NORTH - SOUTH: BRIDGING THE DIVIDE

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I have chosen for my inaugural topic the economics of less developed countries (or LDCs),which in my opinion must itself be the most under developed topic in economics. According to the World Bank in 1982 there were 143 developing countries in the world, as opposed to 29 being "developed". In other words, over 80% of the world is defined as "developing". A priori one might perhaps think that 80% of economics would then be devoted to LDCs, in fact more than 80%, since a science concerned with the allocation of scarce resouces would surely then be concerned most of all with allocating them where they are most needed. This is, of course, not the case. The most vibrant debate in Development Economics is the subject's right to exist all, and The Economist tells us that "the subject is out of vogue" with universities struggling to fill their professorships when they fall vacant. This lack of interest in development economics is surely reflected in the fact that after 48 years trying to close the gap between the rich industrial market economies and the less developed economies, the gap has not narrowed but widened. Yet, in many ways, this seems to have just happened, as opposed to being the result of any specific plan. It is almost unanimously accepted that it is everyone's interests if the so-called North-South divide is bridged. For the developed countries, a closing of the gap would mean the following :-

1) - It would lead to increased to increased political stability and reduced political tensions in the world.

2) - It would greatly expand world export markets and provide all countries with the opportunity to boost their economies.

3) - It would help control world population growth because economic and social development themselves seem to reduce fertility rates. Given these compelling reasons for helping LDCs to develop, I will be asking tonight what is the best way for LDCs to develop? And what can we, the developed world, do to help in this process?

The first question a Less Developed Country must ask about its development is whether it should try to become self-sufficient or whether it should interact with the rest of the world.

Dependancy theorists have argued that increased interdependance will only benefit the richer countries, and that the presence of contacts with developed countries somehow prejudices the growth of LDCs. However, these ideas are contrary to massive empirical evidence, and the most prosperous regions and sectors of the less developed world at present are those with which the developed countries have most contact. The developed countries can offer human and material resources, skills and capital to the LDCs, and just as importantly, can engender a new outlook towards material possessions and the means of obtaining them. Of course, contacts with the world economy are simply a prerequisite for growth, and many other factors are also necessary, but the first step for a less developed country must be to look out at the world, and find the context in which it must develop.

Contacts with the world will mean the importation of goods and services, and a corresponding need to find goods and services which can be sold on world markets. It has traditionally been one of the Less Developed Countries greatest problems that the opening of their economies led to huge balance of payments problems. One of the reasons for this was that many LDCs relied on a few primary products for revenue to pay for imports. The Prebisch-Singer thesis showed however, that, over time, the price of primary products is bound to fall relative to the price of manufactures. Therefore, it is not enough for an LDC to open up, it must also industrialize. The attempts to industrialize have been along two general paths. The first, Import Substitution, tried to replace commodities that were being imported, usually manufactured goods, with domestic sources of production and supply. However, as in Ireland, import substitution failed in most of the countries where it was attempted without the stimulus of, competition , it frequently created an inefficient industrial sector, operating far below capacity, and generating very little employment, very little foreign savings, and very little prospect of further productivity growth. The quantative controls on trade, usually associated with import substitution, also caused governments to ignore the exchange rate, thereby making foreign bank loans seem cheaper, and it is probably not a coincidence that Brazil, Mexico and Argentina, the big debtor countries now, all supported import substitution policies in the 1960s and 1970s.

The other strategy for industrialisation has been export - orientation. While the LDCs that have tried this have had mixed results, it has brought genuine development in many instances and, in my view is the only long term strategy which can bring long - term development. For LDCs, as a a whole, manufactured exports grew from 6 % of toital merchandise exports in 1950 to 42 % in 1980.

The view that export orientation is the only real way forward is officially accepted in most quarters now. the World Bank report of 1987 called for 'outward oriented' trade policies on the part of developing countries. It argues persuasively that countries that have adopted outward - oriented policies, notably the 'Little Dragons' of East asia - South Korea, Singapore, Taiwan and Hong Kong - have outperformed the countries that have adopted other policies. Given that outward - oriented policies represent the best chance of development for LDCs in the future, I will devote the rest of this speech to discussing how this process should come about, showing: first of all, how developing countries themselves must adjust, and secondly; what we, the developed world, can do to help in the process.

The main impetus for development must come from within the country itself. The first thing a developing country must have is an uncorrupt political system. If political favour is a necessity for business success, then companies will invariably take a short - term view of their business, since governments will obviously come and go. And a long - term view of business is vital for development. The four Eastern Dragons all have saving ratios of over 20 %, as they plough back their current profits into the futures of their companies. These high investment rates are very important in the early stages of development, and business people must be confident that their investments will be allowed to bring results in the future.

The second problem for an entrepreneur in a devolping country is getting capital. Getting bank loans does not seem to be particularly difficult; - many developing countries have quite sophisticated banking networks, backed by government owned development banks. But few aspiring entrepreneurs starting out, especially in Africa, are prepared to sink equity into their projects. Typically, their main asset will be land, and they may need the say - so of an extended family before they can pledge it to a business scheme. So businesses tend to start out much too highly geared , with the entrepreneur under pressure to make as quick a return as he can to pay back the bank.

Thirdly, it is very important that professional management is employed when the company gets to a certain stage. Many of the companies that have succeeded in the Third World have done so because they have attracted excellent managers from outside the ranks of the founding families. If top management positions are kept within the family, then erratic results will follow.

Fourthly, much of the developing world is over-regulated for its level of economic activity. Much of this is the result of the colonial - bureaucratization which was handed on by the Spanish, French and British. An aspiring entrepreneur, for example, may have to pass legal tests before forming a company, meet tax obligations, minimum wage standards, environmental controls etc.

It is in the context of these internal changes necessary for development that I believe foreign aid has a role to play. Much has been written about aid and its alleged disincentive effects on developing countries. However, in the early stages of development, those which I have just been talking, the South needs, above all, finance. Interest - free loans for the first few years of a project could get over the problem of high gearing, and finance in general could make a massive difference to infrastructure. Most countries of the North have accepted the target of 0.7% of their GNP in the form of official development assistance, and if the aid was monitored, there is no real case, I believe, to doubt its effectiveness. The present Irish government has, as you know, reduced the % of GNP given to developing countries, and I feel that although this has received much less publicity than many other cutbacks, it must surely be one of the most harsh. Of course, Ireland is not the only country to cut back its contribution - many European countries have; and Ronald Reagan has shamefully reduced America's aid programme. The Chairman of the US House of Representatives Committee on Europe and the Middle East, Lee Hamilton, wrote in 1983 that "if a developing country is unable to present its needs in terms of East-West rivalry, its chances of receiving American aid are diminished." It is surely not too much to ask that if developed countries have agreed to give a certain amount of aid, they could at least keep their word on the issue.

However, I believe that the biggest help the North can be to the South is in the area of trade barriers. The area of trade is overseen by GATT, the General Agreement on Tariffs and Trade, an international treaty dating from 1947 and GATT attempts to help Southern countries develop through a "Generalized System of Preference", i.e., putting lower than usual, preferential tariffs on imports from developing countries. However, like the aid situation, while both the EEC and the US seem committed to the idea in principle, in practise the system works nothing like it should.

First of all, the American scheme, set up in 1976, can decide not to give preference to any country it likes, if the developing country, for example, does not co-operate with US anti-drug policies. A lot of very important goods for LDCs are excluded - for example textiles, watches, electronics, shoes and glass. A country can have its preferences taken away if it is too good at exporting in one single year, which obviously tends to penalize countries just as they are becoming successful. Also, about half the goods eligible under the scheme don't actually apply for it, due to the baffling complexity of the scheme's rules.

The EEC is no better. In principle of course it is totally in favour of GSPS, and Community blurb on the Lomé Convention, signed in 1984, proudly declares that "99.5% of the products of African, Carribean and Pacific countries have duty free access to the Community markets with no reciprocal concessions being demanded! In practice this is far from being the case. A massive 75% of all goods eligible for preference do not in fact enter Europe duty free. Again the complexity of the rules must be blamed, and one has to ask - could either a simple system or a good guide to the present one surely be drawn up? The European scheme is hedged around with quotas and ceilings of every kind, one set for each member of the EEC. And in Europe, the quotas are allocated not to firms in exporting countries but to importers; quotas are awarded to first comers. This encourages the importer to benefit from the GSP, and not the developing country.

The GATT system of helping developing countries, then, is nothing more, in my opinion, than a sham. The World Bank Development Report of 1987 agreed, albeit in politer terms - "In exchange for preferences" it says, "which brought them limited and risky gains, developing countries have given up a voice in reciprocal trade negotiations and left themselves open to attack by industrial countries, who accuse them of unfair trade." The whole GATT system seems geared to suit the North as much as the South - it soothes the industrial countries' consciences while bringing negligible benefit for the developing countries. The current Uraguay round of talks doesn't promise much change.

Of course, the GATT doesn't cover all the trade restrictions. We all remember, last June, the debate about the Single European Act, when it was claimed that the abolition of the non-trade barriers within the EEC could reduce the costs of our exports by over 1% of GNP. And this is within a common market! Last summer GATT identified 135 of these 'grey area' measures - voluntary export restraints, market-sharing deals etc. - and also pointed out the two largest offenders - the United States and the European Community.

What I am saying then is that, while aid is important, and should be increased to the UN-reccommended level, a determined approach to reduce trade barriers for developing countries exports would be just as beneficial in the short-run, and probably a lot more so in the long run.

The final subject I want to discuss tonight is on multinational corporations. There is no doubt that multinationals are a fact of life in the world economy today, and are neither good nor bad in themselves. There is also no doubt however that many have engaged in unethical political and commercial activities - the attempt to bring down the Allende regime in Chile, the illegal payments by oil companies to goverments in various parts of the world; the support given by certain corporartions to illegal regimes in Africa and so on. However, the main fear about multinationals is that they have become so pwerful that they cannot be controlled by nation - states any longer.

As we know in Ireland, a multinational always contains the ultimate bargaining card - if the going gets tough, it can always pull out and set up somewhere else. It is the power of multinationals to set states competing against each other that is their ultimate power. Eight years ago, the Brandt Report called for effective national laws and international codes of contact to provide a framework for the activities of transnational corporations. The huge benefits of setting up on a transnational basis will ensure that very little investment will be lost on aggregate; but developing countries would get a greater share of the wealth generated.

To summarize then, I believe that there are three steps which the North should take to help bridge the gap with the South :-

(1) It should increase aid to the minimum level recommended to the United Nations.

(2) It should reform its trade regulations and make them work the way many of their originators intended them to.

(3) It should, through negotiation with the South, provide a code of conduct.

Ladies and Gentleman, everything I have argued tonight has been argued on the basis that it is in the interests of the North that the South should develop, and that everyone will gain if developing countries gain. I have no doubt but that this is the case, but I must ask if everything we do for developing countries must be based on our own self interest. Especially as far as the poorest people ,and the poorest countries are concerned, surely we must consider human solidarity and international social justice. We should stop debating whether development economics has a right to exist and treat the real issues with the urgency they require.