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THE THIRD WORLD
and the
INTERNATIONAL ECONOMIC STRUCTURE

Address given by
President Mwalimu Julius K. Nyerere
In the Federal Republic of Germany
4th May, 1976

THE THIRD WORLD AND THE INTERNATIONAL ECONOMIC STRUCTURE

Mr. Chairman, Your Excellencies, Ladies and Gentlemen.

We are often told that riches are not synonymous with happiness; that life is more than economics. I do not disagree; nor do I challenge the statement that the Gross National Product of a country fails to indicate the quality of life there. But it is the well-off who can make such statements. To the starving, good and assured food is the quality of life. For a woman who now has to walk miles for water, a village tap might mean life itself.

The United Nations has estimated that in 1972 the per capita G.N.P. in Germany was in the region of $3,390; that of Tanzania was about $120. Taking the rich countries as a whole, the average per capita G.N.P. was $2,790 in 1970. For those classified as very poor, the average was the same figure as that given for Tanzania two years later—$120.

National Income figures are quoted in money terms. They are not exact. They do, however, give some rough indication of the resources within a country which can be used for developing the people's well being. And other figures indicate their meaning in human terms. In the poor countries anything between 10 and 20 babies out of every 100 born alive die before the end of twelve months. Figures for the rich countries show what is possible; only between 1 and 2 out of every hundred babies who are born alive die in the first year of their life. In the Third and Fourth worlds a child is lucky if it can go to school, or ever become literate; it is even lucky if its mental and physical development is not stunted by malnutrition.

Why are these things so? We in the poor countries do not produce enough. And the reason for this low productivity is very simple. It has nothing to do with laziness, although malnutrition and the absence of a technological tradition have their importance. The basic cause is that we do not have the capital stock, or the wealth with which to acquire it. Most of our farmers still use the hoe as their farming tool rather than a tractor, or even a plough. We do not have enough factories to produce even basic consumption goods, much less machine-tools which would provide a self-sustaining growth. Our water and electricity supplies are deficient in quantity and reliability. Our roads are such as to greatly reduce the life of any motor vehicle, and our railways are generally over stretched and under equipped—where they exist at all.

The extent to which the poverty in the poor countries is getting less in absolute terms is difficult to judge—the per capita improvement is marginal when it exists at all. But it is very clear that the gap between the standards of living in the rich and poor countries is getting wider; even the percentage growth rate is higher in the rich than in the poor countries. In fact, the amount by which the per capita income in the industrialised countries gets larger in a year is more than the entire per capita income of countries like Tanzania.

There is nothing self-correcting in this. The gap will continue to expand. Half-way through the seventies, Mr. McNamara estimated that during this decade investment **per capita** in the poorest countries would be in the region of $16 a year. In the O.E.C.D. countries it would be $835. The more you have the more you can afford to invest. Wealth breeds wealth; but equally poverty breeds poverty.

Nor is this all. Wealth also attracts wealth, even from the poorest areas. Suppose that we in the poor countries decide to establish a factory— say a textile factory to process the cotton we grow. We have to come to the developed countries to buy the machines; their cost is determined by your living standards and the profit comes to your economies. The machines are then carried to our shores by your ships; the tariff is set by producer cartels in the rich countries— as is the price of carrying the raw cotton with which we shall have to pay for these machines. The profit and the employment again flows from the poor to the rich.

The efforts of the poor contribute to the comfort of the rich. "For to him that has, more shall be given; and from him that has not, even that which he seems to have shall be taken away".

This is an automatic transfer from the poor to the rich; it is implicit in the present world distribution of wealth and income. It is part of the system. And the same principle applies in all aspects of international exchange. The poor produce primary commodities—agricultural and mineral; these account for almost 80 per cent of the export earnings of the Third World. Such commodities are almost useless to us; we do not have the industries to convert them into the goods we need. If we are lucky your demand is great; if we are doubly lucky the weather has been kind, and we have a good supply when the price you offer is high. But whatever the price, we sell what we can. For we have no alternative source of income at all. We cannot even afford to stock-pile; and switching to alternative exports is impossible within any reasonable time span. So we take the price offered by the rich countries.

The same thing applies to the goods we buy,—the prices are fixed by the rich countries. We can shop around between one developed country and another; but even when the same transnational corporation is not operating in both, the level at which this price-competition is taking place is determined here,—in the developed world.

So, we are poor; and we stay poor because we are poor—and because the rich are rich.

Traditionally a number of remedies are suggested to us. First, that we must encourage private investment, by creating a suitable economic climate for it. Implicitly it is acknowledged that this can only be foreign private investment. In a country like Tanzania there are no citizens with the kind of private wealth which would enable them to make any investment larger than a family retail shop.

Today I do not propose discussing the nationalist objection to having your entire economy controlled from outside. It is important to us; we were struggling for independence, not just the appearance of it, and for the development of our people, not just of our economy in money terms. In fact, however, this nationalist resentment of foreign control of a country's economy is not confined to the poor countries. Even some West European countries resent American control of their economies. But quite apart from those considerations, foreign private investment is no solution for the poverty of the poor nations.

The motive of private investment is the making of profit. Anyone proposing to build a factory demands four things: assured, adequate, and cheap power and water supplies; a labour supply which is disciplined and with an adequate skill component; the existence of an effective market, and easy access to it; and fourthly, economic and political stability, with especial reference to low taxation, profit repatriation, and the availability of adequate consumer goods and services to provide incentives for senior management.

Unfortunately, none of these things are available in the poor countries. If they were, we would not be poor! We don't have existing power supplies; we have to raise the money to build them. We don't have an educated labour force. We have to raise the money, and train the teachers and establish the educational institutions to create one. Our market is large in the sense of there being very many people in need of simple consumer goods. It is very small in the sense of people having money to buy anything. Our transport systems are rudimentary and over-strained. Further, because we are poor, the rate of taxation has to be high if any administrative or social structure is to exist at all. And because we earn very little foreign exchange, all of it is needed for things which are essential either to the very life of our people, or to development. When it is used to meet our international obligations about the repatriation of profit or to buy luxuries for expatriate employees, something vital to our people's future has to be forgone.

By its very nature, therefore, foreign capital will only find poor countries attractive in those areas where returns are immediate and very high. These are not usually the

most useful investments. Any other kind of foreign investment has to be induced by promises of tax exemptions, and of priority over even the most essential provision of services to our people.

Some poor countries have nevertheless decided to pin their faith in private enterprise as the basis of their development strategy. They have given the tax-holidays demanded, guaranteed the export of profit, endeavoured to prevent the growth of trade unions which would demand dignity and decent conditions for the employees in such firms. But they remain poor nations. Even if a small group of their citizens become wealthy, the people as a whole remain undeveloped. To their other problems is added that of gross internal inequality, with—sooner or later—its consequent political instability.

Let me make it clear that I am not saying that foreign private enterprise cannot make any contribution to the economic growth of the poor nations. Partnership between foreign firms and local organizations for specific purposes, and under clearly defined conditions, can assist national development at the same time as it provides the foreign investor with a reasonable and secured return on his investment. But private enterprise will not make the quantity and quality of investment required to overcome our poverty; it will not do the priority jobs in our nations; and, to the extent that we attract it by promising to leave it uncontrolled and untrammelled, it will add to our social and cultural problems.

The second traditional solution to our problem is that we should work hard, control our population increase, and eradicate gross social and economic injustices within our own society. We are told to stop wasting our money on prestige projects, to concentrate on rural development, and to expand the output of our traditional products.

I endorse every word of that prescription. I only say it will not cure our economic ills. Tanzania's policy is self-reliance. We are trying to give priority to rural development. We tax our people very heavily in order to divert resources to communally needed services like education and health as well as to other capital development. We have taken steps to avoid the growth of landlordism and speculation in the private ownership of the basic resources of our country. By a series of fiscal and economic measures we have very greatly reduced the economic inequalities we inherited at independence. We have directed our industrialisation efforts at meeting the needs of the majority, and have clamped down on the growth of a consumer society which could only benefit a small minority at the expense of the masses of the people. We have greatly increased our output of goods and services since independence.

Tanzania is not alone in making such efforts and adopting such policies. To an increasing extent, and with varying degrees of success, very many of the poor countries are trying to expand their productivity per man by more sweat, to be progressive in their social and economic policies, and to direct their growth to the benefit of their peoples. For you are justified when you criticise us for building palaces for Presidents instead of clinics for children. You have a right to say "physician, heal thyself" if some of our people enjoy extreme luxury while others live on the edge of starvation.

Unfortunately, the logic of the demand that we should put our own house in order is not always appreciated by those rich countries which make it. The government of a poor country does not find itself being applauded in America and Europe when it acts against large-scale land-holding, nationalises the mines which are the source of internal and international exploitation, takes over the rented property from which landlords profit, and takes other such-like measures. If the country is too poor to be of much international interest—like Tanzania—such acts may be disregarded. Otherwise its government may find itself struggling not only against its own economic elite but also against the strong forces of international capitalism, backed up by powerful Governments of rich countries. The lesson of Allende's Chile is very clear. And fundamental reforms cannot be achieved without protest. Change which is directed towards the interests of the majority is very likely to be to the disadvantage of those groups which are best

educated, have international contacts, and—in Africa at least—are of a different racial origin. I suggest that the composition of the groups thus affected is not irrelevant to the accusations of communism, dictatorship, and even racialism, which are so often directed against poor countries.

For internal justice is not the same as internal prosperity. The eradication of gross inequalities may contribute towards social stability in the long run—although it cannot eliminate the possibility of coups d'etat organised by those who would benefit from less justice. But it certainly does not provide a magic key to wealth. A per capita national income of $120 does not became $1,200 because you are spending it on essentials rather then on Mercedes Benz cars for the President.

A reduction in our rate of population increase would be a help to the Third World; no-one denies it. But poverty leads to procreation. Experience shows that the birth rate goes down more quickly after—not before—education, electric light, and a reduction in infant mortality have become realities in people's lives. There is a time-lag; but social and religious customs give way quite quickly to the right economic circumstances. It is another case of success in one area leading to success in another area.

So we are back to the demand that the poor countries should expand their existing output, and sell more internationally so as to buy development goods. We are trying. I have already referred to some of the problems which are placed in the way of our succeeding in this, and I shall come back to this subject. For when we demand a New International Economic Order, it is the terms and conditions under which we are now expected to produce and to participate in international exchange that we are referring to.

The third traditional solution to the problem of the poor is the voluntary transfer of resources from the rich countries to the poor in the form of International Aid.

Tanzania does accept aid. We seek it, and we appreciate it. If everything else had remained the same, but Tanzania had received no foreign aid, my country would have been a very different place in 1976 from what it actually is. I do not know what it would have been like—but I suspect that it would have been more than buildings and infrastructure which would have been missing. So aid is valuable. And we receive help from many countries; especially Scandinavia, China, Canada and Holland. Since 1961 the Federal Government of Germany has dispersed, or committed itself to, capital and technical assistance to my country to the tune of 2,000 million shillings or 620 million Deutchmarks.

And I am saying to you that, from experience, we have now come to the conclusion that the whole concept of aid is wrong. It is a helpful palliative. But it is no solution to the problem of world poverty. And it is wrong in principle, for it reduces the poor countries to the status of beggers.

The United Nations target of aid is 0.7 per cent of the Gross National Product of the rich countries. This target was first talked about in 1960. At present—in 1976—the average percentage of Official Development Assistance transferred to the poor nations by the major industrialised market economies is 0.33 per cent of their G.N.P. The Federal Republic of Germany contributes about this average; only Sweden, Norway, and Holland are expected to reach the target this year. The OECD forecasts for 1980 do not show any expectation of very great change in these percentages.

Aid is only playing with the problem of poverty, it is like wetting the lips of a man dying of thirst. And it is often used as a political weapon. "If your country is unfriendly to us, or if it is communist—or capitalist—or if it votes against us at the United Nations, you cannot expect aid from us". Such things have been said publicly even by leading world figures.

Nations do not deal with the problems of internal poverty by relying upon charity. To a greater or lesser extent, directly and indirectly, they all transfer resources from their rich to their poor by taxation. That is because they are serious about poverty within their own nations. They recognize that poverty and wealth are linked together,—

that each depends upon the other, and that the well-being of the whole society requires action to equalize the opportunity, and the welfare, of the poorer areas and people.

If we are serious about world poverty we have to accept the same logic between nations. For as I have tried to show, wealth and poverty are linked internationally just as they are within nations. It is true that there is no world government which can tax the rich nations for the benefit of the poor countries. But even without such an authority, we could accept the principle that aid is a matter of right, not of charity. Contributions to the United Nations are fixed; they are set according to the wealth of the member. Once agreed they have to be paid regularly if full membership rights are to be retained. Contributions to the fight against world poverty should be on the same basis—a contract with the rest of the world, not a conditional act of charity with the amount dependent upon the vagaries of politics.

The world is one. Not even the wealthiest countries can remain unaffected by the misery in India, the starvation in Niger, and the backwardness of Papua-New Guinea,—or the harsh rigidities into which Tanzania's efforts to develop force our laws and our administration. The developed world complains about the lack of individual freedom, about detention, and the crudities of justice in the Third World. You say these things are a reduction of human freedom. And you are right. But so are our poverty and our economic backwardness a reduction of freedom and well-being. The Poor find it very difficult to relax. These factors underlie tension within nations; but in addition, these same factors are also the underlying cause of many of the international social and political problems of the world.

What the poor are now demanding—in their own interests and in yours—is a fair chance to develop themselves. We have called this a demand for a New International Economic Order. But we are not arguing about semantics. In these economic matters we are not worrying about the forms, but about the substance. We want a real, and automatic, transfer of resources from the rich to the poor instead of the other way round, as at present. We want fair representation on the international bodies which affect our economic future as well as yours. And we want a real commitment to the development of the world as the one unit which it is, with deliberate discrimination in favour of the poor and disadvantaged when they operate in the same areas as the rich and the powerful.

It is neither necessary nor possible for me to set out in detail all the many changes which are necessary. But I would draw your attention to three fundamental issues.

The first is international price movements; both the fluctuation of commodity prices, and the long term price trends of primary and manufactured goods.

Many Third World nations get almost all their foreign exchange from the earnings on one crop, or one mineral. They must do all their planning, and make all their purchases on the basis of their anticipated revenue from it. Yet the present world trading system makes any sensible planning impossible. Thus, for example, Gambia depends upon groundnuts for about 95 per cent of its foreign earnings in a normal year. Taking the average 1970 groundnut price as 100, in the following three years the average price moved to 86, 78, then 124. By August, 1974, it had jumped to 259; since then it has dropped right back again. Major price fluctuations of this order would shake any economy. They shatter the plans of poor countries.

The Stabex element in the Lome Agreement is an acknowledgement of this problem. But it applies only to the 46 A.C.P. countries involved, and he amounts of money allocated in it to compensatory payments bear no relation at all to the size of the problem. The real problem about Stabex and similar compensatory payments schemes, however, is that they are designed to smooth out falls in money incomes derived from particular primary commodities. They are valuable for that; it is better to collect bruises from rolling down a hill than to be killed by falling over a precipice. But you are still back at the bottom;

such schemes disregard any rise in the cost of imports. Thus, if the ten per cent by which your export income fell is replaced, that is something; but if, in the interval between losing the income and getting the compensation, the price of your imports has gone up by 20 per cent you are still 10 per cent worse off! And the truth is that over the last few years the prices of manufactured goods, and of fuel, have risen astronomically. We all know what has happened to oil prices. Let me give a different example. In 1972 it was estimated that the cost of building a meat factory in the Tanzania town of Shinyanga would be $1.8 million; two years later the tender price was $7.1 million. In real terms, that is, taking into account the actual sisal price then and now, this meant that a factory which was estimated to cost us 7,000 tons of sisal is costing us almost 24,000 tons of sisal.

It is facts like these—and thousands of examples could be given—which make the Third and Fourth Worlds demand that an organic link should be worked out between their major export and import prices. We see no reason of equity why in nine years out of ten the poor nations of the world should be transferring wealth to the rich countries as the terms of trade move against them. But that is what is happening. The poor have to provide the rich with a greater and greater volume of commodities in order to obtain the same quantity and quality of manufactured goods. Our command over the resources of the earth is reduced; yours is correspondingly increased.

Consider the effect of changes in Tanzania's terms of trade between two periods, as measured by an "import-basket", and an "export-basket" consisting of our eight major exports. Had the actual price-average of 1958-1962 prevailed in 1968-1971, we would have been better off to the tune of Shs. 1,780 million, or 537.8 million Deutchmarks. This represents a transfer from us to our trading partners of something like 5.9 per cent of our total G.D.P. over the four years 1968-1971! Our major trading partners are, except for Kenya, virtually all wealthy industrialised nations.

As a matter of interest, let me mention that Tanzania received Shs. 866/- million in foreign aid—grants and concessionary loans—during that four years.

Indexing is a very unpopular demand in countries like Germany. You point out its complexity and the difficulty of working out a system which would be fair to all, and would not benefit the developed economies which are also large primary producers. You also complain that indexing would contribute to the acceleration of world inflation.

But inflation takes place. And the rate of domestic inflation in the industrialised countries is reflected in their export prices. Inflation in the poor countries—which is often import-led—is reflected in the decreasing gap between the costs of production and the selling-price of our commodities, until finally we are producing at a loss. Between 1970 and 1974 the average annual prices of East Africa's five major export commodities went up by 34 per cent; the average annual prices of East Africa's major industrial imports—not including petroleum products—rose by 91 per cent. And since 1974 our export prices have actually gone down; our import prices have continued to go up. Workers in the industrialised countries get cost of living rises in times of inflation; they are not expected to carry the entire burden for their nation. We fall to understand why poor countries are expected to bear the entire burden of world inflation when that takes place!

The fact is that when the demands of equity are accepted, a new and fairer system of exchange, incorporating some form of indexing, can be worked out. Human ingenuity has overcome difficult problems before now. We have already been to the moon and back! The real question is not our ability, but our willingness to tackle this problem.

However, compensatory payments, indexing and commodity agreements with accompanying buffer stocks, are all ideas about how to provide an automatic counter to the present automatic transfer of wealth from the poor to the rich. Some such devices are essential. But they are not enough. We have also to tip the scales of future development at least slightly in favour of the poor and backward.

The world no longer relies upon precious metals for its international money; it has begun to create international money in the same way as nations create their own deutc-

marks, pounds, and dollars. But the International Monetary Fund creates Special Drawing Rights according to its estimate of the international trade need for greater liquidity. The world's need for development is not a criteria at all. Consequently, the S.D.R.s are distributed on the basis of a nation's I.M.F. quota,—which means that the richer you are, and the more you trade on the world market, the more you get. Out of the total S.D.R.s created and allocated by October 1974, the developed countries had 74.7 per cent, and the so-called developing countries only 25.3 per cent.

It is difficult to understand why nations which create credit and direct it towards the development of their own poor areas, as well as to the general promotion of internal trade, should resist the same principle internationally. For that is the meaning, and implication, of the Third World demand that S.D.R.s should be linked with development as well as trade.

We are aware of the dangers of inflation, and of the credit ending up in the pockets of the Nyerere's of this world rather than in development of the poor areas and people. But these dangers are excuses, not reasons, for opposing the S.D.R. Link. The I.M.F. will still decide how many S.D.Rs. to create; its criteria will be changed, and the amount increased; but no one is suggesting that it should flood the world with paper! And not all the S.D.R.s have to be given direct to Governments in the poor countries. They could be made available to the International Development Agency, and to Regional Development Banks.

The poor countries would not be the only ones to benefit from this proposal—although the intention is that they should benefit most. Much of the new international money would be spent in the developed countries. We want your hydro-electric equipment, your railway wagons, and your steel-making machinery. An injection of extra development capital would enable us to buy more of them.

International finance, with all its implications for the world economy is, however, managed by those who now possess wealth, while those who desperately need it have little or no say in policy or in the creation or distribution of credit. The Boards of such institutions as the I.M.F., and the World Bank—including the I.D.A.,—need to become representative of their national membership, rather than of wealth. For the poor as well as the rich are affected by the amount of international exchange and liquidity, and the general level of economic activity. To the developed world a recession means unemployment; to the poor nations it may mean starvation. The Third World has a very urgent need for rapid and steady development; to the industrialised countries economic growth is—or ought to be—primarily a grease for desirable social change.

There is a third change in international practice which is needed for world development. At present the raw materials produced by poor countries have virtually free access to markets in the industrialised countries. But when we process those raw materials, or when we begin the long march to industrialisation by the manufacture of simple products like cotton cloth, we find that the same access to foreign markets does not exist. Our goods encounter tariff barriers, quota, and other regulations by which the developed nations defend their older industries.

Some progress has been made in the removal or reduction of tariff barriers. The widespread lowering of tariffs on many goods under various GATT agreement is a help to us. The principle of non-reciprocity embodied in the Lome Agreement is a recognition of the practical inequality between the economies of the Nine and of the A.C.P. countries. But quota, enforced "voluntary agreements of restraint", or customs regulations designed to exclude our simple manufactured goods, are an increasingly complex series of obstacles for our processed or manufactured exports. For such exports are regarded as the product of sweated labour, as if only in factories did our people receive a low return for their sweat! The truth is, of course, that the so-called low wages in our industries represent a much higher income for the workers than the peasant gets for the raw crop.

Industrialisation on the basis of our own products is vital to our future development. We shall never overcome our poverty while we continue to rely only on the export of primary goods. We have to industrialise, and we have to export our primary commodities after they have been processed. We must begin to earn foreign exchange from the export of simple manufactured goods. But it is when we try to enter the world market for manufactured goods, as sellers, that we run into very severe difficulties.

Some of the problems that we meet are inherent in operating in an open market economy. But many are aggravated by our own inexperience and the lack of business acumen which is part of our underdevelopment. And some of them are the result of national, industrial, and commercial interests deliberately raising difficulties for a new Third World product.

Thus, differential shipping freight rates are designed—it seems to us—to favour the existing manufacturers in the industrialised nations. It costs Tanzania forty U.S. Dollars and ninety cents to ship a ton of sisal fibre to Europe, but seventy-two dollars and eighty-two cents to send a ton of sisal twine. Is this really a difference in costs, or is it a disguised protection for European twine?

Mr. Chairman: none of the difficulties and problems which I have outlined today can alter the responsibility of the poor countries for their own development. We do not expect the wealthy countries to come and establish duplicates of their own economies in our nations—indeed, we do not want that to be done at all! We have to develop ourselves. But we demand the right to do it. Our complaint is that the structure of the international economy militates against our success by discrimination against our efforts. Therefore we are saying that all these manifold obstacles to our victory in the fight against poverty—both large and petty,—should be eliminated. This requires deliberate and planned action on the part of the world organizations and of the developed nations, as well as by us. Further, we are saying that while we struggle to build our economies, a little bit of discrimination in our favour would be advantageous to the world as a whole.

At the current UNCTAD Conference, and at many other international meetings, detailed proposals relevant to the attack on world poverty are a matter for heated—and all too often unfruitful—discussions. And sometimes the Agenda of international conferences have to give priority to crisis measures. These become necessary because of a disastrous accumulation of the pressures under which poor countries operate all the time. The proposal that the poorest countries should be relieved of their debt burden—which is now in danger of crushing many of them—is this kind of necessary measure. But a real solution to the problem of world poverty, and all its associated social dangers, requires a willingness for fundamental change in international relationships, and an acceptance of the need to direct economic activity to the service of man rather than to the creation of more money wealth.

We talk of the Industrialised, the Third, and the Fourth Worlds. But really there is One World. We in the poorest countries are very conscious of the world's unity because we are shaken every day by events which take place, and decisions which are made, thousands of miles from our borders. But ultimately no-one is exempted from the effects of poverty and economic inequalities in the world.

The Federal Republic is now one of the wealthiest nations of the world. But it is not a self-sufficient country; and it does not live on the moon. Germany has the power, and the ability, to join others in a similar position and to lead the world towards greater economic equality and justice. Or it can support the continuation of the present international system despite the ever-increasing economic chaos in the Third World and the world as a whole, in the hope that the boiler will never burst.

For the sake of us all I hope that the German people will play a positive role in the war against poverty.

4th May, 1976

J. K. N.