The International Economic Environment surrounding Developing Countries

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1. Changes of the Primary Commodity Market

In the 1950's and 1960's after the Second World War, developing countries[1] had achieved their political independence shaking off the yoke of colonialism under western countries. Up until then, they had been suffering under the economic oppression by suzerains which was based on an economic exploitative system reflected in colonialism. This economic system was established mainly on plantations and associated with agricultural products. Similarly, natural resources such as minerals were developed and exported under the dominance of suzerains. Even after the achievement of political independence, their former suzerains maintained an economic influence over export trade and their importers continued to export primary commodities[2] at low costs. Under such conditions, developing countries tied to exports for income, were unable to gain sufficient export incomes as long as their exports of primary commodities were dominated by western countries many of which were former suzerains. And most developing countries were reduced to poverty even though international economic growth accelerated in spite of having achieved their political independence.

In order to break through such situations, developing countries were challenged to form a third political power block to make head way against the industrialized western countries and the United States. The symbolic international conference was "the Bandung Conference" which was held in Indonesia in 1955. One of the principal objectives of the Conference was to free developing countries from the economic regimes imposed by developed countries solely bent on gain. There was a need to

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recover and establish profitable management of their primary commodities including natural resources. They officially affirmed that the ownership of natural resources belonged to developing countries and only then could they be considered as part of the wealth of the international society. Simultaneously, they urge that the trade of primary commodities should be implemented under the management of developing countries with favorable conditions respecting the fact that developing countries possess the natural resources and cultivate agricultural products to the benefit of developed countries.

However, the terms of the export of primary commodities were not actually sufficient to satisfy the needs to fill up the hunger of the local people. The reasons being that the local economic system was still plantation based and export prices of primary commodities were still controlled by developed countries in the international economic arena. Even if they could earn satisfactory export incomes from a few primary commodities, their earnings entered the pockets of middlemen or bribery officials without return or distribution to the local people. In order to make restoration and distribution to the local people, there were no domestic laws and the lack of governance ability in enforcement. Under such circumstances, some developing countries started to change their economic policy in order to transform the economy into a self-sufficiency economy without depending on the export income of primary commodities.

As for the ownership of natural resources, it had been decided to discuss it at the United Nations Conference on Trade and Development (UNCTAD) which was established in 1964. Developing countries argued for the need to recover economic sovereignty from developed countries at that time. Although they had gained political sovereignty by achieving their independence, the economic exploitative system through trade continued as usual under the dominance of developed countries. Under such a situation, the export prices of primary commodities were decided by the import countries, which were the western countries and the United States. The distribution of wealth continued to be unequal in the international economic system, and the unfairness of the distribution was not restored to developing countries, and their export incomes remained poor. Therefore, at the UNCTAD, they concentrated their efforts on urging the establishment of a new international economic regime which could assure their economic sovereignty and allow them to realize a fair distribution of wealth generated from primary commodities, including natural resources. This assertion came to fruition in the New International Economic Order (NIEO)[3] which was formed along the proposals put forward during the 1970's by some developing countries through the United Conference on Trade and Development (UNCTAD) to promote the interests of developing countries. Following this, the Declaration for the Establishment of the New International Economic Order and the Program of Action etc. were adopted by the United Nations General Assembly in 1974.

The preamble of the declaration states that the establishment of the New International Economic Order be based on equity, sovereign equality, interdependence, common interest and co-operation among all States, irrespective of their economic and social systems. It shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between developed and developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations.

The declaration packaged the concepts to promote the interests of developing countries by improving the terms of commodity trade, increasing development assistance, developed-country tariff reductions and so on. It was a challenge to revise the international economic system in favor of developing countries, replacing the Bretton Woods[4] system, which had benefited developed countries, particularly the leading states such as western countries and the United States. However, the ideology of the NIEO was too ambitious to realize all of the various actions so that an unproductive discussion was repeated at the UN Conference. However, in the field of primary commodities, the establishment of several new International Commodity Organizations and the Common Fund for Commodities (CFC) which came into force in 1989, were realized.

2. Establishment of the International Commodity Organizations

One of the main reason why developing countries urged their economic sovereignty under the NIEO was that there was a strong sense of impending crisis since prices of primary commodities in the international trade were still dominated and managed by transnational companies in connection with developed countries which triggered distortion in the distribution of wealth. And in line with the above, there was the idea that developing countries would be able to secure equal distribution of the wealth, by controlling the supply of primary commodities including natural resources with their ownership, and by removing the domination of the transnational companies in the international trade market.

However, such a concept of controlled trade was essentially opposed to the free market principles of classic economics where the prices of primary commodities were automatically fixed in relation to the actual demand and supply under the competitive free trade market.

The concept of controlled trade was embodied in the resolution of the UNCTAD in 1976 under the name of the Integrated Program for Commodities (IPC). The IPC also affirmed one part of the concept for the New International Economic Order (NIEO). The pillars of the IPC were to establish the new International Commodity Organizations and the Common Fund for Commodities (CFC). The Committee on Commodities in the UNCTAD agreed to the establishment of new International Commodity Organizations such as the International Tropical Timber Organization (ITTO), the International Natural Rubber Organization (INRO), and the International Jute Organization (IJO) in addition to existing International Commodity Organizations such as the International Tin Organization (ITO), the International Coffee Organization (ICO), the International Sugar Organization (ISO) and so on. The producer and consumer countries of the International Commodity Organizations would attempt to stabilize the international prices of primary commodities through negotiations and consultations among them. Concretely, in order to realize the appropriate pricing, they adopted the technical methods of the "Buffer Stock System"[5] "Export Quota System"[6] and "Production Management"[7] etc.

The Buffer Stock System (BSS) had been adopted only by the ITO at that time, but the INRO and ISO were interested in the BSS as an effective method in order to stabilize commodity prices. On the other hand, most developing countries were essentially negative to the adoption of the Export Quota System and Production Management through the International Commodity Organizations, since they worried about the effect on their export incomes. As the result of severe confrontations among interested countries, most of the International Commodity Organizations changed their main function to merely an exchange of information on their own commodities.

Furthermore, the International Tin Organization (ITO) failed in 1985 due to the failure of management of the buffer stock system. It was almost impossible to correctly predict future amounts of supply and demand. As a result of that, the controlled trade of commodities faced difficulty in managing international trade on the side of developing countries. This occurrence seriously affected and made a negative impact upon other International Commodity Organizations. After this event, many International Commodity Organizations became nominal and lost any effectiveness they might have had.

On the other hand, the Common Fund for Commodities (CFC) as another pillar of the Integrated Program for Commodities (IPC) had been established in 1989 for the purpose of supporting the functions of the International Commodity Organizations by means of providing mainly funds for mainly loans through the first account. But in effect, donor countries could not provide sufficient funds, moreover, the opinions on how to manage the functions of the CFC between developed and developing countries were seriously confounded due to the lack of available resource funds. The CFC in consequence contracted what might be called functional disease. Meanwhile, the International Commodity Organizations had also been falling into decay and the CFC could not find lending partners and had to suspend management of the funds. The CFC was forced to transform into an aidgranting agency which approved projects which focused on commodity development, namely research and development geared towards productivity and quality enhancement, vertical diversification, and trade and market expansion.

Consequently, I can say that the International Commodity Organizations could not provide effective measures to realize equal distribution of primary commodities and natural resources for developing countries. At the same time, they could not support commodity production and export from developing countries which might have significantly contributed to the expansion of employment opportunities and the improvement of export incomes, for the benefit of the local populace of developing countries. And it was unfortunate that in 1980's fluctuations and weakening prices of primary commodities affected most developing countries.

3. Transformation of the International Economic Regime

The international economic regime was changing drastically in the 1970's, while the controlled trade manner of primary commodities deadlocked, and the UNCTAD was unable to take more effective measures as a substitute for the International Commodity Organizations to contribute to the economic development of developing countries. The transformation of the International Economic Regime was brought about by the Dollar Shock in 1971[8] due to a shift to a floating exchange rate system from a fixed one, and then the First Oil crisis in 1973[9] and Second one in 1979[10].

The Dollar-Shock brought into question the credibility of the dollar as an axis currency and the influence of the United States in the international economy went into decline. This sudden transformation saw a remarkable increase in transactions on foreign exchange markets due to the shift to a floating exchange rate system. Speculative transactions gained margins bet against fluctuations of the exchange rates. Speculative values were far above the actual transactions of trade. In time, the speculative excesses promoted market fundamentalism which maximizes efficiency by leaving everything to the market.

In the First and Second Oil crises, the OPEC countries succeeded in raising the oil price and a large quantity of dollars streamed from Japan and other oilimporting countries to the OPEC countries. The OPEC Fund was established in order to jointly manage these dollars. The OPEC Fund trusted European banks to manage their assets. As a result of that, the resources of the OPEC Fund streamed through European banks as Euro-Dollars which provided loans for developing countries, particularly in Africa. These Euro-Dollar loans resulted in heavy debt problems in developing countries in the 1980's.

In the 1960's, the export-import of primary commodities was mainly conducted in actual transactions. But, in the 1970's, forward transactions, developed by the commodity trades of the Chicago stock exchange market, gradually expanded to other countries and became the main stream of market transactions. Afterward, forward transactions developed into a speculative business of their own. They needed large amounts of capital compared to actual transactions. Therefore, under such circumstances, surplus Euro-Dollars were utilized for the speculative business. And the Euro-Dollars resulted in promoting speculative business. In addition, as forward transactions became activated, they had an influence on the primary commodity prices. Since primary commodities are easily affected by irregular weather conditions, prices on forward transactions tended to fluctuate, but under the speculative business, this was exacerbated. Moreover, primary commodity prices were not flexible enough to reflect such movements of supply and demand. When prices increase in response to a rise in demand, supply of primary commodities naturally goes up. But the increased supply is slow to go down in response to a decline of demand due to the smallscale production system of developing countries. Therefore, the market started to take precautions against sudden rises in demand because of the problems associated with fluctuation and downward stiffness of prices. In consequence, prices were generally hanging low in the long term, particularly in the 1980's, which was unsatisfactory for developing countries. Such unfavorable conditions on primary commodity prices decreased the export incomes of developing countries and became the main factors which generated acute debt problems.

4. Developing countries in globalization

The liberalization of the financial and capital transactions based upon the Plaza Agreement in 1985[11], further accelerated the speculative transactions through foreign exchange markets and forward transactions. Since that time, hedge funds came into being gathering resources from certain men of prosperity and ordinary investors to benefit from speculation. Subsequently, they became a factor of disturbance in the international economy. At the same time, a financial instrument called "derivatives" appeared in the international financial markets, giving hedges funds even more leverage. This kind of trans-boundary economic activity was accelerated by the remarkable progress of Information Technology which became a symbol of the economic transformation in the 1990's. This stream of the international economy finally led to "globalization".

Globalization stimulates and enlarges speculative funds, and these become unstable factors in the international economy. Evidence of this was seen in the economic and currency crisis which occurred in Thailand on July 1997, and in the resulting waves in Malaysia, Indonesia and South-Korea etc. over the short term. Many economic analysts around the world paid attention to the trans-boundary turmoil caused by the speculation of hedge funds which invited internal economic crises in Asia with the sudden collapse in value of foreign currencies in the exchange markets. As the result of that, it led to a drastic decrease of foreign currency reserves, aggravation of inflation and forfeiture of employment opportunities and so on.

It also became clear that globalization of financial markets is a profitable international economic regime for developed countries, particularly for western countries and the United States, when linked with the swelling and speculative money which has been dominating world markets. The integration of the international economy leans predominantly on the trade policies of developed countries because of their superior economic power, technological competence and access to information content. On the contrary, in many developing countries, the market economy is underdeveloped and the infrastructure is feeble. Under such circumstances, it is extremely difficult for them to be able to achieve economic development by means of entering the stream of globalization. Preferably, they should be facing up to the risks of being marginalized by the international economic regime and looking for ways around this.

Globalization is said to be based on the free trade system and closely linked to the Washington Consensus[12] which promote assures the liberalization of finance. To encourage developing countries to participate in the WTO[13], developing countries should be assured that their economic interests would be enhanced by joining the WTO, and in consequence, be more involved in the international economy. However, the economies of many developing countries were still premature and they were confronted with structural obstacles to satisfy the various economic conditions needed to become a member of the WTO. Therefore, they remain outside the framework of the WTO and cannot participate in the benefits of the open trade system. And in light of the Asian economic and currency crisis mentioned above, we see that the guidance of the IMF linked with the Washington Consensus failed to improve the policies of Asian countries which continued to trouble them.

5. Key issues to resolve the economic difficulties in developing countries

Many developing countries are still suffering from various economic difficulties which continue to marginalize them from the stream of globalization such as accumulation of external debt, hanging low prices of primary commodities, and a lack of funds to develop for their economies. In addition to this, environmental problems are emerging namely, desertification, global warming and air and water pollutions, which require a global approach that will transcend the national interests of developed and developing countries.

In many ways, international society is becoming increasingly interdependent, and the survival and prosperity of one nation is closely related to the survival and prosperity of all other nations. This sense of global interdependence has become a kind of leitmotif of the international community and may be the key needed to develop support to overcome the economic difficulties of developing countries.

One of the most serious economic problems confronting developing countries is external debt. Not only does external debt seriously constrain the economic development of developing countries, but remains a troublesome problem for the international economy as a whole. The promotion of a flexible approach between the debtors (developing countries) and creditors (developed countries) is essential to the solution of this problem. That is to say, in order to relieve the debt burdens on developing countries, the creditors should make more effort to implement expansion of concessional loans, extend limits for repayments and increase grants of aid cooperation etc. On the other hand, the debtors should also make an effort to put into effect economic reforms for their development which will contribute to the maintenance of international trust.

In addition to this, developing countries are also faced with sluggish prices of primary commodities. As already mentioned, many developing countries rely to a great degree on export income derived from the export of a few primary commodities, but as the price of primary commodities was sluggish in remaining at low level, there was a shortage of funds for their economic development. And the International Commodity Organizations could not support to realize an equal distribution of primary commodities and natural resources for developing countries They could not also effectively respond to the fluctuation of weakening prices of primary commodities by using their technical methods of the "Buffer Stock System", "Export Quota System" and "Production Management". But, we saw that exchange of transparent information is still useful at the International Commodity Organizations. The reason being that administered measures which are contrary to market principles cannot resolve commodities problems and that the effective actions taken in line with the market mechanism will play a major role in its solution.

Under such circumstances, there are two key issues to ameliorate a function of the commodity market. First, it is important to promote the exchange of transparent information in the International Commodity Organizations. Therefore, many International Commodity Organizations have changed their function with a view to exchanging information on their commodities. Second, developing countries should promote the diversification on their economies by increasing the degree to which primary commodities are processed prior to export. This will allow them access to grant aid from the second account of the Common Fund for Commodities (CFC), as well as Official Development Assistance (ODA) from developed countries.

In terms of the lack of development funds, against the background of external debt and commodity problems, a reverse flow of capital was seen around the world. That is, capital flow from developing countries was greater than that from developed ones. This was a major impediment to the development efforts of developing countries. In order to address this problem, developed countries should promote capital flow to developing countries by implementing measures to recycle funds through expansion of Official Development Assistance (ODA), particularly through the increase of grant aids, expansion of concessional loans and extension of rescheduled limit of repayments etc.

Simultaneously, in order to increase their export incomes, it is necessary for developing countries to get preferential treatment through the generalized system of preferences in framework of the open trade system. From this point of view, developed countries should constantly implement a special preferential tariff policy of zero or near zero percent on agricultural, fishery and mining products from developing countries.

In terms of Official Development Assistance (ODA), the donor (developed) countries have been striving to extend, in a practical and flexible manner, various kinds of cooperation that can enhance the self- reliance of the recipient (developing) countries. By not only increasing the amount but also improving the quality such as technical assistance, the donor countries should endeavor to meet the real needs of the recipient countries. Concretely, they should make more effort to expand grant aids and debt relief measures and place greater emphasis on human resources development which is essential if long-term development is to be achieved. On the other hand, the recipient countries should also accelerate their structural adjustment efforts, including improvement of environmental conditions to receive direct investment from overseas. At the same time, they need to reduce fiscal expenditures, control inflation and maintain stable foreign exchange rate, as well as find ways to nurture the domestic private sector and to further develop human resources.

In conclusion, I can say that globalization has been inclined to accelerate economic disparities between developed and developing countries and has promoted an unequal distribution of wealth. Developing countries are even now in an inferior situation to achieve economic self-reliance. In order to realize a fair global economic society, developed countries must pursue not only economic rationality, but also social rationality. They need effective and flexible manners based on the morals and ethics in which developed countries grew. And developing countries need to enjoy their own economic interests. And the result will be the creation of an equal, fair, and contented international society with reduced economic disparities between developed and developing countries.

Notes

1 There is no official definition of “developing countries” and “developed countries”. (1) The Development Aid Committee (DAC) in the OECD categorizes developing countries as “Low Income Countries” “Lower Middle Income Countries” “Upper Middle Income Countries” according to their annual per capita income. (2) The Development Planning Committee (DPC) in the UN designated “Least among Less Developed Countries (LLDC)” according to an average GDP of the last three years and “Most Seriously Affected Countries (MSAC)” affected by the Oil Crises in 1973 and 1979. (3) The World Bank categorizes developing countries (borrowers of loans) based on two criteria according as GNP per capita (Low Income Countries, Lower Middle Income Countries and Upper Middle Income Countries) and an amount of debt (Group1 ~ Group5). (4) The IMF categorizes developing countries (recipients of grants) based on four criteria according to the amount of export, capital, debt and an average of GNP per capita.

2 The concept of primary commodities includes agricultural products and natural resources such as minerals in developing countries excluding industrial processed products.

3 The main concepts of the NIEO were (1) Developing countries must be entitled to regulate and control the activities of multinational corporations operating within their territory. (2) They must be free to nationalize or expropriate foreign property on condition favorable to them. (3) They must be free to set up association of primary commodities and all States must recognize this right. (4) International trade should be based on the need to ensure stable, equitable, and remunerative prices for raw materials, generalized non-reciprocal and non-discriminatory tariff preferences and so on.

4 The Bretton Woods system was the first monetary and financial agreement signed by the participated nation-states for the United Nations Monetary and Financial Conference which was held in New Hampshire in the United States in 1945 just after the Second World War. The structure of the system consists of the establishments of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) which afterward became the World Bank (WB).

5 The Buffer Stock System was an attempt to use commodity storage for the purpose of stabilizing prices in a commodity market. Specifically, commodity is bought and stored when there is a surplus in the economy, and then it is sold from the store when there is economic shortage in the economy.

6 The Export Quota System is a scheme to adjust the proportion of amounts of export among producer countries with bidding at the decisions of the international commodity organizations.

7 The Production Management is a scheme to arrange the amount of production of commodities in developing countries without bidding according to consultations of the international commodity organizations.

8 In 1971, Mr. Richard M Nixon President of the US officially announced the so-called gold standard which was related to the unilateral cancellation of the direct convertibility of the US dollar into gold, shift to a floating exchange rate system from a fixed one and other measures to recover huge budget and trade deficits of the US.

9 In 1973, due to the outbreak of the fourth Middle East War in 1973, the OPEC countries jointly decided to raise oil export prices and implement an oil embargo on the US and other western countries which politically supported Israel.

10 In 1979, there was a cut in oil production due to the Iranian Revolution, the OPEC countries jointly decided to raise oil export prices. But this action did not increase oil export prices because of the progress which had been made on the global oil security system of oil import counties since the First Oil crisis.

11 The Plaza Agreement was an accord signed by five countries -France, West Germany, Japan, the US, and the UK- on September 1985 at the Plaza Hotel in New York City, which depreciated the US dollar in relation to the Japanese yen and German Deutsche Mark by intervening in currency markets.

12 The Washington Consensus is a term used to describe ten policy prescriptions as a baseline of directions for developing countries in need of assistance from the IMF and the World Bank which laid out in 1989. These prescriptions are in framework of free market fundamentalism in keeping the liberalization of the financial and capital transactions.

13 The terms of accession to be a World Trade Organization (WTO) are dependent on the country's stage of economic development, namely the degree of privatization in the economy, transparency of the domestic regulations and domestic trade policy consistent with the WTO rules and so on.