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## New international economic order and India as a developing country

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### Abstract

Employing secondary sources of data, this paper aims to assess the history, essential elements, objectives, implementation and criticisms against New International Economic Order (NIEO). NIEO is mainly an economic movement happened after World War II with the aim of empowering developing countries politically through economic growth. It also criticizes the existing political and economic system as benefiting developed countries at the cost of developing countries so that a new system is needed that benefits poor countries. However, many criticize NIEO as hypothetical and unorganized movement. Clear division and disagreements among its members are evident. Developing countries failed to form unity, committed to meet the objectives of NIEO, and unable to compete in the market.

**Keywords:** Developing countries, NIEO, social issues

### Introduction

The New International Economic Order (NIEO) is a set of proposal advocated by developing countries to end economic colonialism and dependency through a new interdependent economy. The main NIEO document recognized that the current international economic order was established at a time when most of the developing countries did not even exist as independent states and which perpetuates inequality. In the spirit of "trade not aid," the NIEO called for changes in trade, industrialization, agricultural production, finance, and transfer of technology. The United Nations General Assembly adopted the Declaration for the Establishment of a New International Economic Order and its accompanying program of action on 1 May 1974. Promulgated as a United Nations declaration in 1974, the New International Economic Order was the most widely discussed transnational governance reform initiative of the 1970s. Its fundamental objective was to transform the governance of the global economy to redirect more of the benefits of transnational integration toward "the developing nations"-thus completing the geopolitical process of decolonization and creating a democratic global order of truly sovereign states. It was, in short, a proposal for a radically different future than the one we actually inhabit. Viewed from our present conjuncture, the New International Economic Order seems like an apparition, an improbable political creature that surfaced out of the economic and geopolitical dislocations and uncertainties of the early to mid-1970s, only to sink away again just as quickly. Appearing today as the figment of a now all but lost political imaginary, the New International Economic Order sprang forth during a narrow and specific window of geopolitical opportunity, a "moment of disjunction and openness," when wildly divergent political possibilities appeared suddenly plausible. What made the NIEO remarkable was not so much the content of its program as the fact that political and economic leaders throughout both the postcolonial world and the industrial core of the global economy took seriously the possibility-the former mainly with Wordsworthian hope, the latter often with Lovecraftian horror-that they might be witnessing the downfall of the centuries-long hegemony of what was coming to be known simply as "the north." In contrast to the Thatcherite "There Is No Alternative order that would soon emerge, the NIEO imagined and represented a dramatically alternative geopolitical future. Although the idea of a NIEO reverberated through the halls of power from Washington and New York to Algiers and Dar es Salaam throughout the late 1970s, it faded from view during the 1980s, replaced by discussions of structural adjustment programs, the Washington consensus, and the "end of history. By the late 1990s, few (in the north, at least) would have disagreed with Jeffrey Cason's hand-waving dismissal that the proposals of the NIEO could only be regarded as quaint." Today, the NIEO is almost completely forgotten.

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### **Origin of New International Economic Order (NIEO)**

The concept of New International Economic Order (NIEO) 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 recognizes 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:

#### **1. 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. The reverse transfer of technology from LDC's to the advanced countries through brain drain should be stemmed. There should be negotiations of debt schedules of the underdeveloped world. There is the urgent need for undertaking special measures to assist land-locked, least developed and island countries. The continued efforts should be made to realise the objective of total international disarmament. That would release substantial additional resources that can be utilised for meeting the development needs of the poor countries.

#### **2. 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.

#### **3. Issues Related to Industrialization 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 industrialization 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.

#### **The possible areas of shifting of industrial capacity may include**

1. The industries having high labour content,
2. The natural resource based-industries, and
3. The industries processing locally available raw materials.

The NIEO also has the objective of establishing mechanisms for the transfer of technology. The NIEO calls for greater access of the LDC's to the advanced technologies of the developed countries through a review of international patents, facilitating access to patented and non-patented technology, greater assistance to the LDC's for expansion of research and development programmes within their own countries and a greater control over the import of technology. In this regard, the UN also proposed the regulation and supervision of the activities of transnational corporations and improvement in the competitiveness of natural resources facing competition from synthetic substitutes. The NIEO also calls for, according to United Nations, equitable distribution of the benefits derived from exploration and for an international treaty to this effect because the oceans and sea beds are the common heritage of mankind.

#### **4. 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 nationalization;
- 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 utilization of world resources, enlargement of international trade and investment flow and acceleration of the process of economic and social transformation of the world system.

### **Advancement towards NIEO**

The endorsement of the concept of New International Economic Order (NIEO) created high hopes and expectations among the LDCs. The outlines of its economic and social objectives set by the United Nations created a strong feeling among them that the world was close to assist in a positive manner for the removal of the problems of the impoverished and exploited less developed regions of the globe. It is important to review how far the world has made an advance towards the goal of establishing a just and exploitation-free new world economic order.

The assessment has to be made on the basis of the following main points concerning NIEO programme for action:

#### **1. Development Assistance Target**

The United Nations has set out one of the objectives of NIEO as that the advanced countries should progressively expand their development assistance for the LDCs upto the limit of 0.7 percent of their GNP. Moreover, the goal of development assistance also specifies that the aid should be untied and be provided on a long term and continuing basis. It is also stressed that the assistance should be on easy and concessional terms. By 1981, only Netherlands, Norway, Sweden, Denmark and France could meet 0.7 percent GNP target. The other advanced countries have stubbornly refused to accept the target for development assistance. There has been strong opposition by them to the aid target at the North-South dialogue and the international forum including UNCTAD and GATT. Even in the Uruguay Round of GATT negotiations, which were concluded through the agreement signed in December 1993, the advanced countries have not acceded to raising the development assistance up to 0.7 percent GNP target.

The average of assistance rendered by all the developed countries presently ranged between 0.3 to 0.4 percent of their GNP. It is far short of the target. The stonewalling by the advanced countries on this matter has caused much disappointment and frustration among the less developed countries.

#### **2. Trade Preferences**

The LDCs have generally rejected the GATT principle of the reduction of trade barriers on a non-discriminatory and reciprocal basis. Their prime concern has throughout been with securing preferential access to the markets of the developed countries. Such a demand from the LDCs was

justified on account of the fact that they are at disadvantage vis-a-vis the advanced countries in the area of manufacturing, in addition, they have to protect their infant industries. Consequently, they cannot fully observe the principle of reciprocity in the matter of trade. The easier access to the markets of advanced countries is justified also on the ground that the LDC can thereby rely more on trade than aid. The trade-creation will be quite beneficial also for the developed countries. In this direction some progress was achieved in the early 1970's when the Generalised System of Preferences (GSP) came into force. Under this arrangement, the advanced countries allowed tariff concessions on the import of a range of manufactured products from the LDCs. The GSP suffered from serious weaknesses related to limited coverage of products, limited beneficiary countries, arbitrary rules of origin and escape clauses etc. The progress in this area got restricted also on account of the clash in interests among the LDCs. 50 African, Caribbean and Pacific countries concluded in 1975 an agreement with the EC called as Lome Agreement. It provided greater access to the markets of EC for their manufactured products and almost 90 percent of their agricultural products. There was also the provision of funds for the stabilisation of earnings from key commodities. This brought about disunity in ranks of the countries of the South and they slackened the pressure of demand for a better regime of global trade preferences. In the wake of recession in many developed countries during 1970's and 1980's, there was a trend towards increased protectionism. They started substituting non-tariff barriers for tariff barriers. This has been an unfortunate negative development and is a negation of the endeavors to pave the path of NIEO.

#### **3. Commodity Stabilisation Funds**

The deteriorating terms of trade for the LDCs and losses in their export earnings have remained problems of serious concern for them. They insisted that the NIEO should protect them from continuous erosion in their export earnings through making an appropriate arrangement for the stabilization of the prices of primary products. To achieve this objective, they asked for the institution of commodity stabilization funds. Such a common fund could be utilized by the LDCs for financing the buffer stocks operations in the primary commodities. This proposal was accepted by the UNCTAD IV in 1976. It provided for the buffer stocks operations to regulate the prices of 18 commodities. The commodities such as cocoa, coffee, tin, copper, jute, sugar, fibres, tea, rubber and cotton were called as core commodities and eight commodities were called as other commodities. These included iron ore, bauxite, manganese, phosphates, bananas, timber, vegetable oil and oilseeds and meat. The notable exclusions were petroleum and cereals. In June 1980, an agreement was reached with industrialized countries to set up a common fund under the integrated programme for commodities. It provided for 750 million dollars to assist the LDCs to stabilize the prices of primary products and promote their trade. 101 countries, including the USA, have entered into this agreement. The fund was partly subscribed by the members and partly by the release of buffer stocks. Although the agreement was far below the expectations of less developed countries as they had demanded initially \$ 6 billion for stabilization, yet it was still a welcome development. Whatever development took place in this field was not prompted by any genuine concern

on the part of the advanced countries for the worsening trade conditions for the exporters of the primary products. It became possible on account of the situation created by OPEC in 1970's. A fear grew among the developed countries about the possibility of similar organized actions by LDCs in respect of other raw materials. No doubt, the potential for replicating OPECs example in other commodities was extremely limited but still the fear of it afforded the primary producing south some limited relief from serious fluctuations in the international prices of primary products.

#### **4. Reform of International Monetary System**

One of the major complaints of the less developed world against the existing international monetary system has been that it is inadequate to meet their development requirements. They believed that the IMF and other financial institutions were structured in the way that could serve essentially the requirements of the advanced countries. The LDCs had although generally approved the monetary reforms that took place in 1970's under the auspices of the Committee of Twenty, yet they continued to press for monetary reforms including the revision of IMF quotas, change in the basis of quota allocation from the GNP to the per capita income, linking of Special Drawing Rights to the development needs, compensatory financing schemes and relaxation of stiff IMF conditionality. Out of the above demands for international monetary reforms raised by the LDCs, the one related to compensatory financing schemes was well received by the advanced countries. They have accepted that the financial transfers to LDCs may be allowed in the event of shortfall in their export earnings below a specific long term norm. IMF compensatory financing scheme makes provision for assistance when the export earnings of less developed countries fall below a 5- yearly moving average. LDCs have also generally welcomed compensatory financing arrangements but with two qualifications. First, these schemes should not be considered as a substitute for trade preferences and international commodity agreement because they cannot redress the long term difficulties of the LDCs. Second, the conditions under which the compensatory financing arrangements that have been worked out are needed to be relaxed. In short, the LDCs want long term arrangement that should provide an automatic access to finance without any conditionality or strings attached. Since 1960's although IMF has adopted several reforms including the revision of assistance quotas, creation of diverse credit facilities and introduction of the revolutionary innovation of Special Drawing Rights, yet there are several issues which continue to bother greatly the poor countries. Not much headway has been made in the matters of reallocation of IMF quotas on the basis of per capita income criterion, establishment of link between SDRs and development assistance and liberalisation of conditionality. Although these issues have been repeatedly raised at the North-South dialogue and UNCTAD meets, no progress has so far been made. Some moderation in the attitude of the advanced countries on these international monetary reforms can inspire greater international co-operation among the developed and the LDCs.

### **Demand for New International Economic Order (NIEO)**

#### **1. Total Restructuring of International Economic Order**

NIEO advocates the need for restructuring international

economic relations on a just and reasonable basis. Realizing the non-viable nature of the existing international economic order, the Third World advocates a new economic order based on equality, interdependence, mutual benefit and support for the rights of all the nations which is essential for securing real progress and sustainable development.

#### **2. Changes in International Economic Institutions like WB, IMF**

Two institutional changes are deemed essential for safeguarding the rights and needs of the developing countries. First relates to the restructuring of the existing rules and regulations governing the international economic relations, and second relates to the formation of new institutions and systems of cooperation among nations. The existing rules governing international economic – and trade relations as well as the international institutions, favour the interests and needs of the developed countries. The World Bank, the IMF, the conventions governing “intellectual property” (patents, copyright etc.) and other economic institutions stand dominated by the developed countries.

The existing economic regime is more conducive to the interests of the developed countries. NIEO seeks to restructure these rules and institutions with a view to make these useful for all without any bias or discrimination.

#### **3. End of Protectionism**

The existing system of protectionist trade and policies stands designed by the developed countries for safeguarding their interests in international economy and trade. By several protectionist trade and economic policies they are in a position to impose discriminatory limits on exports to other countries and to make the world trade highly competitive to the direct and big disadvantage of the developing countries. Discriminatory limits on exports and imports, even against the GATT rules, are frequently made and pressed into use by the developed countries. The past record of international trade bears testimony to the charge. Protectionist trade and policies of the developed countries have been a source of a big strain and loss for the developing countries. Their import bills have boomed while their exports have tended to be stagnant. The need is to end protectionism in trade and economy, and this is a vital theme of NIEO.

#### **4. Transfer of Capital Resources**

NIEO wants the actual transfer of capital resources along with the knowledge to put them to beneficial use in order to enable the developing countries not only in producing more for themselves but also for export to other countries. These transfers can take place either through private investment or economic aid channeled through official agencies both bilateral and multilateral. Cancellation of outstanding debts of the Third World countries and the grant of at least 0.7% of G.N.P. international as developmental aid to the developing countries can solve the capital needs of the entire Third World.

#### **5. Transfer of Advanced Technology to the Third World**

The inability of the developing countries to register a higher economic growth rate and development has been largely due to the low level of technology at their disposal. The recourse to advanced technology is necessary for an increased and efficient productivity.

Its contribution, along with other factors of production, is always substantial for all round development. For securing advanced technology, the developing countries find themselves dependent upon the developed countries. The latter through international patents and protective policies and measures have a virtual monopoly over advanced technology and dual use technology. They are not prepared to transfer it to the developing countries without getting favourable commitments and several desired trade and economic agreements. Often their terms are not reasonable from the point of view of the developing countries. NIEO stands for systematizing and facilitating the transfer of advanced technology from the developed to the developing countries.

### **6. Control over the Harmful Features of Multinational Corporations**

Several multinational corporations have been playing a big role in international economy, trade, technology, and industrial production. They have been controlling most of the international patents in respect of advanced technology. These have been acting as the instruments of the developed countries for maintaining their control over international economy and trade as well as for directing and controlling the economies and policies of the developing countries.

The developing countries find themselves compelled to import the required technology from the MNCs which have come to be the most important channels for its transfer of this exercise involves high costs and heavy burdens for the developing countries. With poor economic resources and poverty writ large, the developing countries find it very difficult to purchase technology from the MNCs. The fear of MNCs' interference with their domestic markets, economies, social and cultural values and decision-making, further prevents them from dealing with MNCs.

The role of MNCs in international economy has been damaging as it has been a source of maintaining and increasing the gap between developed and developing countries. These have always acted as instruments of neo-colonialism of the rich over the poor countries. The developing countries want an end to the menace of MNCs.

### **7. A greater and definite share for the developing countries in International Exports**

Another important theme of the NIEO is the securing of improved access to export markets in rich countries. The existing system unduly favours the rich vis-a-vis the poor. In the presence of big economic and industrial gap between the developed and the developing countries, GATT and UNCTAD and even WTO, have failed to produce the desired effect and change in international economic and trade system. Unregulated and open competition between the developed and the developing countries has proved to be a highly damaging aspect of international trade relations as it has always favored the developed to the disadvantage of the under- developed. Globalization has been a source of pressure on the economies and actions of the developing countries. The Third World countries now demand a definite and fixed share in all international exports and tariff preferences in their favour as part of a new economic order.

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