

Module 3: New International Economic Order (NIEO)

Q1: Explain clearly the origin and objectives of a new international economic order (NIEO).

The New International Economic Order (NIEO) was a set of proposals put forward during the 1970s by some developing countries through the United Nations Conference on Trade and Development to promote their interests by improving their terms of trade, increasing development assistance, developed-country tariff reductions, and other means. It was meant to be a revision of the international economic system in favour of Third World countries, replacing the Bretton Woods system, which had benefited the leading states that had created it – especially the United States. This order was demanded by the Non-Aligned Movement.

Origin of New International Economic Order (NIEO):

The concept of new international economic order was although initially projected by Raul Prebisch and some other economists in the 1950's and 1960's, yet the first formal endorsement to it was received in April 1974, when the United Nations General Assembly at its sixth special session committed itself “to work urgently for the establishment of a new international economic order based on equity, sovereign equality, common interest and co-operation among all States, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations.”

This UN commitment recognises that the existing economic order was unjust, wicked and immoral and that there was the necessity to create a new and healthy international economic order based on justice and co-operation.

Objectives of New International Economic Order (NIEO):

The nature of new international economic order is made explicit through the structure outlined by the UN documents and resolutions. The key objectives stated in these resolutions can be put into four major categories.

These are as follows:

(i). Issues Related to Assistance:

The foundation for a just world economic order can be laid if there is sympathetic understanding on the part of developed countries towards the aid requirements of the LDC's. A greater measure of co-operation from them can assist in the removal of poverty and in the achievement of balanced regional growth.

In this connection, the advanced countries are required to extend an untied and continuously expanding aid to the LDC's for the achievement of assistance target of a minimum of 0.7 percent of the GNP of the former. In the matter of technical assistance, the U.N. specified that the international community should continue and expand the operational programmes including vocational training and development of national personnel and management.

(ii).Issues Related to Trade:

Apart from greater co-operation in the field of aid, the essence of the new international economic order (NIEO) lies in the improvement of the conditions related to the international trade such that the less developed countries find progressively expanding opportunities to enlarge their exports. It can enable them to get hold of export earnings sufficient to overcome their chronic balance of payments deficits and achieve a steady state growth.

The NIEO must be guided by such trade-related goals as improving the terms of trade for the LDC's adoption of integrated commodity programmes, development of international food programme, diversification and enlargement of the export potential of the LDC's, improvement and strengthening of trade relations between countries having different social and economic set up, strengthening of economic and technical co-operation among the LDC's, reform in the existing international monetary system ensuring greater participation of LDC's in the IMF decision-making and larger transfer of real resources from the bodies like World Bank and IMF.

(iii). Issues Related to Industrialisation and Technology:

One of the significant objectives specified by the United Nations, having an important bearing upon the new international economic order, is a change in approach to industrialisation and technology. In this regard, the United Nations stressed upon the redeployment of industrial productive capacity to developing countries. The developed and developing countries should enter into negotiations about the possible shifting of the industrial capacity of the developed countries to the Third World.

(iv). Social Issues:

The NIEO has also the objective of dealing with the social issues faced by the international community through the mutual co-operation of the developed and less developed countries.

The social issues or objectives identified by the United Nations include:

- a. The achievement of a more equitable distribution of income and raising the level of employment;
- b. Provision of health services, education, higher cultural standards and qualifications for the work force;
- c. Integration of women in development; assurance of the well-being of children;
- d. Full recognition of the sovereignty of States over natural resources and the right to control their exploitation and right to their nationalisation;
- e. Provision of compensation for adverse effects on the resources of the states on account of foreign occupation, colonial domination or apartheid;
- f. Establishment of a system of consultation to promote industrial development, and
- g. Restructuring of the economic and social sections of the United Nations.

The outlines of NIEO, as suggested by the United Nations, reflect the aspirations and needs of the less developed world. The ushering in of such a world order based upon mutual trust and co-operation can certainly assure the optimal utilisation of world resources, enlargement of international trade and investment flow and acceleration of the process of economic and social transformation of the world system.

Q2: Discuss the strategy to tackle debt problem of India.

Two of Asia's largest economies – China and India – face the same problem – bad debt. China's banks are getting most of the attention, but the problem in India seems to not have improved. 7.6% of the loans offered by India's banks have turned bad, as of March 2016. This is up from 5.1% in September 2015 and could go up to 9.3% by March 2017, the RBI warned recently.

So in such a situation, what can be done to tackle the bad debt problem? India Ratings, a credit ratings agency, recently published a report suggesting some solutions.

Here are five:

Asset reconstruction companies (ARCs):

Many companies buy debt or other distressed assets. They repackage this asset and sell it off. Whatever they earn from the sale is used to pay back the debt. ARCs, thus, can play a big role in solving India's debt problems. "Ind-Ra believes that ARCs have been modestly successful in bad debt resolution in the current paradigm wherein banks have been averse to significant haircuts on debt sales," the report said. The only issue is that ARCs in India lack the capital to buy the Rs 6 trillion-worth bad debt in the system. Currently, they only have enough capital to buy 10% of the bad loans.

More capital needed:

To meet these capital requirements, India Ratings suggests that ARCs should be given the freedom to get capital from third-party investors too. This is more so because most of the bad loans belong to large corporates and clients. These loans are often worth over Rs 5 crore. So, restructure such loans, ARCs need adequate funds. Currently, there are many limitations on who can fund such debt restructuring and more importantly, how such debt can be restructured.

New Bankruptcy Code:

The government has a new Bill in the works – the Insolvency and Bankruptcy Code, 2016 – that can help resolve India's bad debt problem, according to India Ratings. This can help increase the amount of recovery. Banks and debt companies can recover some amount of the loan by selling off assets. This is called as a 'recovery'. It is usually measured as a percentage of the original loan value. Currently, banks only manage to recover 30-50% of the total loan value, according to India Ratings. This has the potential to go up to 50-70% if the Bankruptcy Code is efficiently implemented.

Going concern v/s asset liquidation:

How bad loans are restructured can have a significant impact on the amount of recovery. Banks and ARCs have two options: 1) sell off the assets 2) allow the company to continue its operations and use the earnings to pay off loans. Selling off assets is not always the right option, according to India Ratings. It analyzed four sectors in India that had the most number of bad loans – metal and mining, infrastructure and construction, power, and textile. All four sectors needed the 'Going concern' approach, it suggested.

Realistic haircuts:

The ratings agency also suggested that the RBI should allow banks to have realistic haircuts. When a bank restructures bad loans, it assumes that it will not be able to recover all its money – some portion has to be written off. This loss is called a haircut. The RBI limits how much haircut a bank can take. Often, it is not realistic, India Ratings said in its report.

Q3: Discuss the main issues involved in the North-South dialogue

The North-South Dialogue refers to the **process** through which the developing and newly independent nations of the "third world," predominantly in Asia, Africa, and Latin America, engaged the industrialized countries of North America and Western Europe in negotiations over changes to the international economic system.

The term globalization is one of the most important and latest terms in common use, with expanded circulation very quickly during the past few years. Perhaps the reason for this is the linking of this term with deep and fast changes experienced by the world at the present time, in all political, economic, social or cultural and technological terms. This means that the local, regional and international variables interfere with each other, where it becomes obscure what is local what is regional or global, but global and cosmic effects become inclusive of all countries and peoples. Whatever may be said, the essence of the process of globalization represented in the ease of movement of people, information and goods between the countries on a global scale, and the effect of this on economic relations in general and the North and South dialogue in particular. The economic gap between North and South gave birth to the idea of dialogue; the results may lead to reduce that gap, in order to re-examine the structure of the global economic system, so the system is established according to more just foundations and objectives, in the hope this would ease the suffering of developing countries during the past years. The dialogue between developing countries and industrialized countries is only to compromise on contentious economic issues, and to reassure the peoples of both parties of the coming economic risks, and to defeat them by the countries of the North's claim of the South states.

The main issues can be read out from (K.C.Rana & K.N. Verma Book)

Q4: Discuss the problems of North-South Dialogue.

An examination of some of these demands by the countries of the South will make one to consider it wishful thinking for anyone to expect that most of these demands can actually be met. This is because the superiority of the North actually resides in some of these factors, and it would be virtually impossible to let go. The way the International capitalist system operates presupposes that there will always have to be some countries that will provide the raw materials for the development of the North. While there have actually been concessions in terms of debts relief, debt forgiveness and other forms by the countries in the North the activities of most leaders in the countries of the South have not been too encouraging. A situation whereby money is stashed away by leaders in developed countries' banks does not show that the countries are actually in need of any major revision of the global economic policies. Most of these countries do not even utilize the grants or loans in profitable ventures and so it is difficult to expect returns. Also owing to the turnover of regimes in these countries, the new leaders pretend as if nothing is wrong with the early borrowings, only for them to also procure new loans.

The problems of the South can thus be summed up as follows:

(a) **Monoculture Economy:** The problem with the North-South dialogue is the monoculture economy of the countries of the South. The nature of the economy will not give it the power to bargain from a position of strength with the North.

(b) **Corruption:** Another major problem of the South is pervasive corruption that has engulfed the countries. For examples, Nigeria officials were discovered to have been involved in shady deals with Halliburton of the USA.

(c) **Capacity Development and Utilization:** The countries of the South should push for capacity development. At present, capacity development and utilization of the South's resources is at very low ebb.

(d) **Nature of Leaders:** The leaderships in most countries of the South are comprador agents. They are merely interested in the gains of their foreign partners as against the interest of their people.

(e) **Re-orientation:** Instead of the countries of the South to continue to agitate for a New International Economic Order (NIEO), they should be interested in a New World Economic and Social Order (NWESCO). This is the sense in which NEPAD becomes meaningful.

Q5: Explain the prospects for the North-South Dialogue.

The possibility of creating (NIEO) through the North-South dialogue appears elusive. In other words, it is obvious that the countries of the North will not be willing to commit a sort of class suicide, that of giving away the source of their power and wealth. It is therefore a futile exercise to talk of a New International Economic Order, while the wealthy nations continue to have their club summit amidst growing poverty in the Third World. Hence, Huffman (1991:119) recommends aptly that, the South should among other things, do the following:

(i) **Self Reliance:** The countries of the South should look inwards for their development. They should move from the level of monoculture economies to economic diversification.

(ii) **South-South Options:** Rather than expecting manna from the countries of the North, the South should explore the South-South option, i.e. improve trade relations with fellow countries in the underdeveloped World.

(iii) **Re-orientation:** Another prospect for the South is for these countries to jettison the idea of relying on the North for their development.

(iv) **Disengaging from the global economy:** If possible, the countries of the South should disengage completely from the present global system that has made their raw products less competitive.

Finally, the Western development model, which characterizes global economic relations and political development of the North, continues to thrive at the South's detriment. To complicate the situation, there is no discernible urgency on the part of the developed countries in so far as addressing the predicament of the countries of the South is concerned.

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