

Guest article

By publishing this article, *Finance & Development* neither endorses the author's views nor takes a position on North-South issues in general. We are aware of the widely varying views on these issues. We hope, at a later date, to carry a different viewpoint on this topic. It is important to note, too, that the Fund and Bank have taken no formal or official position regarding the need for Global Negotiations or the most appropriate forum in which they should be held.

Whither the Global Negotiations?

In this frank and personal analysis of the current impasse over Global Negotiations, the author questions the timing and efficacy of the current approach and suggests an alternative

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The efforts to launch the Global Negotiations on international economic issues, planned to be held at the United Nations, have been stalemated ever since the UN General Assembly resolved at its Thirty-Fourth Session in 1979 to launch them in 1980 at a special session. The frustration of the developing countries ("the South") over this stalled situation and their perception that the developed countries ("the North") are being inflexible have injected a discordant note into the so-called North-South dialogue, a process that may be traced back at least to the first United Nations Conference on Trade and Development (UNCTAD I) in 1964. As attempts are being made again to seek a successful launching of the negotiations, it is important to assess their underlying objectives and to question whether the Global Negotiations are the ideal, or possibly even a feasible, way of achieving these objectives.

Historical perspective

The North-South dialogue, in some form or another, has been on the international scene for a long time. It is, however, difficult to understand the present state of the negotiations and their pros-

pects without appreciating the key role played by oil. In particular, it must be recognized that the emergence of the Organization of Petroleum Exporting Countries (OPEC) as a major actor on the world economic scene has transformed North-South issues. Without going into a history of postwar economic relations, a brief sketch of the major phases in the evolution of these relations will serve to put the North-South dialogue, and more specifically the Global Negotiations, in a proper context. For the purposes of this analysis, postwar international economic relations may be conveniently divided into five identifiable phases.

First, the period from the end of the war until 1973 may be termed the era of the Liberal International Economic Order. Under the leadership of the United States, the international institutions founded at the end of the war or soon thereafter—namely, the International Monetary Fund, the World Bank, and the GATT—provided the institutional umbrella under which trade, investment, and growth prospered. But while this period was one of unprecedented growth in world trade as well as rapid development for many countries, the seeds of later disputes were already sprouting. Two in particular may be noted. First, even though all

countries stood to gain from the working of the institutions mentioned above, there was a feeling among a number of developing countries—namely, those that had not achieved political sovereignty at the time the international institutions were created—that these agencies were not structured in such a way as to address their particular needs. In addition, the emphasis on liberal trade and payments that characterized the Liberal International Economic Order, in particular in matters dealing with the classical choice between protection and trade, was not fully shared by many of the newly independent countries.

Up to 1973, these differences in approach were still manageable, and indeed the specialized agencies had been modified to accommodate some of the concerns of developing countries—Part IV had been introduced into the GATT in 1964 clearing the way for the granting of preferences to exports of developing countries; in 1963, the compensatory financing facility and in 1969 the buffer stock facility were created in the Fund; and at the World Bank, the International Finance Corporation was established in 1956 and the International Development Association in 1960.

The second phase, covering 1973–76, was characterized by the emergence of Southern solidarity and “militancy.” The international economic system that had evolved during the postwar period was sharply disrupted by the success of OPEC in effecting a fourfold increase in oil prices including the embargo by some of its members. One consequence of this was a shift in both the tone and content of the North-South dialogue. The success with oil led some developing countries, who had always thought of reliance on commodity exports as a sign of economic dependence and weakness, to consider them instead, via commodity cartels, as a potential source of strength—the economic concept of “commodity power” was born. This perception was at least partially shared in the North, paving the way for the Conference on International Economic Cooperation in Paris during 1975–77. The focus on commodities went hand in hand with the view that the entire range of international economic issues—trade, money, aid, energy, and so on—should be negotiated together. In part, this was seen as a negotiating ploy on the part of OPEC to prevent energy being negotiated in isolation. But it also reflected the view, embodied in the New International Economic Order proclaimed at the 1973 conference of nonaligned countries in Algiers, that the international economic management structure had to be reorganized to reflect the South’s aspirations and interests.

Phase three (1976–78) was one of adjustment to the oil shock, the stabilization of oil prices, and the beginning of energy conservation. Oil was seen to have been a special case and “commodity power” was recognized as being illusory. At the same time, the North’s sense of vulnerability diminished with energy conservation aiding the adjustment process, and the urgency of reaching accommodation with the South faded. The South’s solidarity was simultaneously eroded, as the successful recycling of the oil exporting countries’ surpluses to the more developed of the developing countries meant that the latter were now being more fully integrated, and politically coopted, into the international economic system. Finally, the success of oil, while whetting the South’s demands, had also weakened the North’s macroeconomic situation and hence its political and financial capacity to respond to the demands of developing countries for greater resource transfers. The post-1973 Southern militancy therefore lost its rationale.

The fourth phase (1978–80) was heralded by the cut in oil production triggered by the Iranian Revolution and the subsequent second major rise in oil prices. This gave a new lease of life to the developing country notion of negotiating from strength and led to renewed demands that comprehensive Global Negotiations be launched on North-South issues. This approach found favor with OPEC, hoping to defuse therewith Southern pleas for oil price

relief. The UN General Assembly resolved that a round of Global Negotiations on international economic issues be launched at a special session of the UN in 1980.

The fifth and final phase (1981–83) is one characterized by the global recession and its aftermath. The world recession, accompanied by the phenomenal rise in real interest rates, and to a lesser extent the success of conservation policies in the North have slowed both growth and the demand for imported energy. The North has little to gain directly from Global Negotiations: for example, there is no *quid pro quo* to be obtained from OPEC and other commodity suppliers in return for major concessions to Southern demands. The South, therefore, cannot negotiate from strength. Global Negotiations must be examined against this background.

The path ahead

A major lesson from the current impasse is that it is futile to persist with the Global Negotiations at this juncture, if at all. A number of fundamental reasons militate against their progress. There are deep divisions among the major Northern countries and also among the leaders of the South on the question of attempting a global bargain, that is, embracing different sectoral issues simultaneously rather than negotiating sectoral questions as separate issues. Closely allied to this asymmetry of preferences in negotiating strategy is the debate on where the negotiations ought to be conducted. The North seeks to negotiate on a sectoral basis at the specialized economic agencies, such as the Fund and the World Bank, where the voting procedures are weighted and hence generally assign a decisive role to the North. The South prefers a wider discussion at the United Nations where the one-nation one-vote principle gives it the advantage.

If the South then is to abandon, at least temporarily, the hitherto unproductive idea of Global Negotiations, it must take positive initiatives simultaneously to promote its basic objectives and impart a forward momentum, however small, to North-South relations. Possibilities for such initiatives definitely exist on two fronts.

First, deliberations on the reform of the global economic management structure over the medium term could be initiated on three levels. (1) Changes have already occurred in the major global economic institutions, enhancing the role of the developing countries. For example, as part of the agreement on the Second Amendment to the Articles of Agreement of the Fund, the number of issues requiring special, high majorities—thus conferring on the developing countries voting *en bloc* a veto power—has been increased. Other such changes, which would confer a greater voice to the developing countries without sacrificing working efficiency, are feasible and must be systematically explored. (2) At the same time, an appropriate and feasible role for the UN in global economic management should be devised. A compromise could be wrought that would convert the UN into a body where a comprehensive review of global problems is undertaken periodically, while actual decisions on sectoral issues are taken with the aid of this review at the specialized agencies. (3) These two changes could be supplemented by a serious examination of whether the number of existing specialized agencies should be expanded to handle the emerging global economic issues. For example, the emergence of international migration between the North and the South and not merely intra-South and intra-North is a major phenomenon and deserves special attention. The fragmented and ad hoc emphasis that it receives in different international agencies, if it receives any at all, points in the direction of a Code of Conduct, and indeed a GATT for migration, to define a consensus on the economic (and political) rights and obligations

of member states with regard to their borders and treatment of aliens.

Second, the current global macroeconomic crisis provides an opportunity to move toward a higher level of global economic deliberations, embracing both North and South. The worrisome world debt situation and its manifold ramifications, which concern several key countries in both groups of nations, have created genuinely mutual interests. This crisis paradoxically affords a key opportunity because Northern interests are now critically intertwined with Southern imperatives through debt: Northern lenders have as great a stake in the viability of their loans as Southern borrowers, so that there are now major influential groups in the North for whose economic well-being Southern prosperity, and hence solvency, is important.

There exists, therefore, a unique political opportunity to look at, and deliberate upon, the broader issues of international finance and economic cooperation. They include the need to combat protectionism, thus providing Southern exporters with access to Northern markets and making it possible for debt to be repaid, and the need to direct augmented aid flows to the many distressed Southern nations that cannot borrow from the private markets. The necessity for joint, multilateral deliberations, keeping broader interactions between different sectoral issues in mind, evidently exists.

An international monetary conference held at ministerial level in 1984 could address two related items of immediate concern. First, there is a need for an appropriate institutional structure and governing principles for debt management for the relatively few

middle-income developing countries who borrowed heavily during the 1970s and who must now reach understandings with their creditor Northern banks. The second issue could be how to assist the low-income developing countries, many in Africa but others elsewhere, who need official assistance and official debt relief, especially in view of the collapse of their primary export earnings. There are enough mutual interests between banks in the North and their middle-income Southern borrowers for such a dialogue to be rewarding. The question of the low-income countries has to be answered on a rather different plane, much like famine relief.

While a new world monetary conference could make up for the lack of broad participation in the decisions of specialized agencies, it could also set an example of how to arrive at a compromise between the South's and the North's positions on the respective roles of the specialized agencies and the UN as forums for negotiating North-South issues. Such a conference could discuss the substance of what ought to be done and try to reach a consensus. But this does not rule out the possibility that the ultimate negotiations be conducted at the specialized agencies themselves (unless, of course, new institutions emerge from these deliberations, which seems unlikely).

Many of these ideas have now achieved a wide degree of acceptance among developing countries. The Global Negotiations have been effectively put on the back burner for at least another year and the idea of an international economic summit has been embraced explicitly by the South. The task awaiting Southern diplomacy now is to convert this dramatic shifting of gears into political action in order to secure the necessary Northern response. **ED**

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