Economic Co-operation Among Developing Countries: Status and Prospects

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INTRODUCTION

Since the 1950s at least the states in Asia, Africa and Latin America, most of which were newly independent, have been existing with a great deal of vulnerability in a world of glaring disparities of power and wealth. These weaker and vulnerable states felt denied of equal opportunity for development while they were also exposed to new forms of domination. While it cannot be claimed that these countries are homogeneous (in terms of size, level of development, population, income per capita, socio-economic systems and natural resource base), it cannot be denied that these countries share common characteristics (e.g. politically subjected, culturally attacked, and economically exploited). Partly due to these common characteristics an increasing number of states shared a sense of vulnerability and began to come together to explore the possibility of acquiring greater strength through collective action.. One early initiative in this direction was the creation of the Non-Aligned Movement in Belgrade in September 1961. This effort was first pursued in the political sphere, through a policy aimed at the preservation of political independence in an environment in which countries were expected to side with one of the two superpowers[2]. When the political objectives lost some of their urgency by the end of the 1960s, the Non-Aligned Movement began to pay greater attention to economic matters and the objective of self-reliance was carried over into the economic field.

In the realms of bargaining at UNCTAD[3], the divergence of economic interests of the Third World from those of developed countries emerged sharply and crystalised along geopolitical group lines[4]. As a result the Group of 77 countries adopted a Joint Declaration on 15 June 1964 at the end of UNCTAD I. The Third World celebrated these attempts towards unity as an outstanding outcome of the conference, expressing their strong conviction that there is a vital need to maintain and further strengthen this unity in the years ahead. Since then the Group of 77 (now with 125 members) has become the Third World's principal organ for articulating negotiations with the developed countries within the United Nations system.

Todate the movement of the Non-Aligned countries and the Group of 77 offer the broadest framework for co-operation among developing countries in the interest of achieving greater self-reliance. While the Non-Aligned group has mainly pursued self-reliance through direct actions on unilateral measures the Group of 77 has largely approached self-reliance through bargaining in negotiations with the developed countries. In both cases the ultimate objective is to accelerate the development process in the South and to contribute to the attainment of the New International Economic Order by off-setting historic distortions and strengthening their bargaining position as a trade union of the poor.

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KEY AREAS OF CO-OPERATION AND THEIR PRESENT STATUS

In order to put the status of economic co-operation among developing countries (ECDC) in its proper perspective it is useful to examine the case for South-South co-operation with a view to indicate and clarify what is expected to be achieved. Such clarification is important to the extent that pursuance of South-South co-operation will largely be influenced by the concept of co-operation that is adopted and the conceived basis for such co-operation.

First and foremost there is a case for harnessing the potentials existing in the South to create a framework for a new order in the South through its own efforts. In this sense South-South co-operation is seen as a dynamic element in the economic development of the South. The slowing down of economic growth in the North in recent years, to the extent not experienced earlier, strengthens the case for delinking the Third World's sources of growth from the North if the Third World is to accelerate its growth and transformation[5].

In this context UNCTAD, referring to the UNITAD model, has indicated that if the developed market-economy countries were to grow on average by 2.4 per cent per year for the remainder of the decade, developing country average growth would be no higher then 3.7 per cent per year, far below the 5.6 per cent annual average for the 1970s[6]. Given that most developing countries have very open and export dependent economies and that their exports to developed countries represent as much as 20 per cent of their GDP, slow growth in the North would lead to slow growth in exports to the North. The resulting foreign exchange constraint would impede the procurement of the investment goods required for capacity expansion and the intermediate goods required for better utilisation of created productive capacities in the South. The UNCTAD model has clearly indicated that a strong effect on growth in the South would work through the loosening of the foreign exchange constraint imposed by slow growing demand from the developed countries.

Secondly, ECDC can contribute to the recovery of the world economy through its role in widening the market and expanding the field of investment[7].

Third. ECDC can contribute to the realisation of the envisaged New International Economic Order by organising the Third World's countervailing power on a political, economic and intellectual front[8] and by directly offsetting historic distortions in various field (e.g. trade, finance).

Investment and Finance

The importance of investment and finance in ECDC is marked by the fact that it cuts across all other areas of co-operation. For instance, to the extent that financial aid has often been tied to exports of donor countries, efforts towards South-South trade have been impaired. This practice characterised about 50 per cent of official development assistance (ODA) provided by members of the Development Assistance Committee (DAC) in 1981 and virtually all ODA coming from the members of the Council of Mutual Economic Assistance[9]. Similarly, export credits can easily determine the choice of supplier. Financial co-operation in the form of untied aid and trade finance would facilitate unpackaging of turnkey projects, adaptations and less limited choice and sourcing of technology. These indicate a close relationship between finance on the one hand and technical co-operation and co-operation in production and trade among developing countries on the other.

Co-operation in the area of finance has essentially been initiated in the fields of development finance, balance of payments support through clearing and credit arrangements, and trade finance. While the principle of financial co-operation has found extensive political support through resolutions in the Non-Aligned Movement (e.g. those issued in New Delhi at the summit level early in 1983) and in the action programmes of the Group of 77 agreed upon in Mexico City (1976) and Caracas (1981), achievements in implementation have been fairly modest[10]. The formation of sub-regional and regional clearing arrangements has been among the earliest forms of such co-operation[11]. The following eight clearing arrangements have been set up: The Central American Clearing House (CACH) in 1961; the LAFTA[12] Payments and Reciprocal Credit system in 1965; the Union for Multilateral Payments Arrangements of Regional Co-operation for Development (RCD) in 1967; the Asian Clearing Union (ACU) in 1974; the West African Clearing House (WACH) in 1975; the CARICOM Multilateral Clearing Facility (CMCF) in 1977; the Monetary Arrangement of the Economic Community of the Great Lakes Countries (CEPGL) in 1978; and the Central African Clearing House (CAFCH) in 1979.

While it is notable that no default has been recorded in any of the arrangements and member central banks have fulfilled all their obligations in most of these arrangements, progress has been rather slow in relation to the growing volume of trade. In addition, the various arrangements have not forged operational links. The share of transactions channelled through clearing arrangements in total respective intra-regional or intra-sub-regional trade varies quite substantially from 95-98 per cent in the case of CACH, 85-90 per cent in ALADI, about 80 per cent in CARICOM, to only 10-20 per cent in the case of ACU

Credit arrangements have also been designed to provide short-term and medium-term balance of payments financing to member countries. There are five credit arrangements currently operating in developing countries: the Central American Stabilization Fund (FOCEM, 1969); the Santo Domingo Agreement (1969, but radically revised in 1981); the Andean Reserve Fund (FAR, 1976); the Arab Monetary Fund (AMF, 1976); and, the ASEAN Swap Arrangement (1977). Two of them, AMF and FAR, are institutionally constructed as reserve funds, with capital contributions from member countries transferred from their official monetary reserves. FOCEM is financed by contribution from member central banks, but it has no legal status as an independent institution. The Santo Domingo Agreement consists of a set of credit lines which do not require paid-up capital contributions, while the ASEAN arrangement is a short-term swap facility with a simple structure. One issue which does not seem to be resolved in these credit arrangements is how to approach the question of conditionality and structural imbalances in the context of economic policy pertaining to long-term development objectives and ECDC objectives.

Trade financing arrangements have often been discussed, mainly in the context of manufactured exports. Existing regional facilities include the Inter-American Development Bank (IDB), Latin American Export Bank (BLADEX); Islamic Development Bank (ISDB); and the Andean Trade Financing System (SAFICO). The area of operations of most trade finance arrangements have largely limited the scope of their operations to Latin America, have tended to favour countries which already have a reasonably developed commercial banking system and have not been able to provide substantial interest subsidies which exporters in the North receive from their export credit institutions[13]

In the area of development finance, the co-operative efforts in the Third World have resulted in the creation of sub-regional development institutions (e.g. the regional development banks). In the course of the 1970s a new important source of finance emerged in the form of development funds and institutions established

collectively or individually by OPEC[14] members. Aid from OPEC has come to constitute a significant share of all ODA flows to developing countries, rising from 4.8 per cent in 1970 to a peak of 29.1 per cent in 1975 and losing that momentum somewhat (partly due to receding current account surplus), reaching 23.5 per cent in 1980 and 20.6 percent in 1981[15]. The bulk of OPEC financial disbursements have been made under bilateral arrangements. The share of bilateral assistance (disbursements) was 90.6 per cent in 1974 and remained at around the same level in 1980 (89.5 per cent) and 1981 (88.6 per cent)[16]. One notable feature of OPEC assistance is the weight attached to non-project assistance which constituted 85 per cent of all bilateral aid commitments in 1981 when the corresponding DAC bilateral aid was 17 per cent[17]. In the area of investment finance, joint ventures have also emerged often located in the capital importing countries and serving the mutual interests of the parties involved.

In principle, South-South Co-operation in finance has recently tended to focus on the gaps in the existing structure of financing. These gaps have persisted partly because the North does not seem to have changed their practices adequately and partly because the South has not succeeded in influencing critical decisions in international monetary and financial institutions. ECDC in the field of finance must focus on these gaps if the South is to become more self-reliant and an independent participant in a more equitable exchange with the North. The main gaps in the present financing structure are in the following areas:

(a) **Joint Ventures** of the surplus and deficit developing countries, including a project identification and development facility. Such joint ventures would cover industry, agriculture, mining and infrastructure. This operation may be viewed as a "South-South IFC"[18] involving itself either as a direct investor in approved joint ventures or as a broker bringing together various sources of finance while not engaging its own funds directly. By contrast with the IFC, however, the proposed institution woudl view its investments as long term in nature, a publicly owned and run holding company[19]

(b) **Energy Investment** is another area where financing has not been forthcoming to cope with the magnitude of the energy problem. The proposals to fill the financing gap in the field of energy exploration and development of alternative sources of energy has been discussed at the level of the international institutions (e.g. the World Bank) without much success. Establishment of a South-South facility to promote exploration and development of energy in the Third World has been proposed in an attempt to fill the gap.

(c) **Export credit financing, guarantee and insurance** is an important element for the expansion of Third World intra-trade. However, discussions intended to prove the need for international public financial support of exports have not yielded any appreciable results. The bulk of this type of financing has been left to bilateral arrangements or to individual exporters. This has tended to favour North-South trade rather than South-South trade. Similarly, the efforts made by UNCTAD to establish an international credit guarantee facility for capital goods have not been successful. What is now needed is to fill this gap by providing export finance, guarantees and insurance to meet the demands of potential South-South trade opportunities[20].

(d) **Commodity Finance** . The failure to conclude adequate individual commodity agreements calls for another approach, that is, financial intervention at the producers' end or on the market, supported by standby supply controls. On this front, large-scale mergers of commodity trading and financing firms in the North are already taking place. This trend in itself calls for a response on the part of developing countries in order ot cope with it Commodity finance in this area is intended to be supportive of, rather than conflicting with, the operations of the Common Fund.

(e) **Assistance to Regional Credit (reserve) Arrangements** would be an important supplement to export credit and commodity finance. This would provide assistance from a central source to credit arrangement among developing countries. There are now five such arrangements covering 42 developing countries with only one involving regional reserve pooling[21] It is being proposed that developing countries should consider creating a Common Stabilisation Fund (CSF) by merging a certain proportion of their own resources with external capital in order to increase the aggregate resources. It is important that conditionality to be attached to CSF loans be geared to promoting regional economic co-operation programmes and their implementation. Furthermore, the availability of such balance of payments facility associated with regional co-operation schemes should be made to facilitate new initiatives in the field of financial co-operation among developing countries.

(f) **Payments Arrangements** for oil imports is probably difficult because of the position of most OPEC countries that concessions may result in spoiling the market. Yet it is a gap which needs to be filled in order to cope with the magnitude of the oil crisis and its effects especially on the oil-importing developing countries.

Trade

Trade among developing countries is taking place in an environment where trade among developing countries themselves accounts for only a quarter of their total exports (and imports), the GATT principles are being eroded by the increasing protectionism in the markets in the North, and where there is a tendency towards the intensification of inter-developing countries trade relative to their trade with developed countries especially in the 1970s. The share of trade among developing countries in world trade increased from 3.5 per cent in 1970 to 6.9 per cent in 1980. Between 1970 and 1978 the share of exports of developing countries represented by intra-South trade increased from 19.8% to 23.9% of their total export[22]. This share continued to increase to 26.4 per cent in 1981 and 28.6 per cent in 1982[23]. About half of this intra-South trade was inter-regional trade, the other half was intra-regional trade. The inter-regional trade, however, has tended to increase faster in the 1970s, its share rising from 27 per cent in 1970 to 47 per cent in 1978 (including fuels). If fuel is excluded, the corresponding percentages are 25 and 33 respectively[24].

In 1980, reliance on the regional market was greatest for developing America, where 78 per cent of all exports (including fuel) to developing countries went to the same region. The corresponding share is 65 per cent for South and South-East Asia and in the case of Africa, it is only 21 per cent. If mineral fuels are excluded the figures change to 71, 62 and 50 per cent respectively[25].

Intra-South trade has increased in the field of manufactures with their share rising from 25.6 per cent in 1960 to 48 per cent in 1975 (excluding petroleum). By 1980, the share of manufactured exports had increased further to 55.6[26]. Within manufactures the product group of machinery and trans-

port equipment has been most dynamic, increasing its share in intra-South trade from 3.6 per cent in 1960 to 14.6 per cent in 1975[27]. By 1980 this share had reached 19.6 per cent. Another spectacular increase occurred in chemicals, whose share increased from 2.2 per cent in 1955 to 6.2 per cent in 1970 and 7.2 per cent in 1980. The more industrialised developing countries increased their share in the total exports of manufactures from 62 to 77 per cent, while the share of the least developed countries declined. The share of Africa in trade in manufactures among developing countries declined from 16.4 per cent in 1970 to 3.1 per cent in 1980. The bulk of the expansion of manufactured exports, however, is accounted for by a handful of individual developing countries[29].

Although the experience of intra-South trade has shown encouraging signs there are obstacles which call for speci ic policy measures to promote this trade if the full potential for this expansion is to be realised. Such obstacles include traditional and historical North-South links, the infrastructural patterns, the role of transnational corporations, balance of payments problems and the reliance on the North's convertible currencies as a means of international payment and on the North-controlled financial institutions, and the exhibited inequalities in the degree of participation of countries in intra-South trade with the distribution favouring those countries which are relatively more developed.

The South has taken important initiatives to remove these obstacles. In this context, some recent ECDC priorities in the field of trade have been the project for a Trade Information System (TIS), the launching of negotiations for the Global System of Trade Preferences among Developing Countries (GSTP), co-operation among State Trading Organisations (STOs), and the promotion of multinational marketing enterprises. For example, a number of regional/sub-regional economic co-operation and integration schemes have engaged in gradual liberalisation of tariff and, to a lesser extent, non-tariff barriers to intra-grouping trade. At least for the five integration groupings that have effectively exchanged tariff preferences among themselves, there has been a considerably faster expansion of intragrouping trade than of their total trade[29] Some of the obstacles which have inhibited full realisation of this trade potential relate to the narrowness of the groups (limited scope for economies of scale and lack of complementarity in the export structure). These problems are being addressed in the context of GSTP. The solution to problems relating to the trading infrastructure (for example, inadequate information flows, control of Transnational Corporations) is being sought in the context of TIS, STOs and promotion of multinational marketing enterprises.

Agricultural and Industrial Development

ECDC can be sustained if the South generates its own dynamics for self-sustained growth. This would complement the demand side of co-operation in the areas of trade and finance.

The alarming growth of food shortages and food imports by the South warrants co-operative efforts in the field of food and agriculture. It is in this context that recent studies have advocated collective food self-sufficiency for the South[30]. One urgent area of co-operation is in food security whereby regional and sub-regional networks of food reserves, infrastructure related to storage and distribution, are being established and strengthened. The Manila IPCC (1982), at least, endorsed the meeting's proposal for intensified regional and sub-regional consultations on food security.

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The spirit of the Caracas programme (1981) in this context is to pay attention to the potential for joint production of food and inputs for agriculture. Reference is made to sharing of various resources such as water resources, technology, managerial capacity and finance.

The Caracas programme (1981) views industrial co-operation in the context of joint ventures, project preparation, information exchange, consultancy services, net-work building and development of human resources.

The experience of industrial co-operation in specific regional economic co-operation schemes has indicated conflicts which arise from inadequate measurement of the benefits accruing to members, inadequate definition of equity, persistance of tendencies which dominated the process of industrialisation in previous decades and the neglect of dynamic concepts such as linkages and externalities. These experiences may continue to pose a challenge to future ECDC programmes, not only in industrial co-operation but in agriculture, mining and infrastructure.

LESSONS AND PROSPECTS

The record of ECDC has been riddled with a number of obstacles and problems in specific areas of co-operation. In this section the problems which appear to cut across several areas of co-operation are addressed with a view to drawing lessons which can be useful in forging future links and strengthening co-operation among developing countries.

The conceptual framework: Development Strategy

The concept of collective self-reliance has gained increasing political and economic importance for developing countries since the early 1970s. The concept of self-reliance as a development strategy is built on an entirely different understanding of development based on indigenous resources and capabilities adapted to the existing conditions of developing countries. As a general development strategy, self-reliance calls for delinking from dependence on developed countries while strengthening links among developing countries (e.g. trade flows, financial flows, technology transactions). This strategy presupposes the mobilisation of domestic capabilities and resources to meet the basic needs of the people in these countries.

Collective self-reliance could be sought in two directions. First, through mutual assistance among developing countries. Second, by modifying the international division of labour between the North and the South in the direction of a reduction of inequality. In this sense, the concept of collective self-reliance indicates the strong interdependence between domestic socio-economic development, developing countries mutual co-operation and the struggle for their international economic emancipation.

Collective self-reliance, however, is not a substitute for individual country self-reliance. On the contrary, it is a new way of extending, accelerating and deepening, through mutual help, efforts for decreasing the dependence of each one of the participating countries. In this context, a development strategy based on self-reliance requires a close link of activities in the implementation of the development process at various levels, that is, national, sub-regional, regional and inter-regional level. The development efforts at the various levels need to be supportive of each other. One of the major problems facing ECDC efforts at the various levels is the absence of this kind of supportive link. There are indications that sub-regional and regional co-

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operative efforts have not been reflected in inter-regional co-operative efforts and vice versa[32]. An even more necessary link is that between development processes at national and at regional/sub-regional level[33] Decisions taken by national states (e.g. the Caracas programme) have not been well co-ordinated with national policies. The priorities being pursued at national level have often diverged from those being pursued at sub-regional and regional levels. This observation is related to the issue of political support.

Political Support

As has been noted by the Third World Forum, the common factors (past colonisation, economic and cultural dependence) which justify the concept of the Third World also provide the essential basis for Third World solidarity. One role of South-South co-operation is to strengthen this solidarity and eventually overcome the internal contradictions of the South and the divisive forces they generate. Yet a minimum political consensus is needed to ensure that the South co-operative movement is coherent and effective. This minimum political consensus is necessary if the South is to effectively share a common view of development. In order to raise the level of political support the Third World Forum has suggested that a South-South commission be set up to investigate the conceptual base, the potentials and the constraints of South-South co-operation, seek ways of overcoming obstacles to it, make proposals for action and promote them in public and private debate with a view to persuading Third World political leaders and others to support and implement South-South co-operation[34]

The Question of Theory

Most of the economic co-operation and integration schemes adopted in developing countries have largely been replicas of the schemes known in advanced market economies. These schemes suffer from limitations of foreign trade theory and models of integration designed for, and experienced in, advanced market economies. As a useful lesson it can be noted that, like several other theories which are not transferable from developed market economies to the context of developing economies, there is need to develop an alternative theoretical framework to guide the mode of operation of developing country economic co-operation and integration schemes. An alternative framework will be necessary even in specific areas such as finance with respect to conditionality in lending. Among the issues which need to be clarified at the theoretical level the following may be mentioned:

(a) The place of deliberate planning of economic integration through joint endeavours; for example, in production, trade, transport and communications.
(b) How to incorporate dynamic factors in the optimisation in sectoral programming.
(c) How to check the tendencies which have historically determined the development process, i.e. use economic co-operation to liquidate economic dependency relationships.
(d) Determination of equity of the distribution of benefits and costs of co-operation.
(e) Working out a harmonious development process at national, sub-regional regional and inter-regional levels so that development efforts at all these levels support each other.

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(f) Clarification of the role of macro and micro-level efficiency in operations of co-operation schemes.

Need for Broad Participation

ECDC operations have often been confined to inter-governmental institutions leaving out the important non-government communities such as the business sector, the mass media and the system of professional associations. The Third World Forum[35] has identified three areas where effort could be concentrated:

(a) Research on basic concepts: This entails mobilisation of Third World research institutions and networks to ensure a coherent conceptual base for all aspects of the programme.

(b) Business and Banking: A sustained effort of education and information is necessary to persuade private and public business people, bankers and consultants in the Third World of the economic potential and the wider political significance of collective development efforts. This would convince these people that their activities contribute to a bigger cause (ECDC), in addition to earning money. The important role which these groups play in national economies must be reflected in sub-regional and regional co-operation schemes.

(c) Culture and communication: Cross-cultural/artistic exchange should be encouraged in an effort to make the Third World learn to THINK SOUTH. Essential to the success of cross-cultural communication efforts is the existence of an adequate communication infrastructure which is inadequate in the South.

Institutional Framework

Having accepted the principle of carrying out ECDC, a major question which arises for implementation is the required institutional framework.

(a) **Third World Secretariat.** One major institutional aspect of the ECDC is the transition of the Group of 77, from a consultation machinery created in UNCTAD I to co-ordinate the negotiating position of the Third World, to a more comprehensive system operating to promote ECDC. The adoption of a resolution on that subject was effected at the Third Ministerial Meeting of the group held at Manila in February 1976 followed by the Mexico City conference on ECDC in September 1976. Since then the Group of 77 has had to adapt its institutional framework to better respond to the requirements of ECDC. Action on ECDC requires provision of information, technical support, follow-up and monitoring progress on specific issues. Recognition of this fact had prompted the Group of 77 to study the feasibility of establishing a technical support mechanism, an issue which had been a subject of debate for many years. In May 1982 the Caracas conference on ECDC decided on the establishment of a mechanism for co-ordination, monitoring follow-up action and evaluation. The Caracas programme also identified areas of co-operation and elaborated recommendations on joint action like its predecessors. However, a noteworthy element in the Caracas Programme is the attention given to measures for its follow-up and implementation at the inter-regional level. These measures consist of a series of technical sectoral meetings to facilitate follow-up on various aspects of the Programme and the institution of mechanisms for overall review of implementation. The mechanisms include a limited technical support machinery consisting of a Core

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of Assistants to the Chairman of the Group of 77 in New York, supported by a special "Group of 77 Account for ECDC" to finance operational expenses and funded through voluntary contributions.

While such follow-up measures which the Group of 77 has taken are a considerable step in the right direction there are already indications of the importance of a more effective secretariat[36]. In view of the demands of technical preparation for negotiations, the need to explore and promote ideas for South-South co-operation under changing conditions, and the need to facilitate and enhance exchange of information, there seems to be a strong case for establishing a Third World Secretariat to co-ordinate these activities.

(b) **Support from the International Organisations.** The record of international organisations in supporting ECDC has been impressive[37]. Much of the work by UN Regional Economic Commissions, ITC, FAO, UNCTAD, UNIDO and UNDP, has aimed at promoting ECDC.

However, difficulties have arisen at least in two areas. Firstly, the developed countries have insisted, as a matter of principle, that they should have a say in ECDC matters which are supported by the UN system to which they are the main financial contributors,. Secondly, there have been difficulties in extending support for joint marketing operations of developing countries in their primary exports. The UN agencies are in some difficulty if they are called to support meetings of government representatives of a group of countries openly aiming at raising export prices in markets of the countries which are the main financiers of the UN system.

These two areas of difficulty indicate that the main contributors to the UN regular budget have tried to influence ECDC in a direction which does not jeopardise their own interests[38]. This indicates that relying upon international organisations to provide support for ECDC activities is risky. In this context, there is a strong case for undertaking more adequate budgetary organisational arrangements within the Third World for greater South-South co-operation. Budgetary arrangements within the Third World are especially more urgently needed in the field of negotiations which have a bearing on the North-South relations and for which the financial support of the North is more unlikely.

FOOTNOTES

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