

RATIONALE AND RELEVANCE OF THE NEW INTERNATIONAL ECONOMIC ORDER

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"Any nation that chooses to stand for a rigid adherence to the international status quo must expect to be on the defensive in virtually every international forum since the demands for a new international order pervade all relationships between nations. The new international order is not an empty slogan."

[Jan Tinbergen, *RIO Report*, p. 57]

I. THE NEW INTERNATIONAL ECONOMIC ORDER WITHIN THE FRAMEWORK OF THE NORTH-SOUTH PROBLEM

THE Declaration and Programme of Action on the Establishment of a New International Economic Order was adopted by the United Nations General Assembly Sixth Special Session in 1974. Some observers in the Northern developed world interpreted this move as a revolutionary challenge to the existing international economic order. It is not difficult to understand why the developed countries felt a strong sense of urgency when faced by a series of dramatic offensives mounted by the South against the background of the heightened power of the OPEC over oil resources following the Yom Kippur War. Viewing the movement in its entirety from the Charter of Economic Rights and Duties of States adopted in December 1974, the Lima Declaration on industrialization made at the UNIDO General Conference in 1975, to the Dakar Declaration given at the conference of the developing countries on raw materials (February 1975), one sees a comprehensive and neatly compiled package of assertions of the South in the aforementioned UN documents. Tribute should be paid to the developing countries at the UN for giving a systematic statement of the problems.

In stark contrast, the response by the developed countries of the North was neither adequate nor positive. True, the 1974 atmosphere of direct confrontation gave way to a climate congenial to "development and international economic cooperation"¹ at the UN General Assembly Seventh Special Session in 1975, paving the way for the dialogue at the CIEC in Paris. But the negotiations at the UNCTAD conference, particularly those aimed at finding practical solutions to the demands of the South, ended with little achieved, most probably due to the absence of positive alternatives from the North or the evasive nature of Northern proposals, such as the Kissinger plan for a resource bank.

In order that the North respond in a useful manner, basic issues must first

¹ So reads the resolution adopted at the United Nations General Assembly Seventh Special Session.

be understood deleting the ideological rhetoric and embellishments: what is the South really demanding when it asks for a New International Economic Order (NIEO), how rational and practicable is the ultimate demand, how relevant are the demands to the solution of the problems at hand? This essay seeks to provide that understanding.

Let us first clarify what the South does not demand by looking at some popular misunderstandings. For some reason, Northern observers often react emotionally to the issue of the international order. For instance, they first assert that the South sees the present state of underdevelopment as a legacy of the past international economic order involving "exploitation." As a corollary, they go on to say, the South would come to demand greater concessions from the North as reparations for past damage and accept economic aid as a legitimate, natural right. These observers conclude by saying that such claims by the developing countries are absurd, devoid of factual basis, illogically reasoned.

How the mechanism for unequal exchange associated with "exploitation" was incorporated in colonial rule or is a part of the present world economy raises some extremely interesting issues from the viewpoint of economic theory. But aside from that, what is important here is that the demand for the NIEO contains absolutely no concept of "aid" as a reparation for past "exploitation" or as a legitimate right of the South. The developing countries naturally request that all the developmental aids as envisaged in "international development strategy" be implemented in full and in an improved manner, but these requests by no means go beyond existing international agreements. More specifically, the South has yet to make revolutionary proposals such as the incorporation of a mechanism for the international transfer of resources in a new economic order that would eliminate international income discrepancies.² It seems closer to the drafting minds of the Declaration to interpret their demand as positing, in view of relative weight attached to each item of demand, that "an even and balanced development of the international community" [16] be made possible under the NIEO, which would eliminate the need for policy considerations of a systematic resources transfer mechanism on particularly concessional conditions.

With the help of hindsight, one can now argue that the industrialized countries' initial focus on "aid" to deal with the emerging issue of income gap between North and South may have been convenient for the North but was a definite burden to the development efforts of the Southern countries. In spite of repeated demands at UNCTAD meetings, the developed countries tended to neglect adjustments on the trade front, keeping their domestic markets less than completely open. Positive measures would no doubt have been painful, but the industrialized countries continued to offer expedient promises of aid as a stopgap measure by quoting certain GNP percentages as targets. The fundamental importance of the demand for the NIEO at this juncture lies in the fact that after being disillusioned by the aid philosophy of the Pearson Commission and dissatisfied with

² In this regard the RIO Report to the Club of Rome by the Tinbergen group is far more revolutionary in its view of redistributing incomes globally by world finance authorities. See [15, pp. 131, 184].

the poor aid performance of the industrialized countries, the South began to take a hard look at the very order of the world economy through which the fruits of economic development are distributed. The philosophy of development before the formulation of the International Development Strategy for the Second United Nations Development Decade was fundamentally revised into a new strategy clearly oriented toward self-reliance and independence. Resource nationalism is but one manifestation of a much more profound change, and the demand for the NIEO contains several important signs of the same change.

Another criticism of the NIEO is also rather out of place: Although the international environment can inherently be only a peripheral condition, the South often blames their state of underdevelopment on the existing international economic order, and this focus on the international order merely obscures the responsibilities of domestic development policies, by no means helping the development effort. However, the Charter of Economic Rights and Duties of States explicitly recognizes that the responsibility for the development of any country rests primarily upon that nation itself. Precisely for this reason, the developing countries argue, it is essential that an equitable global economic order must be created, to enable each developing country to efficiently achieve its development goals. It is important "to increase the capacity of developing countries, individually and collectively, to pursue their development" [17], and it must be shown that the primary objective of the NIEO is the creation of conditions under which individual and collective self-reliant effort will effectively bear fruit.

Ian Little has correctly said at MIT workshop: "I think the NIEO is primarily about independence, not about development or poverty" [2, p. 366]. Creation of a new international order would not solve the problems of development; nor would it eliminate poverty and income gaps. The task of pulling up the levels of developing countries and creating a harmonious world requires assiduous and sober efforts for self-reliant development by the developing countries themselves. If it has proved "impossible to achieve an even and balanced development of the international community under the existing international economic order" [16], it is important for all these countries to independently pursue development through means suitable to their own situations, and to attain "active, full and equal participation" [16] to solve the economic problems of an increasingly interdependent world.

Let us describe some of the positive features of the NIEO. It is of great significance that the NIEO stands for the recognition of interdependence, admitting the "close interrelationship between the prosperity of the developed countries and the growth and development of the developing countries" [16]. This recognition makes international cooperation a common duty of all countries participating in this common world task. The basis of international cooperation, i.e., growing interdependence of the world's sovereign nation-states, is recognized simply as a matter of fact. Nowhere in such a concept of world order can one find any indication of a revolutionary design to change the existing structure.

The equity objective may have to be conceptualized ultimately on the level of the individual, but the NIEO envisages a need for the present to think of distribution on the national level, i.e., as long as the unit of policy decision-making

remains the nation-state. The North sharply rebutted the use of the expression "permanent sovereignty" of nation-states, but the actual meaning has no substantial contradiction to the principles of policy-making as practiced by the industrialized countries. In the face of interdependence and interpenetration among nations, an attempt to change the existing rules of the international market mechanism would not be allowed to sever completely existing international ties and bring confusion to the world economy; nor is such an attempt anticipated in the new order. Essentially important to the demand for the NIEO is a revision of the rules of the world economic game and needed adjustments only to the extent that the total international community can be developed in an equitable and balanced manner. Nothing more is intended. It pursues no revolutionary changes that would shake the very foundations of the existing order.

Some prominent economic theoreticians in the North, however, are of the view that "the demands of developing countries have grown to the extent of denying the market mechanism upon which the existing system rests" [18, p. 15]. They further argue that the core of the NIEO consists not only of complementing the rules of the market economy but also of restricting, through public controls, the functioning of the market mechanism itself. This would make the NIEO neither desirable as far as efficiency is concerned nor compatible with the established system. From this stand of defending the market economy system representatives of the industrialized countries persistently refused the demands of the developing countries at the UNCTAD Nairobi Conference and the Paris North-South dialogue. The initial political stance of perceiving the demand for the NIEO as a revolutionary challenge was thus given a theoretical economic basis.

Is the market economy system, however, so fragile that it would become defunct through regulations laid down in a UN resolution adopted by consensus, albeit with a number of reservations? I feel that the market economy as it actually functions must have somewhat greater resilience. The market mechanism is far from fragile. In fact, it is an obstinate creature, retaining its *raison d'être* while it flexibly abides by numerous regulations. Particularly in the mixed economies of today the market can function only if it takes into account all the deliberate regulations and controls. The market mechanism has useful roles in any social system, and can function only with various restrictions imposed in accordance with the wishes of the society in which it is born. A pure market economy with no social restrictions is barely conceivable.

In order to deny the rationality of the NIEO from the viewpoint of the market principle one would have to assume that the market in the existing system is functioning purely and efficiently, and fulfilling the criterion of equity. In other words, it must be assumed that the developed countries themselves adhere faithfully to the dictates of the market mechanism both domestically and internationally, making no regulations unfavorable to the developing countries,³ so that the gains of free trade adequately accrue to developing countries and the fruits of economic development are equitably distributed. This would make it possible to have "an even and balanced development of the international community

³ This logical assumption is made explicit in [6, p. 257].

under the existing international economic order." If not, one would have either to support the proposals for revising the existing international economic order, at least in their rough outline, or present alternative schemes to the NIEO.

II. RETREATING FREE MARKET PRINCIPLE IN THE WORLD TRADE ORDER

At no time in the postwar history of the world economy has confidence in the free trade principle sunk as low as it is now. Posing ever greater difficulty in dealing with the international economic order, however, is the failure of the market mechanism to make necessary adjustments precisely at the time when relations among nations have become interdependent to an unprecedented degree and when domestic events in one country exercise immediate repercussions on the welfare of other countries. In the 1960s, after the Western European currencies had recovered their convertibility, liberalization of trade seemed to be a dominant feature of the day. GATT gave powerful support to this trend as a place for international cooperation. The shift to "freer" trade obviously deepened interdependence between nations also, although there is no logically inevitable relationship between the two phenomena.

Strangely enough, however, this seeming trade liberalization was accompanied by a growth of intervention and responsibility of the state in domestic economic management to an extent defying any meaningful comparison with the prewar situation. One factor that supported trade liberalization was the stability and relatively rapid growth of the domestic economies, which in turn was supported by a well-groomed and refined system of policy measures to regulate market functioning. The dilemma of trade liberalization, to be attained only through market regulation, in fact was inherent in the GATT system itself. For, at least as long as the GATT agreement is literally interpreted, the customary practice of equating GATT objectives with free trade should give way to the Keynesian view of priority of full employment over free trade as a policy objective.⁴

Not only did full employment and economic stability become the task of the state; social welfare, equity in income distribution, regional development, maintenance of industrial structure in micro-terms (including diversification of domestic industry) and other social and economic objectives became a great concern for the general public. The responsibility of the state was greatly expanded and a dazzling variety of policy instruments became available to the state. Among this sophisticated array of policies, measures far more effective than traditional import tariffs were devised to protect and develop domestic industry. For instance, it has proved far more effective, theoretically and practically, to give favorable discriminatory treatment to particular industries through a proper combination of taxation and subsidies or by utilizing the huge procurement capacity of the public sector. With growing importance of economies of scale and technology-intensive industries, where competitiveness is decisively dependent on research and development, protection of the import market by levying tariffs is clearly

⁴ See GATT agreement, Art. XII: 3(d). See also [4, p. 149].

inadequate. Given the need to protect and develop export industries and GATT regulations prohibiting direct export subsidies, policies for assisting these industries assumed a more subtle, indirect form. It may be argued, somewhat ironically, that trade has ostensibly been liberalized precisely because of the development and refinement of such an intricate network of policies, where emphasis has shifted from tariffs and other trade barriers to more effective policy measures for promoting specific industries [14, p. 158].

At any rate, international liberalization and a domestic trend for stronger market regulation were bound to create friction. The need for international harmony and the pursuit of national targets would unavoidably crash. Thus, the world economy was torn by forces promoting and resisting integration. On the one hand, the system of domestic policy priorities leaves little room for external adjustment, while, on the other hand, growing interdependence between nations creates tensions in the national economies, calling for structural adjustments.

This dilemma takes on particularly acute form under the new nationalism emerging in industrialized countries of the North. The traditional nationalism dominates the Third World, and it still serves as an important engine for driving national integration in these countries. The new nationalism in the advanced countries, by contrast, derives from a process of social disintegration which prompts each group to demand its piece of the national economic pie. In order to achieve the mere guise of an integrated society, the state is forced to intervene in the market on behalf of these social groups. If the market were opened internationally, a serious conflict of interest would occur between those sectors or strata which benefit and those which suffer losses. As frictions arising from external factors cannot be corrected at their origin, they pose a particularly knotty problem to the nation-state. Thus, the state is compelled to exercise an extremely broad range of regulations on market forces even to the extent of anticipating on-coming external forces.

Thus, the policy system of the new nationalism goes beyond traditional macro-economic policies to embrace comprehensive regulations of markets which affect the structure of the economy, regional and social distribution of economic wealth, and harmony with the social and natural environment. The concept of policy for dealing with the industrial structure was not well established in the countries of the Western world until recently; now it is in the center of state policy as a hidden base of the new protectionism. What has emerged here is a giant conglomeration of all types of non-tariff barriers.

This is the background against which protectionism and trade restrictions have emerged in all major trading countries since the end of the 1960s. In essence this is not a temporary deviation from the market principle but has far deeper social roots, in the disintegration of society as creator of the new nationalism and in the rigid economic structure incorporated in the new system of priority policy targets. Protectionist intervention in trade affairs does not wane in the wake of the shift of major currencies to flexibility but instead seems even intensified. Whenever a particular industry complains about a "market disruption," the issue

immediately becomes political, without waiting for sufficient evidence. Administrative measures based on the anti-dumping act and procedures for countervailing duties are used only as a pretext to precipitate bilateral political negotiations. The principal form of internationally restricting the operation of the market today is a political pressure applied on the exporting countries for "voluntary" restraints, which, when elevated to multilateral agreement, tends to confine trade to a rigid framework of comprehensive scheme for control as with textiles and steel. In addition to price and/or quota agreements, another formula involves a cartel-like agreement for market shares, as in the case of shipbuilding. Along with agricultural protectionism, something recognized by the advanced countries for many years, all these measures do away with the need to convince readers of the absurdity of the free market principle in today's world economy. Furthermore, the new nationalism's burden of market restrictions falls most heavily on the developing countries of the South, as Johnson has pointed out [7, p. 10]. Protectionism in industry, not to mention agriculture, is often directed at labor-intensive industries in which comparative advantage is likely to shift to the developing countries. If so, arguments against the NIEO based on the free market principle are rather far from convincing.

III. THE ORDER OF MARKET ECONOMY QUESTIONED

Why are matters relating to trade flow, such as its scale and direction, not determined by adjustments in a form compatible with free trade when the world economy is dominated so heavily by advanced countries who still strongly uphold the principles of the market economy? It is not difficult to understand why developing countries of the South are unwilling to accept free trade as a matter of principle for this has been amply demonstrated historically. They are not satisfied with the existing pattern of comparative advantage as "given," and state controls are necessary to deliberately change this pattern. Furthermore, distribution through the free market would assign more resources to those who have already adequate productive capacity and purchasing power, making the principle of free access to markets less attractive to the developing countries who are interested in a more equitable international allocation of not only agriculture and industry but, all economic activity. Market forces would strengthen equality where equality exists, but make inequality more marked where it is an all-pervasive condition. Theoretically, the need for state market regulations for late-comers is recognized in the infant industry argument, albeit with qualifications.

The situation is entirely different for the industrialized countries of the North. Tariffs, non-tariff barriers, cartelization of trade, and a trend toward controlled trade are all based on a desire to maintain the status quo. Economic theory posits that artificial regulation of trade flow creates some economic loss owing to declining efficiency. Nevertheless, there is strong resistance to the policy of leaving employment and sector-by-sector income formation to the free play of market forces. Why is this so? The immediate reason: failure of those sectors and strata under the greatest impact of the world market to adjust themselves

within a rigid national economic structure, while the nation requires that all those involved be allowed to maintain their levels of production and their standard of life. The new criterion is a right to participate in world economic activity. If left to the decision of the free market, declining industries would have to go out of business, something the new nationalism will not allow to take place. If they are left to go under, it is feared that the relative income standard of the country may be adversely affected due to the lack of an adjustment mechanism. Moreover, national policy targets themselves pertaining to level, content, and diversity of employment and production would be severely undermined.

The right to participate and the right to survive are given as new criteria. This in itself amounts to strong doubt about the market principle as the absolute criterion. The logic of market economy is in the first place cruel. But the emergence of a welfare state no longer allows full and complete application of the efficiency principle based on the free play of market forces. Similarly, society in general deems it "inequitable" to pursue market efficiency at the mercy of the right to participate and survive. If the present time is one where change is moving in this direction, we may safely argue that the principle of the market economy as an absolute criterion is no longer accepted in the world today due to its inability to achieve "equity." This is precisely the issue raised by the NIEO, and the UN declaration and action program on its establishment is a positive and forceful answer to the challenge. As a matter of fact industrialized countries stiffly resist the dictates of the free market for exactly the same reasons. As a result, a large portion of world trade is being transformed from a system of prices and productivity orientation to one of managed trade with shares fixed by negotiation and agreement. There is nowhere the wide gap as ordinarily perceived between the actual behavior of industrialized countries and what the NIEO envisages.

In the new order being ushered in at this very moment, the criterion of efficiency is defined in a totally different manner from what it has been traditionally. For instance, efficiency is not a search for the lowest-cost combination which will fulfil the demand of a market characterized by a given distribution of purchasing power. If there are social needs not reflected in the market, resources would have to be used most efficiently in order to meet these needs, including those decided upon by communities and government. This would be a new concept of efficiency [1, p. 45]. In allocating cost and benefit, closer international cooperation would be necessary for more equitable allocation. Only within a framework of distribution accepted by all nations could productive efficiency be pursued. In other words, efficiency par excellence can no longer be the absolute criterion. The new principle would not be dependent on static comparative advantage and market forces but would instead be sought in a mixture of market forces on the one hand (the validity of which in making economic decisions is by no means restricted) and on the other a cooperative principle where all countries are entitled to the fruits of economic development [1, p. 44].

Suppose this new type of mixed system were achieved, would the traditional

efficiency criterion be totally discarded? The answer most probably would be in the negative. There is a sort of trade-off between efficiency in the traditional sense and distributional equity. Resources would be used in a way that would minimize cost as long as the method is not incompatible with the equity criterion. In this sense efficiency remains valid. Similarly, static market efficiency is traded-off with certainty. In a complex economic system such as the present one, uncertainty about the future and accompanying high risks, dampen economic activity, and cause immeasurable economic loss. If regulations can mitigate the need for abrupt change and introduce orderly change instead of leaving all economic decisions to market forces, a better economic performance with higher efficiency would be assured [13, p. 227].

Traditional economics has concentrated on the allocative efficiency of resources based on the theory of marginal productivity, remaining faithfully static in its theoretical approach. Economics seems to be faced with the task of reexamining traditional perceptions in this area as well as improving total economic performance through sophisticated policy measures. In the latter 1950s and early 1960s a number of calculations were made, in relation to trade liberalization and regional integration, to measure static efficiency gains of resource allocation from the removal of all trade barriers. A finding common to all these studies was that the benefits of trade liberalization would generally amount to only about one-tenth or somewhat more of 1 per cent of GNP, hardly as much as one month's economic growth in most cases and meriting little attention [12, pp. 393-95]. The interesting analysis by Denison of sources of economic growth shows that during the 1950-62 period the increase in income from trade liberalization would have been nil for the United States and merely 2 per cent of total additional income for North-West Europe. In contrast, the welfare benefit from economies of scale as income and domestic market expanded, was 20 per cent of the same total additional income [5, pp. 257, 301]. If a complete elimination of existing trade barriers and a return to the free market principle would yield such a meagre efficiency benefit, how relevant and legitimate is the criticism of the NIEO that it would be incompatible with the market principle? The new order would at least assure participation of all countries in productive activity and organize an effective system of international cooperation, thus providing a foothold for the growth and stability of the world economy. Chenery estimates that the economic loss for the world's developed countries from the 1974-75 recession induced by oil crisis was at least U.S.\$300 billion, well over one-tenth of the total free world GNP. If serious attention is paid to world economic development and higher welfare standards, it is far more important to overcome the recession and gear for stable growth through policy adjustments based on international cooperation than to obstinately adhere to the principle of allocative efficiency. If economics were to turn its back on this urgent task, being absorbed by static allocative gains alone, its own relevance in this changing world would be seriously questioned.

IV. RELEVANCE OF THE NIEO

Precisely at the time the important aspects of the free market principle were being modified and partially denied in the Northern industrialized countries themselves, the developing countries of the South were pooling all their demands and putting them into a program to establish the NIEO. It would therefore be inappropriate to reject this demand out of hand just because it will involve regulations of the free market. As has been pointed out, the proposal for the NIEO in a way accepts the basic framework of the existing world order and indeed attempts to strengthen it. What it seeks is far from revolutionary. It only attempts to go one step further in the already embarked-upon direction of supplementing market functioning to achieve greater equity.

Whatever forms specific schemes may take, the demand to establish the NIEO is presented forcefully and persuasively in the world historical context. As suggested by Tinbergen's RIO Report to the Club of Rome [15, p. 23], it is merely the natural evolution of the welfare state philosophy which is already accepted at the national level. During the early phase of the modern capitalistic society when "exploitation" and alienation were dominant features, "two nations" as Disraeli called them stood at odds with each other within one nation. This confrontation was similar to today's North-South polarity, and the social basis out of which was born the Marxian theory of "relative immiserization" was painfully obvious. But in today's mature capitalist societies the Marxian prophecy of relative immiserization, i.e., a growing income gap between two opposing classes, did not come true. The fundamental reason for its failure was the progress of social integration. Capital understood that it was dependent on labor's cooperation. Without active participation of labor there could have been no continuous expansion of capital investment and production. For this reason, working conditions improved, the government increasingly intervened in and controlled the market on behalf of the weak and poor, and society achieved an increasingly higher degree of integration. In order to maintain the income level of the agricultural sector, which slipped in favor of the urban, the pricing process for farm produce was placed under public control, the so-called parity formula was introduced. In short, one measure after another was taken to supplement the free market principle, in precisely the same direction as the NIEO envisages. Not revolutionary change, but partial adjustment of the old order to the demand of the new gave shape to today's welfare state.

Recession and instability in the world economy following the oil crisis showed beyond a shadow of a doubt how interdependent the North and the South are. The North is crucially dependent on resources and raw materials from the South, the South cannot continue to develop or supply raw materials without stable Northern market. Interdependence, however, also signifies that Northern prosperity is not possible without Southern markets. Of all policy efforts needed to launch the world economy on a new path of expansion, the need to seriously deal with the issues raised by the NIEO takes on added urgency. For it is one

condition to be met if developing countries are to willingly participate in the development and production of resources in the world, armed with their own creative powers. Unless two requisites are fulfilled (i.e., agreement between all parties on methods of distributing cost and benefit of economic activities, and effective organization of a minimum level of international cooperation to eliminate excessive uncertainty and risk in the market), neither adequate investment nor a smooth supply of resources through active participation by the South is possible. Specific programs of the NIEO will be materialized exactly to the extent that international control of markets is deemed necessary in order to achieve the above objective.

One major trade issue in the new order is that of how to effectively deal with disruptions caused by market forces in the area of primary commodities. Whether non-renewable primary commodities or renewable agricultural products, it has been established that the market is not an effective means to match supply of these important products with demand arising from the manufacturing sector [8, p. 707]. It is not without reason that a broad network of controls covers the production and marketing of agricultural goods in most industrialized countries. The most important objective of the developing countries is smoothing out violent price fluctuations to attain a greater stability in export earnings, as is clearly seen in the fact that the principal policy measure under consideration is international commodity agreements, including specifically buffer stocks. But since the ultimate aim is raising import capacity of the developing countries through stable export earnings, the equity consideration invariably brings out the issue of maintaining prices of primary commodities at appropriate levels vis-à-vis the prices of imported manufactured goods. This is an aim already incorporated in the farm price support system in developed countries through parity formulae. Certain technical difficulties foreseen in making a meticulous indexation should by no means prevent rough price adjustments with the help of international cooperation.

Generally speaking, developing countries want to have access to primary commodity markets assured and more opportunities to process the raw materials at home. The role of the proposed "common fund" may be to aim at long-run objectives of balancing supply to changing demand and adjusting market prices to the basic supply and demand trends, in addition to the short-run aim of attaining price stability.⁵ The common fund should also be quite useful for financing investment to assure a long-term supply and raise the degree of domestic processing for greater industrial diversification. The most urgent concern of developed countries is access to stable supply and avoiding cost-push inflation due to primary price increases. If the vertical integration of the entire process from exploration to production, within firms based in industrialized countries, is to become a thing of the past, there is enough reason for developed countries to cooperate with the common fund to assure continued smooth supplies. In a word, the possibility is there for common interest between North and South in

⁵ It would not be altogether out of place in this connection to give to the "common fund" the roles Keynes expected the "commod control" scheme to play. See [9, p. 301].

the access, on one hand, to supplies and, on the other, to markets, which would then serve as a lever to create a new cooperative trade order.

The producers' union scheme is usually criticized as a direct affront to the market principle. In this issue one should not be too much preoccupied with an ideal image of market performance, but should instead adopt a functionalist approach. It hardly makes sense to criticize cartelization in primary commodities when supplies are deliberately controlled in manufacturing as well. The amount supplied to the market in general is not entirely free of control anyway. Furthermore, the price of limited and depletable resources includes rent, which is in no way related to the social cost of production. There is, thus, no deviation from the market principle in planning efficient time allocation of production in order to retain the sources of supply for a long period of time [1, p. 52]. In view of the nature of such a market, one should not be able to contend theoretically that prices of primary commodities would give correct signals to investment and production, however competitive markets might be [3, p. 15]. In short, the market principle does not deserve full and unconditional confidence as far as primary commodities are concerned. From both producer and consumer standpoints and in both the short and long run, international commodity agreements may turn out to be a more favorable arrangement as compared with the pricing mechanism in free play of the so-called market forces.

The developing countries' demand for free access to developed countries' markets is not restricted to primary commodities. With protectionism on the rise and being directed more and more at labor-intensive manufactured products, where developing countries have comparative advantage, demands for open markets in manufacturing goods are forcefully presented in the call for the NIEO. In the UNCTAD action plan devised during the 1960s, the generalized system of special preferences for finished and semi-finished goods was a pillar in the developing countries' demands on trade. However, aided in part by inactive policy makers, the effect of preferential duties has been proved far less than that of general trade liberalization on expansion of exports from the South [11, pp. 497-98]. The action program for the establishment of the NIEO gives relatively little emphasis to special preferences.

However, if one pursues the question of whether it is possible for the general trade order to revert to the prescription of the traditional principles of comparative advantage and free trade, the answer will be subject to serious doubt. One can hardly expect the free market principle to be upheld in developed countries, where the forces of a new nationalism are present as described in Section II. In developing countries one possible point of emphasis in trade policy would be to seek an international division of labor which would help their self-reliant industrial structure survive, and push these countries in a direction where they could deliberately change the existing pattern of comparative advantage rather than be meekly subjected to it. One important policy method for the developing countries would be to organize efficient import-substituting industries for a broader market which would be obtained by putting together a number of developing countries markets. This would require much more broadly based

international agreements on the division of labor. Targets for industrialization mean a substantial transfer of the world's manufacturing capacity from North to South. The most important step for export-oriented industrialization policy would then be the creation of a system which would provide safeguards for smooth industrial adjustment and assure greater access to Northern markets. The most fundamental aim in establishing the NIEO would thus be policy cooperation for international reallocation of manufacturing along an agreed pattern of division of labor. On the other hand, GATT, which has been responsible for trade order up until now, would have to gradually adapt to the newly emerging concept of economic policy. When the distinction between domestic and trade policy is blurred in the new era, the emphasis on simply eliminating trade barriers will have to give way to a system that would expand trade through comprehensive policy adjustments [10, p. 35]. In short, GATT's and NIEO's new direction could be one and the same.

In view of the above considerations, the response of the developed countries toward the NIEO must become more positive. It should be neither heresy nor nuisance. It is a rational, relevant policy proposal entirely in harmony with the interests of the developed countries.

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