

# THE THIRD WORLD AND THE WORLD ECONOMY UNDER GLOBALIZATION: SUING FOR EQUITY

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## **Abstract**

The paper highlights the lopsided nature of the world capitalist system that has compelled the less developed countries to agitate for a New International Economic Order (NIEO). At the beginning, the efforts of the less developed countries in that regard raised a lot of hope and expectations for the creation of an equitable world economic order. But the momentum for the reforms soon died down, partly because the Third World states were divided but mainly because the Western powers were opposed to such sweeping reforms. The main thrust of the recommendations in the paper is that the Third world states should embark on vigorous regional and sub-regional economic integration schemes to promote economic interactions among themselves. Apart from enhancing mutual benefits among them, economic co-operation will also reduce their economic dependence on the developed capitalist countries. In the final analysis, far-reaching economic reforms in individual countries are what the Third world countries need for economic survival and active participation in the international capitalist system that is now further reinforced by the pervasive globalization process in the millennium.

## **Introduction**

The collapse of socialist system in 1994 paved way for the complete domination of the world economy by the capitalist system spearheaded by the U.S. a system that confers immense advantage to the developed capitalist countries in the North and penalises the less developed countries located in the Southern hemisphere. With their superior technology and advanced capital, the developed countries have continued to derive maximum benefits from world trade while at the same time the economies of the South have continued to stagnate (Kenneth et al, 1968).

While the liberal school made up of Western scholars believes that endogenous factor such as mismanagement, planlessness, and political instability are responsible for the economic woes of the developed countries, the Neo-Marxist school, now popularly known as the Dependency School, argues that the integration of the economies of the less developed countries into the world capitalist system accounts for the economic backwardness of the former. Consequently, the Dependency School made up of scholars of the South such as Bade Onimode, Gunder Frank, and Immanuel Wallerstein, initially prescribe that the South should pull out of the world capitalist system in order to arrest the stagnation of their economies. But faced with the realities of the growing interdependence among nations, the Dependency School later took a less radical approach by advocating a restructuring of the international capitalist system in the interest of the less developed countries.

It was against this background that the less developed countries in 1974 came up with a number of demands for creating a New International Economic Order (NIEO). Although the developed countries have not acceded to sweeping reforms of the present world economic order, the demands provide a food for thought for reforms that may come in the distant future.

The problem addressed in this paper relates to the nationalistic spirit that informed the demand for a NIEO on the one hand, and the lack of unity and political will among the Third World states in

collectively bringing pressure to bear on the Western powers to make substantial concessions on the other hand.

## **Background of the Demand for a NJEO**

It is common knowledge that the bulk of the earth's resources have for ages remained under the firm control of the developed capitalist countries. The eventual colonization of the Third World countries provided them with a leeway to further tighten their grip on the earth resources through the forceful incorporation of the Third World economies into the world capitalist system. Under the system, the third countries were reduced to a status of a peripheral area from which surplus flows perpetually to the core (advanced) countries. Evidently frustrated about the *status quo*, a Third World dependency theorist from Latin America, Frank (1980) laments:

Thirty developed countries with less than 30 percent of the world's population now, and foreseeable, only 20 percent of world income, financial reserves, and steel production, and 95 percent of the world's scientific and technological production.

Indeed, the integration of the Third World economies into the world capitalist system has been largely responsible for the stagnation of the Third World economies and the dwindling of their sovereignty. It has put them in a vicious cycle of underdevelopment and poverty. Thus Onimode argues that the advanced capitalist countries have been able to perpetuate the asymmetrical relationship between them and the Third World through such mechanisms as foreign investment and the so-called free international trade, and even violence.

Besides, the Bretton woods institutions -the International Monetary Fund (IMF) and the World Bank -have been manipulated to achieve the selfish goals of the developed capitalist countries. Thus, the Third World could be said to have been re-colonized by the bourgeois countries of the West through the IMF and the World Bank. In view of this, Hyland argues that:

...the short run stabilization tools of the type routinely applied by the International Monetary Fund (IMF) and other orthodox practitioners can easily have undesirable effects in poor countries because there are important structural features of their economics that the usual models leave out.

The lending policies of these agencies have been designed to trick less developed countries into a 'debt-trap' so that they will remain subservient to the Western powers. The developed countries have not only been discriminating against the primary products of the less developed countries, they have also formed the habit of dictating prices of these products at the World market.

It is in the face of this dilemma that the less developed countries have been calling for a New International Economic Order under which the wealth of the earth will be redistributed in their favour. The agitation received the attention of the Sixth Special Session of the United Nations General Assembly in 1974, where the Group of 77, spearheaded by OPEC members, adopted a Declaration and Action Programme on the Establishment of a New International Economic Order (NIEO). The declaration embodied the following:

- 1) The right of the Less Developed Countries (LDCs), to form producer associations;
- 2) Linkage of commodity export prices to the prices of manufactured exports from developed countries;
- 3) The right of LDCs to nationalize foreign enterprises and gain sovereignty over their natural resources; and
- 4) The formulation of rules to regulate the multinational corporations (Wallerstein, 1974).

These objectives were on December 12, 1974 adopted by the General Assembly of the United Nations in the form of the Charter of Economic Rights and Duties of States. Further negotiations between the poor countries of the South and the rich countries of the North culminated in what has come to be popularly known as the "North-South dialogue", otherwise known as Conference on International Economic Co-operation, ICEC, in Paris in 1975. Although the dialogue has not been successful, it has pointed to the urgent need to review the current international "trade and payment system among nations.

The demand for a New International Economic Order underscores the importance of interdependence among nations. Interdependence in this case is not seen as a means for drawing the sharp teeth of sovereignty since sovereignty cannot be absolute in a world of growing interdependence. Rather it

is meant to enhance the opportunity for obtaining maximum concessions from those states that possess a disproportionate share of the world's wealth and power. Thus the principal purpose of the new economic order as envisaged by the less developed countries is not to consolidate an interdependence that progressively restricts the freedom of action of all States. The 1975 Lima Declaration of Non-Aligned Countries asserted that true interdependence must reflect unequivocally "the common commitment to build a New International Economic Order for the common good of all States.

### **Globalization and Regional Initiatives**

The collapse of the General Agreement on Tariffs and Trade (GATT) in the later part of the 1990s created room for the emergence of the World Trade Organization (WTO) to ensure freer and fairer international trade through a drastic reduction of tariffs and the removal of other trade barriers. GATT was doomed from its conception in 1948 since the then Eastern bloc and a number of less developed countries refused to sign the principles setting it up. But like GATT, WTO is already being criticized for being at the beck and call of the USA. The arguments and counter arguments on this matter still rage on.

The economies of the Third World Countries have come under severe pressure as a result of the international competition arising from the globalization process that is now sweeping across the whole world. With their poor infrastructure, lack of capital for productive investment, and insufficient skilled manpower, the Third World Countries are more than ever before faced with enormous challenges as the all-crusading globalization has completely exposed the vulnerability of their economies. In apparent reaction to the unpalatable impact of globalization, the Third World Countries have started taking initiatives to cushion the negative impacts of globalization and to work towards achieving sustainable development.

In Africa the establishment of the African Union in place of the Organization of African Unity (O.A.U.) is meant to provide an avenue for pooling resources of the African states towards addressing the peculiar problems of the continent with concerted efforts. The African Union is purely an African initiative aimed at breaking out of the vicious circle of poverty and underdevelopment that have plagued the continent since the early 1960s.

As if the formation of the African Union is not enough, Africa has proceeded to establish the New Partnership for African's Development (NEPAD). NEPAD is a merger of the Millennium Partnership for the African Recovery Programme (MAP) and the OMEGA plan. The initiative dates back to 1999. The main objectives of NEPAD are to:

- 1) Eradicate widespread and severe poverty;
- 2) Promote accelerated growth and sustainable development; and
- 3) Halt the marginalization of Africa in the globalization process.

All these initiatives could go a long way in liberating Africa and the rest of the Third World from decades of marginalization and poverty. The initiatives can also help them to grapple with the challenges of globalization. And at the end of the day, their quest for an equitable economic order could be achieved.

### **The Specific Demands of the LDCS**

Specific demands were made by the LDCs for fashioning out a New International Economic Order (1987) that would adequately take cognizance of the peculiar problems and interests of the LDCs. Gilpin has put these demands precisely as follows:

- 1) Measures that would increase Third World control over the own economies, especially in natural resources;
- 2) Agreements to maintain and increase their purchasing power and to improve the terms of trade for their material exports;

- 3) Enactment of a code of conduct increasing their control over the MNCs within their" own borders;
- 4) Reductions in the cost of Western technology and increases in its availability;
- 5) Increases in the flow and liberalization of foreign aid;
- 6) Alleviation of the LDC debt problems;
- 7) Preferential treatment and greater access for LDC manufactured goods in developed markets; and
- 8) Greater power in decision-making in the IMF, World Bank, United Nations, and other international organizations, thus making these institutions more responsive to LDC needs.

Judging from the nature of the demands, the goal of the LDCs is not to overthrow the capitalist system but to champion drastic structural reforms in the world economy. The demands are geared towards "policy and institutional reforms that would make the international economic system operate to the advantage of the less developed countries and enlarge their role in running the system". Essentially, the LDCs would want to operations of the world economy to reflect their development needs.

### **Reactions of the Developed Countries to the LDCS Demand for a NIEO**

On the whole, the reaction of the developed countries to the demand by the LDCs for a New International Economic Order ((NIEO) has, predictably, not been favourable. There have been varied and conflicting responses from among the Western powers. Some of the Western powers that are disposed to the demand for a NIEO have in collaboration with the LDCs vehemently called for changes in the rules governing international trade, the monetary system, and other matters relating to the world economy that are crucial to the interests of the less developed countries. For instance, some developed countries have lent support to the agitation of the LDCs for changes in the composition of world bodies, especially the United Nations, the World Bank, and the International Monetary Fund (IMF), that would create room for the less developed countries to exert greater influence on the management of the world economy and its regimes.

Despite the numerous international conferences that were held, especially in the mid-1980s to take concrete steps towards undertaking reforms in the world economy in favour of LDCs, no significant progress has been made. Thus, the world economy anchored on the international capitalist system has remained unchanged. Unfortunately, decades of unsuccessful attempts to persuade the industrial capitalist countries to initiate reforms of the present trade and payments system have kept many millions of people in poverty.

The failure to create a New International Economic Order (NIEO) is not only due to the intransigence of the Western powers, the attitude of various less developed countries is also contributory to the failure. In precise terms, the factors responsible for the breakdown of the North-South dialogue and hence, the non-actualization of the envisaged New International Economic Order, can be summarized as follows:

- 1) As expected, the main stumbling block to the creation of a New International Economic Order is the developed world. Despite the rhetorical acquiescence of some developed countries to the exigencies of reformulating the world economic order, none of them has shown sincere commitment to the goals and objectives of a New International Economic Order. The United States is in the forefront of the developed countries that are reluctant to make substantial concessions to the cause of the NIEO, describing the demands as unworkable and antithetical to the ideals of a free market economy.
- 2) Paradoxically, the less developed countries that are clamoring for a New International Economic Order are divided against themselves, and therefore, unable to speak with one voice. The OPEC member countries whose economics are relatively strong have not fully identified with the poorer non-OPEC countries of the South in the struggle for a NIEO. The OPEC countries, content with their wealth, seem to be preoccupied with development programmes at home than committing their resources to an altruistic goal.
- 3) The divide and rule strategy of the Western powers is really working against the less developed

countries. Thus, the Third World Countries remain divided. One fundamental reason why this division persists is that the elites who rule in most Third world nations find it to their advantage to obey the existing rules formulated by the industrial capitalist countries rather than attempt to forge a new order in the interest of the majority of their population. Despite their rhetorical denunciation of the policies of the Western nations, these ruling elites resort to violent repression of their own people rather than accede to popular demands for a fundamental change that would guarantee an equitable distribution of resources among the earth's inhabitants.

- 4) The astronomical "rise in world petroleum prices had a devastating impact on non-producing countries, particularly those in the Third World. In the main, the sharp increases in the petroleum prices increased the import bills of the non-oil producing less developed countries; it caused a worldwide economic recession resulting in a drastic reduction in the world demand for the commodity exports of the LDCS. Consequent upon all these problems, the zeal and bargaining power of the less developing countries for a New International Economic Order (NIEO) came to a grinding halt.

### **Recommendations**

- 1) For the foreseeable future the developed countries are not likely to make any significant concession for the entrenchment of a new world economic order. Therefore, the less developed countries must brace up with the challenges of economic and technological development so that they can catch up with the developed countries.
- 2) Arising from the above point, the less developed countries must put their "house" in order by eliminating such problems as culture rigidity, outmoded method of agricultural production, and political instability.
- 3) A stable democratic rule to guarantee peace and order is a necessary condition for economic and technological development. And so the Third World must strive toward entrenching lasting democracy in their societies,
- 4) The export-led strategy comparable to that of the Asian tigers is what the Third World needs to strengthen their economies and then be in position to influence the operations of the world economy.
- 5) Regional economic groupings should be intensified among the less developed countries to promote trade among them, and to exert strong bargaining power against the Western powers. Such regional economic blocs should also help to promote the production of complementary rather than competitive commodity products among the Third World states. This would then provide an avenue for the less developed countries to pool resources that are needed for rapid economic and technological development.

### **Summary and Conclusion**

The paper traces the economic predicament of the Third World countries to the forceful incorporation of their economies into the world capitalist system at a premature state. The unequal exchange between the North and the South in the international capitalist system has put the South in a dependent position.

Under the system, the world economy is structured into two: (1) The metropolitan countries " which monopolize the earth's resources; and (2) The peripheral countries from which surpluses perpetually flows to the metropolitan countries. Through the instrumentalities of free international trade, aid, and multinational corporations the metropolitan countries have been able to perpetuate this asymmetrical relationship even years after the colonial subjugation of the less developed countries.

The dependent status of the less developed countries has put them in a serious economic predicament. Among other things, it has put them in a vicious cycle of underdevelopment and poverty, making it impossible for them to develop their economies due mainly to inadequate capital and trained manpower requirements. The attempt to augment their domestic resources through external borrowing has only deepened their dependency as they ended up accumulating debts that cannot be repaid in the foreseeable future. This makes them to remain subservient to the creditor nations.

It was in the face of this predicament that the Group of 77, representing all the less developed countries of the world, convinced the Sixth Special Session of the United Nations Assembly in 1974 to adopt a Declaration and Action Programme in the establishment of a New International Economic Order (NIEO) in the interest of the less developed countries.

It was a bold step towards making the Western powers to make substantial concessions in the area of favourable prices for the commodity exports of the LDCS, and also reinforcing the LDCS representation in the World Bank, IMF, and the UNO. The response of the Western powers to these demands has been generally unfavourable. Although the effort of the less developed countries towards formulating a New International Economic Order has failed, it has nevertheless pointed to the urgent need to redress the imbalance between the North and the South.

With the uncompromising position of the Western powers, a radical restructuring of the present world economic order is not feasible. Much of the task of creating a world economy favourable to the less developed countries lies with the LDCS themselves. This would, involve undertaking drastic economic reforms in their societies, adopting the export-led strategy to maximize foreign earnings that are crucially needed for economic development, and most importantly, establishing regional and sub-regional economic interactions among themselves. All this will go a long way in mitigating the disastrous consequences of the Western dominance of the present international capitalist system for the economies of the less developed countries.

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