New International Economic Order and the Prospect of African Economic Diversification

By

Adejo Godwin PhD
Department of Political Science,
School of Arts and Social Science,
Federal College of Education (Technical) Omoku Rivers State
Email: ofukondu16@gmail.com

Adejor Idoga P.h.D
Department of Political Science and International Relations,
University of Abuja
Email: adejoridoga@gmail.com

Aderemi Adetuwo
Department of Political Science,
School of Arts and Social Science,
Federal College of Education (Technical) Omoku Rivers State
Email: aderemiadetuwo@yahoo.com

Onita Cyprian Chidebe
Department of Political Science,
School of Arts and Social Science,
Federal College of Education (Technical) Omoku Rivers State
Email: onitasyprian@gmail.com

&

Abali Hannah
Department of Political Science,
School of Arts and Social Science
Federal College of Education (Technical) Omoku Rivers State
Email: abalihannah@gmail.com

ABSTRACT

This paper examines why African states have tended to pursue a monocultural economic policy as well as to investigate, relying on secondary sources, whether or not the New International Economic Order. (NIEO) offers an enabling international trade environment that will in turn encourage, economic diversification of African economies. The paper situates this research problem within the framework of the dependency theory, which views dependency syndrome as the flow of resources from the "periphery" of underdeveloped states to a "core" of developed states, enriching the former at the expense of the latter, thereby, asserting the need for a reform of the international economic order to redress the imbalance. We find, among other things, that rather than the failure of NIEO, the poverty of leadership and weak institutions in Africa have perpetuated monocultural economic policies leading to the resource curse phenomenon also called the Dutch Disease (DD). The paper recommends among other things that the African Union should develop a well-articulated blue-print to aid the diversification process in Africa.

Keywords: N.I.E.O, African Union, Economic Diversification, Dependency Theory, Development

Introduction

The burgeoning of international trade in the 19th century was associated with the rapid expansion of Europe into other parts of the world (O'Rourke and Williamson, 2000: 322).

This was characterized by the rise of industries, struggle for global resources among European states, monetary and banking reforms, exploration of and expedition to distant lands and the integration of isolated economies through colonization. Thus, European states established spheres of influence in the countries of Central and South America, Ottoman Empire, Balkan region, Africa and many parts of Asia and ultimately colonies. Norman Rich writing in "Great Power Diplomacy, 1814-1914" avers that the industrialized economies of Western Europe and America integrated the rest of the world into a world market system founded on capitalism, such that the trade policies and interests of the industrialized economies set much of the agenda for the rest of the world (Rich, 1992: 263-264).

The outcome of the processes that shaped Africa's integration into the global economy is aptly captured in the book written by Walter Rodney, "How Europe Underdeveloped Africa." Rodney (1972: 107-125) demonstrates that Africa had been consciously exploited by European imperialists, for their economic gains, leading directly to the modern underdevelopment of the continent. As Claude Ake puts it, the imperialist incursion into Africa by Western capitalism had the most profound influence on the economic and political history of Africa (Ake, 2005:20). In fact, by the 1960s and 70s African states had political independence without economic independence. Thus, in the immediate post-independence period, the whole of Africa operated largely weak underdeveloped economies as depicted in the highly polarized and asymmetric share of global trade. In the 1970s, for instance, the share of Africa in the global trade was a stagnant 4% (Shenk, 2011:64). A major reason for this poor share in the global trade is that the economy of African states has been characterized by the exploitative colonial legacy, structurally perpetuated by the global trading arangement. It was such that Africa's economic remained traditionally driven by exports of agricultural goods and primary products such as minerals and hydro-carbons. What this means is that African states have tended to dependent on just a few commodities for their revenue, which has in turn rendered their economy vulnerable to boom and bust cycles as the prices of commodities are subject to the vagaries of the international market.

The whole world is divided between two (2) sets of countries: Developed Countries (DCs) and Less Developed Countries (LDCs) (Jhingan, 2011: 224). A major distinction between the economies of developed countries (North America, Western Europe and Japan) and the economy of the developing countries (Africa, Asia and Latin) is that while the former tend to have diverse economic bases that rely on their income on the production of a wide variety of manufactured products and the provision of a diverse and sophisticated services, the latter rely on a single or small number of primary products for export (Ajayi, 2002:207 - 209). Hence, diversification of Africa's economy has been mooted as one way of containing the impact of fluctuations in the international market. Yet, many years after independence, many African states have not been able to diversify their economies out of the extractive sector (e.g. oil, gas,

and mining, agriculture etc). It was the attempt the Developing Countries to extricate themselves from this conditions that birthed the notion of NIEO.

According to Ibrahim (2013:146), the NIEO was a response of the countries of the South (Developing Countries) to the dissatisfaction of the imbalance between them and countries of the North (Developed Countries) in international economic relations. The NIEO is said to be traceable to the Havana Conference of 1948 (Ibrahim, 2013:146). The demand for NIEO was however, pursued through the various conferences of the United Nations Conference on Trade and Development (UNCTAD) and the Non-aligned Movement (NAM), held in various Third World cities between 1970 and 1973, and at the United Nations (UN) in 1974 (Asobie, 2002: 65).

At the meeting of UNCTAD III, held in Santiago, Chile in 1972 there was a proposed inauguration of a "Charter of Economic Rights and Duties of States." (Asobic, 2002: 65). Thereafter, at the summit of NAM held in Algiers in 1973, the members of the Movement asked for the restructuring of world production and a change in the prevailing unequal and exploitative terms of trade between the industrialized and non-industrialized countries (Asobie, 2002: 65-66). Consequently, these demands were made by Third World Countries at the Sixth Special Session of the UN General Assembly (UNGA) held in 1974. These demands were adopted as UNGA resolutions 3082 (xxviii) and were embodied in the Declaration on the Establishment of a New International Economic Order (Akpuru-Aja, 2001: 173)

The formal document establishing NIEO bears about 18-clause-document, of which the major clauses are:
Adoption of an integrated approach to price supports for an entire group of developing countries commodity export;

The indexation of developing country export prices to tie them to rising prices of developed countries' manufactured exports;

The attainment of official development assistance to reach the target of 0.7% of GNP of the developed countries;

The linkage of development aid with the creation of the IMF's Special Drawing Rights (SDR);
The negotiated redeployment of some developed countries industries to the developing countries.

The lowering of tariff on the exports of manufactured goods from the developing countrics.
The development of an international food programme; and
The establishment of mechanisms for the transfer of technology to developing countries, separate from direct capital investment (Ibrahim, 2013:148-149).

Ibrahim (2013:150) identifies the most important provisions of NIEO as those established the management and pricing of at least ten (10) core commodities, which are:
(i) Cocoa;
(ii) Coffee;

(ii) Tea;
(iv) Sugar,
(v) Hard Fibres;
(vi) Jute;
(vii) Cotton
(viii) Rubber
(ix) Copper; and
(x) Tin

Seven other commodities were recognized, with slightly lower priority. These commodities are:
(i) Bananas;
(ii) Wheat
(iii) Rice;
(iv) Meat;
(v) Wool;
(vi) Iron Ore; and
(vii) Bauxite.

The major objectives of the commodity program were: (1) reduction of excessive price and supply fluctuation; and (2) establishment and maintenance of commodity prices, in which in real terms are equitable to consumers and remunerative to producers (Ibrahim, 2013:146). To achieve these goals, the following integrated measures were proposed: (1) the establishment of an international buffer stocks; (2) the creation of a common fund to finance these stocks; (3) the signing of multilateral trade commitments; (4) the arrangement of improved compensatory financing to stabilize export earnings.

Against the backdrop of the fact that African economies are monocultural in characteristics, it is surprising that document is explicitly silent on its role on the diversification of African economies. Since it is trite that too much economic specialization, i.e. little diversification, is risky and export diversification leads to higher growth, the question that therefore arises is: Is NIEO a determinant of economic diversification? Put differently, do the tenets of the NIEO promote the chances that African states can diversify their economy? The present study essentially seeks to examine whether or not the prospect of Africa's economic diversification has been significantly enhanced by the New International Economic Order (NIEO). Thus, the research problem of this paper is two-fold: first, why has African states perpetuated a monocultural economic policy and does NIEO offer an enabling international trade environment, that will in turn encourage, economic diversification of African economies?

SIGNIFICANCE OF THE STUDY

Currently, researchers and policy makers are concerned with the problems of Africa's monolithic economy and its impact on economic growth inhibition. In this regard, the New International Economic Order (NIEO) has been mooted as a plausible solution to the problem as it was envisaged to promote economic diversification of Third World economies. The literature on the economic diversification is extensive. Although a great deal of attention has been paid to addressing domestic macroeconomic policies that can bring about diversification

the impact of international policies such the NIEO has not attracted the attention of scholars. The significance of the study therefore lies in the aforementioned perceived knowledge gap it identifies and the attempt to fill it. Hence, this work will be of benefit to a wide range of audiences, particularly students of History, International Relations, Politics, Development Studies and Economics etc. In addition, the findings and recommendations of this study will provide present and future policy-decision makers with insightful information on economic diversification strategies to enable them to formulate appropriate response to the global economic stimuli.

LITERATURE REVIEW

This section reviews the extant literature, with an analysis of appropriateness and gaps in relation to the research problem to show the state of the art: However, a perusal of the literature reveals that academic studies that have analyzed the nature of relationship between NEIO and the prospect of Africa's economic diversification are scant and almost non-existent. However, a few studies will suffice for review.

Catherine Schenk (2011) in *"International Economy Since 1945,"* outlines the dramatic changes in the global balance of power in the period following the Second World War and examines how the world's economic leaders have tried to organize and influence the international economy. Shenk uses a chronological approach in discussing the pattern of International trade, international investment and the changing organization of the international monetary system, showing the ways in which international policy has influenced the outcomes of global economic trends. Particularly, the work highlights how Third world states had attempted to revise the Breton Wood system in their favour as an aspect of the historical development of international economic policy since 1945. As earlier noted the gap exists in the literature with regards to drawing a nexus between how international economic policies, such as the NIEO has influenced (or intends to influence) economic diversification of the Third World, nay Africa.

Hausmann, Hwang and Rodrik (2007) in their work, "What You Export Matters," examined specialization patterns and used empirical methods to examine whether the mix of goods that a country produces have any significant implications for economic growth. They found that the level of sophistication (diversification) in developing country's exports predicts its growth. The analytical gap, in relation to the research problem, lies in the fact that the role of international policy in influencing economic diversification in the developing countries was overlooked.

Kozima (1989) in his work *"The Possibility of Creating a New World economic Order"* focused his research problem on finding the effort of the developing countries to change their plan in the world economy. He made basic assumptions that development of World Economy is determined by three factors combined; the continuously increasing economic and political weight of the socialist community, the serious and lasting crisis phenomena of the capitalist sector, of the world economy, entailing powerful efforts to stabilize capitalism and finally, the growing efforts made by developing countries to increase their weight in the world economy and to accelerate their development. His findings reveals that the series of actions initiated by the developing countries in order to bring about a reform in the World economic order has

given rise to far reaching processes in the full sphere international economy and politics especially UN where their influence has drastically increased and improved. Our critical analysis of his work is that other methods of achieving financial influence and independence were not addressed. This could be achieved through strong regional integration and setting up strong financial institutions.

Hudson (1977) in *"Global Fracture: The New International Economic Order"* describes how debtor countries and raw materials exporter sought to create a new international economic order. He examined the role of the World Bank and IMF in the implementation of the NIEO. He observed that these institutions used their creditor leverage to impose an era of privatization that dismantled and sold off public enterprises, leaving developing economies much further molested and more foreign own than imagined in the 1970s. The Hall mark of his finding is that the programme was a monetary drain that has obliged debtor countries to sell of their public domain on credit to insiders (crony capitalism). The absence of discussion on the role of NIEO on the diversification of Africa's economy presents a gap for the development of our research problem.

This paper aims to contribute to the literature by answering one fundamental question that has been overlooked in the literature: does NEIO as an international policy enhance the prospect of Africa's economic diversification?

THEORETICAL FRAMEWORK: THE DEPENDENCY THEORY

In order to situate the research problem within theoretical context, the present study adopts the dependency theory to explain the nature of relationship between the NIEO and the prospect of Africa's economic diversification. Dependency theory opposes the modernization theory of development that argues that all societies progresses through similar stages of development (Wikipedia, 2015). Dependency scholars argue that dependency is characterized by the flow of resources from the "periphery" of underdeveloped states to a "core" of developed states, enriching the former at the expense of the latter (Wikipedia 2015). The theory identifies underdevelopment with the expansion of industrial capitalis countries. (Jhingan, 2011: 224). Proponents of this theory argue that development and underdevelopment are parts of a unified system and have a consensus that dependence affects internal politics, society and culture (Jhingan, 2011: 224).

According to Olanike (2012: 20), the key theoretical propositions of dependency theory are as follows:

Poor nations provide natural resources, cheap labour, a destination for obsolete technology, and markets for developed nations, without which the latter could not have the standard of living they enjoy.

Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, economics, media control, politics, banking and finance, education, culture and sport.

It is in rejection of dependency and the quest for the equalization of relations with the developed economies that the developing economies began to demand for a New

International Economic Order. Intellectual efforts in this regard can be traced to the pioneering work in development economics by the Argentine economist, Raul Prebisch, first as the head of the Economic Commission for Latin America (ECLA) from the late 1940s and then as the founding secretary general at the United Nations Conference on Trade and Development (UNCTAD) from the early 1960s (Gledhill, 2011:34). Along with the German British economist Hans W. Singer, Prebisch postulated the Singer-Prebisch thesis which states that, absent regulatory intervention, the terms of trade between primary (commodity) producers and manufacturers deteriorate over time. The thesis begins with the observation that in the present world system the periphery produces primary goods to export to the center, and the centre produces secondary goods for export to the periphery.

The Singer-Prebisch thesis not only offered a political critique of the subordinate economic position to which the imperial powers had historically consigned their colonies as primary producers; it also provided a clear path forward: international trade needed to be managed to prevent the deterioration of the terms of trade, and governments and corporations from the north had to be compelled to provide capital, technology, and expertise to enable the south to develop its own industrial base (Ziesemer, 1998: 64; Toye and Toye, 2003: 437-467). According to Thomas Ziesemer (1998: 337-365), the Singer-Prebisch thesis would not only form the cornerstone of dependency theory (and later world systems theory); it also provided the underlying rationale for import-substitution industrialization strategies as well as the demands of the NIEO.

Dependency theory also accounts for why many African states began to adopt an import-substitution strategy and protected their economies from foreign competition. It was thought that among the plausible factors that have the potential to drivé economic diversification in Africa is the implementation of international policy on development, particularly, the New International Economic Order (NIEO). Dependency theorists reject the Ricardian analysis, which is based on the marginal and surplus principles (Jhingan, 2011: 88) as intellectual agent of a monocultural economy. While the Ricardian economics' theory on the efficiency benefits from specialization tends to entertain no qualms the monocultural nature of African economies, the dependency theory opposes it altogether. Hence, diversifying away from such dependence may help stabilize African economies and promote growth. It is within the theory of dependency that this paper situates its contexts and arguments.

SUMMARY OF FINDINGS

A perusal of the extant literature shows that almost no studies have explicitly offer theoretical explanation of the role NEIO as a key variables that could drive Africa's economic diversification. One can however argue that the NEIO appears to provide the framework better trading terms for all African economies and offers the prospect of an operative environment that can spur national economic diversification. For instance, import substitution strategies promoted by NIEO allow the cutting down of consumer goods and its production at home (Jhingan, 2011:481). By so doing, economic diversification will result from paying attention to several products across various sectors of the economy. While it is admitted that the strategies of international trade may have effect on the local economy and industrial development (Akpuru-Aja, 2001:102), (for example, the elimination of discriminatory trade

policies against primary products) the design and implementation of diversification strategies are entirely dependent on the nature of domestic leadership.

We therefore find that rather than the failure of NEIO, the poverty of leadership and weak institutions in Africa has perpetuated monocultural economic policies leading to the resource curse phenomenon also called the Dutch Disease (DD) (Auty, 1933: 31-33). Bature (2011: 16) defines the resource curse phenomenon as a "situation in which the discovery of a primary mineral resource anywhere in the world, instead of boosting exploitation and harmonious development of the economy, rather leads to decline or total collapse of economic activities in other sectors." It is an economic policy whereby only one commodity forms the major exportable commodity resulting in severe economic instability and vulnerability to the price behaviour of the commodity (Fadeyi and Adisa, 2012: 127-136). Hence, whereas African states may be structurally linked to the global economy in a manner that perpetuates dependence; monocultural economy is not a direct response to external economic stimuli that is independent of domestic policy on diversification.

Furthermore, the NIEO is socialist-oriented and therefore opposes capitalism. This accounts for the reasons why NIEO is opposed by the developed world. Thus, in capitalism-dominated international economic relations, its agenda are unattainable in the foreseeable future. Jhingan (469-470) outlines the failure of the NEIO, pointing the barriers to implementation in the idealistic nature of the proposals. It therefore suffices to state that while NEIO maybe plausible, it is not a realistic diversification strategy for Africa, nay the Third World, states.

CONCLUSION

So far, the This study has examined the new economic world order and showcased the position or grouping of developing countries to counter the monopoly of the west in terms of production, distribution of goods and services international trade and tariffs. At the core of the NIEO's agenda was a series of interrelated proposals for reforms to the structure, governance, and norms of the global economy designed to improve the relative position of the developing states. In particular, the NIEO Declaration called for: (a) an absolute right of states to control the extraction and marketing of their domestic natural resources; (b) the establishment and recognition of state-managed resource cartels to stabilize (and raise) commodity prices; (c) the regulation of transnational corporations; (d) no-strings-attached technology transfers from north to south; (e) the granting of preferential (nonreciprocal) trade preferences to countries in the south; and (f) the forgiveness of certain debts that states in the south owed to the north.

The paper also reviewed relevant literature to identify analytical gaps and demonstrate the state of the art in assessing scholarly views on the research about the influence on NIEO on the prospects of African economic diversification. On the whole, the Africa states in concert with other developing and developed countries have strived to implement the NEIO proposals with very limited success (Jhingan, 2011: 469). The chances that NIEO will facilitate a successful diversification of African economy are bleak because the objectives of NIEO itself not yet been achieved.

RECOMMENDATIONS

From the discussions so far, the paper makes the following recommendations:

The AU should develop a well-articulated blue-print to aid the diversification process in Africa.

African states should focus on key drivers of diversification such as investment, trade and industrial policies, a competitive exchange rate and expansionary but responsible fiscal policy; and

A dynamic growth performance in the extractive sector can be spilled into the development of other sectors through institutional variables such as good governance, macroeconomic stability and absence of conflict.

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