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NORTH-SOUTH GAP AND ITS IMPLICATIONS

When we are talking about the North-South system, we should notice the difference between the problems of the North-South and Western systems. The North-South system is separate from the Western system because it deals with "lower incomes and resources bases of the developing countries" (Joan Spero 149). However, it is also embedded in the Western system because the North, which generally represents the West, has veto power and therefore is able to make important changes in the global market system. The major difference is that the Western system is characterized by the common interest and free access to two types of management: formal and informal. As to the North-South system, only the North is recognized as a dominant decision-making authority. Besides, the economies of the Western system get more or less equal treatment, while the South receives far less benefits compared to the North.

Why is the North-South issue becoming so important at the end of the twentieth century? First of all, the income gap between the North and the South is increasing. At the same time income per head is raising in the countries of the North where only 15 per cent of the world population live. Besides, the goods produced by the countries of the South become less valuable for the developed countries. Such circumstance enables the poor countries to produce more in order to buy even less products from the rich countries. It reduces the ability of the poor countries to manage the global economy because their products are not needed and their opinion is not counted by the rich countries. That is why poor countries are usually unhappy with the management of the global economy because of the small role that they play in its organization.

The North-South issue was discussed by the three different philosophical schools, which argued whether this gap could be reduced in the modern economic system. Liberal theory of economic development is the dominant theory in the International economy. Globalist or Marxist views see the problem in the present free trade system. Structuralists fall between liberals and globalists because they believe that the system is not ideal but can be peacefully reformed and reorganized. All theories can be criticized at some point, but all of them contain valuable information for the complex perception of the issue.

Liberals support free trade as the only possible way to promote mutual growth of all parties involved. They say that the problems of the South lie in its resistance to adopt the market system and its incapability to conduct domestic economic policies in accordance with the free trade rules. The trouble of this theory is that its prescription of "more free trade" does not work in most of the Third World Countries. Another trouble is that such countries as South Korea and Japan, which have interventionist governments (managed trade), are still doing very well in their export industry. Therefore, the adoption of the free trade policies in domestic economy is not as fundamental as liberals suggest.

Globalists focus on the economic exploitation of the South by the North, which is an essential element of the capitalist system. They argue that free trade represents an unequal exchange between the North and the South in the economy controlled by the monopolies of the North. Therefore because of its management ability, a need for the raw materials and markets overseas, the North reduces prices on the materials exported by the South/ imported by the North and increases prices on the materials exported by the North/ imported by the South. Revolution is the policy prescription, which will change the system and put an end to transferring wealth from the periphery to the North. The trouble with this theory is that the Third World is no longer very important to the rich countries. Its exports do not have much effect on the North because "overall consumption of raw materials declines due to changing growth patterns, conservation, substitution and technological improvement" (Joan Spero 159).

Structuralists agree with Marxists that free trade is an unequal exchange with most of its benefits going to the rich countries. However, they argue that it is not a necessary aspect of the system. They explain the dual structure of society when some people live in primitive conditions and some are linked to the global economy because of their work in export industry. They believe that industrialization of the South can be achieved within

a reformed international market by the control of the population (education of women and urbanization), diversification of economy through import and export substitution, and regional integration. By regional integration structuralists mean creating of trade groups among several developing countries in order to look more attractive and reliable to the foreign investors. The trouble with this theory is the question of its practical implication. There is a political problem linked to the economic issue: how can the weakest countries change the status quo against the will of the strongest countries? Another question is whether reform is possible and what is necessary to do for its enforcement.

The major objections of the developing countries are to overcome poverty and inequality, to achieve growth and to play an important part in the global economy decision-making process. Developing countries wanted to change the system or to get adopted to it with the minimum cost to their economy. There are several general Southern strategies to achieve these goals, which were acquired after many years of samples and mistakes, such as "the attempt to delink themselves from some aspects of the International economic system, the attempt to change the economic order itself, and the attempt to maximize the benefits from integration into the prevailing system" (Joan Spero 151).

According to the historical development of the poor countries, the period of decolonization and industrialization after the World War II was aimed at achieving independence and escaping the poverty. Some theoretical attempts to industrialize the domestic economy were to take advantage of cheap labor in order to attract investors, to produce more food and then invest the money in industry, and to improve educational system. The first idea is not applicable today when the blue-collar workers are less important than before. Production of more food created competition among the countries with similar export. Therefore obtaining enough money for the industrialization from exporting food became more difficult. Education required a lot of time and training, which might work in a long run prospective, but would not immediately contribute to the economic growth to the country.

As the result of the decolonization, the poor countries achieved political independence but did not obtain economic one. In many cases developing countries experienced hardships in having some other state but their Mother country as their financial provider. The economies of the developing countries were short of capital and technical skills. Both factors constituted the dependence of the Southern countries on the technology and financial resources of the developed countries. Another wave of dependence was that developing countries based their economies on one exporting material and therefore soon became dependent on their Mother countries, which were interested in one or two industries producing the necessary material and kept other industries undeveloped. Another bad consequence of the dependence of the developing countries on a single commodity was that the price drop on this very commodity influenced the whole economy and destabilized it. Free trade system seemed to benefit all but the developing countries; that is why they were suspicious of its effectiveness. In order to limit their dependence, developing countries started two new strategies called the import substitution strategy (IS) and the export substitution strategy (ES). IS meant to stop importing things and make them at home by developing new industries. ES meant to export a wider range of goods than one commodity. As practice has shown export substitution worked better than import substitution because developing countries of Asia prospered using the export substitution policy, while developing countries of Latin America did not succeed in reducing the income gap between the North and the South by using import substitution. The failure of import substitution happened as a result of the huge foreign investment and the less permanent use of high tariff barriers.

Another way to achieve economic growth for developing countries was to ask the United Nations for help in terms of foreign aid and special trade preferences such as lower tariffs. As a result of this unison cry for changes Group of Seventy-Seven (G-77) was created "to act as a permanent political block representing the interests of the developing countries in the UN" (Joan Spero 162). The formation of the United Nations Conference on Trade and Development (UNCTAD), which presented the ideas of structuralists about the greater aid flows, restricting of free trade and control of multinational corporations, reflected the confrontations between rich and poor countries in UN.

The attempt of the poor countries to establish their assembly in order to influence the rich countries went even further. In 1974 developing countries called for a New International Economic Order (NIEO), which

appeared out of the threat and the promise of the economic crises. Its success depended on the unity of the Southern countries, credibility of their export products and understanding their vulnerability by the North. The NIEO failed because none of these three steps were completed. First of all, there was a growing gap between the Newly Independent Countries and the least developed countries. Besides, the commodity became less valuable for the North, whose demand for raw materials was declining. Another factor was that the North did not want to make any changes apart from what they were always willing to do. The North offered its help by agreeing to transfer the funds, to offer advice for learning about export strategies, to prevent degradation of the global environment and to reduce the flow of the Southern people to the North.

The failure of the NIEO did not resolve the North-South issue. After the second oil shock it became obvious that oil producers and developing countries following the export substitution strategy were doing very well.

On the other hand the countries, which were strongly against free trade system, did not succeed in achieving their economic independence. Favored by many Southern countries in theory, protectionism did not work in terms of free trade system pursued by the majority. Therefore, the effort of the 60s and 70s aimed on removing free trade and using the protectionism instead seemed very obscure. In the 80s the issues of pollution, debt and migration dominated the North-South agenda. Until the debt crisis of the 1980s, which created a big problem in the developing world because the banks in the developed countries stopped lending money to the South, the developing countries did not like the idea of managing multinational corporations. After the crisis southern strategy of control and hostility to multinational corporations shifted towards more pragmatic politics because of the decline in foreign investment flows and globalization of the world economy. Multinational corporations were recognized as "necessary evil at worst and contribution to the development process at best" (Joan Spero 249). Most of the foreign investment in the Third World countries is the direct investment through multinational corporations. Multinational corporations try to concentrate their investments in developing countries of Asia and Latin America. They focus on extraction of minerals, energy, forests and agricultural resources; promoting manufacturing; and establishing such services as telecommunications, finance, insurance and transportation.

The multinational corporation has human capital (technology and management), money, access to global markets and political influence of its home country.

The host country has the power to control the scarce resources and legal environment. This power is called the bargaining advantage and is used by the South to impose restrictions on the multinational corporation. At the same time, the host wants to get most of the things the multinational corporation can offer such as jobs, technology, tax revenues, foreign exchange, money and access to foreign markets. Therefore, the host does not want to deter potential investor by creating too many restrictions. Besides, the multinational corporation has hard time deciding whether it wants to take the risk of investing in that particular host country. Absence of competition for investment opportunities also reduces the ability of the host to dictate its rules. All those factors weaken the power of the host to use its bargaining advantage.

The positive factors of the multinational corporations for the South are "the improvement of the labor and products' quality, the increasing money flows and domestic investment, knowledge of foreign markets and technology" (Joan Spero 255). The negative effects are that the host does not benefit as much as the multinational corporation and pays a lot of extra money for the use of technology. Besides, the political intervention by multinational corporations in the country's politics deprives the host from its complete sovereignty. Also, such things as inappropriate market development and transfer pricing reflect the unfair treatment of the host by the multinational corporation. Nevertheless, direct investment is very important for the development of the South because it ties together capital, money, technology and links it to the global economy.

After looking at so many different ways to deal with the North-South issue, the most sobering response is the recognition that there are no easy solutions and standard policy prescriptions. Solutions must lie in an approach that links economic policy and social development. The excessive concentration on the economic factors deprived the South from its social role by naming North -the elite and South -the subordinate/periphery.

Therefore, economic dependency has also brought a problem of social inequality. The North-South gap can be reduced by the reforms, which should be aimed on economic growth of the developing countries and on their social development as an equal member of the society. New forms of foreign participation such as "joint

ventures, management contracts, licensing agreements" (Joan Spero 269) may bring a difference in the relationship between the North and the South by promoting their cooperation rather than the conflict.

Works Cited

Spero, Joan. *The Politics of International Relations*. New York: St. Martin's Press, 1997.