The development of the international economy in the period 1945-2000 essay sample...

Economics

The global economy faced several ups and downs after World War II from 1945 to 2000, due to transformations achieved through the development of the economy. More often than not, these changes were executed by the richer 1st world developed countries (DCs) like the USA, Western Europe (WE) and Japan. While some of their policies aimed to improve the international economy on a whole, there were others that were pro-West and discriminated against the less developed countries (LDCs), hence causing them to enter crisis or suffer losses in trade and industry.

This essay seeks to evaluate the extent of the policy changes and other events which disfavoured the economies of the LDCs or only benefited the DCs, as compared to those aiming to eliminate preferential treatment or discrimination. International economic institutions such as the World Bank (WB), IMF, GATT and WTO played significant roles in regulating the global economy and implementing new rules that affected both the DCs and LDCs.

To begin with, the Bretton-Woods institutions were inherently unresponsive to 3rd world interests upon establishment, as they felt the LDCs were insignificant in the global economy. The institutions were largely inclined towards accelerating the post-war economic reconstruction in Western Europe and Japan to deter Soviet communism, through economic subversion, from taking root in these economically recovered countries. As the 2nd and 3rd world LDCs did not play an active role in the global (capitalist) economy before 1945, they were neglected and much lesser priority was placed on it as compared to the WE economies which were more possibly influenced by the approximate Soviet communist bloc.

For one, GATT was generally pro-west in preventing a communist manifestation globally. 20 years of GATT indifference to special problems of the LDCs can be represented by the results of the Dillon and Tokyo rounds of 1960-63 and 1973-79 respectively. By the Dillon round, a mere 160 out of 4400 tariff concessions were export items of LDCs. The perceivably rhetoric Tokyo round further failed to meet LDC needs, as exports were not promoted and discrimination remained[1].

The World Bank was originally envisaged mainly to make loans to war-damaged European nations to pay for investments in large energy and transport infrastructure projects, essential for their re-integration into the global economy. As such, their single-minded emphasis on this only contributed to the exclusion of aid for the LDCs for at least the first 10 years. Even as there were attempts to provide assistance to LDCs, these neo-liberal principles were unsuitable to their unstable states. The highly homogenized uniform remedy of development proliferated Western ideals and thus the abandonment of traditional structures. Furthermore, WB operations were subverted to US Cold War policies in the 1970s as resources were mobilised as a vehicle for militant US policy aboard.

Hence, it is clear that the early stages of global economic developments was short-sighted in solely aiming to perpetuate pro-West ideology in first world economies, and hence discounted LDCs from receiving aid or keeping level with the economic progress.

The dominance of western powers, or the USA in specific, in the economic institutions also ascertains the execution of politically influenced decisions which only benefited themselves, despite the cover of non-discrimination. Hence, the LDCs were deprived of attaining the maximum aid available since they posed as a loss to the benefit-givers.

The World Bank and the IMF have a system of weighted voting depending upon the quotas held by the member countries. Quotas have been assigned according to the economic strength and the original bargaining positions of the member countries. Thus, having close to a 40% investment in the WB stock, USA has enough command to be able, in collaboration with one more DC with a decent size of economic strength, to block any changes. These institutions have, therefore, been generally accountable to the US and to those of some other developed countries, and from the outset, did not grant aid to LDCs and other areas in which industrialisation did not serve their immediate interests.

Similarly, the authority of the DCs in deciding the level of tariffs and non-tariff barriers through GATT imposed proved to cater only to their own interests. Tariff lowering and increasing prices of 3rd world imports by the USA served to reduce the comparative advantage that the LDCs had in manufacturing of certain products. This practise of discrimination, though violating the rules of GATT, was allowed only due to the dominance of the USA, who were responsible for most of the international economic policies.

For example, the access to DC sugar markets was largely restricted, resulting from preferential treatment toward US sugar growers. Thus, LDCs were prevented from competing in its area of greatest comparative advantage. As natural resource producers, stabilisation of commodity prices can greatly reduce the volatility of the income, unemployment and government revenues in the LDCs. Yet, the lack of this stability contributed to by the DCs only served to advantage themselves through worldwide inflationary pressures[2].

Another global development that favoured the DCs was their various backdoor agreements amongst only the richer countries to protect their economies against the policies that the economic institutions enforced which were detrimental to them. These agreements marginalised the LDCs and hence they were put at a loss, having been left out of potential economic gains.

From the beginning of the 1980s, the developed world placed increasingly restrictive protectionist measures against their imports of textiles and apparel from developing countries under the auspices of the Multi-Fibre Arrangements (MFA), as a non-tariff barrier to trade. This violated GATT rules, allowing them to set quotas for imports to protect their inefficient textile industries which could not compete with, or threatened by cheaper and better quality textile imports from the LDCs.

The 1970s Generalised System of Preferences (GSP) under GATT also served to safeguard DC economies, and hence severely reduced the supposed benefits for the LDCs. The unilateral agreement allowed DCs to decide on the system of product classification and amount of quota reduced, hence propagating an element of unfairness.

Moreover, the emergence of pluralism and new regionalism hindered LDCs from trading with the DCs. A case in point would be the formation of the European Economic Community's (EEC) Common Agricultural Policy, which restricted foreign imports from non-member countries, and subsidised agricultural products when necessary. Along with this, the European Free Trade Area was also formed to establish freer trade between bloc members but tariffs against others. This undermining of non-discrimination was by far the most damaging departure from the principles of GATT and to the LDCs[3].

Another point of concern of the LDCs was the issue of copyright and patent ownerships. The World Intellectual Property Organization (WIPO) and Trade-Related Aspects of Intellectual Property Rights (TRIPs) was formed in 1970 to satisfy the modernised Western world's demands for control over property rights and piracy, which would affect their own trade. However, this was met with objection from the LDCs, who were afraid their local products might be patented and hence threaten their heritage.

The issue over the neem between the US and India best illustrates this point. While the neem tree has been used in India for over 2000 years for various purposes such as pesticides and toothbrushes, a US company had sued Indian companies for producing the emulsion because they have a patent on the process. This shows that the power of copyright by the DCs would threaten the production sector in LDCs and cause them to lose out in variety of manufacture.

After all, it is imperative to note that the widespread promotion of free trade by the economic institutions and fundamentals of the Bretton-Woods system in supposedly helping the LDCs prove ineffective, as it would only serve to denationalise them and exploit them to perpetuate their dependence on DCs.

Through GATT, not only did the Most-Favoured Nation (MFN) clauses inhibit rich states from granting preferential treatment to LDCs[4], its main guiding principle of reciprocity inexorably works to the advantage of the DCs and burdens the LDCs, for equality among un-equals is inequitable. For example, as a consequence of structural differences between countries at different stages of development, a tariff concession by LDCs would cost much more to the country itself as compared to an equivalent concession by the DCs[5].

More importantly, productivity advances in DCs lead to wage and other input cost increases that keep prices constant or rising. On the other hand, LDCs would not experience these due to disguised unemployment and weak labour organisations, and yet lead to price declines resulting in a loss of revenue. This would also signify a loss of comparative advantage by the LDCs in the long run, with DC consumers acquiring a larger and more efficient local market for the commodity.

In retrospect, there are however, other reasons which highlight the intentions of the international economy specifically in buttressing the LDCs' economies; these were contributed to by both the DCs and LDCs. Most essentially, the LDCs collaborated to appease their own interests as a result of the failure of GATT and the other institutions to look after their interests.

The LDCs convened United Nations Conference on Trade and Development (UNCTAD) in 1964 to represent their interests against rising neo-protectionism as they had considerable voting strength there. With conferences held every 4 years, it helped the LDCs by influencing richer countries to offer trade concessions, and sponsored the setting up of the Integrated Programme of Commodities (IPC) as well as the establishment of the $6m Common Fund to stabilise primary product prices.

Another notable point was that, even though the LDCs were neglected in the early years of development and the economic institutions were largely pro-West, the system still did adapt to cater to the 3rd world needs when the problems became more visible. This proves that there was still an element of mutual assistance available to the LDCs and they were not totally neglected as the expense of inclination towards the DCs.

The GATT did contribute additionally through the GSP and various cuts in tariff and non-tariff barriers, despite not to the extent which the LDCs demanded for. The Tokyo round was significant in reducing tariffs by a cut by 25-30% to 5-7% on industrial and agricultural goods, in addition to new codes of conduct for non-tariff barriers such as rules on licensing and government procurement.

A better case to illustrate this would be the change in IMF stand in assisting the LDCs. While the IMF only focused on the recovery of the Western economy in the early years, it adapted to circumstances and provided programmes for the LDCs, especially from the 1970s on. Its role as a lender of last resort during the 1973 oil crisis ensured that no LDCs were left without any aid available in times of need. More evidently, the efforts of the IMF have been reflected through the channelling of 93% of their credits to LDCs special needs by 1980.

Last but not least, the impact of the institutions in bringing about greater participation from LDCs and interaction between DCs and LDCs over the years must not be neglected. The participation of LDCs as full members of GATT by the Uruguay round in 1993, bringing the membership number to more than 100, is significant in showing the success of the global economic development in proliferating relations between the LDCs and DCs, and denoted a new phase in world trading history within a new era of neo-liberal globalisation. An excellent illustration of this would be the imports from developing countries in the early 1990s, which accounted for roughly a third and an eighth, respectively, of total imports in the US and European Union (EU). These shares were roughly twice what they were in the 1970s[6].

After a thorough evaluation of the direction that international economic development took from 1945 to 2000, it is apparent that while there was a slight attempt to sustain the LDCs towards the end of the era, most of the concessions and policies were made with the main aim of rebuilding and strengthening the US, WE and Japanese economies.

To say that the provisions (as a form of protectionism) for the LDCs by the economic institutions and West were crucial in helping them advance their economy would be an overstatement, as statistics would show that the Special and Differential Treatment did not seem to have delivered what was intended from it. Research has demonstrated that preferences can at best play a marginal role to assist developing countries – what determines and drives performance is what countries do for themselves. Yet, the LDCs' own efforts in solving their problems, such as through the UNCTAD, were not effective as it was slow in progress to solving the 3rd world problems.

While it is imperative to note the large benefits and growth the LDCs achieved till 2000 as compared to the 1940s when it was neglected by the West, and that it may not have been as successful without Bretton-Woods institutions, the global economic development did tend towards the DCs, albeit achieving growth as an international economy altogether. This meant that the DCs were able to progress at a faster rate than the LDCs, and sometimes even at the expense of the LDCs, especially by their stubborn and parochial intentions of self-protectionism. Hence I would agree with the statement to a large extent.

References:

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[5] Ibid, p. 42.

[6] T. N. Srinivasan, Developing Countries and the Multilateral Trading System. Westview Press, 1999.