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The International Economic Order: From Bandung to Washington and Back?

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Is there a relevance today of the Bandung Conference in 1955 of the newly independent countries in Africa and Asia? The successful conclusion of the 16th summit of the Non-Aligned Movement (NAM) of 120 nations across the world at Teheran in August, 2012, despite strong opposition from the USA and her allies, clearly indicates that the Bandung spirit has not died.

How it shaped the economic policies of many developing countries till 1970s and then fizzled out is recounted in section I. Next, the rise and fall of the neoliberal ideology in the USA and its global impact are critically examined. Section III enumerates the damaging consequences of the neoliberal global order from 1980 to this day, and notes its continuing sway over policy makers around the globe, barring the left-leaning countries in Latin America. Finally, the outlines of an alternative global system, leaning heavily on the Bandung Resolution are touched upon.

I

The Bandung Conference of 1955 was a landmark event. For the first time the liberated nations of Africa and Asia came together to denounce Western imperialism and call for a radically different international economic order. The sovereignty of each country in determining its economic policies must be respected; in particular, control over the natural resources, planning for overall development and regulation over foreign trade and investment, must remain with the national government. Despite opposition from the Western governments, many developing countries adopted these policies that had the moral support of progressive politicians and academics from the West. The socialist 'bloc' of USSR, China, etc. endorsed the Bandung Resolution and offered better (as against the West) terms of trade and aid to many countries. In 1957 the GATT, the global body to regulate international trade, inserted a new Article (18b) in its Charter; in a major departure from the underlying principle of free trade, developing country members could henceforth restrict imports to promote domestic industries. In 1964 the UNCTAD was created by the UN to act as a think-tank for developing countries.

In 1973 came the historic decision of the OPEC to raise oil export prices sharply by a factor of almost 4. As these countries accounted for the bulk of the global trade in oil, and the respective governments had edged out (in accordance with the Bandung Resolution) the Western MNCs from a controlling position, the Western governments were powerless. The USSR was another major producer that backed the OPEC from outside, as did nearly all developing countries.

In 1974 the UN General Assembly passed a resolution on ‘new international economic order’ encouraging developing nations to control MNCs operating within their territories, to nationalise or expropriate foreign property, to form associations similar to the OPEC to ensure remunerative and equitable prices for raw materials, and so on. (UN 1974.) It echoed the Bandung Resolution.

Table 1. Per capita GDP at constant 1990 international dollars

	World	Africa	Asia *	Latin America
1951	2199	913	665	2568
1961	2833	1662	823	3190
1971	3810	1381	1134	4122
1981	4534	1510	1537	5356
1991	5147	1383	2184	5167
2001	6153	1490	3320	5851
2003	6516	1540	3842	5786

* Asia excludes Japan
Source: Maddison (2007) datasheet.

Import restrictions helped many developing countries to set up a wide range of industries by the 1970s.[1] For the first time in two centuries, the developing countries improved their world ranking in per capita GDP as shown in Table 1. While the world progressed steadily, so did developing Asia from 1951 to 2003. But Africa stagnated from 1961. In contrast, Latin America exceeded the world average till 1981, just equalled the latter in 1991 and then fell behind. The reason for the poor performance of Africa as against that of Asia or Latin America is that the nominally independent African nations were still dominated by the former imperial powers and hardly had a chance to pursue a national strategy of industrialisation.

What happened after 1973? The OPEC story could not be repeated for other primary goods exported by the developing countries. The UNCTAD in 1976 put forward an Integrated Program for Commodities aimed at setting prices for the primary commodities of developing countries that would take into account world inflation, exchange rates, and the cost of manufactured imports; the stocks would be financed and managed jointly by exporting and importing countries. Western MNCs that virtually monopolised global trade in these commodities prevailed upon their governments to reject the plan. As a result, the exporting countries continued to have low and volatile earnings, got no concession on oil prices, and ran into huge trade deficits. The OPEC countries with an enormous surplus of dollars parked the funds in Western banks rather than offer cheap loans to other developing countries. Further, Western banks, unable to find domestic borrowers owing to the prevailing stagflation (see below), became very liberal, ignoring

the ‘prudential norms’ of commercial banking, and granted huge loans to developing countries (and also the USSR). The latter hoped to utilise the funds to accelerate industrial growth and exports of manufactures, and thus repay the loans. Since such exports to the West faced many hurdles (see below), one developing country after another fell into the debt trap from the early 1980s, and turned to the IMF and the World Bank for relief. ‘Aid’ came on the strict condition that the recipients realign their overall economic policies according to the neoliberal tenets explained below.

By the mid-1990s, the West compelled the developing countries to replace GATT by WTO that took away the right of developing nations to protect domestic industries from imports, imposed many other restrictions on national sovereignty and brought services under its ambit. Thus in the absence of *active*, rather than *rhetorical*, solidarity between the OPEC and oil-importing developing countries, the Bandung Resolution became a dead letter.

II

Neoliberalism in the USA and the UK gained ascendancy after the crisis of stagflation in the 1970s. It was in many ways very different from all earlier crises, as explained below.

Capitalism is characterised by the existence of myriads of ‘autonomous’ private capitals, each striving to maximise profits. Lack of coordination between them leads to periodic crises when the effective demand for goods and services from all sources – domestic consumption, investment and export, falls short of the productive capacity of the economy. During the boom phase, private investors tend to over-invest, leading to a falling rate of profit; simultaneously, while money wages rise, real wages fail to increase in step with productivity growth resulting in under-consumption. Yet in spite of recurring crises from the mid-19th century to the present in different countries, capitalism is still thriving. In the earlier phase, the conquest of new colonies and semi-colonies provided an escape route for the leading countries; it came to a close by 1920. Marx underlined an enduring feature of capitalism – its ability to generate an unending stream of innovations in the production of goods, in methods of organising production and sales, and so on. Schumpeter (1934) showed how the duration of recession could be shortened if a number of significant innovations took place simultaneously. Since the rate of innovations and their diffusion are unpredictable, these cannot prevent crises.

As the Great Depression of 1929 engulfed the capitalist world, all military or ‘peaceful’ escape routes were almost exhausted. Keynes developed a novel theory with a major impact on economic policy-making. Labour intensive public works, expanding employment and domestic consumption, could be financed through large fiscal deficits. Actually, Nazi Germany alone got rid of unemployment through such public works *and* massive military expenditure. The US President Roosevelt’s New Deal went only part of the way, and unemployment, in both USA and UK, remained very high until the war set in.

The situation changed dramatically after 1945. While there was widespread apprehension in the West of a post-war depression as in the 1920s, the years up to 1973 turned out to be the 'golden age of capitalism' in the West; the GDP increased almost continuously, unemployment was virtually absent, the wage-share in national income rose to high levels, and the degree of income inequality came down sharply. What explains it? Conventional explanation runs along the Keynesian lines. Taking a cue from the New Deal, Western governments expanded the social welfare schemes to keep unemployment low; big 'defence' budgets had the same effect. Baran and Sweezy (1968) added another dimension; under monopoly capitalism there was a huge rise in 'unproductive' (from the social perspective) expenditure on items like advertising, military, etc. that mopped up a growing part of economic surplus and boosted effective demand.

This conventional narrative is incomplete, as it misses the Cold War factor in areas other than defence outlays; these are elaborated in Chandra (2002).

(1) The capitalist classes in West Europe and North America acquiesced in the creation of welfare states with great reluctance as a response to the ideological challenge of Soviet socialism. Throughout West Europe and North America, not to speak of the former colonies and semi-colonies, the USSR after 1945 had an enormous public appeal owing as much to her role in the anti-fascist war as to her socio-economic achievements in the 1930s – rapid industrialisation, elimination of unemployment, and introduction of almost universal education and health facilities. Communist parties nearly won parliamentary elections in Italy and France.

(2) Mainstream economists have rightly emphasised that freer trade and investment within the capitalist world contributed greatly to the long post-war boom. But the Cold War factor cannot be ignored for the following reasons.

(a) The Americans' masterstroke was the Marshall Plan for West Europe, offering not only aid, but more importantly, 'unreciprocated' access for their exports to, and massive technology transfers from, the USA. *It marked a complete departure from the practice in international commerce before 1940*. As Hardach (1987) noted, the Morgenthau Plan to extract war reparations from Germany and cripple the country, found favour with the US Administration in the early 1940s. Before the war ended, it was replaced by the Marshall Plan to transform West Europe into a powerful bastion against the USSR. The USA also prevented France from demanding reparations from West Germany, and coaxed the government to prepare an ambitious plan for economic revival, eventually leading to the German 'miracle'. Later, the USA followed the same recipe for its strategic allies in Asia like Japan, Taiwan and South Korea that blossomed into new miracle economies.

(b) In a glaring contrast, the USA orchestrated a barely concealed economic war against the Soviet bloc. Thus in 1947 the Americans offered to extend the Marshall Plan to the USSR and Stalin, judging by the highly beneficial impact of American aid during the War, was initially tempted; but he rejected it scornfully, once the US insisted on having a supervisory role (like the IMF today) over the Soviet economy. (Hardach 1987.) In the same year, the USA prevented Soviet entry into the GATT (General Agreement on

Tariffs and Trade), the multilateral body designed to promote non-discriminatory trade in manufactures, and consistently blocked, along with the NATO allies, import of manufactures from, and technology exports to, the socialist countries.

(c) Further, the USA and her NATO partners established arbitrarily quantitative quotas in respect of textiles and garments for different exporting countries in violation of the GATT rules; subsequently, it was regularised by the GATT under the Multifibres Agreement (MFA). This move froze the exports of non-aligned countries like India, Egypt etc. and boosted those of America's strategic allies in Asia.

The 'golden age' of capitalism came to an end after the oil shock of 1973. As prices increased across the board, money wages in the West soared in step, since there was no unemployment. Profit rates were further squeezed and private investments fell dragging down the GDP growth. 'Stagflation' lasted several years. Was it avoidable? An astute observer, Sweezy (1982) was non-committal: 'We still do not know what will bring the stagnation of the 1970s and 1980s to an end – or what kind of an end it will be.'

The end came after the neoliberals, Thatcher and Reagan, captured power in Britain and America respectively. There were several factors behind their triumph. One, the trade unions in the West, it was commonly felt, abused their bargaining power. Two, by 1980 the USSR had lost its 'moral shine' for a variety of reasons, while the economic growth engine was spluttering. Three, many of the emerging Third World countries were industrialising at a fast pace just as the West was de-industrialising, and the oil shock was a grim reminder that the global balance of power was changing in a way that threatened the living standards in the West.

The response of Reagan and Thatcher to the stagflation was radical. Domestically they sought to tame the trade unions and strengthen Big Capital. Internationally, they pushed for free trade and capital movement, ostensibly to ensure efficiency gains across the world; they hoped that the pre-eminence of western MNCs and financial institutions would enable the West to reinforce its hegemony over the global economy.

Anglo-Saxon neoliberals posited that only private entrepreneurs create wealth in a modern industrial society, while an interventionist state is inherently inefficient, destroying wealth. To encourage private accumulation one must privatise state-owned firms, curb trade union power to bring down the bloated wage levels, reduce drastically the 'confiscatory' (pre-1980) income tax rates for high earners, and offer generous 'incentives' (an euphemism for subsidies) to investors. Indeed, the labour market became more flexible, budgetary outlays on unemployment and other welfare schemes were sharply pruned, and more people in working age were compelled to seek lowly paid jobs. Not surprisingly, the wage share in US GDP fell almost monotonically since 1980.

How was aggregate demand deficiency averted? Consumption was boosted by a spike in the income of capitalists and professionals, and the investment rate was pushed up through multifarious tax sops. These could hardly compensate for the fall in workers' incomes. An innovate policy inspired by 'modern finance' played a crucial role. Thus

private debt instruments were created with an aggregate face value exceeding by far the market value of the collateral assets. Credit cards helped low-income families to spend much more than their incomes. The assets (IOUs) of the credit companies were packaged and sold over and over again to other financial institutions, creating further liabilities in the process. The market for house mortgages exploded, allowing borrowers to take loans that they could never repay unless house prices increased steadily. Similarly, business firms went for substantial expansion, including mergers and acquisitions, with borrowed funds. So long as the Goldilocks economy conjured by US Federal Reserve Bank Chairman, Alan Greenspan, persisted, in which the prices of assets (equity shares, houses, etc.) rose almost monotonically with periodic short-lived corrections, it was a win-win situation for all. Asset-owning individuals and firms invested ever more in new assets; and consumer expenditure soared, helped by the effect of rising wealth. The scenario resembles a Ponzi scheme in which the 'early investors' receive high returns, not from the yield of assets purchased from their contribution, but from fresh investments by new entrants. Indeed, for the US economy, the ratio of outstanding debt to the GDP rose relentlessly over time, till the bubble burst in 2007.

Table 2 shows that the growth rate in each of the leading industrial countries decelerated during 1973-80 as against 1960-73. From 1980 to 2007, there was a marked acceleration in Britain and the USA, but the growth rate fell somewhat in France and Japan. West Germany, for which the data are not available beyond 1990, there was a mild acceleration during 1980-90 as against 1973-80.

Table 2. The CAGR of GDP of leading industrial countries at constant US dollars 2000 (percentages)

	France	Japan	Gr, Britain	USA	W Germany
1960-73	5.55	9.14	3.16	4.37	4.34
1973-80	2.67	2.97	1.27	2.56	2.17
1980-1990					2.25
1980-2007	2.08	2.29	2.86	3.09	
1960-2007	3.15	4.31	2.66	3.35	

Source: World Bank database.

One must now admit the seminal contribution of the neoliberal policy makers in reversing the stagflation of the 1970s in the West and in creating a nearly crisis-free era of capitalist development for almost three decades – about as long as the post-1945 boom. That a crisis eventually surfaced reflects the inherent characteristics of the capitalist system.

On the limitations of 'modern finance', from the late 1960s Magdoff and Sweezy (1988) were harping on the dangers of growing private debts in the USA. Around the same time Hyman Minsky was writing about an impending crisis owing to the credit system, succinctly restated in Minsky (1992). In 2005, at a celebratory seminar in honour of iconic Alan Greenspan, Rajan (2005), then Chief Economist of the IMF, presented a

provocative paper, 'Has Financial Development Made the World Riskier?', and predicted a crash in the near term. His voice was drowned in a chorus of adulation for Greenspan.

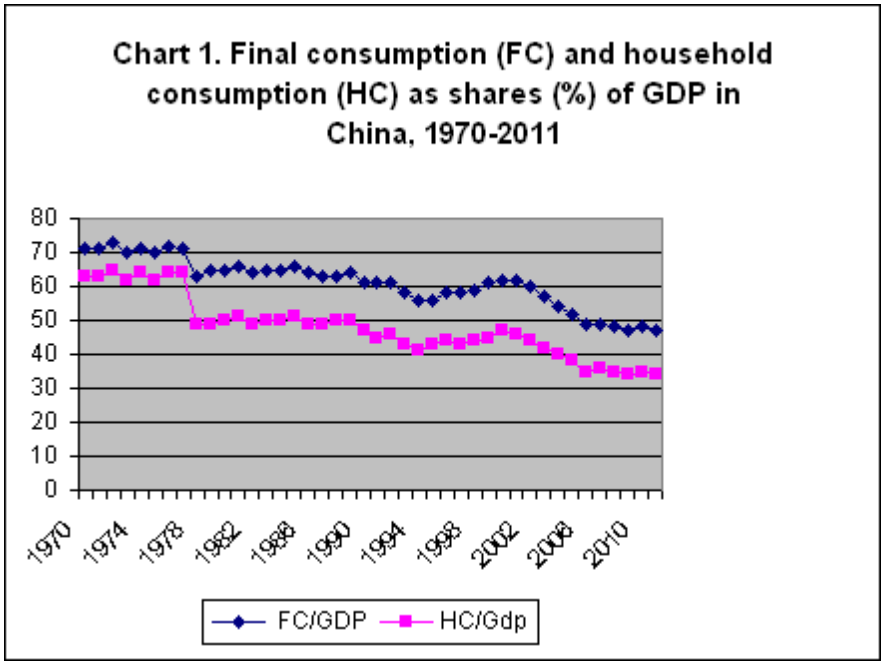
The *denoument* came in 2007 as US house prices collapsed. Since housing loans, including derivatives, accounted for a substantial part of the assets held by the financial institutions, one witnessed the worst financial crisis since 1931 that spread like wild bush fire from America to Europe as well as the rest of the world. After 4 years one does not see the end of the tunnel, and the crisis may last indefinitely, according to most observers. The GDPs of industrial countries are, relatively speaking, shrinking since the onset of the crisis. According to Ross (2012), the percentage shares of world GDP at current prices between 2007 and 2011, were: USA (25.0 and 21.6), UK (5.0 and 3.5), Germany (6.0 and 5.1) and France (4.6 and 4.0). But it rose for Japan (7.8 to 8.4). The CAGR in percentage over the 4 years stood at -3.6 for the UK, +1.8 for France and Germany, +2.0 for the USA, and +7.7 for Japan. Japan, one may recall, has been stagnating since the early 1990s, and in the recent past benefited from closer integration with China and East Asia.

Is crisis inevitable under capitalism? Tugan Baranovsky (1913, cited by Besoni, 2006, p.158) in the course of a famous debate among Russian Narodniks and Marxists in the late 1890s and early 20th century, observed that production could be expanded without limit even if labour was progressively replaced by machines and the means of production expanded more rapidly than the production of consumption goods. Later Marxists, including Sweezy (1946), doubted if the process could go on beyond a point.[2] Kalecki (1967) concurred, but added that Tugan's conjecture captured the 'spirit' of capitalism. Much earlier, Lenin (1898) had discussed Tugan's proposition. He found some merit insofar as the output of the means of production under capitalism tends to outpace that of consumer goods; yet he concluded like Sweezy and others that the former cannot expand indefinitely and independently of the latter. Moreover, Tugan himself never contradicted the disproportionality theory of crisis.

That is not the whole story. Can one then think of the Tugan hypothesis as an approximation for a socialist economy? He wrote: 'If production were organised through a plan, if the market possessed full knowledge of demand and the power to distribute production proportionally, to freely transfer labour and capital from one branch of industry to another, then however low consumption might be, the supply of goods could not exceed demand.' (Tugan-Baranovsky 1914, cited by Barnett 2001, p.464.)

In the USSR during the very long Plan era from 1928 till 1991, the growth of producer goods industries had, generally, an edge over that of consumer goods. The eventual collapse of the economy can hardly be attributed simply to the disproportionate growth between sectors, since it was riddled with many contradictions, internal and external. A counter-example is post-reforms 'socialist' China that has witnessed since 1980 an unbroken, superlative GDP growth rate so far. The percentage share of household consumption in the GDP fell sharply from 64 to 34 during 1977-2011. According to the databank of the World Bank, the percentage share of household consumption in GDP (see Chart 1 below) ranged 63-65 in 1970-77, fell precipitately to 49 in 1978, stayed between 49 and 51 up to 1989, and then fell sharply, and almost continuously to 34 in 2011. The

last figure is unparalleled in world history. Moreover, the government over the last several years has been calling for greater reliance on domestic consumption rather than investment and net exports as the engine of growth. In fact household consumption share hovered between 34 and 35 during 2007-11. One may question if China is socialist, but the economy is qualitatively different from Anglo-Saxon or West European or Japanese variety of capitalism. But China is deeply integrated with the world capitalist economy, making her dependent on the global market forces. Doubts remain about the sustainability of her growth trajectory, though no one can predict if and when the crash will occur.



III

The adverse consequences of neoliberalism have been extensively discussed; these are both pervasive and durable in nature. Financialisation of Western economies accelerated the pace of their de-industrialisation. In the belief that poor countries should specialise in (cheap) labour intensive goods, the rich countries imported ever-increasing quantities of these goods, hoping to gain much more in exports of skill intensive products and services. That was one major reason for replacing GATT by WTO that covered trade in goods as well as services. Driven by market competition the manufacturing MNCs began to relocate factories, including those for advanced technology products, in low-wage developing countries. The US trade deficit reached astronomical levels. Thanks to almost unrestrained cross-border capital flows, the Wall Street, the City of London, MNCs and HNI (high net-worth individuals) from rich and poor countries alike, made enormous

profits. A large part of their surplus funds were parked in offshore tax havens, including the USA and the UK; correspondingly, the putative tax loss for the exchequer in all countries, rich and poor, was colossal, though no precise estimates are available. (See below.)

The combination of IMF tutelage over the indebted countries and the 'free trade' regime under the WTO played havoc for manufacturing industries in most developing countries; the end of the quota system for textiles and garments in 2005 accentuated their de-industrialisation. Even in China, the country that gained most from liberalisation and became the manufacturing hub of the world, employment in the sector has contracted sharply as the producers in search of profits retrenched workers on a massive scale. (Chandra 2012.) In India the share of manufacturing in the GDP remained stagnant at around 17% since the 1980s, and overall manufacturing employment barely expanded. In short, de-industrialisation is affecting the world as a whole, just as the financial sector is everywhere on the ascendancy.

Since 'modern finance' acquired a high profile, remuneration for the professionals in the sector soared, and so did that for their counterparts in manufacturing, advertising and so on. After all, professionals tend to migrate from one sector or country to another in search of ever higher earnings. There is a voluminous literature on the subject of income inequality. Perhaps the most widely cited are the long-run data from US and many other countries provided by Piketty and Saez (2002) and Atkinson, Piketty, and Saez (2011) showing current levels of inequality in income at least as great as in the first two decades of the last century. These studies are based on personal income tax returns for rich countries and other sources for the rest. As noted below, there has been a proliferation of tax havens since 1980; the super-rich have far higher incomes than shown in their tax returns.

There are no two opinions on the rising inequality as a major threat to social stability everywhere. Rogoff (2011), formerly Chief Economist at the IMF, believes that the inequality was driven by market forces that put a high premium on the innovative skill of professionals, and the same market forces should rectify it by pushing down the premium. The irony is that when iconic Western firms failed in the market place, and were rescued by government bailouts much to the anger of ordinary citizens, the managers at the top preserved their income and wealth. Clearly, the market in real life has little in common with Rogoff's idealised market.

Nor does Warren Buffet (2011), the US investors' *guru*, and for years among the very top of the *Forbes* list of world's billionaires, share Rogoff's vision. He proposed a sharp increase in effective income tax rates for the very rich, and was endorsed by elite business leaders from Germany, Italy and France. Buffet also poured cold water on the neoliberals' pet theory that a higher tax rate would dampen entrepreneurial efforts.

Democrats in the US Congress recently proposed an additional 5% tax on Americans with an income of $1 million or more. Their number is estimated at 300,000 and the expected yield over 10 years is $445 billion or around $40-50 billion per year. (Pear

2011). This is not a large sum, as the federal income tax revenue is currently about $1 trillion. President Hollande of France has proposed a 75% tax on annual incomes above Euro 1.0 million ($1.3 million), and a marginal tax rate on capital gains of 60%. The expected yield, however, is quite modest at $300 million. (*The New York Times*, 8 October 2012.) *The Economist* (Editorial, 17 September 2011) argued against enhancing the marginal tax rates but called for a drastic revision of the tax code that provides for lower tax rate on income from capital, allows generously for tax-deductible business expenditure, and offers innumerable tax sops on income/investment in specified activities. For the USA the last item alone led to a tax 'expenditure' or loss of $1 trillion.

Moreover, the superrich in all countries take advantage of the tax havens that are at the centre of the international debate on money laundering. In the last few years the USA has been most active in tracking the tax delinquents. The Swiss bank, UBS, paid a fine of $780 million and agreed to disclose the derails of 4,000 American account holders. As for other banks in Switzerland or elsewhere, the USA has not pursued the matter as vigorously. The IRS also launched a tax amnesty scheme allowing taxpayers to make voluntary disclosures and pay appropriate taxes with a small penalty; it expired in September, 2011, and a total of just $2.7 billion was collected from thousands of persons. Meanwhile, Germany and UK made a pact with Switzerland under which the banks guard the anonymity of account holders, calculate their tax liability, and deposit the aggregate amount with the respective governments. The tax delinquents are likely to welcome the agreements as they can continue to evade British or German taxes.

How serious is the problem of money laundering? Contrary to common belief, the USA and the UK are the biggest tax havens. The Internal Revenue Service (IRS) proposed to the US Congress that banks and securities brokers must disclose interest paid to foreigners; it cited a US Commerce Department study indicating that foreigners had invested a total of $10.6 trillion in the US (almost 80% of the US GDP). Excluding US government securities, about $1 trillion were held by private agents, mainly from Latin America. Existing law exempted banks from disclosing the amount of interest paid to foreigners and from deducting US taxes. As many as 27 members of the US Congress wrote to the US President on March 2, 2011, objecting the IRS proposal on the ground that it would adversely affect the US economy.[3]

For the years 2002-08, the *annual outflow* from all developing countries was put at a minimum of around $1.0 trillion by Global Financial Integrity (GFI). Including items not considered in the former like transfer pricing in respect of services, assets swaps at misleading values, and the proceeds of smuggling, the total might be closer to $2.0 trillion. Illicit outflows during the 39 years, 1970-2008, from Africa stood at $1.8 trillion, while the continent's external debt at end-2008 was $230 billion. (*www.gfip.org/)*

For India, GFI estimated the total outflow, 1948-2008, at $213 billion. Assuming that such funds earned a rate of return no higher than that of the US Treasury bonds, the present value would be $462 billion. GFI dismissed a figure, widely reported in the Indian media, of $1.3 trillion as the stock of funds held by Indians in Swiss banks. A study by Crisil, a leading credit rating agency, and Kotak Wealth Management, estimated

the net worth of the super-rich (each with over Rs 250 million) at Rs 45 trillion (about $1 trillion) in 2010-11; it was projected to rise five-fold by 2015-16.[4]

Why are emerging countries still locked into the neoliberal order? The highfliers among them like the BRICS as well as Argentina and Mexico, all belonging to the G20, have a large industrial base, and averted a crisis after 2007. Their leading firms derive considerable benefits from the present system of capital mobility. The story of outward investments by Chinese firms, public or private, is by now well known. *The Economist* (17 September 2011) in the lead editorial highlighted these ongoing changes, citing India's Tata group (now the largest employer in British manufacturing), and many world-class companies spawned by other countries. All these firms got listed in the stock exchanges of New York, London, etc., raised large sums of equity capital and bank loans at low interest thanks to favourable appraisals by the credit rating agencies. These funds financed *both* mergers and acquisitions abroad *and* projects in their home countries that have typically high domestic rates of interest. Not surprisingly, Indian pharma companies that had consistently lobbied over the years against the entry of Western MNCs, have now made a *volte face*; for ensuring entry into Western markets the former are now welcoming the MNCs. (Rajagopal 2011.)

China is an exception among developing countries. Her domestic interest rate has always been low. She is sitting on a mountain of foreign exchange reserves ($3 trillion), is investing abroad at a heady pace (official figures are under-stated), and is simultaneously attracting foreign capital on a huge scale ($100 billion in 2010). By many yardsticks, China is already an economic Superpower, and has exploited the opportunities offered by the neoliberal order to a far greater extent than any other country, rich or poor.

In other emerging countries, the overwhelming bulk of foreign funds is garnered by big private firms to the disadvantage of their domestic competitors – SOEs and small firms. The big firms are projected as 'national champions' by the respective governments, though they become more and more international, deriving a major, if not greater, part of their sales or profits from foreign rather than domestic operations. They also virtually dictate a wide range of economic policies of their own governments. Thus not only the income tax rates are kept low, but tax sops for investors are regularly extended to pre-empt investors from going abroad. Paradoxically, the firms strive energetically for relaxation of regulatory constraints on the inflow of foreign funds into the country. For, a good part of the inflow comes from tax havens in the name of 'shell companies' often owned effectively by domestic entities; Western MNCs also channel their investments through this route.

Though non-equity modes (NEM) of MNC operations have existed for many decades, these have now acquired a much greater significance, according to the *World Investment Report* (2011, ch. IV). The NEMs refer to contract manufacturing, contract farming, licensing, outsourcing of services (mainly IT) and franchising (of retail trade, hotel, restaurant, and so on). In an NEM, the control rests with the MNC, but the latter has no equity stake in the partner firms. World-wide sales in ($ trillion) for 2010 by NEMs amounted to 2.0, including 1.2 in contract manufacturing (electronics, auto components,

and garments). Global trade in goods in the same year amounted to $15.2 trillion, and that in commercial services was $3.7 trillion. In NEMs the local partners came mainly from developing countries; the latter's global export of goods was $7.4 trillion, and $1.1 trillion for services. Thus NEMs could account for a maximum of 25% for goods and 30% for services. Further, total employment in NEMs globally stood at 18-21 million, of which 80% was in developing countries. Far from scrapping the present set-up, countries hosting NEMs may well be keen to expand such ties, strengthening a *de facto* alliance between capitalists from industrial and developing nations.

Last but not the least, the global crisis of accumulation has led in the last few years to a mad scramble for natural resources – oil and other minerals as well as agricultural land, mainly in the developing world. Apart from Western MNCs, sovereign wealth funds of cash-rich countries, big firms, state-owned or private, from the BRICS and elsewhere, are the major investors. Impoverished by the IMF-imposed fiscal austerity, vulnerable governments sell off their patrimony for the sake of large foreign investment in infrastructure, etc. The modus operandi of the investors is strongly reminiscent of the colonial mode of exploitation of the late 19th century. On the other side are the countless victims dispossessed of their land or other sources of livelihood. Accurate estimates of their number do not exist but could go up to 100 million or more across the world. In addition, this type of development is aggravating the ongoing ecological disaster.[5]

IV

After the global crisis there is little doubt that the present international economic order based on neoliberal tenets has outlived its usefulness. No one foresees how the leading countries will get out of the impasse. For the overwhelming majority of mankind in rich or poor countries the agony deepens. Yet vested interests, both in the West and in the major developing countries, have formed an unholy alliance to preserve the order indefinitely. Can these forces be defeated?

A clear road map cannot be produced. The aggrieved citizens in different nations are striving in various ways to dislodge the vested interests. In Venezuela a coalition crafted by Chavez won elections on an anti-imperialist platform, and forged an alliance with socialist Cuba and looser links with nationalist governments in the hemisphere. In Nepal the feudal monarchy was undermined by the armed insurrection of Maoists and a series of multi-party republican governments, including the Maoists, are still trying to set up a stable democratic order. During the Arab spring spontaneous movements of the masses swept away despots in Tunisia and Egypt, and destabilised the regimes in other Arab countries. In India the Maoists have been carrying on a guerrilla war against the state and today their influence has spread to 30% of the country's land mass. There is acute and growing social tension both in India and China covering many issues. (Chandra 2009.) On China, Friedman (2012) claims: 'Few in the West are aware of the drama unfolding in today's "epicentre of global labour unrest."' In India again, Anna Hazare launched a non-violent movement against official corruption that nearly paralysed the central government, though it may not succeed in bringing about an effective law to curb such

malpractices. On a smaller scale, citizens across the American cities are demonstrating continuously for over a month to rein in the Wall Street oligarchs. Similar movements have erupted in many other parts of the world. All over Europe popular outbursts against the ravages of neoliberalism have been occurring with almost unfailing regularity. When, if at all, these efforts will bear fruit cannot be predicted. The fact that these continue is a positive signal that people may not remain dumb spectators.

What kind of international economic order should replace the present one? That would depend on the political, social and economic dynamics of the situation in different countries, and it would foolish to put forward a blue-print that would fit all. Nevertheless, the broad features must include the key elements of the Bandung Declaration and re-iterated in the 1976 UN Declaration, namely economic sovereignty of each country, control over the natural resources, and state regulation over transactions in foreign exchange. By implication, there would be no free trade nor unhindered capital movement. Economic growth must be based on the home market, discarding the paradigm of export-led growth. Lastly, small countries should form regional Customs Unions to facilitate mutually beneficial exchanges, and follow prudential norms in inviting foreign capital.

[This paper was first presented orally at a workshop in Yogyakarta, Indonesia, in October 2010, to celebrate the 55th anniversary of the Bandung Conference. With some changes, a briefer one was submitted at a seminar to commemorate Late Krishna Bharadwaj's Conribution to Social Sciences at Jawaharlal Nehru University, New Delhi, in March 2012. I have benefited from the comments on earlier drafts by workshop/seminar participants and by Aditya Bhattacharjee, Guilhem Fabre and Sushil Khanna.]

Notes

1. Many mainstream economists in the West and their followers in developing countries argued that these were white elephants and highly inefficient. Others disagreed. The evidence for India is summarised by Chandra (2012). Rodriquez and Rodrik (1999) used data for a large cross-section of countries over a long period and found no correlation between trade barriers and growth rates. Recently, Rodrik (2010) has come out strongly in favour of an industrial policy with the public sector in the lead.

2. My account of Tugan Baranowsky's is based on Sweezy (1946, pp.162-74) as well as the essays of Barnett (2001) and Besomi (2006).

3.Source: http://www.ctj.org/pdf/factirsnrareg.pdf Citizens for Justice: May 18, 2011 Internal Revenue Service Guidance on Reporting Interest Paid to Nonresident Aliens 76 Fed. Reg. 1105 (Jan. 7, 2011) Comments for Public Hearing.

4. 'How India's super-rich spend their money', *The Wall Street Journal*, 7 June 2011.

5. Grain, an NGO, has been collecting information from everywhere and has put them up on its website. (www.grain.org)

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