

**THE INTERNATIONAL CONFERENCE ON HUMAN RESOURCES DEVELOPMENT
WITHIN THE FRAMEWORK OF INTERNATIONAL PARTNERSHIP NORTH-SOUTH
RELATIONS: PROBLEMS AND PROSPECTS**

JAKARTA, INDONESIA, 16 SEPTEMBER 1994

May I say how delighted I am to be in Jakarta again, this vibrant capital of South East Asia's most populous nation. It is a great honour for me to be invited to address this international conference organised by the Centre for Information and Development Studies.

2. I would like, if I may, to share with you some thoughts on the topic "North-South Relations: Problems and Prospects".

3. The North-South divide is, as we all know, the perpetuation of the old relations between the imperial powers of the West and their colonies. Having gained independence, the former colonies expected to have a relationship as between equals with their former colonial masters. But they soon realised that this was not to be. All that has happened is a name change from being colonies to being the South and the ex-colonial masters are now called the North. Oppressive pressures are now less direct and are applied in the name of democracy and human rights instead. But the effect is the same. The ex-colonies or the South must submit to the North, to rules and regulations and policies devised in the North for the North.

4. So, how do we conduct the relations between the South and the North? How do we solve the problems arising from this unequal relations in the context of the present? To do so we need to review the development in both the South and the North after colonialism went out of fashion.

5. After gaining independence the majority of the countries of the South have been embroiled in political struggles for control of the Government. Initially there were attempts to practise democratic forms of Government. But since as colonies they were all governed autocratically by their colonial masters, it is not surprising that they found democracy unmanageable. Many chose some form of one-party state with a bias towards socialism, if not communism. State enterprises and state control were the preferred routes for achieving equitable distribution of wealth among the people.

6. We have now learnt that socialism just does not work. The idea that the state can provide every need of the people in a poor country is just unrealistic. A rich country may be able to do so to a certain extent. But poor countries just cannot deliver. It is no wonder that many Governments in the South failed. The socialist ideology rejects direct foreign

investment. Since state enterprises were often badly run, Governments were forced to subsidise loosing state and para-statal bodies. Being poor the Governments were not able to do this adequately. In the meantime the prices of commodities that are produced in the South keep decreasing due to their total dependence on the markets controlled by the North. Their imports of manufactured goods from the North, on the other hand, kept on appreciating in price. The terms of trade deteriorated and the South became poorer than when they were under colonial rule.

7. Failure to provide for the people's needs and to achieve economic growth led to political instability. Governments were changed but the administration did not improve. As a result the aid received and the loans obtained were not productively employed. Indebtedness grew until the flow of funds was reversed, more going North than South, from the poor to the rich.

8. With the demise of the USSR and Russian adoption of the free market system, most socialist states in the South had to jettison their ideology. Besides, they were also pressured by the Western democracies to adopt a multi-party system and the free market or face punitive measures.

9. The old problems returned. How do they manage a democratic Government which neither the people nor the elites are familiar with? A one-party Government is easy but to submit to the people's whims merely complicates the process of Government. The result is political instability. In some states Governments change with bewildering frequency without any programme being able to take off.

10. As for the economy, how do countries which have known only state monopolies, with no private entrepreneurs, private capital and management skill, switch to the free market system? If they do succeed at all, all kinds of pressures are brought to bear on them by the North. Their Governments are subjected to all kinds of criticisms and condemnations. They may succeed in embracing democracy and the free market but they are always found wanting. They are not democratic enough, they abuse human rights and workers' rights, they pollute the environment, they are corrupt, etc. In other words, try as they might, they cannot free themselves from carping criticisms by the North, and often times from overt pressures.

11. In the meantime the North, after losing their colonies, decided to consolidate their position. A European Economic Community was created which eventually evolved into the European Union, a trade bloc, pure and simple. While before the South could deal with separate countries and even play one

against another, they have now to deal with a solid bloc of rich and highly sophisticated countries. The South remained as divided as ever. And so commodity prices from the South could easily be manipulated while the manufactured goods from Europe go up continuously in price.

12. The United States did not join the Europeans, but then the U.S. by itself is as rich as the whole of Europe. It could apply its own pressure without need to get European concurrence. During the Cold War, the North felt a need to win over the South for fear of them siding with the Eastern bloc. But once the Cold War was over, the South lost this option too and became very vulnerable.

13. Had the North been made up entirely of Europe and America, the South would really be economically battered. There was nothing to prevent the North from fixing the prices of their raw material imports and their exports of manufactured goods. Their people were continuously demanding higher standards of living. To meet these demands they merely increase the prices of their manufactured products and their profit margins. If the people in the South could not pay, it was really just too bad.

14. However, Japan emerged as an industrial power with the ability to produce practically all the manufactured goods hitherto produced only by the industrialised West. The Japanese business philosophy differed from that of the West. They believe in market share rather than margins. Having overcome their reputation for poor quality goods, they went on to produce and market quality goods at very low prices.

15. There is no doubt that but for the Japanese business philosophy, most of the people in the South would not have been able to afford such products as automobiles and pick-up trucks, radios and TV sets, and household appliances.

16. Resisted at first, the Japanese finally penetrated the markets of Europe and America. Suddenly the industrial West found themselves unable to dominate the very sector that they created and excelled at. They lost huge segments of their market, not only in the developing countries but also within their own countries. Their automobile, steel, and appliances industries began to shrink. Joblessness increased so that now the average is 11 percent in Europe and 7 percent in America. Ironically, it is at such times of recession that the Governments need to spend more on unemployment benefits.

17. But they are not about to change their life-styles. High wages and the dole system continued whether they can afford them or not. In the European Union, countries which had low

wages were actually subsidised in order to keep wages as high as in the high cost countries. They would rather have high unemployment rates in these countries than allow intra-European competition. The result is that they remain uncompetitive in the world market.

18. To make matters worse, there emerged in the Far East more little Japans. South Korea, Taiwan, Hong Kong and Singapore showed that they are as capable as Japan of competing with the West. A new term was introduced - The Newly Industrialising Countries or the NICs - the countries which can really prevent any return to the good old days of Western dominance of world trade and the good life. The labelling is deliberate. Action must be taken against these NICs to curb their growth.

19. Suddenly the welfare of the people, the workers and the environment in the NICs and other economically dynamic developing countries became a matter of concern to the West. These countries must become democratic, or if they are already democratic they must be more democratic. They must practise Western values with regard to human rights and workers' rights. They must not endanger or damage their environment.

20. All these care and concerns for human rights and democracy are laudable except that the obvious results of applying Western standards would be to knock out the competitiveness of the manufactured products of these countries. It must be remembered that about the only comparative advantage the developing South has is their lower cost of labour. This lower cost is not due to exploitation. It is just that the cost of living is low in these countries. On the other hand, the North has many advantages. They have the capital, the technology, the rich domestic market and the management skills. If lower cost of labour is taken away from the South, the result is not a level playing field. It would be an acutely tilted playing field with the South at the lower end. Their economic progress would come to a dead stop. It is questionable therefore whether the concern is for the good of the workers in the South. It is far more likely that it is to protect jobs in the North.

21. As for Japan, the country that had spoilt the market dominance of the North, apart from protectionist measures, pressure was applied to increase the value of the yen. Although Japan succeeded in countering this initially, the subsequent squeeze brought about the expected results. Japan went into recession and all its exports lost their competitiveness.

22. This is the situation that now prevails in the relations between the North and the South, the former colonial powers

and the ex-colonial territories. The problem is that the North cannot quite reconcile itself to the loss of its colonies and its dominance over the world's economy. Mere political dominance in a unipolar world is apparently not enough for the North.

23. The South is not without blame. Enamored with socialist theories they have largely failed to make independence bring about stability and prosperity. Far too much time was expended on political struggles to gain control of the Governments. Since every Government was roundly condemned by the North for all kinds of sins, there were always aspirants who were encouraged to overthrow the current Government. And about as soon as a new Government is set up, it too would be roundly condemned and its overthrow encouraged. It is a game of musical chairs.

24. Clearly if there is going to be a solution, the mind-set must be changed, both by the North and the South. Although it is admitted that the South is more dependent on the North, to some extent at least, the North is also dependent on the South. To beggar the South is really not in the interest of the North.

25. When Japan was rebuilding its shattered economy after the war, it zeroed in on the developing countries as its primary market. But these countries were generally poor and poor people do not make good business clients. Whether by accident or by design Japan started to invest in production facilities in the South, in particular the ASEAN countries. Almost without exception these countries prospered. Naturally they then became good markets for Japanese products. Indeed, the Japanese manufacturers tested their products in South East Asia. And from South East Asia the Japanese moved on to market their products in Europe and America.

26. Clearly Japan's investments in South East Asia helped develop these countries and in return these countries provided Japan with good markets and helped the process of Japanese industrialisation. Malaysia, for example, would not be where it is today without the initial Japanese investments. It is both the location for massive Japanese investments and a lucrative market for their goods and services.

27. Today foreign direct investment is an acknowledged method to develop a developing country's economy. Of course, now not only Japan but even the NICs are investing and contributing towards economic development and wealth creation everywhere in the South. And new and rich markets have been the result, markets for the Japanese and the other countries of the North

as well as for the NICs. Beggar them and the North will lose the markets.

28. The lesson here is that it pays to help others get rich. If the North wishes to recover economically, the best way is to invest and enrich the South. Trying to stifle their growth by insisting on social clauses and unilateral import restrictions will merely impoverish the South and deprive the North of potentially good markets. Worse, the poor in the South will migrate North. They will go by the millions to escape poverty at home. Even today the North is having problems with migrants. Impoverish the South and the problems will multiply.

29. It is true that a fast developing South can also be a threat to the North. With their lower cost of labour, they may push out some of the products of the North. But the North is too far advanced in technology and too rich in capital for the South to totally displace the North in the marketplace. Certain niches are bound to remain with the North. And these the North can exploit. In the aerospace, telecommunication and computer fields, to name a few, the South will always remain far behind. Let the South produce the garments and other low-tech products in order for them to grow economically. Instead of trying to force them to limit their population, help them to provide good education and to earn a reasonable living. Surely it must have been noticed that the best way to slow down population growth is good education and urbanisation of the people. People living in the towns and cities just cannot afford to have too many children even though their incomes may be higher. It is not by accident that poor countries have high birth rates. If they have no other asset, then they must regard children as their only asset. It is the only thing they can have more of without additional capital outlay. What happens to the children is not of major concern. Any loss can be made up.

30. What then are the prospects for North-South relations? The answer is not very good at the moment. They are not good because the basic premises are all wrong. They are not good because the strong and the rich are not willing to change their attitude. They want to perpetuate colonialism in other forms and by other names. They are not good because the South is still fumbling with democratic forms and the complexities of the free market. And for a long time they will continue to fumble.

31. The South may be weak and poor. But there is no way they will return to the subservience of the past. They may not be able to do much but their resentment will be palpable. Imagine billions of these resentful people overflowing their borders.

32. In the days of colonialism there were a few in the North who felt strongly that colonialism was wrong. They threw their weight behind the people in the colonies. Gradually their views won acceptance by the majority in the North. Colonialism became a bad word. And nations which were victorious in the last war suddenly acceded to the dismantling of their empires.

33. Is it possible that some intellectuals in the North will see that the treatment of the South by the North is wrong and dare to point this out to the peoples and the Governments of the North? Is it possible that a new dialogue between North and South be initiated in which both the North and the South will be guided by more enlightened people?

34. I do not have an answer. But unless and until there is a sincere effort to discard entrenched mind-sets, the prospects for North-South relations are not going to be good.