

countries accepted the principle that the oceans were part of the common heritage of mankind, a principle which gives developing countries much more power than they had under the old regime, in which control was given to those capable of exploiting a resource. The extended economic zone, initially pushed by a number of Third World countries, has been accepted. If the treaty is finally signed, it is likely that some form of international taxation will be applied to deep seabed nodules.

The demands made at the Cancún meeting must be seen in the context of a more general set of political demands (demands oriented toward power and control, not just wealth) that have been made during the last two decades. The central issue raised by the Third World at Cancún was the launching of new global negotiations. This is a linch-pin of the developing world's strategy. By enmeshing the industrialised nations in a set of universal multifunctional discussions the South may be able to alter international norms and principles even if they fail to reach agreement on specific issues. Placing global negotiations in the UN General Assembly and giving the UN authority over the specialised agencies, including international financial institutions, would enhance the power and control of the South.

Seen in a political context, the debate between the North and the South is not likely to be resolved. Even extremely rapid economic growth for developing areas would not alter basic power relationships. The South will continue to press for greater control through international regimes. On most issues the North is likely to resist. The intensity of debate which characterised the mid-1970s has abated. But this is a cyclical and not a structural phenomenon. Cancún is neither a beginning nor an end. It is one of the many episodes which now include the five UNCTAD general meetings, various sessions of the General Assembly, CIEC, a number of UNIDO meetings, and others, in which the South has sought to transform international regimes. These efforts will not stop. They reflect one of the fundamental structural characteristics of the present international system – the power disparity between industrialised and developing states. Altering international institutions through debates in international organisations has been a central mechanism that the countries of the South have used to compensate for the exiguity of their national power resources. It is not an instrument the Third World will abandon.

*STEPHEN KRASNER is Professor of Political Science, Stanford University, California.*

## A POLITICAL COMMENTARY ON CANCÚN

*John Gerard Ruggie*

Cancún was to be both an end and a beginning. It was to be the end of a long process through which the global agenda of development policy has come to reflect an ever-more holistic view of the relationships between development on

the one hand, and energy, raw materials, industry, trade, money and finance on the other. It was to be a beginning in that the heads of state and government were to act upon this holistic view by endorsing the concept of an integrated set of global negotiations that would at long last break through the North-South stalemate. The script according to Brandt called for the still more ambitious departure of a commitment to the principle of Keynesian-like stabilisation and recovery for the global economy, with the developing countries obtaining external resources so as to generate world-wide non-inflationary expansion.

The immediate results are otherwise. In conducting a post-mortem examination of Cancún from the vantage point of the political scientist I wish to avoid invoking such factors as recent electoral results in the industrialised countries and approaches to economic policy that have come in their wake, wherever and whatever they may be. Such factors are important, to be sure, but more basic factors account for the desultory state of things in this particular realm of international affairs. My comments will briefly touch upon two, and then conclude with some policy inferences.

### Structural Constraints

My first point is that the political character of the so-called negotiations between North and South, culminating in the Cancún Summit, has been fundamentally misconceived by advocates and critics alike. Advocates from the South apparently believe or at least pretend to believe that the basic attributes of the world political economy can be refashioned through these negotiations, and blame the North for lack of will. Critics from the North deny the possibility of negotiating a structural transformation and blame failure on an unbusiness-like South that refuses to set clear priorities among issues that are amenable to bargaining. Neither has it quite right.

The world political economy is a self-help system. As in any self-help system, effective demand is the chief allocative mechanism and serious negotiations take place only among parties whose relationship is characterised by a reasonable balance of effective demand. No such balance exists between the two aggregates, 'North' and 'South'. As Stephen Krasner has recently shown, the disparities in wealth and power that exist among states today are unprecedented in the modern interstate system. These disparities are great in historical terms even if the mini-states are excluded from the universe of cases. Few developing countries can hope to challenge even the smaller industrialised countries in economic output by the end of the century.<sup>1</sup> In sum, the North-South 'negotiations' have had little effect on these disparities precisely because the disparities are so vast.

Where gaps have narrowed or appear to have narrowed, the response of the North has been swift: Saudi Arabia was quickly ensconced as a permanent member of the IMF Executive Board, and the (short-lived) prospect of a

<sup>1</sup> Stephen D Krasner, 'Transforming International Regimes: what the Third World wants and why,' *International Studies Quarterly* 25 (March 1981).

successful link between oil politics and NIEO politics in the mid-1970s largely accounted for the changes in positions taken by the industrialised countries between the Sixth and Seventh Special Sessions of the UN General Assembly.<sup>2</sup>

If the North-South 'negotiations' are largely a non-starter from the substantive negotiating point of view, does this mean that they serve no useful political functions? It does not. They serve two such functions.

The first is normative. No order of relations can endure in the long run unless it enjoys some degree of legitimacy or at least acquiescence. Both sides know this. The ritual of negotiations provides a useful instrument in the legitimation struggle because it is carried on in the language of universalistic terms and common interests. The dominant party will seek adherence to, or the rule-governed extension of, what we might call the hegemonic consensus.<sup>3</sup> This may require that it yield certain concessions and offer some side-payments, though of course not such as would endanger the underlying structure of power. Various export earnings stabilisation schemes, including the once much-touted Common Fund, illustrate this point; they do not supplant market forces, but provide marginal compensatory mechanisms to help buffer the impact of fluctuations. As for the subordinate party, it will look to the same negotiations as a means to undermine the legitimacy of the existing order and to advance counter-hegemonic ideas and principles. The short-term significance of these efforts is likely to be minimal and overshadowed by attempts to maximise whatever concessions and side-payments may be available. But they may have long-term effects of some significance, first normative and then practical. For example, recent changes in IMF conditionality provisions are no doubt due in considerable measure to fears about global financial instability. But they are also due to the gradual acceptance of the idea, repeatedly stressed by the South in NIEO forums, that there is such a thing as a structural development deficit which differs from the more transient deficits of fully industrialised countries, and that the two should be treated differently. There is no other way to explain the IMF's November 1981 extended fund credit of SDR 5 billion to India, or the initial objections to it voiced by the United States. The process of eroding and creating norms does not end at this point, however. To continue with the same illustration, tacit acceptance of the idea of differential treatment of developing country deficits is bound to reinforce pressure from the industrialised countries for more precise differential categorisation among the set of developing countries and eventually the routinised graduation beyond it altogether. The legitimation struggle proceeds in zigs and zags. It is never far removed from the structure of hegemony, nor is it entirely reducible to it.

A second political function of these 'negotiations' has been to act as a catalyst

<sup>2</sup> This shift is documented in Branislav Gosovic and John Gerard Ruggie, 'On the Creation of a New International Economic Order: issue-linkage and the Seventh Special Session of the UN General Assembly,' *International Organization* 30 (Spring 1976).

<sup>3</sup> A more elaborate discussion of this process may be found in my paper, 'On the Problem of "The Global Problematique"', *Alternatives* 5 (January 1980), which in turn drew upon Robert W Cox's conception of the hegemonic consensus, as presented in 'Labour and Hegemony', *International Organization* 31 (Summer 1977).

for certain institutional processes within governments and in the international system. Development policy constituencies are now embedded in the bureaucracies of all the industrialised countries, in large measure because of the need to prepare for and respond to the never-ending rounds of the North-South dialogue. The power of these constituencies varies widely across countries, but nowhere is the game of bureaucratic politics quite the same as it would be in their absence. Moreover, in international organisations the need to service negotiations has become an effective means to justify all manner of activities, some of which may be not even remotely connected with the substance of any particular negotiations, but which are interesting or useful nonetheless and would lack financial support otherwise.

In the long run, the most important catalytic consequence of the NIEO process may well be the extensive institutionalisation that it has triggered among the developing countries, particularly in and through the Group of 77. The Group has become pervasive throughout the UN system. Its meetings per annum in New York alone increased nearly ten-fold the number during the 1970s, and some form of permanent machinery to support and coordinate G77 activities is imminent. While the initial impetus for these developments came from the North-South dialogue, one of their unanticipated by-products has been to create an institutional infrastructure that can be utilised for South-South economic negotiations, the advent of which may be hastened by the very existence of this infrastructure together with its lack of substantive success on the North-South front.

To conclude this point: transformation in self-help systems comes through self-help measures that alter the configuration of effective demand. Thus, for negotiations to be capable of fundamentally shaping the basic allocative patterns within such a system, the system already has to have been substantially transformed! What takes place in North-South forums is not entirely irrelevant to this process, as we have seen. But the limited impact it has is felt not on the first-order substantive level as much as on the second-order level, in the realm of legitimation and catalytic consequences, circumscribed by the structure of hegemony but not fully determined by it.

### **Programmatic Failure**

If change of the system cannot be achieved *via* negotiations, why are programmatic efforts to produce change within the system not more effective? One reason is that such efforts pursue programmes of action that are increasingly divorced from the world they are designed to affect.

An element common to much of the NIEO programme, the IBRD's favoured development strategy, and IMF stabilisation measures, is the premise that the developing countries can best improve their lot through Northern-oriented, export-led means. The experience of the newly industrialising countries (NICs) lends empirical support to the premise, and liberal economists have demonstrated its veracity axiomatically. Yet, from the vantage point of the political scientist, its prospects look increasingly problematical. Two difficulties stand out in particular.

First, there is the question of the sustainability and generalisability of the approach even under the best of circumstances. Paul Bairoch, the economic historian, illustrates its limits with simple arithmetic: 'if the underdeveloped countries . . . had exported in 1970 as many manufactured goods per capita as Hong Kong did, these exports would have risen to \$1040 billion, i.e. nineteen times more than the total Third World exports and over three times more than total world exports.'<sup>4</sup> The illustration may be apocryphal but the point it makes is not. Already in 1970, the industrialised countries felt compelled to limit the rate of increase in manufactured products from the NICs in a variety of sectors. As for the present, in 1981 the growth in the volume of world production and trade is expected to be the second lowest in a quarter of a century, and the number of unemployed in several of the industrialised countries is at its highest since the Great Depression. It is not self-evident, then, that a more generalised NIC approach would find a receptive international political environment.

But let us leave aside the contingent factor of international receptiveness and probe deeper into the argument that attributes successful development (or at least growth) to an outward-oriented stance, for doing so reveals a more fundamental difficulty. The argument simply holds that an outward orientation results in greater efficiency in the utilisation of resources and greater flexibility to exploit advantages and adapt to constraints that are produced by an ever-changing international division of labour. Moreover, World Bank studies have shown that even though outward-oriented economies are more vulnerable to external shocks, they also recover more rapidly and more effectively than inward-oriented ones.<sup>5</sup>

The problem with this argument is that it omits an important intervening factor: the strength of states. Countries that have successfully pursued an outward-oriented development strategy, based upon the export of manufactured products, on the whole are endowed not simply with 'smart markets' but also with 'strong states.'<sup>6</sup> These states are capable of extracting sufficient resources from their societies so that tariffs and export levies need no longer serve as a significant source of public revenues. They engage in a variety of entrepreneurial

<sup>4</sup> Paul Bairoch, *The Economic Development of the Third World Since 1900*, translated by Lady Cynthia Postan. Berkeley: University of California Press, 1975, p 100.

<sup>5</sup> Summaries are contained in IBRD, *World Development Report, 1981*, Chapter 6. It should be pointed out that international borrowing played an important role in the adjustment policies of these countries in the mid-1970s. It is no longer as readily available to them, and added immensely to their present adjustment problems.

<sup>6</sup> As will become clear from the text, I mean strong internally, in terms of social and institutional capacity, not necessarily externally as measured in military terms. It goes without saying that not all 'strong states,' so defined, are successful developers; whether or not they are will, of course, depend on their economic programmes. I might also add that, unlike Professor Friedman, I consider Hong Kong to be the exception that proves the rule, not the paradigmatic case. For brief surveys of recent successes, see the following articles in *World Development* 6 (March 1978): Larry E Westphal, 'The Republic of Korea's Experience with Export-led Industrial Development'; D C Rao, 'Economic Growth and Equity in the Republic of Korea'; and, Gustav Ranis, 'Equity with Growth in Taiwan: how "special" is the "special case"?' Also see Jeff Frieden, 'Third World Indebted Industrialisation: international finance and state capitalism in Mexico, Brazil, Algeria, and South Korea', *International Organization* 35 (Summer 1981).

activities, whether through state-owned enterprises or the parastatal sector, *via* financial intermediation or by means of a host of incentives (and disincentives) policies. And relative success among them seems also to vary with their respective ability to alleviate rural-urban imbalances and disparities in asset ownership. Weak states can do none of these things.

The association between successful outward-oriented economies and strong states is paralleled by the experience of the industrialised countries. For example, in the OECD area as a whole, the degree of openness of the economy has been shown to be strongly related to the size of the public sector.<sup>7</sup> And the small European states exhibit the most open economies, as well as the most extensive domestic policy networks and social coalitions, whose purpose it is to buffer the domestic society from external perturbations and to guide the process of domestic economic adjustment.<sup>8</sup>

To say that strong states are an important factor intervening between an outward-oriented stance and successful development is to say more than that another variable has to be added to the regression equation. Here is the critical point: the premature adoption of an outward orientation may well undermine whatever prospects a country has to develop a strong state, increasing its vulnerability to external oscillations while decreasing its capacity to avoid domestic disarticulation. State-building is as complex and difficult a task as economic development. There is little historical evidence to suggest that successful economic development can be achieved by weak states, or that state-building can be successful when the domestic economy is governed by unmediated external economic forces.

In sum, the premise embedded in prevailing international development programmes, and even parts of the NIEO action plans, that success will be export-led and pulled by a Northern locomotive, potentially suffers from two defects. First, its generalised feasibility is increasingly problematical, given current international economic circumstances. Second, if acted upon indiscriminately and without due regard to the political concomitants of successful economic development strategies, it may produce results that are perverse and undermine rather than enhance the prospects of success. The ubiquity of the premise in international forums is somewhat reminiscent of the 1930s, when governments everywhere were attempting to devise domestic stabilisation schemes while the League of Nations was urging a speedy return to the international economic arrangements that made domestic stabilisation impossible. The comparison though imperfect, suggests the need for new approaches.

<sup>7</sup> David R Cameron, 'The Expansion of the Public Economy: a comparative analysis', *American Political Science Review* 72 (December 1978).

<sup>8</sup> The work of Peter J Katzenstein demonstrates these relationships extensively. A case study of Switzerland is published: 'Capitalism in One Country? Switzerland and the international economy', *International Organization* 34 (Autumn 1980); an eight-country comparison is contained in his forthcoming book *Autonomy and Dependence: the small European states in the international economy*.

### Policy Inferences

The Brandt Commission, which in part was responsible for the convening of the Cancún Summit, also saw the need for new approaches. Its proposals, in essence, amount to a form of global Keynesianism, whereby resource transfers to the South would serve as the source of world-wide recovery from stagflation. The Marshall Plan is often cited as a precedent, demonstrating the mutual gain that such a programme can produce. However, the example confuses consequences with causes. The Marshall Plan was a response to an economic situation that had immediate implications for the global strategic balance and therefore involved the direct security interests of the United States. That was its cause. That it also produced mutually beneficial economic expansion was a consequence. If the US Congress had been asked to adopt the Marshall Plan as a counter-cyclical measure, it would have met with the same fate as Keynes's Clearing Union. International resource allocation to benefit the South so that the North in turn can benefit would require the prior existence of a tightly-knit political community such as exists in domestic societies. Thus, like so many previous North-South plans, the Brandt Report advances solutions that cannot be achieved through the means that the international political system makes available.

Can anything be done to produce more fundamental change? The foregoing discussion points to an inescapable conclusion: if new approaches are going to be devised, they will have to give pride of place to indigenous efforts within and among developing countries. The international private sector, as usual, is well out in front of intergovernmental deliberations in forging this reorientation.<sup>9</sup> It remains to be seen whether Third World governments can adapt to the constraints and seize the opportunities. The desultory outcome of Cancún may yet turn out to mark both an end and a beginning: the end of the North-South dialogue as the central axis of international development diplomacy, and, as a result, the beginning of a new order of North-South relations.

*JOHN RUGGIE is Associate Professor at the Institute of War and Peace Studies at Columbia University, New York.*

<sup>9</sup> The forms and consequences of the unbundling of traditional investment packages and the changing relationship among firms, banks and host countries are explored in an ongoing OECD study; a summary appears in *OECD Observer* 112 (September 1981).

## THE SOVIET UNION AND CANCÚN

*Padma Desai*

I have taken upon myself the almost impossible task of discussing the Soviet Union and Cancún. It is like doing a post-mortem without a body. The Soviet