

# NEW INTERNATIONAL ECONOMIC ORDER: THE TRADITIONAL FRAMEWORK AND RELEVANCE IN 21<sup>st</sup> CENTURY WORLD WITH SPECIAL REFERENCE TO INDIA

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## ABSTRACT

*The New Economic Order emerged post 1973 Oil Crisis concurrently associated with creation of OPEC in the form of a detailed economic plan suggested by some of the developing countries through the UNCTAD. But this new order died within few years of its inception mainly because of the camaraderie among the developing nations vanishing due to conflicting economic interests. Notwithstanding above, the authors feel that NIEO of yesteryears still exists and greatly effects the world citizenry and the Indian socio-politico-economic system through increased focus on trans-border trade cooperation's, development of renewable energy sources, protection of consumer rights, globalization-liberalisation-privatization, self-reliance, Make in India, FDI, Skill India and Start Up India besides rapid industrialisation, spread of banking, internet and e-commerce and increased transparency of governmental functioning with an unprecedented accessibility of members of the Indian government on social media.*

**KEY WORDS:** *Trans-border trade cooperation, Steep global down swing, Big-Five, Rhetorical and political value, Expansionist ambitions, Global multilateral negotiations, entrenched liberalism.*

## HISTORICAL BACKGROUND

Consequent upon 1930's depression and the World War I, the total world economy suffered a rude setback. The trade and industrial decline of this magnitude marked an unprecedented steep global down swing in the employment opportunities, negative balance of trade and sustained unstable monetary situation the world over. It was an also time when the international body like League of Nations was weakening. The constant state of war and war like situation throughout the world caused a simultaneous breakdown of the economic condition in various nations. This economic collapse came to manifest itself especially in the underdeveloped nations popularly known as the 'Third world countries'.

The rising military ambitions of bigwigs led to an unprecedented global economic slowdown and a general collapse of the fiscal and economic order. Many under developed (or third world) countries were still having colonial status belonging to the erstwhile British empire and were therefore lacking an independent economic posture.

The USA, as a matter of policy had withdrawn itself into isolation after World War-I which partially contributed

to the collapse of the international monetary and economic situation. However, the American leadership by the end of Second World War came to realise that it would not at all be favourable for the USA to isolate itself once again even if it so decided. Alongside, the USA was also convinced that being the world leaders, they had no choice but to play on front foot on the economic pitch in order to control the internationally worsening trade situation.

A requirement to re-align the whole economic infrastructure was therefore inevitable so as to effectively deal with the effects of the deepening economic crisis the world over and bring the constantly crumbling fiscal regime back on track once again.

The world economy those days was heavily dependent upon the driving force steered by the big economic powers i.e. USA, UK, erstwhile USSR, France and China. Considering a need to expeditiously address the rising economic challenges, a meeting was organised in 1944 at the behest of the five abovementioned superpowers at Bretton Woods in New Hampshire in USA to address this rising international concern. The meeting was attended by many stalwarts of the world economy like John Maynard Keynes

and HD White (the Advisor to American administration on matters related to treasury).

This effort, though indeed made in the right direction, had but a major shortcoming. The conference did not have true representation from the erstwhile Afro-Asian underdeveloped colonies that still did not enjoy an independent status. In fact Bretton Woods proved to be more of a summit of the rich and affluent states. But it did not serve the interests of the underdeveloped nations. Around this time the UN through the Special United Nations Fund for Economic Development (SUNFED) got actively involved in addressing the economic issues faced by the underdeveloped nations. But frankly, the Big-Five did not favour the idea of the UN assuming a big brother bearing in helping the underdeveloped nations through its said programmes. The Havana Charter of 1948 which aimed at establishing International Trade Organisation under UN did not find favour from USA. This was followed by the conceptualisation of the GATT. The situation in turn culminated into creation of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) around 1958.

However notwithstanding above, the system set in place at Bretton Woods continued roughly for next two and a half decades. After this by 1971 the Bretton Woods system finally collapsed and it was considered imperative to have it replaced by a new economic order.

### UNDERSTANDING THE NEW INTERNATIONAL ECONOMIC ORDER

The term **New International Economic Order** (NIEO) in changed avatar emerged post 1973 Oil Crisis. It was mainly in the form of a detailed economic plan suggested by some of the developing countries through the United Nations Conference on Trade and Development (UNCTAD). The aim was to facilitate promotion of the economic interests of the third world countries by refining their terms of trade, enhancing development assistance and reducing the heavy tariffs imposed by developed countries. Another aim was to revise the prevailing international economic system in favour of the Third World countries and completely doing away with the Bretton Woods system, as it actually benefited the developed countries that created it.

The term NIEO originated from a Declaration to this effect that the UN General Assembly (UNGA) adopted in 1974. This mainly referred to some wide ranging trade and debt-related issues. This led to putting forth an agenda that facilitated deliberations among industrial and developing

countries with regards to restructuring world economy and encouraging greater participation by underdeveloped countries. The process also came to be known as the "North-South Dialogue". Alongside a Programme of Action and a Charter of Economic Rights and Duties of States were also adopted.

The emergence of the term NIEO is also concurrently associated with creation of the Organisation of Petroleum Exporting Countries (OPEC). But these cannot be attributed as the sole factors leading to the adoption of the NIEO. As pointed out by Sandeep Chauhan in Demand for New International Economic Order (Chauhan, 1997,) "this was then followed in 1972 by the Food Crisis resulting from simultaneous crop failures in Russia, India and Saharan Africa and poor or moderate production elsewhere".

### CONSIDERATIONS AND OBJECTIVES FOR THE NIEO

Theoretically, the first and foremost consideration towards establishing any socio-political-economic order is a validated need for having such an order. The circumstances of the time should warrant creation of such order to deal with the peculiarities of the situation prevailing at the point in time. In the case of NIEO, the most pressing requirement of the hour was based on a strongly felt need by the USA and other super powers to establish an economic order. The deliberated aim was to tackle the worsening international economic situation in the aftermath of the world war and gradually crumbling existing economic order. The most natural requirement under such critical situation was therefore to review the existing order and replace it with an improved one. This was also necessitated due to a pressing need for keeping pace with the changing times so as to ensure that the society and its systems progress in complete sync with the experiments being carried out towards tackling the shortcomings of the present system and at the same time adapting the society to the latest norms.

The USA and other super powers had realised that they had no choice but to move ahead from the syndrome of dependency to that of self-reliance. This self-reliance was seen as the hall mark of the times that the early 20<sup>th</sup> century western society witnessed after World War II. As stated earlier, USA being the most formidable super power of the times had clearly understood that its conventionally isolationistic approach would push the US economy in particular and that of the other developed nations e.g. erstwhile USSR, France, UK and China in general deep into an irretrievable position which was definitely avoidable on

the lone condition that all the big powers joined hands in addressing the emerging economic crisis and adopt a leading posture to give impression of a stable, formidable and final solution to the crumbling economic situation that the world was undergoing.

The most significant objectives of the NIEO were largely based on a concept of balanced economic cooperation between developed and developing countries. A summary of some of the broad 25 objectives of NIEO as conceptualised by Ervin Laszlo, Robert Baker, Elliott Eisenberg in "The Objectives of the New International Economic Order: Pergamon Policy Studies" included the following:

- Establishing organisations and associations of primary producers to protect their rights.
- Assuring an equitable relationship between the export and import prices through long run regulations in developing countries.
- Adjusting the economic policies of developed countries to facilitate the expansion and diversification of the exports of developing countries.
- Improving and intensifying the trade relations between countries having different socio-economic systems.
- Strengthening the economic and technical cooperation among developing countries.
- Assuring adequate participation of developing nations in decision making by World Bank and IMF.
- Increasing the transfer of resources through World Bank and IMF.
- Establishing mechanisms for Transfer of Technology from developed to developing nations.
- Improving the competitiveness of the Natural Resources and eliminating their wastage.
- Providing equitable access to the resources of sea bed and the ocean floor.
- Restructuring the social and economic echelons of the United Nations.

#### DRIVING PRINCIPLES OF THE NIEO

The driving principles of the NIEO as summarised by Jerzy Makarczyk in "Principles of a New International Economic Order" are that "any attempt at analysing the basis of the economic, political or other relations between the states should concentrate on the evaluation of their completeness, hierarchical order and interrelationship".

The charter of the NIEO focussed on the principle of Equity in the first place. Other principles brought to the fore were legal autonomy, sovereignty, territorial integrity, peaceful co-existence and political independence of the states besides sovereign equality, non-aggression and non-interference.

#### HOW FAR WAS NIEO SUCCESSFUL IN ACHIEVING IT'S CHERISHED OBJECTIVES?

As per the communiqué issued at the International Meeting of Experts on the New International Economic Order -- Philosophical and Socio-cultural Implications held at Vienna, from 2-3 April 1979 the Economic aspects of the New International Order were as under: -

- a) The prerequisites of a more rapid, further economic advance of the developing countries are their continued industrialization and their increase in the volume of non-traditional exports of manufactured goods. The aim would be to overcome the economic disadvantages resulting low differentiation, i.e. specialization in the production of agriculture and raw materials. Furthermore, a rise in export earnings is essential to enable developing countries to cover the heavy service payments due on their external debt.
- b) The process of industrialization of developing countries requires adequate industrial strategies of the advanced countries, e.g. reduction of labor-intensive industries and protectionist policies by advanced countries.
- c) The developing countries aided by the developed countries should aim at improvements in their agricultural sector and the stabilization of primary product markets.
- d) Developed and less developed countries should strive for an internationally managed economic solution embracing the main factors determining the pattern of domestic and international productive investment.
- e) The importance was stressed for the developing countries to aim at greater economic independence by financing a larger percentage of investment out of increased domestic savings. The ability to do so will be closely correlated with their export potential and size of per capita income.
- f) To consolidate the existing external debt of developing countries into a more appropriate maturity structure.
- g) To reduce the commitments of the less developed countries to the private banking system and to ensure an

increased flow of financial resources to the developing world, especially on a concessionary basis.

h) To match more appropriately than has been the case in the recent past the financial needs of the less developed countries (e.g. for short-term balance-of-payments finance, trade finance, project finance, infrastructure and social investment, etc.) and the particular type of financial provision (short and medium-term bank credit, IMF lending, long-term development agency finance, etc.).

Now arises the most significant question i.e. **to what extent did the NIEO succeed in realising its objectives.** This leads us to a scrutiny of the manner in which it was implemented and the degree of effectiveness it demonstrated in handling the economic issues.

The history tells us that the NIEO was forgotten within few years of its inception. As Nils Gilman rightly said in "The New International Economic Order: A Reintroduction" that "already in the early 1980s, the conventional wisdom among mainstream analysts in the Anglophone academy was that NIEO had always been doomed to failure."

It was because the cherished camaraderie of the developing nations vanished soon. The conflicting economic interests of the member nations defeated the purpose of joint action envisioned under the concept of NIEO. Even use of the international statute to bind the independent nations of developing world in line of collective economic welfare failed to deliver the desired results. Another important factor responsible for its untimely demise was that the military power was largely being used by North countries mainly to contain the rising influence of the South countries.

It was therefore difficult to visualise as to how an intelligently conceptualised idea which was crafted mainly with an aim to attain the economic welfare of underdeveloped nations gradually doomed.

However, as the studies suggest, the common belief that the NIEO had failed, does not seem substantiated in face of some of the following reasons: -

(a) The US administration was simply startled with rising influence of developing nations in the whole gamut of the new economic activity when it declared that the United States must launch an attack on NIEO. The Brandt Commission turned out merely to be a treacherous plan to divert attention from other pressing issues that the US administration was facing at that point in time. In fact, the perceived miscarriage of the NIEO was caused by the

thoughtful and resolute tactics of north and complemented by the strategic choices of the south.

(b) The key objective of the NIEO, i.e. improvement in the economic position of south in the global economy had been perplexed. The advanced economies had registered a growth of approximately 80% of international GDP in 1970s when the NIEO was launched which fell to mere 57% by 2009. It was against the emerging market economies of the south which exhibited a hike of nearly 40 % of the total world's GDP through their own efforts.

(c) Though theoretically the NIEO was construed as a failure, it is more prudent to see its impact in today's socio-political movements, which are being pursued for betterment of future generations to enable them realise their aspirations. It implies that though the specific conceptual aims of the NIEO could not be achieved in totality, the reinforced latest thinking on the lines of erstwhile NIEO remains significant even today.

(d) The latest avatar of NIEO is visible today in global multilateral negotiations being constantly undertaken with regards to the pressing issues e.g. climate change and international economic cooperation. For example, in respect of climate change negotiations, G-77 is following the line of economic reasoning which reverberates the tenets of erstwhile NIEO. It holds the basic premise that the north has a significant obligation for protection of the atmosphere and the south has a "right to development. In this scenario, any reasonable climate control treaty would appear to be lopsided, with obligatory responsibilities only for the north. The G-77 also believes that the north should ensure Transfer of Technology (ToT) to south countries. In fact, the NIEO's latest image of a universal mandate remains valid in the form of climate change negotiations that have become one of the most significant global concern today.

(e) The entrenched liberalism and modernization are still deeply embedded in the Western nations. The so called "Third World ideology" offers a dramatic break from the North Atlantic domination of the world economy carrying on since times immemorial.

(f) As the latest trends go, today the environmentalists are giving frantic calls for environment protection. The military history, tells us that an event like Vietnam War reaffirmed the fact that even insignificant small nations of south could challenge the resolute military potency of unarguably intimidating super powers.

(g) The ruin of the Bretton Woods system had showcased the delicateness of global institutions. The formulation of OPEC showed that camaraderie among primary producers has potential to significantly reshape the global business dealings in favour of traditionally poor states. This also drove home the point that corporate powers can potentially assert control over the economies worldwide, reconfirming the fact that this domination had always been a favoured plausible economic alternative.

(h) The profane inertia that followed in face of intensified economic inequalities, has accentuated the urgency for identifying the alternatives to the existing world order that followed the NIEO. A need to revisit the concept of NIEO emanated from that process. There was therefore a positive need to re-appreciate the need for the NIEO in face of the constantly changing contemporary geopolitical equations.

#### **SOCIO-CULTURAL RELEVANCE OF 1970s VINTAGE NIEO IN THE 21<sup>st</sup> CENTURY INDIA**

Conventionally, the NIEO of 1970s was conceived as a tool to protect the interests of the developing countries against economic exploits by the big powers and in turn bail the declining international economy out of the ditch to which it was subjected in aftermath of the World War and the Oil Crisis.

It has adroitly adapted itself to the changing economic inclinations of the 21<sup>st</sup> century and has taken the shape of a new comprehensive socio-politico-economic-cultural order today catering for much larger possibilities than ever before. The NIEO of yesteryears has come to globally manifest itself into current gamut of international activity and seems to have marked more visible imprints on present day Indian socio-politico-economic thinking. This firmly holds ground when we look at the changed focus and the current Key Result Areas (KRAs) especially of the Indian government of the day, some of which can be seen as under:-

- Increased focus on trans-border trade cooperation,
- Enhanced focus on development of renewable energy sources,
- Protection of consumer rights, Focus on interests of labour/worker class,
- Increased degree of Globalization,
- Increased scope for Liberalisation,
- Increased degree of Privatization,

- Increased focus on self-reliance i.e. Make in India and FDI,
- Rapid industrialisation emanating at the grass-root levels in the form of Skill India and Start up India,
- Banking reforms, credit policies,
- Quality at competitive cost,
- Economic Protection of weaker sections of society,
- Enhanced use of internet and e-commerce,
- Increased transparency of governmental functioning with an unprecedented presence & accessibility of members of the government on social media,
- Increased focus on business studies and strategic management.

#### **Negative effects of the new order**

- Gradual decline in independence of media due to rising costs & consequent media ownership by big industrial houses,
- Political corruption in high places,
- General decline in moral values with increasing commercialisation.

#### **CONCLUSION**

Based on foregoing, we can safely be certain that the New International Economic Order of yesteryears has adapted itself smartly in the current scenario as an effective means of the overall national economic progress which happens to be the Key Result Area of the present government ever since it came to power in May 2014. The underlying principles of erstwhile NIEO remain almost the same except that its application today aims to address the wide disciplinot only of overall national economic development but also the global economic growth- the process wherein India has taken a demonstrated lead as an emerging regional and international power. The NIEO of today not only is proving to be a potent tool of economic development in India but is also trying to potentially help the small and weaker nations globally. The NIEO of yesteryears has come to greatly manifest itself into the modern concept of globalisation which is affecting not only Indian socio-politico-economy but also the large cross-section of world citizenry.

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