this should be discussed in the United Nations, which is not acceptable to the developed countries. We are trying to explore the middle-ground but we have not met with any success. The reaction of the developed countries is by now well-known. It has been said in the London Summit, and which has been confirmed in subsequent declarations that they are not willing to discuss these issues in any forum except the existing Brettonwoods institutions, namely, the World Bank and the International Monetary Fund.

We have gone along and said, let us negotiate a dialogue here, and see how far we can get. We, however, do not think we will get very far and do not think that these are the right institutions, but let us give them a try. These are the type of decisions which are not being taken in Washington. We hope that a dialogue will start but we are not sure that it will make much headway.

The question still remains that how and where to start a real and effective dialogue. Efforts will have to be made perhaps in the UN forum also. This is something we have to think about. But eventually, we hope that it will be possible to find some middle-ground where the dialogue on these issues can start.

A similar situation prevails in South-South economic relations. Somebody raised a question why is there so much emphasis on North-South. This really depends on the forum. There are forums which are exclusively for South-South issues. I have come from one of them very recently, which was the meeting of Economic Cooperation among the Developing Countries (ECDC) in Columbia. I am afraid that even the discussions on South-South relations are assuming more and more and more the character of the North-South discussions. With the OPEC countries playing more and more the role of the North within the South, what we find is that any proposals which are put forward and on an operational nature, immediately arouse suspicions, if not opposition, from these countries. Because these countries have a feeling that you are perhaps trying to get them to make the bulk of financial contributions to any venture that is to be launched. My impression from the last meeting in Cartagena (Columbia) was that in South-South cooperation also we were trying to do too much on too many fronts in too short a time, and what we are producing is a mass of paper which nobody reads and which amount to repetition of platitudes, but not enough operational activities which really give meaning and content to South-South cooperation. We have had reports on food and agriculture, technology, industrialisation, energy, raw materials, and so on. In most of the cases, the decision taken is of the nature of authorising the chairman to have consultations with member countries on the basis of these reports, and in the light of the reactions he receive from member countries, and to convene another high level inter-governmental meeting to consider this matter and report back. I hope that we will get away from this tendency and will try to be operational by concentrating on a few selected issues.

Indeed, there are a few areas which are promising. Global System of Trade Preferences (GSTP) is one on which I think we have made some headway. But, there again progress has not been satisfactory to the extent it should have been. New impetus needs to be given. We can pick up one or two or three more areas like that but not too much.

Some areas in which we are beginning to be operational include the idea of South Bank on which a great deal of effort was made and a great deal of energy was expended. But, I am

afraid that does not seem to be showing much promise of getting off the ground, largely due to the opposition of the Gulf countries.

There are other areas, viz. food and agriculture, in which we can easily form an action committee or in which we can think of some kind of mechanism to work out concrete schemes of cooperation with a view to implementing them.

Energy is another one such area. We have recently started an action committee on fossil fuels. There again the OPEC countries are not coming forward to cooperate with it. But, it is an area which has promise of some progress.

Another idea which we had recently launched but which has not yet been taken up by the Group of 77 is the establishment of what we have called a project development mechanism. This would serve as a mechanism to assist developing countries in the formulation of projects and in undertaking of feasibility studies and so on. Hopefully, such a mechanism could lead to concrete schemes of cooperation among developing countries.

Yet another idea on which some work has been done but which is still not operational is the idea of setting up some kind of information network. Here there are too many schemes coming up. What is needed is some kind of a coordination so that we have a scheme which is clearly effective and from which the developing countries can take real advantage.

These are some of my thoughts which I wished to put forward. I think what is really needed is concentration and emphasis on implementation. I think we are not lacking in ideas. And that is what I would understand from the objective of this seminar which is to think of new perspectives of North-South and South-South economic relations.

Mr K B Lall

I think Mr Chairman, you have asked me to come at a very early stage. Nevertheless, I would follow through with Mr Chadha's thoughts.

First, I do not agree with the thought that there are plenty of ideas and that there is nobody to work upon them. Just as a plethora of reports do not mean that a great deal of work has been done, the plethora of ideas or alternatives or options are not aids to action. It is necessary to adopt a selective approach—

a selective approach in sectors not in ideas and in how to operationalise them. Between an operation and the selection of the idea, there is the stage of the selling of the idea and absorption of the idea. The idea of Global System of Trade Preferences (GSTP) has been going on for over ten years and even today we are saying it is looking like operational. In fact, there are several problems with regard to techniques, its content and even the basic concept, namely a preferential attitude to be cultivated by the participating governments, I think, has not really been adopted.

I think at this stage I can deal with Dr Prebisch's idea in regard to subsidy versus preference. This is really another way of saying how a preferential relationship is to be built up. This is really a matter of detail whether you give subsidy by the seller or you provide a special arrangement by the importer or by buyer. In either case, what is necessary to be adopted on the part of seller and on the part of buyer is adopting a preferential attitude. The costs and benefits of the preferential attitude have to be studied. The difficulty has been that even in a country such as ours which has no shortage of ideas and persons who are able to write on a particular idea, the cultivation of preferential attitudes has been a very very difficult and frustrating task. When it has been so difficult for India how much more difficult it is for other countries to adopt this kind of attitude?

Therefore, my first point for consideration is to think on the question of how to cultivate this preferential attitude, what are its implications and what are its costs? One must go into this question in some detail. This is applicable not merely to trade, industrialisation, technology and finance; this is applicable all the way down to the entire gamut of economic relationships.

I do have one or two concrete suggestions in this regard. This is, however, not the time to make them. I would only say that it is essential for us to devote our thoughts to the question of preferential attitude to work out its implications.

The second thought arising from it is that we must give up the idea of considering all ideas as universal in the sense of the entire Group of 77 accepting it in every detail. We paralyse ourselves once we go along that kind of thought. What is needed, therefore, is selectiveness not only in participation, but in ideas and in sectors. The ideas of South Bank, energy, food,

project development facility have been mentioned. We need not get upset if we do not achieve what is called success in these areas. These are very difficult concepts, particularly, when you are dealing with sovereign governments. In fact, the ability of their administration, the ability of the scholars to examine an idea and to persuade the decision-makers is extremely limited. It is well to take note of the existence of Mr Ronald Reagan in Washington and it is well to take note of the existence of his counterparts in Saudi Arabia and Kuwait. But, it is equally important to note of other versions in the developed world as well as in the OPEC world. And it is, therefore, important for us not to think only of South Bank in this context. What we are thinking is not South Bank but a mechanism in which the funds available with some surplus countries or individuals or institutions could be used, not against the benefit of the investor, but for the benefit of the investor as well as the borrower. In case of OPEC, if they are not too willing to have an institution they may be willing to work in an old institution. I have difficulty in believing that they have decided as a principle that they will not invest in a developing country or a developing country's institution.

Since there are many more persons to speak, it is better to be selective in what I want to say. Therefore, to repeat, select ideas, the models, the persons or the countries who will be your target area and try to operationalise them as much as possible and do not lose heart if you do not achieve tremendous success with a difficult concept.

Dr R M Honavar

I am going to strike a little deviationist note, partly because I am emboldened by what Mr Chadha said and partly because of what Mr Lall said. Mr Lall, because of his long experience as an administrator and negotiator, means all things to all men and, I think, at least to me he meant what I am going to say.

All of us know that global negotiations on the North-South relations have failed. I think Mr Romesh Bhandari has probably gone hoarse negotiating in the UN, trying to find a solution to all the problems posed by the difficulties faced by the South. One of the reasons for this failure to me seems to be that we are posing a very large array of demands. Everything

thing under the sun is part of the 'global negotiations'. Our attitude is that everything has to find a solution. The entire Group of 77 negotiates with the North and, therefore, any problem that interests anybody has to find a place in the global negotiations, and a solution has to be found for all the problems at the same time. If my problem is not solved, the method of work is such that I can block progress on something else. That is why even though we have had long and fairly comprehensive negotiations the results achieved, I think, have not been equal to the efforts put in. As a matter of fact, what the developed countries have done is to use their power and also to exploit, to a certain degree, the differences in the interests which different developing countries have in these negotiations. Although the the Group of 77 do provide a united front, there are at the same time, as Mr Chadha pointed out, the OPEC countries, the sub-Saharan countries, the least developed among the developing countries, and then the two large economies, China and India. So although at a broad level our interests coincide, when it comes to detailed negotiations, I think, there are a good deal of differences in the interests of these countries and the differences can be cleverly exploited by a powerful negotiating partner. That is perhaps the reason why we have not been able to make much progress.

Therefore, it seems to me that it is necessary now to adopt a change in our negotiating strategy. Although we have called it 'Global Negotiations', in effect what it has amounted to is that we have presented an array of demands and asked the North to solve them. There has been no negotiation in the sense of give and take. We have presented a list of demands and all of them have to be solved and when we have had failure on that front we have just told the North that there is no political will on their part to solve these problems. This is not negotiation, this is a sort of confrontation by the weak with the strong and the outcome can only be what is expected.

So what I suggest is that we should have real negotiations in the sense that there should be greater give and take. This give and take is not possible if all demands are given the same weight. So perhaps we might think it over whether we could not have priorities, that some things are vastly more important than others and, therefore, concentrate on those items first

which we consider to be more important than others.

Secondly, perhaps this whole idea of all the Group of 77 negotiating with the North could be given a little rest. We could have smaller negotiating groups on problems of interest to them. Ultimately, it has to come to the Group of 77 but the negotiations proper could be carried out in smaller groups of interested countries where it would be possible to have more give and take. If you have all the 127 developing countries participating in negotiations, perhaps the kind of adjustment that is necessary in negotiations may not come about. It may come about if there are smaller negotiating groups.

The third point is that we have not paid enough attention to the problems faced by the North, in the sense that in our negotiations we have just said, look, you do not have the political will and, therefore, you are not willing to solve our problems. We have not paid enough attention to the difficulties which the North have. It is not that they do not have problems. If smaller groups were to negotiate, it might be possible to take into account the mutual problems. Certainly, we cannot dismiss all their concerns to arise due to a lack of political will. If we do this, perhaps the negotiations might be more fruitful. I am not saying that the moment we adopt such an attitude everything will fall into our laps. But, since we are negotiating we must expect to proceed by bits and pieces, and it is only when we adopt this kind of a strategy that we will be achieving some success which is vastly better than the settlement which we are facing at present.

Being a good civil servant I can straightaway think of a large number of objections to what I have said. But, I would request you not to brush offhand all I have said but to give it a little more thinking. There would be objections but there would also be ways of removing those objections. I am making this plea particularly because the strategy pursued over the seventies and part of the eighties has not yielded satisfactory results.

Dr Arjun Sengupta

I want to talk about something different and more akin to the subject that Dr Raul Prebisch talked about, not so much about the process.

At least in this forum organised by RIS we should be able to ask this question and even if we cannot have a clear answer, we should be able to cogitate over it.

The first question I would pose relates to South-South cooperation, that is, why do we need it? It is really something germane in the term South-South cooperation as an attractive idea? I want to put it to you clearly because as seas I was listening to Mr Chadha when he mentioned that in the South-South conferences, the South is behaving more and more like the northern countries. It really brings out the essential character of South which you can define only as a counter to North. There is no particular reason why developing countries together should have some kind of a preferential treatment among themselves. It is difficult to establish a kind of theorem that preferential treatment among the developing countries is better than normal global reduction of tariff or freeing of the trade.

Dr Raul Prebisch talked about subsidy instead of preference for trading among the developing countries. What really does that mean? It means that you want to have a different exchange rate. When you are trading among the developing countries you would apply an exchange rate which is different from when you are trading with a developed country. Is it an optimal solution? Quite some time back this question was raised by Vanek. I remember certain follow-up was talked about that if there is basic shortage of one kind of foreign exchange then we might establish a different exchange rate among those countries who lack that particular foreign exchange. This was vis-a-vis the dollar. I do not think that kind of argument will really be valid in a system of flexible exchange rates.

I am saying this because the assumption behind any kind of South-South arrangement of liberalising trade is that the trade will be beneficial and there will be gains from the trade. While there will be difference in the distribution of gains, basically there has to be some gain from the trade. South-South cooperation by having its countries to reduce their trade barriers among themselves will be attractive compared to the South opening up to the North if the net benefit out of the South-South trade with a particular country is more than the other way round. Then, the question is of financing. This is where I think Dr Prebisch did not mention that if Brazil wanted to have its trade, it had to

finance it trade and its so happened, may be for reasons which are suspect, that the Northern banks were only too keen to finance a very substantial increase in the trade in this country. If India and Sri Lanka tried to trade, or if Indonesia and India tried—as this trade will not be a balanced trade—there will have to be some kind of a financing mechanism so that this kind of expansion of trade is possible. I thought that the original idea of the South Bank was based on the logic that you will be able to promote the South-South trade. But, again I am not quite certain whether that is a preferred alternative to having some kind of a financing system which will allow a greater increase in the North-South trade.

I want to pose this question mainly with one thing in mind that, as I look at it, this gain is really political—the whole question of South-South cooperation, as also the conflict of South with the North, if you are talking purely in terms of economic gains. I can understand quite well the categorisation of South if we look at it in the political arena and there this question of North, North versus South, etc. became quite relevant. But then keeping South as a category becomes so important that even if the North makes a gesture which goes against the unity of South it may be better for South not to accept it.

Dr S Guhan

We are having a very stimulating and informal atmosphere. This is not a North-South meeting or even a South-South meeting. So one is emboldened to speak and to do some loud thinking. This is what I would like to do.

Sir, I feel that following the line or trend to thought initiated by Messers Chadha, Lall, Honavar and Sengupta, one point I would like to make is that India should be a little bolder and more confident in assuming leadership within the community of the South. If outsiders were present one could not say this for fear of being misunderstood. But within ourselves, we constantly find a certain squeamishness or diffidence in really taking steps which could be characterised as actions of leadership, and given the size of our country, the surfeit of talent in the country one has only to look around this table and our wide interest in almost every topic in a major way, notably in monetary reform. Considering the pre-history of Brettonwoods, we know there

were four years of note writing, exchange of memoranda, and there was Haddy White, a Keynes and they were combination of intellectual and political experts who were not only fully plugged into their system but who had the power of thought to conceptualise the issues and strategy and work out how to go about it. Dr Prebisch was one such product of a certain period. In our system we do not seem to feel the need for it. We do not encourage and as a result we cannot produce a single person like Haddy White. If you had seen this business for twenty years one could name thirty persons who have been engaged with the GATT, the UNCTAD and the other organisations, but they are all in flux. We do not even promote a group. I do not mean a single person necessarily, but a corps.

Secondly, Sir, though we are all for selectivity but it is now time to make an actual selection. We would have to select two or three issues on which we will go ahead and do all that is possible to effectuate some ideas. Thus, we can certainly do something on commodities through strengthening GFF plus national commodity stocks. The core ideas are there and the new things that are coming out are really small differentiations of them. So one can say what is core idea in commodities, in South-South financing, in energy and so on. Why not pick out three or four things and go all out for them?

This would also mean a much more outgoing approach on the part of India. We will have to spend resources for this. We will have to have shuttle diplomacy, send people round, and get people who work out things. So they must set apart something like twenty or thirty million dollars a year for promotion, not expecting quick results.

Thirdly, connected with all this, I think we have to develop some kind of modality of what might be called a step-by-step approach for negotiation. A meeting of the South-South or North-South or any small group does not produce any results. So what is needed is some kind of a diplomacy where you will, in an open-ended way, rope in big constituents and alliances, which is the slow but sure way, to tackle the problems through intensive discussions. This will have to be done first behind the scenes and may be on bilateral basis, before one can bring in more people.

For example, in case of models for South Bank, limited and

joint guarantees will have to be included. Because, whichever model you take it boils down to some kind of an intra-South guaranteed systems. What is needed is a step-by-step open-ended approach. Some one will have to take the first step. No one I think is better qualified, looking at the entire spectrum of the South, than India. This something which our leadership should understand and be bold and confident enough to take the plunge.

Dr S Vardarajan

I shall not venture into many of the points that have been raised but there are some concerns which I would like to express.

Certainly, the rate of change in industrialisation and technology is of a very different order in the developed world than what we have perceived so far. It is clearly not dependent on labour, nor even so much on energy. If you take France, they are going to breed reactors which do not require any resource from somewhere else. It is dependent on an entirely new system of not even requiring human beings to do things. That is, the skill and knowledge human beings are no longer quite so much valued. We are going to a society which is dependent very highly on a new knowledge base and a new kind of change.

We have been left out already in the past and those of us who acquired these systems and knowledge are stuck with obsolescence of a high order and with an inability to remove this obsolescence. India is a very good example of early comers to industrialisation and further inability to change things despite all our wishes to do so. And yet, in the expectation that knowledge is required for change, we are producing a very large number of people of very high skills and knowledge. But, in all the international negotiations we never talk about this very great loss; either people are not properly used or those who can be used are used elsewhere in the world. These are our real change agents, who are going to produce that kind of society in which we will be able to live. We have no system in India, nor in other countries whether Iraq, Algeria, Nigeria, Brazil or Mexico. The best of the brains are working elsewhere. Today even in Japan there are very good Indian scientists working because the kind of people and the thinking that they require in the new system is insufficiently available in their own country.

I would, therefore, have to say something about much needed

determination to remove, or at least attempt to remove, obsolescence in our systems and in our thinking. We have not even identified the areas of obsolescence openly. We just pay lip service to the need in a general way. As Mr Guhan said, we have to particularise what these are and each country will have to do something which we can do.

Secondly, I believe there is a great deal to be shared among the South. We have made mistakes and we have sometimes corrected them. But, we never share that knowledge of the improvements or changes that we have made. We go to the 'centres' for whatever errors we have made and knowledge that we have produced. It is the central system of the North which then distribute this. We have very little evidence of sharing within South and when there is some sharing under some very peculiar circumstances, for instance in Vietnam, the appreciation for this is extraordinarily high. It produces a new, fine cluster of relationships which we can build on for something more.

We have to assume that the dependence on the North can be very much less, even for markets for commodities, agricultural products, labour, energy, mineral resources like iron and that is for two reasons: first they are saturated, as was said earlier by Prof Khusro, and the second that the exploration for many of the new resources has begun in many countries and we will be able to identify vastly more resources, whether it is in the North Sea oil or the metallic nodules or what have you. Our agriculture is at such a low level of productivity compared to the advanced world that we can bring very big order of improvement so that we will be never short of very bright people.

I think we have to look at a ten or fifteen year perspective and then see what the world is going to be. We are applying ourselves too much to the problems of the past, with little attention to the problems of the future. So we should have a group of people in this country and among our friends in the non-aligned world who will be able to think of the long-term perspective and a strategy to develop. I think there will be many failures in this approach but, nevertheless, a broad strategy to reduce the differences that will exist in five or ten years, is very necessary.

Another point relates to knowledge exchange. Knowledge is not going to be easily available, at least knowledge of the future that is being generated. In many areas we cannot get computers, software and micro-electronics; bio-technology is being banned; we will have no new seeds being allowed to be exported. But there will be new technology which will not require so many fertiliser plants, using bio-technology, and we will not have to produce fertilisers at a very large scale. Also all those extra capacities that are now available in power, can be used and new capacities can be created in various other fields as in the rest of the world if new technologies come in India.

I think, therefore, a very important area for considerations is of training ourselves for the future and for a new world. This we are not doing. In fact, those we train for this purpose are ill-utilised and, in the process, they are lost. I think there are real benefits of this possibility, not really costing a great deal of money but which will produce some change, some new people. I hope there will be some appreciation of these points. We can certainly make some moves. The lead which India can give and about which Mr Guhan mentioned is very important, and it is possible to provide this lead. Besides India, I might say, there are other countries such as Brazil, Mexico and others.

We need an endogenous system. I think most countries have simply adopted systems either those of the centrally planned and Western Europe or of North America. We need to have our own system, especially a system for removing obsolescence. Our efforts for removing any kind of obsolescence are far, far too low. Very often we cite political and social factors responsible for this but there are also economic factors. We are not able to introduce new tax systems or reward systems; nor we have adopted inflation accounting as adopted in many of the countries. With the result, most of these people who are producing new knowledge and are anxious to adopt new things remain unrewarded. Those who are successful in doing so are, in fact, dragged down by the rest given our present internal system. So unless you have some method of ensuring that enterprise is rewarded — these are all the qualities which have made the other world go up—we are not going to be able to succeed.

I think there are many other points which we can discuss,

even produce models. I agree that some funds have to be provided to do this.

Prof Ashok Guha

I do not have an awful lot to say and so I will focus on a narrowly selected issue.

In our negotiations with the North, I feel that we have not paid sufficient attention to the areas of likely success, keeping in view the interest structure of the North. After all, if a negotiation is not to be a purely political process, it involves some kind of a mutuality of interests. I am afraid that here I disagree with the analysis of Prof Khurso. Essentially, he meant that the crisis, the advanced world is facing is a sort of stagnationist crisis, that is a crisis of saturation of demand. Of course, there are others who have adopted the same standpoint and have argued on that basis, that there exists a mutuality of interest in North-South cooperation because the growth of full employment, etc., in the advanced world would depend on the rapid expansion of development in the South.

My personal belief is that the crisis that the advanced countries have been facing is a crisis which basically stemmed from expensive energy. It was the oil shock of 1973 which brought to an end the golden age of expansion of the North. It was not really a saturation of demand. What happened throughout the seventies in the North was that economics which had been spending on the basis of cheap energy were suddenly confronted with an internal resource scarcity which they had just not planned for. It is this scarcity which reduced the rate of growth and in turn to an internal conflict of interests between the collective interest groups, grown up throughout the sixties in all the Western economies, all looking for larger and larger shares of the cake and who found that the cake could not increase because of oil shortage. Of course, the first solution that the Western economies, went for in this situation was inflation and that what always happens when you have too many collective interests groups competing for larger shares and the cake cannot be enlarged.

Gradually, throughout the seventies the structure of the Western economies got modified. You have the weaker interest groups gradually losing out. For instance, you have the structural

shift of the US economy away from the great, traditional, established mass industries like automobiles or steel, to the new and high-technology industries; and the shift away from the big city centres in the mid-west and the east to the south and west sun belt. These shifts have resulted in the emergence of new groupings, a new balance of power within the advanced countries which was not characterised by powerful, politically influential collective interest groupings which could press for inflationary policies. So throughout the seventies the constituency for expansionist monetary policies in the West weakened and by the end of the seventies, when you had the second oil shock, public opinion throughout the West had turned strongly anti-inflationist. It was basically this which compelled reversals of monetary and fiscal policies in the West and brought about a recession from 1979 onwards. In the West, dominant public opinion and ideology is still riding on this so called monetarist conservative wave. The countries which have done so in spite of the dominant monetarist ideology, since they have succeeded in following the Keynesian policies on the sly, in America under the plea of military strengthening and in Britain in terms of a temporary expansion in the wake of the Falklands War. Western Europe has still not revived, because it has not found excuse for Keynesian policies, having been committed ideologically to restrictionist policies and it is stuck with them.

Given this kind of an atmosphere, given the situation in which you have collective interest groupings which are no longer in favour of general expansion, and given that the energy problems of the advanced world have not yet been resolved, whatever expansion is taking place at the moment is expansion on the basis of unemployed resources and excess plant capacity. When full employment levels are approached we will have the same revival of the competition for the cake which is not going to expand fast enough within the advanced world. In this situation, one cannot expect a massive interest on the part of advanced countries in promoting the development of the Third World except in so far as this is directly conducive to their faster rate of growth and this enables them, may be through specialisation or whatever, an enlarged division of labour, to increase their cake fairly rapidly enough. The cake cannot be increased merely by contributing to the demand in the underdeveloped countries

for the products of the advanced countries. I think the cake could only be increased by intensifying division of labour between the advanced and the less developed world.

If one is to concentrate on a specific issue in the North-South dialogue, I think the issue which we would be well advised to concentrate on is the reduction of trade barriers in the advanced world to the products of less developed world. I think that the time may not be totally inopportune for this because many of the trade barriers in the advanced world would be erected by industries which, on account of the recession, have gradually phased out of economic and political ascendancy. I would think that the protectionist groups in the advanced countries may have lost a good deal of their cutting edge on account of the recession and it might very well be worthwhile to concentrate at this point on focusing our energies on this particular aspect of North-South relations.

Dr A M Khusro

I think I would be in agreement with the point made by Prof Guha that the energy crisis has played a major role in the misfortunes of the North in the recent past. But I do not think, Sir, that any explanation on a complex phenomenon of worldwide recession, superimposed on some long-term factors, can be explained in terms of a single variable like energy. After all energy prices have fallen and recovery is still not coming up except in the resilient economy of the United States. Europe is still very far from a vigorous recovery. The whole point is: even when recovery comes as a result of several variables moving in its favour, whether this will be a constrained recovery or a full and buoyant recovery.

It seems to me that not only energy but several factors have played their role and one does not want to spell them out as that will be time-consuming. What we have asked for in the Report on Money and Finance for Development submitted to the Chairperson of NAM is, among other things, a surveillance of the policies of the North in order that their budget deficits are of a reasonable magnitude. These deficits are being enlarged by massive defence expenditure on the one side and by cuts in taxes on the other and are being financed by huge borrowing programmes nationally and internationally, then raising the

rates of interest sky high. This, in turn, is leading to capital flows of perhaps a perverse nature into the United States, drying up capital availability in Europe and in many other parts of the world, and leading Europe and, in competition, to raise their interest rates, depressing their investment and keeping the dollar rates extraordinarily high. So, this is a very complex phenomenon and must admit more than one variable. In fact, it admits of half a dozen variables.

Secondly, I agree with Prof Guha that a demand-based explanation is not convincing. I was, in fact, thinking of something more basic like what had been suggested a hundred years ago. I mean the phenomenon of capital accumulation and the decline in the rate of profit in the developed economies. Whatever be the cause—and again it will not be one cause—at the base of it lies high capital accumulation.

Secondly, I was thinking of an overall diminution of demand arising from an absence of worthwhile projects in a whole array of industries. I was thinking of specific saturation points in industries like housing, automobiles, highways, airlines, roadways, railways, also food and clothing. By the time you add these up, they account for a very large proportion of demand of the Western economies. After all, you have got to explain, Mr. Chairman, why companies are collapsing in the industrial countries. Why Germany had 15,000 company failures in 1982, 13,000 company failures in 1981 and about 12,000 collapsed in 1981, so many in just one country of Europe. By the time you add up the United States and Europe of this, you find that a phenomenal number of company collapses have occurred. Is it all to be explained in terms of a short-term recession or is there a long-term cause for all this? I think the long-term factors of stagnation are also behind this. Demand could be pumped up, but in the present case it is the non-availability of worthwhile projects because of high capital accumulation.

One of the remedies for this phenomenon lies in the realisation by the North of its own self-interest. Dr Guha too was talking of self-interest. Yes, we have to play on their self-interest and make them understand it. Things may be more acceptable to them if they are for their own good. It is some kind of political blindness owing to which they do not seem to be seeing their own self-interest. For instance, would it not be a partial

remedy for their lack of sales of goods, services and technology that they first get rid of or ease the indebtedness of the South countries, at any rate a large proportion of it? Should they not be partners in the enhancement of the national products of the low-income countries so that their purchasing power increases and enables the North in turn to sell more? Then, should the industrialised countries not be promoting exports from the developing countries which are needed for repayment of the value of imports from the industrialised countries? The interest of the North now lies in developing the national products of the South countries as well as developing the export capabilities of the South countries. This cannot be done *a)* without massive capital transfers and *b)* large technology transfers. So I thought that their medium and long-term self-interest lay precisely in doing what we are asking for. But, such is the blindness of the developed countries at the moment that they fail to see this point and I fail to understand why this should be so. I believe that the dialogue must continue and their self-interest must be demonstrated.

In our Expert Group Report on Money and Finance for Development, called 'Direction for Reform', we were conscious of the fact that many European countries feel like we do on many bank issues. Europeans generally dislike the United States policies in these respects. Only for one reason—security—they fail to be bold enough. They have a mortal fear of the Soviet Union. Helmut Schmidt, the former West German Chancellor, used to say a few things boldly but not the whole range of things. Many things the Europeans could have said, they are not saying. So, the pressure must continue, their self-interest must be demonstrated and we must continue to press for what is good for us as well as good for them, namely, larger trade, larger resource transfer and larger technology transfers.

But simultaneously we must begin to organise larger trade and investment among the countries of the South too. Here we could begin with two or three basic exercises. What about a world commission whether under UN chairmanship or under a machinery to be set up by the Chairperson of the Non-aligned Movement to focus on two basic needs: listing the potential now lying in South-South trade and examining the comparative advantages of different South countries base on endowments

and other advantages. Of course, there will arise some basic questions about the financing mechanism for trade and investment. This financing part would have to be taken up as a subject on its own; who knows the whole exercise might even founder on financial grounds eventually; but before financial difficulties are grappled with, what about a listing of the trade potential, based on comparative advantages, that now exists, in Latin America, in Asia, in Africa and in other parts of the world? This exercise could be on the basis of comparative costs as they exist today and not dynamic comparative advantages as they may come to be in the future. This current costs exercise could then be used skilfully in promoting trade bilaterally and multilaterally within the relation of the South.

A second exercise to be promoted now could be a medium and long-term exercise based on an assessment of natural endowments—soil types, mineral deposits, water endowments, renewable material and human potential in these countries. Based on endowments, the future trade potential for the South would be designed. I do not see any such exercise on the scene. People seem to be satisfied with what there is and they think they know what trade potential exists. Surely, all of us are ignorant in different degrees as a proper exercise has not been undertaken. So, I think that an investigation of endowment potential and current trade potential, is important. Next in importance is the question of some institutional mechanism to promote South-South economic cooperation.

Foremost on the institutional side, Sir, is the question of finance. I do not know what the answers are to the question of South-South financing. May be a South-South Bank; may be the idea and practice of regional banks giving greater attention to South-South trade and investment. But all this is easier said than done. The billion dollar question is still the same: who would provide finance for these alternative organisations. The Arabs and the OPEC people have been withdrawing from such ideas. It appears that economic adversity has, at any rate temporarily, got the better of them. But, Sir, the world is a dynamic place, recovery is already taking place in many parts of the world, including the United States, Western Europe and some South countries. Oil will again be in demand. Oil production may rise quite soon and in the second round oil prices might

again increase, though not to the same degree as in the seventies. Once things begin to better, a new psychology might dawn. Is it impossible now to persuade the OPEC people, marginally at any rate, to think of doing what they did not do before, namely diverting attention to investment within the South countries? The South countries are not all paupers. In the last twenty years many of them have shown a new resilience; capabilities of production have increased; and capital goods of a sophisticated nature are being manufactured in many South countries. Even in the relation of technology a hundred new technologies could be listed which are available within the South—some sector-specific technologies and some general ones. But, I do not think that any serious exercise has been done in this direction also.

I should end by saying that it may be possible to demonstrate to the OPEC people, or whoever has the resources within the South, that the returns to their investment within the South countries are after all not going to be so bad as these were in the past. Investors took it for granted in the past that all decent returns, all safety lay in the industrialised world. But, recently they have seen things with their own eyes and for the first time their beliefs have been shaken in the security of their investments. This applies not only to the new income but also to the whole range of past investments that they have already made. All that has become relatively insecure and these first-generation investors are rather bothered about security. Moreover, compared to the rate of profit in the North, the returns to investment in some South countries like India have been higher in the recent past. In fact, recently many delegations have been coming to India to investigate this phenomenon. We have not been able to demonstrate from our side where the worthwhile and profitable projects in this country are. I think it is now important for the South countries to ask themselves what the profitable projects are which they can present to the other parts of the South, particularly demonstrating to the OPEC investors the investment possibilities within the South. These exercises have been talked about but I do not see any major effort in the offing so far and I think the time has now come to make this effort.

Dr V R Panchamukhi

I am aware that time is running out but I thought I would react to some of the very interesting points that have come up in the discussion.

Firstly, I shall comment on global negotiations and the need for prioritisation on which a point was made by Dr Honavar and by others also. I do not know whether failure of negotiations in making some headway in achieving certain objectives has been due to the fact that prioritisation has not taken place and that specificity did not exist in putting forth demands. The Integrated Programme of Commodities, the Common Fund, and specific one per cent target, have all been quite specific. Is it because some of the countries do not (perceive the implications of these or do not) really want to implement them that the negotiations have failed? If we take the Brandt Commission Reports, the first and the second ones, there is a long list of immediate measures which are repeated. This word 'immediate' is becoming a little self-defeating because the same set of measures is put forth as immediate measures in the first report as well as in the second. If we take the recent UNCTAD Report or the Action Programmes of the Non-aligned Summit, everywhere immediate measures are presented. But the question is one of implementing them. I do not know whether one should really look at the causal factors in the absence of prioritisation, i.e. not giving due attention to the priorities that can be laid down.

As for the appreciation of the interests of the North, if you look at some of the publications of the EEC or the USA, we find that they also put forth the unemployment figure, and they are also worried about the number of people below the poverty line. Unemployment and poverty line are well defined there. Therefore, when we look at the various interest groups, as Prof Guha pointed out very rightly, it is not that policies are not made out of the pure theories but interest groups are involved and the ultimate policy that emerges is the one that reflects the interest of the more powerful. Therefore, the interest groups have to be identified. It is also a question of conflict between the long-term and the short-term perceptions of the interests. Even within the United States we find that there are very many different policies recommended by different groups. When the

developed countries were going in vigorously for the protectionist policy, there existed a vocal section in the North itself arguing against protectionist policies. However, these voices did not finally prevail. Therefore, the interest groups which ultimately dominate determine the policies. The policies which are detrimental to the South are not due to the fact that the South does not show enough appreciation of the problems of the North but because the dominating power blocs in the North pursued certain policies.

Perhaps, one could also attribute the failure of negotiations to some extent to the international bodies. I think when the Khusro Group points out that the surveillance should be, more or equally strictly, operated on the policies of the developed countries, the role of the international institutions in putting the policies of the developed countries in proper direction becomes very important but they have failed in this. It is because of this that some of the self-defeating or unproductive policies have emerged.

As for the question of technology, I find a paradox in the context of comparative advantage. In some sense, advancement of technology and persistence of normal comparative advantage pattern in world trade seem to be conflicting with each other. The technological changes taking place in some of the Northern countries in products like textiles or shoes are really wiping out the natural competitive advantage of the developing countries. For instance, Japan is going in for the robotisation even in textile manufacturing. Not only cutting of the cloth but even stitching of the cloth is being robotised. Then where is the question of labour-based competitive advantage for the developing countries? There is, therefore, a certain kind of contradiction, whether you should go in for labour-intensive forms of production for retaining your competitive advantage on the basis of labour-endowments or adopt the most modern technology and—how most modern—and whether we can absorb that and compete with the developed countries for comparative advantage. As Dr Raul Prebisch was pointing out, we must have more trade within the South for goods which we were importing from the North. Then the major questions are: what kind of technology we go for and what are the factors which would determine

the complementarities in production and trade, etc. among developing countries.

In regard to the points made by Dr Khusro, I feel it is not only the question of identifying the potential but also, and more importantly, of identifying the impediments that are coming in the way of South-South cooperation. Some of the impediments are induced by the structural factors while others by policy factors. Both kind of impediments have to be identified. Instead, there is a lot of potential, but unless these impediments are removed we cannot possibly go much far.

In the list of issues which we (Research and Information System for Non-Aligned and other Developing Countries) circulated among the participants, we have stated that there is defined need for a South-South Commission. Just as the Brandt Commission and the Pearson Commission went into specific questions of North-South relations, there is need for a body of people not only for generating ideas but for generating certain operational programmes and strategies for fostering South-South cooperation. In the coming years, we have really to give operational content to South-South cooperation that can be put into the form of operational schemes.

Concluding observations by Dr L K Jha

First of all, going to Dr Prebisch's lecture, I think, there is a very important point when he talked of subsidisation rather than tariff preference for promoting South-South trade, this implies that the burden of promoting the export of capital goods among developing countries should be borne by the exporting country and not by the importing country. I think it amounts to fairer burden-sharing. After all, we subsidise our exports including sugar to the richest country. And yet when it comes to capital goods which are high cost, partly because of our own taxation and we have to fight against consumer prejudice which is going against us, to say that the importing countries (often developing countries) which have that prejudice, will further make the sacrifice of paying more for our product, by giving a preference is, I think, trying to put the burden unreasonably on the other side. So we have to have some measure of introspection and ask ourselves whether we are, in fact, in the interests of South-South cooperation, trying to pursue our own interests in

the same kind of manner which the North has been doing towards the South. That attitude is clear on the part of the OPEC countries with regard to capital and others may have the same kind of attitude towards capital goods exports. So a certain amount of rethinking is necessary. As Arjun Sengupta pointed out, while there is the political concept of the South, unless you can demonstrate that an agreement or an understanding is advantageous to both sides in almost equal measure you will get nowhere.

Secondly, as for global negotiations, I go along with those who have questioned the desirability or wisdom of pursuing the very same track in which we have been moving so far and got stuck. We can go on saying that the North suffers from a lack of political will using all the usual phrases and adjectives. But, as people very directly involved in the matter have said, global negotiations are virtually dead, and they were dead from the beginning, from the very day the Americans declined to participate and we did not have the courage to say that we shall have the negotiations without the Americans. If you attach so much importance to the participation of one country then you are likely to be held to ransom by implication of your own initiative in the matter. Therefore, any meeting of a smaller group which does achieve something is preferable to hoping for something radical, global and all pervasive (in terms of subjects) to take place. People may go on talking about it in the UN but nothing will happen in the field. Therefore, some rethinking on the above line or approach is very necessary. In South-South cooperation also we should not get into the trap as we did in the North-South negotiations. It was something global in character. After all, India, Yugoslavia and Egypt had a triangular understanding at one time. We could have had many more countries coming into such understanding. I think those initiatives where there is clear mutuality of advantage, among developing countries, need to be pursued much more vigorously and identified more effectively.

The third point relates to the question of finance, South Bank and all that. I do attach great importance to finance but in talking of South Bank I think we are creating an unnecessary mental block. If what is being financed is seen to be profitable, money will flow in from the North as well as from the South.

Bankers of Zurich will not be lacking at all in their desire to invest if you have a system or a project in which both security and profitability are assured. If that is provided, the Arabs will also come in. In other words, if you create the feeling that somehow we are asking the Arab countries to give soft aid and the South-South Bank is also a form of IDA, then that concept is killed. So let us not talk of South Bank, but of finance for something which takes place between the South but something which is economically sound, secure and profitable. You will then find that people will provide money. Similarly, in the matter of an international conference, you decide to have a conference and say those who want can participate and if you have enough people participating from the South you will find others wanting to say if they can be present. We are, in these matters, somewhat a victim of our own phraseology and approach.

Finally, I come to technology. I think it is very very important but in this matter we need much deeper thinking than we have done so far. On the one hand, we go to international conferences and ask the North, why they are not transferring technology to us. Domestically, on the other hand, we have an attitude of putting restrictions on the import of technology on the ground that it might thwart the development of our own technology. Much more important, and this is the point I am trying to make, we have major reservations about the use of modern technology in our industries because we see in it a threat to employment. Until we come to a consistent position regarding technology use within our own country, we cannot have a policy about technology import or export. In this matter one of the important distorting factors is taxation especially indirect taxation. Any product of technology is taxed higher than a natural product. So we allow wood material to go untaxed as packing material, destroying our forests, but if a synthetic substitute is used it is taxed so heavily that it becomes uneconomical to use. We allow cotton, production of which competes with food production, to be the cheapest form of clothing material but its synthetic substitute is taxed so much that it is out of the reach of the common man. This kind of an in-built anti-technology outlook, which comes perhaps from the streaks of austerity and everything else which we have had in

the past, is coming in the way of having a sane policy towards technology domestically. And until you have a sound policy for technology at home, that is a policy for its use, its development, etc., you cannot have a sound policy regarding international matters.

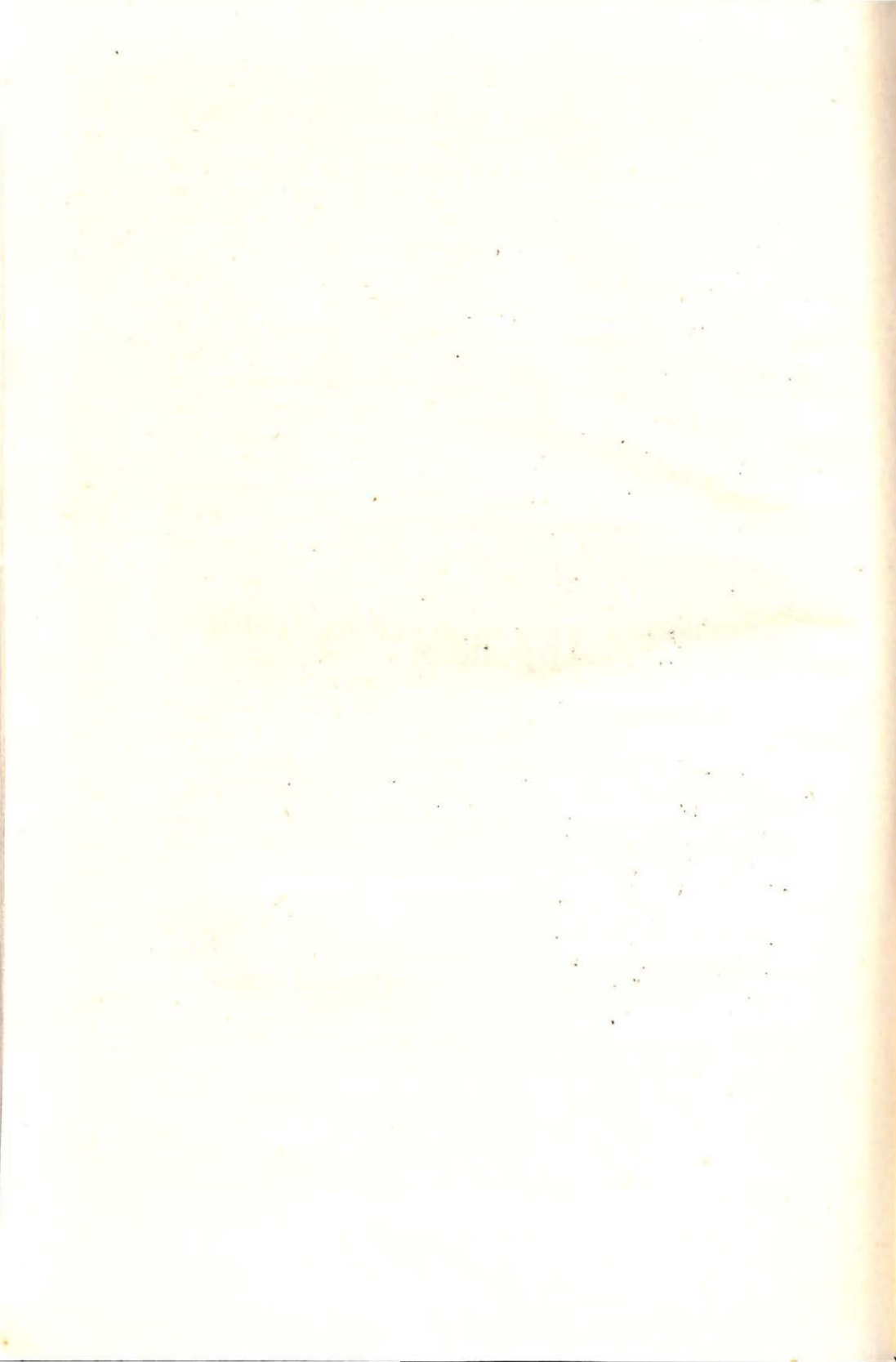
Finally, a point has been made that developed countries will always be way ahead in terms of technological leaps in the coming years. I do not think we should set our goals and targets in terms of becoming competitive, remaining equal or getting nearer to the developed countries. If somehow we can assure our people a much better standard of living in the next ten years than now, then I would not break my beat if the Americans are more prosperous.

So the domestic side of the whole development game and international economic order discussions should not get dwarfed by the rhetoric and issues which in an international conference seem to gain importance.

VOTE OF THANKS BY DR V R PANCHAMUKHI

I would like to express our thanks to Dr Raul Prebisch for having delivered a thought-provoking Keynote Address. We are grateful to Dr L K Jha for having agreed to chair the sessions and so excellently carried the discussion through this afternoon. I would like to thank all the participants also who have responded to our invitation. Last, but not the least, this seminar would have taken place if Dr Abid Hussain and the Commerce Ministry in particular had not thought of asking us to organise this, and providing the necessary financial support to it. We are grateful to the Commerce Ministry and Dr Abid Hussain in particular. We do hope that with the support and cooperation of all of you, RIS would soon develop into an intellectual forum of the South for a frank and open discussions on various national and international issues of current concern. I would like to thank, once again, all of you, for making this seminar a useful and fruitful one.

Appendix



Some Issues which could be discussed at the Seminar on New Perspectives in North-South and South-South Economic Relations*

1. In recent years several alternatives of conceptual frames for analysing the North-South economic relations have been propounded. They range from the thesis of total dependency at one extreme to that of complete independence at the other, with various degrees of interdependence as the intermediate models. The theory of dependency initiated by the thinkers in the Latin American world has brought out the various effects on the 'periphery' of the economic activities of the 'centre'. What damages the "Peripheral Capitalism" has brought to the peripheral countries? Is Dependency Theory capable of throwing up policy options to the South? What would be the desirable framework of inter-relationship between the North and the South in the coming years? Or one could raise the question as to how the approach of interdependency be fostered between the North and South so as to get a better share in the benefits of global development for the South.

2. It is often observed that the benefits of technological advancement in the North have not been distributed in a fair manner between the North and the South. What should be the operational mechanism for bringing about a change in the structure of this distribution. In the recent years, it is also observed that "indiscriminate" technology developments in the North in regard to goods of export interests to the developing countries have threatened to disturb the natural pattern of

*This note was circulated among the participants prior to the Seminar.

comparative advantage in the world economy. What kind of norms could be introduced in regard to technological changes and distribution of the benefits of technological changes.

3. Dr Raul Prebisch has eloquently argued in one of his studies that the Great Depression of the thirties necessitated radical changes in economic theory and that the current crisis in capitalism also shows indications for such a rethinking. What could be the dimensions and directions in regard to changes in economic theory and approaches? Will market forces deliver the goods? Is free trade in the world economy optimal for all the participants? Should the intervention by the public sector be minimal or maximal?

4. In recent years, there has been a disturbing phenomenon of reverse transfer of resources from the South to the North. The net transfer of resource from North to South is estimated to be negative in both 1982 and 1983. Pace of the flow of international private investment has also been considerably reduced. How would all this affect the growth prospects in the South? (Net transfer of medium and long-term lending from private sources to developing countries was a negative \$7 billion in 1982 and estimated as negative \$21 billion in 1983).

5. How far the idea of the Debtor's Club proposed and discussed at the New Delhi Summit of the NAM in 1983, could provide a bargaining power to the South. Are the Latin American countries moving in that direction in recent months?

6. Would the recent experiences in regard to debt-burden and the crisis it created, throw up the hypothesis that debt-led growth is detrimental to the long-term interests of the South?

7. Despite the consistent efforts of the UNCTAD and other bodies, the objective of getting fair and remunerative prices to primary producers has not been achieved. Ironically enough, the prices of primary products have collapsed to unprecedented extents. How does one explain this? What strategy becomes relevant in the present context?

8 (a) It is often argued that South-South cooperation despite concerted efforts, at least in some regions, has not made significant progress. What have been the real impediments—both structural and policy induced? Is the fear true that some big countries of the South may act as centre for other small countries to perform as peripheries and that all the adverse effects of

the dependency framework may emerge once again within the South itself? How could one overcome such apprehensions in working out operational schemes of cooperation? (b) Do the countries of the South really lack complementarity as is often alleged? Should similarity in stage of development and production structures necessarily be an impediment to the generation of complementarities? If that is so, how did the member states of EEC overcome this problem which they faced on the eve of the formation of EEC? Is it possible for the developing countries, at least on a regional or sub-regional basis, to foster harmonisation in their investment and production programmes and also policy changes? What should be the operational mechanism in this regard?

9. What are the prospects for the proposal of South-South bank for facilitating development and cooperation in the South? How could the OPEC members of the South be induced to support this proposal? One could also ask as to how the problem of scarcity in resources for development of the South could be sorted out with their own efforts and with the support of the international institutions and the North.

10. What are the factors responsible for stalemate in the North-South negotiations? Has the oil power, commodity power or any other conceivable bargaining power of the South considerably dwindled in the recent years? What strategies should the South adopt in this context? Could the strategy of collective self-reliance be given an operational content for making it appear as a factor in bargaining power of the South? Is it desirable and possible to foster mini-global negotiations with the participation of sympathetic countries of the North on specific issues? How should the countries of the socialist Eastern block be induced to associate themselves genuinely with the global issues of new international economic order?

11. It is often made out that the present predicament of the South is largely due to the situation of recession in the North and that once the North recovers the problems of the South would be adequately sorted out and thereafter the efforts for New International Economic Order (NIEO), or restructuring of production, etc. may not be necessary. Would such a simplistic view of the future of the NIEO debate be justified? Is the recovery in the North supposed to have started recently, real

and of stable nature or is it one of the usual unstable cyclical humps? It is widely known that the United States economy, with the so-called recovery in regard to the growth, has been still experiencing huge deficits on current account, ranging upto one billion dollars. This raises the doubts in regard to the process of recovery.

12. Would the existing institutional structure based on Brettonwoods system be able to cope up with the growing needs and aspirations of the developing world? Is it in the interest of the South to ask for radical innovations in regard to the institutional set-up or would some marginal reforms/changes be enough? In the latter case, what are such marginal changes? The Export Group set up by the Seventh Non-alignment Movement Summit Conference (New Delhi) has emphasised the convening of an international conference on money and finance for development. What are the prospects of such a conference being convened in the future? What should be the strategies of the South if such a conference is held?

13. It is often pointed out that analytical preparedness of the South in regard to international economic issues and international negotiations is rather inadequate and as such the policy options and the debating strength which should be forthcoming by the South in North-South negotiations do not provide much mileage to them. How should this lacuna be overcome? In this regard, what kind of operational schemes may be adopted by the Research and Information System for the Non-aligned and Other Developing Countries (RIS) in order to fill this lacuna? What are the implications of establishing a South's Secretariat or Support System for G-77? Would it be useful to set up a South-South Commission—on the lines of Pearson Commission or the Brandt Commission—to sort out the issues of South-South co-operation and to work out operational strategies in this regard?

14. The following interesting observations of Dr Raul Prebisch, made in different contexts, from time to time, are quite relevant in the present world economic situation. One could perhaps discuss about them.

- i) "The industrialisation of Latin America is not incompatible with the efficient development of primary production."

- ii) "The more active Latin America's foreign trade, the greater possibility of increasing productivity by means of intensive capital formation. The solution does not lie in growth at the expense of foreign trade, but in knowing how to extract, from continually growing foreign trade, the elements that will promote economic development."
- iii) "If industrialisation is considered to be the means of attaining an autarchic ideal in which economic considerations are of secondary importance, any industry that can produce substitutes for imports is justifiable. If, however, the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialisation might mean a decrease in productivity must be borne in mind."
- iv) "In my opinion the conventional theories exhibit the great defect of having disregarded and continuing to disregard, systematically, the social structure and its constant modifications. They cannot therefore serve towards an understanding of the crucial phenomena of the present. In my opinion this crisis of capitalism is a structural one—a serious structural crisis more complex and difficult than what I experienced as a young economist in the 1930s. That was cyclical, a difficult crisis but it was overcome."
- v) "Its hope is that market forces, the so-called laws of the market, will solve our fundamental developmental problems. I want to say this: I recognize that market forces have great importance, but they do not solve the basic problems for us. Have they solved our problems of irresponsible exploitation of natural resources, the environment, income distribution and capital accumulation? The market is something of great value and must be preserved, because the alternative is that basic decision-making about the system takes place from above—by those at the top of the pyramid—and this is incompatible with broader democratization and with political and personal freedoms. But it is a great mistake to conclude from this that market forces alone will solve all the problems. The market has no such magic. These forces must be com-

bined with State intervention, which need not extend to the routine details of the economy, simply to the intelligent handling of the mainsprings of the system."

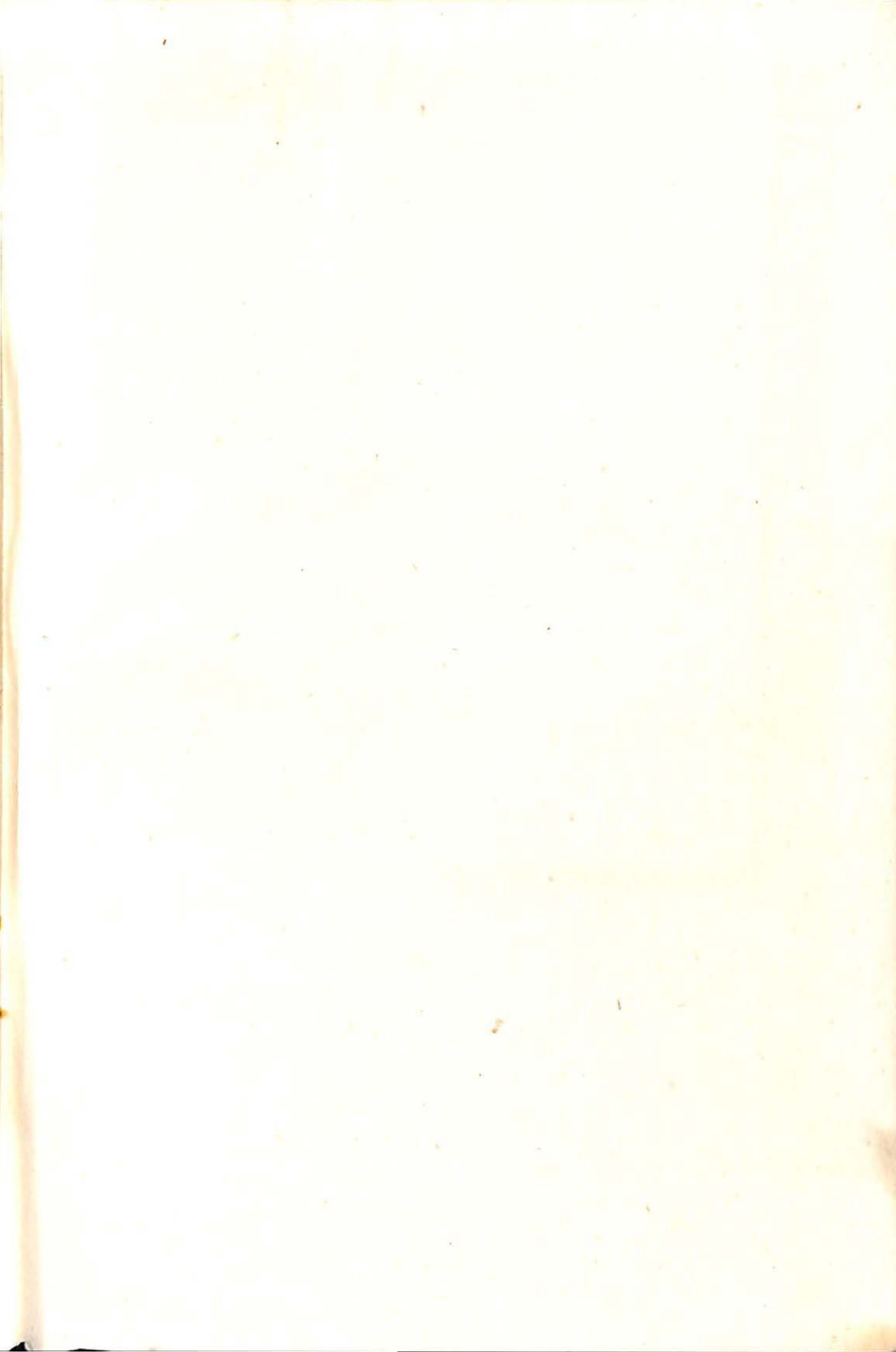
- vi) "We have been waiting a long time for the play of market forces, according to the leading theoreticians, to solve our problems of development and income distribution. The belief was that market forces would spread the benefits of technological progress. I maintain that this is not so. I maintain that a new rationality must be sought, but not one based on hegemonic interests; rather, one based not merely on economic and social objectives but on eminently ethical ones".
- vii) "Technological innovations were concentrated there (North), bringing with them an enormous increase in productivity, capital accumulation and demand, with great impetus to an impressive diversification of goods and services."
- viii) "The continuous increases in productivity were not transferred to the rest of the world through falling prices. For better or for worse, capitalism would have been quite different had this happened."
- ix) "The economic surplus is of paramount importance. It is the main source of capital accumulation. But at the same time it is the basis for the privileged-consumer society, incessantly stimulated by the techniques of the mass media, to the detriment of capital accumulation. A capital accumulation that is essential to absorb progressively, with higher technology, the labour force of the lower social strata. This is one of the main reasons for the tendency of peripheral capitalism to exclude large masses of the population, a tendency aggravated by the exceptional rate of population growth, particularly in those lower strata: another consequence of scientific and technological progress."
- x) "Consequently, in this process of continuous innovations and diversification of goods, the periphery has again been left on the sidelines. The two rounds of trade liberalisation, the Kennedy and the Tokyo rounds, have promoted an enormous increase of industrial trade between the

centres, but very little benefit for the periphery. No meaningful facilities were given to those goods where domestic firms have acquired competitive abilities or could do so if markets were enlarged. Protectionism persists and even increases."



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