

The North-South Dialogue: Its Impact on Nepal A Commentary

Neal P. Cohen

While the North-South dialogue, or the demand for a "New International Economic Order", is reasonably new, the ideas behind the demands are not new. In fact, they began to be enunciated almost as soon as the post World War II economic order was established. That order was characterized by the Bretton-Woods agreements, of the supremacy of the U. S. dollar, of specific power relationship between the rich industrially advanced countries and the poor, low income countries. The first challenge to these arrangements was made at the United Nations in the early 1950's during the debates over the Special United Nations Fund for Economic Development (SUNFED). They have been refined, expanded and discussed since then. In September 1975 the U. N. adopted resolution 3362 which outlined the demands "for a better deal for the developing nations". The U. N. Conference on Trade and Development held meetings in Nairobi in May 1976 to discuss ways of implementing the demands, but left the actual detail to the Paris based Conference on International Economic Co-operation. Those meetings have made progress but have not been able to operationalize any of the demands. The "North" is opposing most of the demands as either unnecessary or counter-productive to development, while the "South" continues to argue about the necessity of the demands and the need for an increase in resource transfers from the rich nations

* Dr. Cohen is Fulbright Lecturer, Economics Instruction Committee, Tribhuvan University, Kirtipur.

The "Old Economic Order" has died with the end of the supremacy of the U. S. dollar, with the end of fixed exchange rates, with the success of a Third World commodity (oil) cartel, with the comparative unity of Third World countries to seek a new order.

Without doing too much violence to the demands we can divide them into four groups.

- (1) Trade related demands--increased access to industrially advanced countries' markets; stabilization or increased in price of exports and export earnings of the low-income countries (LICs) possible indexation of Third World export prices to the import costs of manufactured goods from the rich countries; and a rearrangement of production towards the LICs.
- (2) Finance related demands--increased and improved Official Development Assistance (ODA); debt service moratoria or cancellation; improved access to private capital markets; a link between the creation of special drawing rights and development assistance.
- (3) Technology demands--eased access to newer technology; reduction in patent law restrictions; direction of new research and development towards LIC needs, assistance in applying the new techniques.
- (4) Control--influence related demands--increased voice of Third World countries in international organizations; improved control over multi-national (trans-national) corporations.

Throughout the demands there is an implied rejection of the concept of free market allocation of goods, services and incomes. They are all directed towards changing the results of market decisions, of controlling them, of redirecting them, of increasing the role of the government in price and output decisions. Some may actually enable the market to work better, others will change substantially its operation with any decrease in efficiency of market allocation hopefully offset by an increase in equity.

It is necessary to realize that the Third World is a very diverse group of countries. Some are reasonably developed and in an excellent position to continue growing rapidly. Some are near stagnation with negligible growth prospects. Some have extensive natural resources, and others almost nothing. They range from some of the largest (in area and population) countries to the smallest. Therefore, some have argued that

the demands ought to be geared towards helping those poor countries that there either the least developed (the LLDCs) and those that were most seriously affected (MSAs) by the oilprice increases. The LLDCs have a GDP per capita of under \$100, manufacturing comprising under 10% of GDP and literacy below 20% of the adult population. The MSAs usually have a per capita GDP of under \$400, and had a sharp deterioration in their current account balances due to the oil price increases (usually there is a current account deficit of at least 5% of current imports). Nepal is both an LLDC and an MSA.

The first set of demands, trade related demands, are designed to increase LIC exports of manufactured goods as well as stabilize, or increase, the price of primary exports. The UNCTAD secretariat has identified eighteen commodities of interest to LICs, but has singled out ten as the core commodities. They are cocoa, coffee, tea, sugar, hard fibers, jute and manufactures, cotton, rubber and tin. The other eight of interest are bananas, bauxite, iron ore, manganese, meat, phosphates, tropical timber, vegetable oils and oil seeds. Stability in prices will assist planning, give greater security to the producers of the product and thus increase their production and income. However, if there is a non-speculative reason why prices are falling (i. e. a change in taste in the export markets, the existence of a substitute, a surplus of the product), then stable, or increasing, prices will mean that there will be an excess of production, a shortage of consumption. There will be a need for some stockpiles. In so far as stability will lessen the role of speculators and allow for a more ordered market most will benefit. The security of output will aid both developed and developing countries. The Common Fund for stabilizing prices of the eighteen products is also designed to stabilize or increase the earnings of the producers.

The generalized system of preferences (GSP) will allow LIC exports of manufactured goods into developed country markets with either special low tariffs, or at least the lowest rate possible under the most favored nation concept. Nepal's exports to oversea's countries of manufactured goods is negligible. The Nepali carpet and curio exports are hand made and thus often qualify for special treatment already. GSP will not be of benefit to Nepal until she changes the composition of her exports.

The commodity agreement within the Common Fund that will effect Nepal is the jute agreement, none of the other commodities does she export in any significant quantity. Of the eighteen commodities that may be covered under the Common Fund jute has the lowest coefficient of variation (standard deviation/mean using International Financial Statistics for 1970-1976). The average coefficient of variation for the remaining products] is 0.376, jute's is 0.119. The other coefficients range from 0.204 for bananas

to 0.779 for phosphates. Thus jute exhibits the least price variation of any of the products covered. Stabilizing its price will change current prices the least. The coefficient of variation for the exports of industrially advanced countries is 0.152. Further, of the items to be covered only copper exhibits a less pronounced increase in price since 1970 as measured by its correlation coefficient. Vegetable oils and seeds and sugar exhibit about the same upward trend.

Thus the issue becomes whether there is room for an increase in price of jute. Jute farmers in Nepal are very responsive to price (supply elastic). Thus any increase in price will lead to changing production towards jute. Given the possibility of stockpiling, possible recycling methods and the use of substitutes the demand for jute appears to also be price elastic, particularly in the medium and long run. Thus if there is an increase in price we will notice an increase in earnings of the farmers in the short run, until output begins to increase. There will be an effective transfer of resources from the importers of jute to the exporters, such as Nepal. However, as the farmers respond to the increase in earnings by planting more jute then there will be an increase in supply which will have some tendency to reduce price. If supply is controlled by export licences, then we would still expect within a year or two the users of jute to shift out of jute thus creating a surplus and putting pressure on the price to fall. Within the sub-continent Nepal is a relatively minor exporter of jute and jute products, accounting for about 1.5% of total exports in 1975. Thus there is little room for unilateral action. She is more concerned with market share than price stability.

To the extent that the Common Fund increases the price of Nepali imports then she would be hurt by this demand of the Third World countries.

There can be no doubt that were the donor countries to increase their ODA that Nepal would benefit, particularly if the agreements led to a shift in emphasis towards the MSAs and LLDCs. However, the issue of increases in ODA is often tied to debt relief. Due to the increase in oil prices and world-wide inflation low-income country imports have increase, the recession has hurt their exports. Without increased foreign aid many LICs found that they had borrow in order to maintain their development program. Nepal was no exception. World Bank international debt table indicate that Nepal's disbursed official debt rose from U. S. \$ 3.807 million in 1971 to US\$ 34.023 million in 1976. This is a compound annual growth of 55.0% per year. Total debt, including undisbursed from NS\$ 29.459 to US\$ 120.254 or 32.5% per year during

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the same period. The World Bank estimates that the debt service payments due in 1976 will be US\$ 1.990 on this debt (it will be higher depending on the repayment schedule of debts incurred July 1976). Of the MSAs and LLDCs Nepal receives approximately 0.80% of the ODA while she has debt service payments of 0.06% of the total. Only the P. D. R. Yemen, Yemen Arab Republic, Lesotho, Burundi and Rwanda would benefit less from any partial or complete forgiveness of the debt service due in any one year. Only six MSAs and LLDCs have a lower ratio of debt service payments to official development assistance. Except for the U. S. and West Germany most donor countries treat debt repayments as part of the foreign aid budget. Thus if there is any forgiveness of debt repayments there will be less new aid disbursed. If we assume that all the debt service due in one year is forgiven, but that this reduces new ODA by a like amount and that the remaining ODA is disbursed in the same proportions as now then Nepal would "lose" US\$ 8.15 million. If only half of the debt service forgiven reduces new ODA then Nepal would only lose US\$ 4.40. If any more than 7% of the forgiven debt service reduces new ODA Nepal would lose. Nepal needs to emphasize the need for new aid, not debt relief; new sources of capital, not forgiveness of past debts.

The last two groups of demands, technology related and control-influence demands would be of some benefit to Nepal. However, most of the technology that Nepal needs is not patented, she is not using the latest techniques, the super-modern equipment. Thus eased access to modern technology is only of marginal benefit. However, if the demands succeeded in getting more industrial advanced country research and development directed towards the needs of countries such as Nepal then there may be some benefit. This may be technology directed towards increasing agricultural output with domestically available fertilizer materials, increased milk and meat output from livestock herds, or improved sowing techniques. Again, some of the possible methods are already known, Nepal needs the capital to distribute the information, the seeds.

The psychological benefits and other potential benefits that would come from increased power at the World Bank, IMF and other international organizations is difficult to measure. Some have already taken steps to increase the voice of Third World countries. An increased voice could change the size of international loans or their terms, could change the direction of multinational foreign assistance and thus could benefit Nepal. The question remains whether the possibility of new research and development and redirection of multinational organizations so that they are more sensitive to Nepal would offset the negative effect that programs such as the Common Fund and debt relief may have on Nepal.

The Third World is a very diverse group of countries. Those that are exporters of products like cocoa, coffee and sugar may well be beneficiaries of stabilized prices and earnings. Others that are heavily involved in debt may end up being net beneficiaries from debt relief. Nepal does not belong to either group. She will not benefit from the demands unless we make unrealistic assumptions. However, maybe this is the time to make those assumptions and try to achieve them. Maybe in unity there is a chance to achieve a sufficiently better distribution of wealth that would benefit Nepal.