

Australia and the Challenge of the new International Economic Order (NIEO) *

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I. Benefit-Costs and the New Challenge to Australian Decision-Making

The New International Economic Order poses a challenge to all developed countries as it demands a restructuring of the present international relations in a manner that will ensure a life of dignity and economic well-being to the vast majority of mankind. Debate on the NIEO has been confused by those vested interests which find the status quo to their advantage. The present analysis proceeds from the value premise that the present international order systematically discriminates against long-term progress in developing countries. The NIEO demands that the parameters of the present world order need to be changed and argues that this is justified and inevitable in order to consolidate peace and stability in an interdependent world of nations. The contention of this paper is that it is not in Australia's long-term interests to join without qualification the common front that is always presented by the developed nations of the world against the implementation of NIEO demands. Australia should consider herself an independent decision-making force and not a satellite of the super powers. Australia's geographic location and economic logistics require that Australian decision-makers pursue courses of action that enhance long-term benefits to Australia and subserve the welfare of most of mankind, rather than narrow ideologies and moribund cults. Decolonization, the British entry to the Common Market, and the Japanese stimulated mineral boom have in the past signified phases of structural change in Australia's external economic relations. The NIEO demands signal that Australia is on the threshold of yet a new phase of development as an open economy. Therefore, an anticipatory foray into

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the way Australia should respond to the challenges of NIEO issues is an illuminating exercise. This analysis is not value neutral: it is founded on the assumption that Australia and the developing economies have long-term mutual gains to reap from a NIEO. Australia should, therefore, initiate and charter an independent course which relates to her developing neighbourhood and which is likely to play an increasingly important role in her economic stability and prosperity.

Although Australia is located in a neighbourhood of populous and poverty-stricken developing economies, in the past it has shied away from relating to the development aspirations of this neighbourhood. However, Australian policy makers have recently shown some perception of the need to respond positively to issues of world development as subsumed in the NIEO demands. The appointment of a Senate Select Committee on the NIEO, and the so called 'Fraser Plan' on world development (Fraser, 1978) are indicative of the growing government consciousness of the need to search for a new 'planetary bargain' or a NIEO. Australia has propagated its 'lucky country' image, but in a world where poverty or income disparities between the haves and have nots are widening, Australia cannot hope to perpetuate its affluent life style without provoking the envy and resentment of the poor countries surrounding it. Enlightened diplomacy and meaningful actions to alleviate the poverty in her neighbourhood are imperative for safeguarding Australia's long term welfare and standing in the region. Australia's initial advantages are spectacular. A vast continent of 7.2 million square kilometers (claiming another 6.2 million square kilometers in Antarctica) is populated by only 14 million people enjoying one of the world's highest incomes of US\$ 7,000 per capita. Australia is 32 times richer in per capita income terms than her neighbour, Indonesia, which supports 10 times the population in a land area that is one fifth the size of Australia. The contrast is even more dramatic when Australia is compared with India, which supports 50 times more population than Australia on a sub-continent that is less than half Australia's size on a measly income of about 2% of the Australian per capita income figure. Demographic explosions in the neighbourhood and zero population growth in Australia, coupled with widening income disparities, can only exacerbate the political and economic tensions that beset Australia's relationships with her neighbours. Astute leadership is required to identify the benefits and goodwill that could accrue to Australia in a new partnership with her developing neighbours. It is no longer feasible for Australia to maintain her prosperity by retracting into splendid isolation in a shrink-

ing global village.

The broad magnitudes of gains to Australia by her responding to the challenges of the NIEO can be appraised by appeal to the logic of benefit-cost analysis. Rigorous quantification of discounted benefit-cost ratios associated with the implementation of NIEO issues is well-nigh impossible because of the complexity of the inter-action between innumerable variables. However, on the basis of informed judgements, the critical point, whether benefit-cost ratios are greater than or less than unity, and the size of the multiplier can be conjectured. Such information should be invaluable to decision-makers who have to formulate long-term policy guidelines for steering Australia's future.

II. Salient Issues of the NIEO and Their Relevance to Australia

The commitment in principle by the nations of the world to the UN Sixth (1974) and Seventh Special Sessions' Resolutions on the NIEO was followed by a marathon discussion and produced a prolific literature on the feasibility of implementing the NIEO. A 'cool look' at the NIEO dialogue (Corden, 1978) and a sympathetic review of strategies of NIEO (Karunaratne, 1978, 1) provide a cross-sectional review of the NIEO debate.

The basic rationale for implementing the NIEO stems from the profound dissatisfaction of the developing economies with the domination of the international economic decision-making mechanisms and institutions by a handful of super powers and their satellites. Such supremos of the international economy as the World Bank and G. A. T. T., regulating the international monetary system and flow of international trade, are monopolies of the developed countries and take international decisions to safeguard the economic and political hegemony of the rich and powerful nations rather than to promote the interests of all nations. Two decades of development propagandized the need to bridge the widening gap between the rich and poor countries through generous international aid and transfer of skills and technology. However, in retrospect it becomes abundantly clear that the economic gap between the rich developed countries and the poor developing countries has widened. The foreign aid and resource transfers from the developed to developing countries have exacerbated poverty and led to maldevelopment in recipient countries. For instance, aid has not led to growth of GNP, instead it has eroded do-

mestic savings, aggravated income inequality, transferred inappropriate technology, buttressed the power of elites and impoverished the bottom 40% of the poor in developing countries even further. The NIEO issues emphasise the removal of external constraints to the rapid growth of developing economies by facilitating more equitable trade, aid, technology and monetary transfers, but the NIEO debate does not ignore the need to put the domestic economy of developing economies on an even keel. Radical restructuring of the domestic order by focussing attention on the basic needs of the bottom 40% is emphasised in NIEO strategies. This marks a departure from previous 'trickle down' development strategies where growth of the enclave economy or leading sector was expected eventually to percolate to the lower reaches of society (Karunaratne, 1978, 2).

The key issues of the NIEO calling for a positive response from Australia are the following:

- (1) There is the proposal to implement an Integrated Programme for Commodities (IPC) as suggested by UNCTAD, 1976. This aims at stabilization of primary export prices by establishing an internationally-subscribed Common Fund (CF) of US\$6 billion to finance international buffer stocks. The prices of the stock-regulated primary commodities will be established at levels "equitable to the consumers and remunerative to producers". Both producer and consumer interests could be represented in overall decision-making on the buffer stocking arrangements. The IPC also aims at harnessing any prospects of commodity power by cartelization. Reversing the secular decline in the terms of trade of primary exporters by indexation of primary export prices to manufactured import prices has also been canvassed. The objective is to maintain the real purchasing power of primary exports. The diversification of the narrow economic base of primary export dependent economies is also envisaged in the implementation of the IPC package.
- (2) The liberalization of trade in manufactured products is another key NIEO issue. At present, escalated tariff and non-tariff barriers against labour-intensive manufactured goods (in which developing countries possess a comparative advantage) hinder entry to markets in developed countries. In a global development strategy, the share of manufactured products of developing countries is scheduled to treble over the present levels, and to account for 25% of world production by the year 2000. The benefits of industrialization prospects to

developing countries are undermined by the protectionist policies pursued in developed economies like Australia, often at the cost of real income and welfare that far outweigh any gains from avoiding employment losses due to import competition. The extension of the Generalized System of Preferences (GSP), under which imports from developing countries were accorded margins of preferences equivalent to the most-favoured-nation (MFN) tariffs prevailing in developed countries, has been urged. However, the operation of the GSP scheme and its trade liberalization effects have been emasculated by a number of escape clauses, quota restrictions, rules of origin and other non-tariff barriers. The multi-lateral tariff negotiations (MTN) provide a forum for developing countries to lobby for the removal of the defects of GSP, and in particular the non-tariff barriers which have continued to proliferate in developed countries. Trade liberalization, particularly in manufactured imports, provides the developed countries with an opportunity to help the developing countries in their long term struggle against poverty and deprivation.

- (3) The real costs of resources (aid) and technology transfer are other central NIEO issues on which reformed strategies are sought by developing economies. The developing countries seek "predictable continuous and increasingly assured" aid flows as they show declining trends. Although the donor countries have the capacity to implement the UN development decade target that 0.7% of GNP of developed countries should be channelled as official development assistance (ODA), very few developed countries strive to achieve the target. The developing countries want aid to be linked to Special Drawing Rights (SDR) or international liquidity creation and to the taxation of the exploitation of the 'common heritage of mankind' - namely space, sea - bed and non-renewable resources. The mitigation of harsh terms of past debts and debt relief have also been proposed.
- (4) The regulation, and even expropriation, of errant multinational corporations that exploit the needs of developing economies for technology have been urged along with the reduction of monopoly rents and of distortions, due to dumping of inappropriate technologies in developing economies. The adverse repercussions of the control of multinationals on the flow of private foreign investment is appreciated in the NIEO debate. The need for the establishment of an indi-

genous technology creation capacity to lessen the strangle-hold of multinationals on the domestic economy has been enunciated in the NIEO strategies.

There are many other issues in the NIEO demands, such as reform of the international monetary order, the infusion of greater automaticity to resource transfer like the SDR-aid link, and the establishment of a World Treasury which are not explored in detail in this study. This study focuses attention on four broad issues of the NIEO that are of special significance in the Australian context. They are:

- (i) the stabilization, cartelization and indexation of primary exports;
- (ii) trade liberalization and industrialization;
- (iii) rationalization and enhancement of aid flows to developing countries; and
- (iv) regulation of multinationals and the transfer of appropriate technology.

These issues will now be analysed in turn and their benefit-cost implications will be assessed.

III. The Stabilization, Cartelization and Indexation Issue

The Integrated Programme for Commodities (IPC) aims at stabilization of primary export prices by international buffer stocking and supply management. The programme in effect attempts to internationalize the domestic farm support or price stabilization programs pursued in most developed economies. Australia, after much vacillation in 1978, gave its support to the Common Fund (CF) for establishing buffer stocks after the United States gave its assent to the CF in principle. Australia's financial commitment to the CF as a trade-weighted GNP ratio would be only US\$25 million or 1.25% of the initial US\$6 billion required to set up the CF. Australia, which is a primary producer par excellence, receives nearly 70% of her export earnings through primary commodities. The benefits that would accrue to Australia by implementing commodity stabilization schemes are enormous. The reduction of macro-economic costs of inflationary pressures due to export price fluctuations would yield benefits in the region of US\$200 million, on the basis of a comparable estimate for United States (Behrman, 1977). Thus the benefit-cost ratio of the IPC commodity price stabilization in broad terms could exceed 4. A computation (Laursen, 1978) indicates that implementation of the IPC stabilization proposal for the 10 'core' primary commodities of special importance to developing economies would yield an unattractive global benefit-cost ratio of approximately 0.5. Laursen's estimate is based

on short-run effects only and ignores the long-run beneficial effects on producers and consumers due to the stabilization of primary products. An analysis of a sample of 10 primary exports that accounted for over 55% of the total export earnings (See Table 1, Column (1)) indicated that Australia's export earnings were subject to wide fluctuations during the short period 1976-77 and prices of primary products were also unstable in the world market (see Table 1, Columns (5) and (6)). By stabilizing, export prices of inelasticity of demand for mineral and metal exports, Australia could gain in terms of export earnings. She cannot hope to stabilize export earnings for rice, sugar, wheat and wool because world demand for these products is elastic (Brook and Grilli, 1977), (see Table 1 Column (2)). Although no other primary commodity possesses the attributes of petroleum that permitted the spectacular success of the OPEC cartel, it needs to be noted that if Australia acts in collusion with developing economies, she can hope to benefit from cartelization of a number of primary commodities. The necessary condition for the success of cartelization hinges on the inelasticity of world demand for the cartelized product. Inelasticity of world demand, η_D , is in turn a weighted function of inelasticity of demand for the cartelized product, η_C , weighted by its share in the global market (λ) plus the elasticity of supply, η_S , of non-cartelized primary commodities weighted by their share in the world market $(1-\lambda)$.

$$\text{i. e. } \eta_D = \lambda \eta_C + (1-\lambda) \eta_S$$

An examination of a sample of 10 primary exports of Australia using the above formula reveals that a number of mineral and metal exports, such as aluminium (bauxite) copper, iron ore and zinc possess inelastic world demand (see Table 1, column (2)). When Australia's share of world market and that of developing economies are aggregated, they account for a substantial share of the world market, thus satisfying the necessary conditions for the success of cartelization (see Table 1, columns (3) and (4)). However, Australia has looked askance at the prospect of colluding with developing countries on price-raising cartels because of the fear of losing the goodwill of her allies among the developed countries. Besides, Australia has some fears about irreversible market losses due to substitution of cheaper products. The argument that Australia would stand to gain more from cartelization than the developing country partners cannot be interpreted as an objectionable feature as Australia could benignly recycle cartel profits to needy developing countries through resource transfers (aid) and liberal trade.

TABLE 1. CHARACTERISTICS OF IMPORTANT PRIMARY EXPORTS FROM AUSTRALIA

Commodity	(1) Percent of Total Export Earnings	(2) Elasticity of world demand	(3) % share of Australia in the world market	(4) % Developing Countries share in the world market	(5) Australia's export earning stability index (CV) (percent)	(6) World price stability index (CV) (percent)
Aluminium	1.0	>-1	25.0	71	39	—
Coal	8.7	>-1	3.2	—	58	—
Copper	2.4	>-1	3.2	58	20	45
Iron	14.6	>-1	11.4	45	44	—
Meat	21.7	<-1	—	13	25	17
Rice	0.6	<-1	—	37	37	50
Sugar	7.4	<-1	—	67	45	46
Wheat	8.1	<-1	—	4	44	19
Wool	33.0	<-1	33.0	12	24	19
Zinc	2.5	>-1	8.1	23	24	73

Sources: Column (1) Based on Australian Bureau of Statistics, *Overseas Trade* 1976-77. The sample of 10 commodities listed accounted 55.3% of the total value of export earnings of A\$11.6 billion for 1976-77.

Column (2) Based on calculations using data of columns (2), (3), (4) in the formula $\eta_D = \eta_C + (1-\eta_N)$ cross-checked with empirical information from Brook and Grilli, 1977. *op. cit.*

Column (3) ABS, Bureau of Mineral Resources, UNCTAD and other sources.

Column (4) UNCTAD, Document TD/B/C. 1/166. 1974 and ABS sources.

Column (5) ABS, *Overseas Trade* 1976-77. The index refers to a coefficient of variation of Australia's export earnings.

Column (6) Commodities Division IMF, Research Division. The index refers to a coefficient of variation of price indices from Quarter III 1973 to Quarter IV 1977.

Detailed studies on specific exports, such as aluminum and bauxite, indicate that Australia could benefit to the extent of a maximum of US\$456 million (Pindyck, 1977, p. 356). In the case of copper, it has been estimated that joint action by the 6 major copper producers could raise the rate of return on capital invested by at least 5% in the short-run (Radetzki, 1976, p. 72). The prospects for gains by cartelization in agricultural primary exports are bleak as the world demand for meat, rice, sugar, wheat and wool is highly elastic. Besides costs of storing, say 3 million tonnes of wheat in Australia would amount to about A\$103 million (Connell and Amos, 1976, p. 39). However, stockpiling of wool, incurring a capital cost of A\$41 million, has been estimated to yield a return of 3.7% on the capital invested (Dalton, 1976, p. 188). Australia, which shares the adverse effects of price instability in primary exports, should strike a bargain with developing economies to benefit from the joint gains of cartelization whenever such gainful prospects are available.

The indexation proposal contained in the IPC package aims at halting the secular

deterioration of the terms of trade of primary product prices vis-a-vis manufactured import prices to developing countries i. e. the Singer-Prebisch thesis. UNCTAD and IBRD indices of primary export and import prices and the barter terms of trade show that the barter terms of trade moved against primary exporters during the period 1963 to 1972 by 13% and 17% respectively. Such measurements of the deterioration in the barter terms of trade have been criticized on the grounds that they ignore the sensitivity of the indices to productivity and quality changes embodied in manufactured export prices, changes in the reference year, weight diagram, price quotations, etc. Notwithstanding these deficiencies, it has to be pointed out that Australia's terms of trade for the 25 year period 1950-1974 fell by almost half, thus severely eroding the import capacity of a predominant primary exporter such as Australia (see Table 2, columns (4), (5), and (6)). The magnitude of the deterioration of the Australia's barter terms of trade, despite the limitations of the concept, indicate that Australia would stand to benefit by indexation of those terms of trade. For developing countries, certain hard facts about commodity trade still continue to raise some doubts about the sophisticated debunkings of the Singer-Prebisch thesis. For example, one is left wondering whether the terms of trade have not deteriorated for primary exporters when in 1950 six bags of coffee bought 100 tons of steel from the United States. In 1974, nearly thirteen

TABLE 2. INDEXATION DATA DETERIORATION OF TERMS OF TRADE OF
(PRIMARY) EXPORTS VIS-A-VIS MANUFACTURED IMPORTS.

Year	(1) Coffee bags/ 100 tons of steel (USA)	(2) Banana cases/ ton of steel (USA)	(3) Tons of Tea/ 100 tons of steel (UK)	Year	(4) P_x^o Export Price Index (Aust.)	(5) P_M^o Import Price Index (Aust.)	Terms of Trade Index $\frac{P_x}{P_M}$ (Aust.)
1950	6.1	1.4	—	1953	71	41.1	172.7
1955	6.3	1.6	6.9	1968	55	48.3	113.9
1960	11.9	2.2	7.5	1969	56	49.3	113.6
1965	9.5	2.0	8.9	1970	55	51.5	106.8
1969	11.6	2.2	10.5	1971	55	54.7	100.5
1970	9.5	2.3	10.4	1972	63	56.9	110.7
1971	—	—	13.3	1973	81	56.9	142.4
1972	12.1	2.8	14.1	1974	95	79.4	119.6
1973	12.6	2.8	14.3	1975	100	100.0	100.0
1974	12.9	2.5	15.0	1976	106	109.8	96.5
				1977	117	132.8	88.1

Sources: Columns (1), (2), (3), Rangarajan, *op. cit.*, p. 100.

Columns (4), (5) IMF, *International Financial Statistics*, 1978. Vol. XXXI. No.5. 1978, p. 71.

bags were required for the same exchange. In 1950, 1.4 cases of bananas purchased 1.4 tons of steel from the United States: 25 years later, 2.5 tons were required to buy a ton of steel. In the case of tea in 1955, nearly 7 tons bought 100 tons of British steel: in 1974, 15 tons of tea were required to buy 100 tons of steel (see Table 2, Columns (1), (2) and (3)). This fragmentary evidence supports the Singer-Prebisch thesis of the inexorable decline of the terms of trade of primary exporters and it shows the unequal exchange that prevails between the developed and developing countries which the NIEO strategies attempt to rectify.

IV Trade Liberalisation and Industrialisation Issue

An excellent survey of protection in Australia (Lloyd, 1978) refers to the several studies on the costs and distortions wrought on the Australian economy due to the perpetuation of high levels of assistance. It has been estimated that a change to a free trade situation in Australia could lead to a gain of a maximum of 3 percent in terms of aggregate consumption. It has also been calculated that each employee in manufacturing industries has to be subsidised to the tune of A\$3,000. All these distortions undermine Australia's competitive position in the export market by making imported inputs to manufacturing costly. High levels of protection lead not only to intra-sectoral and inter-sectoral allocative inefficiency, but also breed x-inefficiency. Protectionist lobbying and pressures will determine the magnitude of profits rather than efficient management, at the expense of consumer welfare of course!

One of the major impediments to structural change and the persistence with irrational trade policies inimical to both Australia's economic interests and those of developing economies, is the bogey of job losses due to competition from 'sweated labour' imports from neighbouring developing countries. However, empirical evidence debunks this myth as the share of total Asian imports in the Australian market in 1975-76 was only 10 percent, but some individual sector shares were large (textiles: 20 percent, clothing and footwear: 57 percent, wood: 43 percent and miscellaneous manufacturing: 16 percent). During the period 1968-69 to 1975-76 textiles, clothing and footwear imports registered the maximum rates of market penetration i.e. only 5 percent per annum (McMahon, 1978) (see Table 3, Column (6)).

Since the major obstacle to Australia's trade liberalization, and the provisions of

TABLE 3 AVERAGE AND DISPERSION OF EFFECTIVE RATES OF ASSISTANCE AND TARIFFS COMPETING IN AUSTRALIA (1975/76)

Sector (ASIC Code)	Average Effective Rates						Australian market penetration rate of Asian imports (7)
	Total assistance		Tariff		Assistance to Imports Competing	Assistance to Exports	
	(1) Mean (rank) (%)	(2) CV (rank)	(3) Mean (rank) (%)	(4) CV (rank)	(5) Mean (rank) (%)	(6) Mean (rank) (%)	
1. Food (21-22)	20 (9)	65 (12)	10 (8)	72 (7)	27 (9)	- 1 (10)	1.0
2. Textiles (23)	50 (3)	122 (10)	24 (2)	47 (12)	56 (3)	- 4 (7)	9.7
3. Clothing & Footwear (24)	95 (1)	306 (2)	35 (1)	233 (1)	97 (1)	-20 (2)	11.7
4. Wood (25)	18 (10)	138 (8)	16 (5)	108 (5)	19 (11)	- 3 (8)	4.2
5. Paper (26)	30 (5)	188 (6)	5 (11)	47 (11)	31 (6)	- 2 (9)	1.0
6. Chemicals (27)	26 (7)	200 (5)	7 (10)	61 (9)	29 (7)	- 5 (6)	3.8
7. Non-Metallic (28)	10 (12)	71 (11)	15 (6)	115 (4)	10 (12)	0 (12)	0.5
8. Basic Metals (29)	16 (11)	145 (7)	5 (12)	52 (10)	23 (10)	- 1 (11)	0.2
9. Fabricated Metals (31)	38 (4)	211 (3)	20 (4)	134 (2)	41 (4)	-10 (4)	1.0
10. Transport equipment (32)	68 (2)	133 (9)	23 (3)	125 (3)	76 (2)	-28 (1)	0.3
11. Other Machinery (33)	28 (6)	200 (4)	12 (7)	79 (6)	33 (5)	-12 (3)	1.1
12. Misc. Machinery (34)	26 (8)	350 (1)	9 (9)	66 (8)	28 (8)	- 8 (5)	4.2
Total	29	97	13	65	34	- 4	
Rank Correlations (Column)	$R_{(1)(2)} = 0.69$					$R_{(1)(6)} = 0.80$	

Source: Industries Assistance Commission Annual Report 1977-78.

greater market access to developing countries' manufactured imports as sought by the NIEO is the negative employment impacts fear, a specific analysis of this problem is attempted next.

The rate of growth of a manufacturing sector's employment ($\dot{\ell}$) could be regarded as a composite of positive rates of impacts of final demand expansion ($\dot{f}$), export expansion ($\dot{e}$), and the negative rates of impacts of import competition ($\dot{m}$) and productivity (or technological) changes ($\dot{p}$) (Frank, 1977). To recapitulate:

$$\dot{\ell} = \alpha \dot{f} + \beta \dot{e} - \gamma \dot{m} - \delta \dot{p}$$

where the coefficients α , β , γ , δ , denote the magnitude of demand, exports, imports and productivity rate of growth variables, respectively.

An algebraic exposition of the above model derivation is given in Appendix I. The model was empirically validated using ABS Overseas Trade data for the period 1968-69

TABLE 4. EMPLOYMENT IMPACTS OF MACRO RATES OF GROWTH IN
SELECTED IMPORT-COMPETING INDUSTRIES 1968/9 to 1973/4

Sector (ASIC Code)	(annual rates)				
	(1) Employment $\dot{i}$	(2) Demand $\dot{f}$	(3) Exports $\dot{e}$	(4) Imports $\dot{m}$	(5) Productivity $\dot{p}$
1. Food (21-22)	1.7	6.9	5.0	- 0.5	- 9.7
2. Textiles (23)	0.1	16.1	5.7	- 7.1	-14.6
3. Clothing & Footwear (24)	0.1	12.2	0.1	- 5.2	- 7.0
4. Wood (25)	0.7	13.5	1.2	- 2.0	-12.0
5. Paper (26)	0.9	12.7	0.1	- 1.1	-10.8
6. Chemicals (27)	0.7	7.7	8.0	- 4.0	-11.0
7. Non-metallics (28)	0.9	13.8	0.3	- 1.4	-11.8
8. Basic Metals (29)	1.7	10.8	2.6	- 0.1	-11.6
9. Fabricated Metals (31)	0.3	13.3	1.5	- 4.0	-10.5
10. Transport equipment (32)	1.4	10.2	1.4	- 2.6	- 7.6
11. Other Machinery (33)	0.6	11.7	0.5	- 2.1	- 9.5
12. Misc. Machinery (34)	2.9	5.0	54.7	-45.4	-11.8
Total	0.7	10.1	3.2	- 2.3	-10.3

Source: Overseas Trade Data, 1968/9 to 1973/4. ABS.

Column (1), (2), (3), (4), (5) results calculated on the basis of the model detailed in Appendix I.

to 1973-74. The magnitude of specific variable effects on employment has been calculated and presented in Table 4. The overall positive employment effect of aggregate demand expansion in manufacturing sectors was almost 9 times larger than the positive net trade effects. However, the positive demand effects for employment were completely swamped by the negative employment effects of productivity (or technological) changes. The textiles sector, which had the highest negative import impact on employment, showed that productivity (or technological) changes induced adverse effects on employment which were double the negative impact of import competition on employment. Overall the negative effects of productivity on employment were more than 4 times the adverse effects of imports on employment. Official studies also indicate that technological changes led to substantial changes in employment in manufacturing industries in the 1970s (IAC Annual Report, 1977, p. 78).

Restructuring of Australian manufacturing industry in order to accommodate the NIEO strategy of increased market access for the growing industrial output of developing economies does not present a net loss to Australia in the long-run. Australian resistance to structural change, prompted by fears of union backlash and lobbying of protectionist rentiers, has politicised the issue of structural change. Despite a growing

consensus amongst economists over the need for a radical overhaul of Australia's irrational protectionist barriers (Kasper and Parry, 1978), official policy emphasises 'gradualism' on the premise that Australia is going through a recession! The global recession must be even harsher for her developing neighbours who are economically much weaker than Australia. The procrastination of structural change in competitive manufacturing sectors in Australia is bound to make the eventual and inevitable changes very costly when they are made. Australia, it should be noted, has a comparative advantage in the Hecksher-Ohlin sense in certain types of manufacturing which are intensive in the use of Australia's abundant resources —land, minerals and knowledge. The capital, skills and technological know-how and relatively abundant natural resources offer prospects for gainful specialization according to comparative advantage. The industrialization of developing economies is likely to accelerate in the 1980s and industrial or manufactured exports from developing countries will play the same role that Japan played after the weakening of Australia's colonial nexus. In the 1980s, with the petering out of the Japanese induced mineral export boom, the 'industrial revolution' that is occurring in the neighbouring developing countries will open up vast new opportunities for Australian trade and development. If Australia embarks on a rapid structural adjustment programme of specializing in those sectors in which it has a comparative advantage and providing market access to those manufactures in which developing economies have an advantage, there could be complementarity in trade and mutual gains to both Australia and the developing countries. However, myopic fears of short-run losses in employment and income appear to be obstructing the implementation of policies that would in the long-run lead to two digit discounted benefit-cost ratios for Australia. The dynamic long-term trading opportunities that are opening up at Australia's door-step in developing Asia (ASEAN) need to be harnessed for Australia's gain. Such positive moves by Australia would be in accordance with the NIEO resolutions for trade promotion and industrialization of developing countries. Only by timely restructuring of manufacturing industry, coupled with adjustment assistance, can the distortionary malaise built into Australian trade and industry be phased out so that it can yield benefits to Australia and her developing neighbours. A clear cut positive response to this major challenge of NIEO has not so far been enunciated by Australian policy makers. But, growing pressures from developing neighbours and threats of trade retaliation (Arndt, 1978) will force Australia's hand to take far-reaching decisions soon. Liberal trade consistent

with the industrialization of developing countries is a NIEO issue to which Australia can respond positively, because the long-term benefits would far outweigh short-term adjustment costs that Australia may have to incur.

V. Rationalization of Aid Flows and Mitigation of Debt Burdens

One of the main issues of the NIEO demands is that developed countries should disburse 0.7 percent of GNP as official development assistance (ODA) as targetted by the UN. Besides, the quality of aid should be improved, and in the context of the perverse effects of aid on the developing economies, a new development aid strategy should be implemented. Empirical evidence that foreign aid aggravated income-inequality, strengthened elites and impoverished the poorer sections of developing economies is copious (Karunaratne, 1978, 2). Aid was ostensibly disbursed for development purposes and the failure of aid on this score substantiated the allegations that aid was an imperialist tool. Its most ardent advocates are now backing away on the basis of rather contentious grounds that recipients violate human rights and waste aid! Regardless of the abuses of past aid and its miserable performance, one cannot gainsay that it has a useful role to perform in world development. The NIEO demands emphasize that the quality of aid should be improved by giving it on more concessional terms, and further aid should be freed of the political whim and leverage of powerful donors. The direction of aid to implement development projects that satisfy the basic human needs of the poorest 40 percent in the developing world is a plank of the NIEO aid strategy. White elephant projects using inappropriate technology characteristic of past aid operations are rejected in the new strategy.

Australia is yet to make a categorical commitment to a 'new basic needs' oriented aid strategy. Australian aid donations are designed on the basis of hegemonic interests and narrow patronage and despite the elation of aid officials that Australia ranks high in per capita ODA / GNP ratio terms, a scrutiny of Australian aid statistics shows that there is much scope for improvement in the context of the NIEO issue. In 1975, Australia recorded her highest ODA / GNP ratio of 0.60 or roughly 75 percent of the UN target. In 1977 the ratio declined to 0.42 and Australia's attainment of the UN target was short by 40 percent (see Table 5). Australia shares with other developed country donors the declining trend in aid commitments, despite the positive per capita GNP

growth rates. Australia's individual rank in the OECD donor league of 17 countries fell from 3rd in 1971 to 8th in 1977 (see Table 5, Row (2)). Australia, a lucky country with a high per capita income, has the capacity to produce a better performance in aid; the least it could have striven for in the 1970s was to preserve its 3rd rank in the OECD donor league.

Australia's aid is much less benign than official figures reveal. In 1977, Australia disbursed A\$454 million as foreign aid and nearly 51 percent went to its former, protectorate, Papua New Guinea. Of the balance, 33 percent was channelled as bilateral aid and the rest -13 percent - was given as multilateral aid. The hegemonic and commercial motivation in the direction of Australia's aid is obvious. Furthermore, Australian aid was not evenly distributed amongst its aid beneficiary population. About 75 percent of Australia's aid was channelled to Papua New Guinea and a few Pacific islands which sustained less than 3 percent of Australia's aid recipient population. Therefore, South Asia, which sustains 65 percent of Australia's aid recipient population, received a paltry per capita aid of A\$0.30 while Papua New Guinea received as per capita aid A\$75.00 (see Table 6.)

The ballyhoo that Australia's aid is 100 percent in grant form exaggerates benefits of aid to recipients in developing countries and the cost to Australia. It should be

TABLE 5. AUSTRALIA'S OFFICIAL AID PERFORMANCE (1971-1977).

Characteristic \ Year	1971	1972	1973	1974	1975	1976	1977
(1) Australia (ODA) (GNP)	0.53	0.59	0.44	0.55	0.60	0.42	0.42
(2) Australia's Rank among DAC Donors	3	2	4	4	5	8	8
(3) DAC Average (n=17)	0.35	— .33	0.30	0.33	0.35	0.33	0.31

Source: Australia's Official Aid to Developing Countries 1978-79.
1978-79 Budget paper No.8, Table 9, p.14.

TABLE 6. UNEVEN DISTRIBUTION OF AUSTRALIAN AID 1975-76.

Region	Population (%) (millions)	Aid (%) (\$ million)	Aid per capita (\$)	Source tied Aid (%)
South Asia	819 (64.28)	27 (9)	0.03	100
Africa	149 (11.69)	2 (1)	0.01	100
South East Asia	303 (23.78)	46 (15)	0.15	100
South Pacific & PNG	3 (00.24)	226 (75)	75.5	82
TOTAL	1,274 (100.00)	306 (100)	0.23	

Source: UN Statistical Year Book 1979.

TABLE 7. *REAL COST OF AUSTRALIAN AID.*

Year	Nominal value (\$ million)	Real cost of food aid (\$ million)	Discounted real cost (\$ million)	Real cost as a (%) of nominal value
1972-73	204.3	12.3	163.2	80
1973-74	242.8	16.8	192.7	80
1974-75	278.6	26.6	217.0	78
1975-75	303.4	17.4	243.0	80
Total	1,029.1	73.1	815.9	79

Source: Karunaratne, N. D. and Roy, K. C., 1978 (Australian Aid to Developing Countries, unpublished mimeo. Department of Economics, University of Queensland).

noted that, except for Papua New Guinea, which received about 82 percent of source-tied aid, most of the other aid disbursements are 100 percent procurement source tied. Procurement source-tying of aid inflates the cost of aid to recipients by compelling them to buy at donor-dictated high prices and by transporting in national carriers at higher than world freight rates. After adjustment for some of these factors, it was calculated that Australian aid was worth, on the average, only 79 percent of its face value during 1972-73 to 1975-76 (see Table 7). Giving of aid in grant form is the most convenient and a efficient way of aid donation for a small donor like Australia which contributes only about 10 percent of what the United States gives. Furthermore, a substantial portion of Australian aid flows back to the Australian economy in the form of savings of Australian personnel working on Australian aid projects. Moreover, technical aid to students is largely spent locally. Thus when aid is procurement source-tied, it operates like an export subsidy. It provides employment, generates savings and increases local demand and it is, therefore, in real terms much less costly to Australia than is suggested by published nominal values of aid. Australia has the economic capability and a declared moral commitment to provide a reasonable quantum of aid to developing economies in an equitable manner. It is propitious that Australia review its aid operation in the context of the NIEO debate to make it more effective and equitable so as to contribute to the strategy of eradicating global poverty as envisaged in the NIEO.

Neither has Australia's voice been heard on the question of debt mitigation and the proposal for generalized debt relief. The harshness of past aid partly explains the massive US\$250 billion debt collectively owed by developing countries. Nearly 25 percent of export earnings are directed yearly for debt servicing. Australia has been

non-committal on the proposal for debt relief and it has tacitly supported the other developed countries in the rejection of generalized debt relief. Australia is not a large creditor, and if it pursues a line that is sympathetic to the NIEO spirit, Australia could gain massive goodwill and improve its stature in the international community. Australia's silence or apathy on certain vital NIEO issues like generalized debt relief or mitigation of the harsh terms of past debt is unwarranted and represents diplomatic apathy on an important NIEO issue.

VI. Regulation of Multinational Corporations (MNCs) and the Transfer of Technology

The MNCs have played a crucial role in private foreign investments and technology transfer to developing countries. In import substitution, export promotion leading to favourable balance of payments effects, in providing tax revenue, skilling and generating employment MNCs have made positive contributions. However, the technological dependence resultant from MNC technology transfers has led to long-term macroeconomic costs such as: transfer pricing to circumvent government fiscal controls and dumping of inappropriate technology in order to make fast monopoly rents. In this regard capital intensive technologies leading to redundancies in the workforce is a case in point. MNC induced technological dependence also undermines the drive for indigenous innovation, research and development. This in turn leads to long-term costs by the perpetuation of foreign economic dependence and in the short-run it leads to a 'brain drain' of frustrated qualified manpower. The long-term and short-run macroeconomic costs far outweigh any benefits from unbridled dependence on the MNCs and their subsidiaries for the transfer and diffusion of technology.

Australia shares with developing countries the phenomenon of excessive technological dependence as indicated by the large share of the MNCs of Australian patents granted. Australian patents granted to foreigners exceeded the Japanese grants by more than four-fold (Johns, 1978). In manufacturing industries foreign MNC control is heaviest in chemicals, transport equipment, fabricated metal products sectors. The stranglehold of foreign MNCs on the domestic manufacturing industry is further corroborated by the fact that out of the market value of shares of companies in Australia valued at A\$779 million, 64 percent was foreign owned (Lawrisky, 1978), while 93 percent of Australian

TABLE 8 FOREIGN/MNCs CONTROL OF AUSTRALIAN SHARE
CAPITAL AND PATENTS (1974)

Country of Origin	Market Value of Shares Controlled*	%	Total Patents Granted	Percentage of Foreign Control
	\$ '000 in 1974 prices			
	(1)	(2)	(3)	(4)
USA	138.7	19	76,275	34
UK	295.3	40	37,808	76
Australia	35.4	5	12,828	93
Others	260.0	36	—	—
	729.4	100	Developing Countries	90

* Based on a sample survey of MNC's

Sources: Columns (1) and (2), Lawrisky, 1978, *op. cit.*

Columns (3) and (4), Johns, 1978, *op. cit.*

patents issued were to foreign companies (see Table 8).

The developing countries clamour to re-negotiate MNC rent seeking operations by exploitation of their monopoly power over technology market information has not strangely enough evoked much support from Australia although Australia tends to be exploited in the same way as other developing countries. In 1974/5 it cost Australia nearly A\$75 million as payment of royalties and copyrights to MNCs. Australian controlled MNCs in the neighbouring countries earned payments valued at A\$9 million. The deficit in Australia's technology balance of payments could be converted into a surplus if Australia follows a policy of mending broken fences with her developing neighbours on MNCs and private foreign investment.

Australia has been complacent about the proposals for joint action to regulate MNCs by a mutually agreed code of conduct for the transfer of technology. To usher in the NIEO developing countries have argued the case for the revision of the Patents convention for regulating the MNCs and the adoption of mutually agreed code of conduct for the transfer of technology at "fair and reasonable prices". It is alleged that MNCs sell to developing countries technology off their shelf charging monopoly rents. The effective regulation of MNCs by a code would require inter-change of information on restrictive business practices (RBPs) e. g. tie in clauses, prices, quality, etc. Such information would facilitate the unscrambling of the technology package with benefits to the recipients of technology. A positive response to the code for technology transfer and control of MNCs will lead to long-term macro-benefits by mitigating costs to the Australian economy due to MNCs current operations. Also by supporting the internationalization

of antitrust legislation widely practiced in domestic economies of developed countries Australia would gain in international stature. The growing overseas investment particularly in developing economies will not be looked at with suspicion, if Australia declares its support for the revision of the antiquated patent convention and for the international adoption and adherence to a code for the fair priced transfer of technology.

VII. Concluding Observations on the NIEO Challenge to Australia

The global dialogue on the establishment of a NIEO in which developing economies are given a fair deal to trade, industrialize and prosper can be studied by the examination of some key issues. The key NIEO issues that pose a challenge to Australian decision-makers have been analysed. It was demonstrated pragmatically that the implementation of the key issues of commodity price stabilisation, trade liberalization, aid enhancement, and regulation of multinationals, with Australian collaboration would result in favourable long-term benefit-cost ratios to Australia. However, Australian policy-makers have so far fumbled and failed to provide prompt and independent support to NIEO issues; rather Australia has chosen to wait and accept with servitude decisions made by the United States on NIEO issues as stabilisation (Common Fund) and trade liberalization (MTN). In the 1980s Australia's economic prosperity will be determined by trade and investment relationships in the developing neighbourhood. Hence, the time is quite opportune for Australia to evolve its own stance on the NIEO challenges. By supporting the NIEO strategies, Australia can help developing countries in the neighbourhood to realize their economic aspirations and can simultaneously reap benefits for the Australian economy. Australia's failure to respond promptly and positively to the NIEO challenges can be chastised as both morally and economically indefensible. In the 1980s Australian decision-makers have to gear themselves to the new realities of the accentuating demands for the implementation of the NIEO and she has to capitalize in her own self-interest by expressing more clearly her support for the NIEO demands that are favourable to her in international fora. These certainly include the NIEO proposals that attempt to change global institutions, trading relationships and monetary mechanics that put primary producing and technologically dependent economies like Australia at a disadvantage. Australian decision-makers, bureaucrats and politicians should wake up to the potential of mutual gains from the implementation of the NIEO

to Australia and the developing world and evolve appropriate policies to harness the resultant benefits. The long-term discounted positive benefit-cost ratios for Australia and the developing countries may be dissipated due to the footdragging of decision-makers indoctrinated by the barrage of 'erudite' condemnations of the NIEO emanating from certain quarters in developed countries. These sophisticated criticisms regard the NIEO proposals as bad economics and as impractical attempts to redistribute the wealth of rich countries to the poor. The true aim of the NIEO, however, is to internationalize the welfare and justice schemes widely practiced domestically in many developed liberal democracies including Australia. Domestic farm price support programmes, preferential treatment to the handicapped and socially disadvantaged, redistribution of income by progressive taxation and regulation of monopolistic practices by anti-trust legal codes are some of the national counterparts of the NIEO issues identified in this paper. Australian decision-makers should not subscribe to policies that smack of double standards, particularly when they are inimical to her own long-term interest and that of the two-thirds of mankind that dwell in developing countries. The rationale for NIEO draws from the welfare policies practiced by developed countries to ensure justice and equity to their citizenry. The extension of these welfare measures globally needs to be actively campaigned for by all those who are committed to a just and equitable NIEO.

The challenge of the NIEO has brought to the fore the need for Australia to emerge as a true leader in the neighbourhood's economic and political advancement. Recent decisions related to the discriminatory air fares deal and the lobbying in the USA for multilateral trade negotiation (MTN) concessions indicate that Australian policy making is still hamstrung by tradition rather than common sense. The NIEO challenge clearly indicates that Australia could take-off on another spectacular spell of prosperity and extricate herself from the world-wide depression. Developing Asia is poised for an industrial revolution and Australia has in its neighbourhood a potential export market of one billion consumers. She has a comparative advantage in industries intensive in the use of land, mineral resources, and technology. Australia could specialize in a range of industries based on her abundant resource endowments and engage in complementary trade and investment with her neighbours. Australian decision-makers are yet to formulate a comprehensive adjustment assistance programme so as to relieve the traumas of trade-affected workers in those industries which are vulnerable to import competition due to trade liberalization. As we noted, the benefits of trade liberalization flowing to

Australia through cheaper prices for imports and the opening up of new export vistas for Australian manufacturing will overcompensate for any losses of employment amongst the 5 percent of the labour force engaged in those labour-intensive manufactures in which Australia suffers a comparative disadvantage. The Australian investment in the developing neighbourhood is destined to play a crucial role in intra-industry specialisation and the horizontal trading prospects that have emerged. Australia's stance on the code on international technology transfer and regulation of multinationals should be announced to clear the air about any lurking doubts about Australia's benign intentions in the region. The transformation of Australia's protectionist policies, closetting its inefficient manufacturing industries, is imperative if Australia is to capitalize on her regional lead in new product know-how and technology in the context of a harmonious international division of labour as foreshadowed in the NIEO.

Australian decision-making has been conservative and tardy in harnessing the potential benefits offered by the challenge of NIEO issues. Australian public opinion has been largely uninformed of the benefits of NIEO, the media has occasionally featured the taunts and jibes of the NIEO that pour forth from developed economies feeling threatened by the NIEO. The mobilization of public opinion and sympathy for NIEO issues that are beneficial to not only Australia but all mankind is long overdue. The laggard response of decision-makers is perhaps partly due to lack of research and informed debate in Australia on the NIEO issues. In Australia's long-term economic interest, research and public discussion of the implications of the NIEO issues will have to receive much more attention in the future than in the past.

Appendix I

A Sectoral Model of Employment Growth

Sectoral output can be regarded as a composite of domestic demand plus exports less imports thus:

$$X_i = F_i + E_i - M_i \quad \dots (I)$$

where X_i : Output of the i^{th} sector.

F_i : Domestic demand of the i^{th} sector.

E_i : Exports of the i^{th} sector.

M_i : Imports of the i^{th} sector.

Productivity of the i^{th} sector could be shown as:

$$P_i = \frac{X_i}{L_i} \quad \dots (II)$$

where P_i : Output per employee in the i^{th} sector.

From I and II by equating output, we could write thus

$$F_i + E_i - M_i = P_i L_i. \quad \dots (III)$$

Differentiating with respect to time and re-arranging II we obtain:

$$\frac{dL_i}{dt} = \frac{dF_i}{dE} + \frac{dE_i}{dt} - \frac{dM_i}{dt} - \frac{dP_i}{dt}. \quad \dots (IV)$$

Dividing throughout by L and manipulating as shown we obtain:

$$\left(\frac{I}{L_i} \frac{dL_i}{dt} \right) = \frac{F_i}{L_i} \left(\frac{dF_i}{dt} \frac{I}{F_i} \right) + \frac{E_i}{L_i} \left(\frac{dE_i}{dt} \frac{I}{E_i} \right) - \frac{M_i}{L_i} \left(\frac{dM_i}{dt} \frac{I}{M_i} \right) - \frac{P_i}{L_i} \left(\frac{dP_i}{dt} \frac{I}{P_i} \right). \quad \dots (V)$$

The instantaneous rates of growth can be shown by a dot on top of the corresponding variable small case letters and the ratios of variables can be shown by Greek letters, where

$$\alpha = \frac{\frac{1}{n} \Sigma F_i}{\frac{1}{n} \Sigma L_i}, \quad \beta = \frac{\frac{1}{n} \Sigma E_i}{\frac{1}{n} \Sigma L_i}, \quad \gamma = \frac{\frac{1}{n} \Sigma M_i}{\frac{1}{n} \Sigma L_i} \quad \text{and} \quad \delta = \frac{\frac{1}{n} \Sigma P_i}{\frac{1}{n} \Sigma L_i}.$$

Then V could be re-written thus:

$$\dot{L} = \alpha \dot{F} + \beta \dot{E} - \gamma \dot{M} - \delta \dot{P} \quad \dots (VI)$$

For the empirical validation of the instantaneous rates of growth the average annual growth rates of the variables between a given initial and terminal year were used as proxies. In this case the initial year was 1968/9 and the terminal year was 1975/6 and Overseas Trade data of ABS, were used. The ratios which weight the rates of growth refer to the simple average of the initial and terminal year values.

The rates of growth of all variables except productivity rate refer to observed or actual rates for the specified period. The productivity rate of growth was calculated as a residual after subtracting other growth rates from the employment rate.

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