CHAPTER XI.

CONCLUSION: A FRAMEWORK FOR ECONOMIC COOPERATION.

In recent years there has been a growing interest, both theoretical and practical, in the subject of economic cooperation among developing countries. This growing interest in economic cooperation among developing countries has arisen primarily from a realisation that the traditional pattern of economic relations between developing and developed countries, which is essentially one of dependency, has failed to generate a process of self-sustained development on a scale which is adequate to solve the problems of poverty and economic backwardness of the Third World. The countries of the Third World are increasingly finding that their attempts at economic development through diversification, industrialisation and increased productivity are being substantially frustrated by the structural inflation of the developed countries and the ever worsening terms of trade. Simultaneously the developed countries have begun to retreat into a growing protectionism against the industries of the developing countries, simultaneous with this retreat into protectionism, they have launched on a massive technological transformation of their economies which is designed to minimise the level of economic relations with the developing countries. Even the relatively declining economic relations with developing countries are being increasingly sought to be hived off into neat packages — principally through transnational cooperation activities — which though being located geographically in the Third world are organically part of the developed world’s economic system, using technologies totally inappropriate to the economic realities
of the Third World. The integration of the world economy that should have been a natural concomitant of the economic development of the developing countries following decolonisation has been totally frustrated as a result of the developed countries weaving themselves into a cocoon. This has left the developing countries of the Third World with one of two options. One option would be to continue to remain peripheral dependent economies of the developed world economic system, satisfying themselves with whatever rates of growth that trickle down to them through the export of minerals, primary products, simple manufactures and tourism. The other option would be to generate their own economic development using an appropriate technology and collective self-reliance. The spectacular economic breakthrough achieved by the Soviet Union and China and the industrialisation achieved by India on the basis of self-reliance have had a significant demonstration effect in this regard. Developing countries have also noted that Japan which is the only important Asian country which escaped imperialist domination, either direct or indirect, and therefore which did not develop a dependency relationship with a metropolitan power, was able to achieve a breakthrough in economic development and join the ranks of the developed countries. Developing countries have also begun to note that, whereas in the past developed countries obtained their major impulses for growth through the exploitation of colonies, both as sources of raw materials and as markets for finished products, in the post-Second World War period they have increasingly sought and succeeded in sustaining their levels of growth by providing markets for one another.

Simultaneously, the varying degrees of industrialisation achieved by a large number of developing countries over the last two or three
decades have indicated a new scope for complementary growth among developing countries. Today developing countries, in a greater or lesser degree, possess a diversity of industrial and technological capabilities and skills which provide a potential for a larger exchange of goods and services amongst themselves for the common good.

The Conceptual Framework.

Fundamentally, the concept of economic cooperation among developing countries relates to the balanced growth thesis. In effect this postulates that by enlarging the size of the market, by opening up national markets to one another developing countries could achieve mutually higher levels of production and growth through specialisation and the resulting economies of scale as well as through the exploitation of both active and latent complementarities arising from differences in natural resource endowments, acquired skills and technological capabilities and geographical factors. The balanced growth thesis essentially means an integration of the developing country economies, which is based on a relationship of equals in contrast to the quasi-integration of developing country economies with those of developed countries which is an unequal and dependent relationship.

The concept of economic cooperation among developing countries has also a socio-political dimension. This relates to the commitment of a majority of developing countries to the social ownership and management of a substantial part of their domestic economies and to a substantial element of socialisation of consumption, particularly in respect of basic needs including education, health and public transport. This commitment arises from the objective of many
developing countries of creating egalitarian societies with a high degree of equalisation of opportunities in sharp contrast to the class and caste-ridden societies, with a sharp distinction between the privileged and unprivileged strata, which was their colonial society was that the privileged constituted a comprador class which enjoyed a special relationship with the metropolitan power. An ex-colonial economy which seeks to fulfil its development objectives within its inherited nexus of the dependency relationship with the developed world economy soon finds its national objectives frustrated on account of this special relationship. Sooner or later the ex-colonial economy finds that it must break the stranglehold on economic and political power enjoyed by the privileged comprador class and build up a national bourgeoisie and/or venture into substantial social ownership if a new set of external economic relations geared to the national development effort is to be generated. The ensuing sympathetic relationship of socio-economic policies among developing countries, on the one hand, is conducive to economic cooperation among themselves and, on the other, creates a gulf between developing and developed countries.

While the fundamental conflict of interest vis-à-vis developed countries holds good for the majority of developing countries, certain exceptions to this general rule should be noted. There are, for example, those developing countries which having been fortunate enough to escape, either in entirety or in great measure, the full force of colonial rule have built up a national bourgeoisie and have acquired an independent technological capability which enables them to enter into a more equitable relationship with developed countries. These relatively less inhibited developing countries
do not feel the compelling pressures to build up a substantial sector of social ownership, social enterprise and social consumption. Nevertheless, they themselves have a basic interest in economic cooperation with other developing countries as they are not likely to find among the developed country economies markets adequate to ensure a satisfactory rate of economic growth.

The other exception relates to certain developing countries which serve in the periphery as the outposts of the developed countries' world economic system. These countries, by virtue of having limited populations and commanding advantageous geographical locations, are able to function as industrial, commercial and entrepôt centres for the developed countries, particularly of their transnational corporations. While these outpost economies have been able to achieve a satisfactory level of all-around economic development they must essentially be treated as constituting an exception to the general rule. The conditions which have assisted them in their development cannot be applied to the generality of the developing countries. On the contrary, the development they have achieved could be said to be at the expense of developing countries in general. Such countries (including the cities of certain countries) are an integral part of the developed countries' economic system and do not belong to the Third World except in a geographical sense.

Yet another significant conceptual aspect of economic cooperation among developing countries relates to the question of appropriate technology. In so far as developing countries produce goods and services for developed country markets, the choice of technology
open to them is strictly limited. In respect of a limited and relatively declining range of goods which developed countries find convenient to buy from developing countries, the latter find production based on fairly simple technology quite adequate. But if developing countries wish to enter fields of production where they have to compete with developed country producers in catering to developed country markets, developing countries find that they could compete only by employing the same sophisticated capital intensive technologies which are totally inappropriate to developing countries in that they not only have little use for the abundant labour of the developing countries but involve the extensive import of sophisticated equipment and technology which renders such investments uneconomic. Furthermore, access to developed country markets even using such sophisticated technology becomes virtually impossible unless such projects are formed out of or involve a link up with transnational corporations who exercise market control in the developed countries.

As against this situation, economic cooperation among developing countries postulates that in producing goods and services for one another's markets, production technology will be geared to minimizing the use of scarce capital and maximizing the use of labour and skilled and the natural resource endowments of the developing countries as well as producing intermediate and consumer goods that are more appropriate to the consumption and production patterns of developing countries.
While economic growth through integration of national markets constitutes the primary concept in economic cooperation among developing countries, the aggregation and rationalisation of production capacities vis-a-vis developed country enterprises provides an important area of cooperation which can bear early fruit. By such cooperation in specific fields of enterprise, whether they be manufacturing industries, primary products or transport services, developing countries could in the short run obtain better access to or could reduce their dependence on developed country enterprises. In the long run they could achieve a more profound effect by exerting a greater influence on the evolving pattern of technology applicable to the production of a wide range of goods and services.

The relatively high degree of industrialisation which has already been achieved by a few developing countries constitutes an excellent basis for economic cooperation among developing countries. It is the existence of industrial production capacities and technological capabilities among a number of developing countries which in fact makes economic cooperation among them a practical possibility. At the same time the uneven levels of industrial development among developing countries, the disparities in size and economic strength between developing countries in different fields, the close links that have developed between transnational corporations and specific industries of developing countries are factors that make the smaller and less developed countries fearful that economic cooperation among developing countries might as far as they are concerned, lead to new types of dependency relationships which could be harmful to their long run growth prospects. Hence, in the choice of institutions
and means of economic cooperation, the relatively larger and more developed countries should be prepared to sacrifice certain short-term benefits in the interests of more harmonious and permanent long-term benefits.

There is yet another aspect to the conceptual framework for economic cooperation among developing countries. This relates to the harmonisation of economic policies among developing countries vis-a-vis developed countries, the object of such harmonisation being the extraction of improved terms for the entire community of developing nations in their economic exchanges with developed countries as a whole. Given the diversity of interests among developing countries and the relative differences in the importance of linkages between individual or groups of developing and developed countries in different spheres of production of goods and services, such harmonisation may frequently require some developing countries to sacrifice a specific advantage vis-a-vis developed countries in one sphere of exchange in the larger interest of the total commodity of developing countries and in return for long-term benefits. Such long-term benefits would be both from increased exchanges with developed countries and from increased exchanges among developing countries.

While some progress has been made towards the harmonisation of policies among developing countries vis-a-vis developed countries in the post-Second World War period, particularly since the establishment of UNCTAD in 1964, the need for such harmonisation has today become an extremely urgent one in the context of the closing of ranks
among developed countries and the integration of the developed countries' economies that is rapidly taking place. Superimposed upon this is the increasing integration of the developed market economy and centrally planned economy systems. The integration of the developed market economies' system has now proceeded to such an extent that in many cases developing countries have begun to find that they have to contend or negotiate not with developed country governments but with transnational corporations. Whatever field of economic relationship we look at, whether it be primary products, industry, transport, finance or investment, we find that developed countries have achieved a high degree of harmonisation of policies in very elaborate detail at both inter-governmental and industry level.

The Institutional Framework

Whatever the conceptual merits of economic cooperation among developing countries may be, the practical realisation of a significant degree of results through such cooperation depends entirely on the creation of an appropriate institutional framework.

The principal requirement of the institutional framework is that it should provide for an unrestricted flow of goods, services, capital and skills between the markets of developing countries paving the way for an eventual integration of markets of countries which have developed a high degree of cooperation amongst themselves. Market access and integration are basically sought to be achieved through the elimination of tariff and non-tariff barriers and the
permission of the free flow of capital and skills among cooperating countries. While at a global level consideration is being given to a generalized scheme of preferences among developing countries, action has been initiated on a regional basis among several groups of countries towards integration of markets.

While practical considerations make it imperative that schemes of economic cooperation among developing countries must initially take the principal form of regional associations and bilateral agreements, adequate attention requires to be paid to the fact that such regional associations or bilateral agreements could lead to an excessively inward looking growth strategy resulting in the exclusion of potential areas of cooperation with other developing countries which could have considerable benefits, where economic cooperation centres on regional associations, appropriate link ups between regional associations would help to remedy this shortcoming.

A corollary to the elimination of tariff and non-tariff barriers between cooperating developing countries is the institution of appropriate tariff and non-tariff measures to insulate against the markets and industries of developing countries from developed country competition. While by and large the higher cost of production in developed countries would in itself constitute a major safeguard to the nascent industries of the developing countries, established consumer preferences and control of marketing channels are likely to work in favour of developed countries in the absence of protective measures. The heavy reliance in the past and even today of many developing countries on capital and intermediate goods from developed
countries and the use of production technologies based on such capital goods is a factor that could slow down the pace of economic cooperation among developing countries in respect of certain industries. This of course should be looked upon as a transitional phase.

The removal of tariff and non-tariff barriers to the free flow of goods, services, capital and skills may not by itself be capable of generating the required impulses to economic cooperation among developing countries. In order to set in motion a dynamic process of cooperation and integration it may be necessary at least in the early stages for the state to promote joint ventures in specific fields of industry and institute bilateral or multilateral trade agreements providing for specific exchanges of goods and services. The need for direct state intervention is underscored by the fact that in most developing countries the state enterprises sector constitutes not only the largest industrial sectors, but also the sector with the highest and most dynamic technological capability.

As essential part of the institutional framework should also consist of regional, multilateral and bilateral clearing arrangements with built-in credit facilities. Such clearing unions have already come into existence in a number of regions in a rudimentary form. The task ahead would principally revolve round increasing their coverage and sophistication, particularly through the inclusion of adequate credit facilities and the linking up of different clearing unions to provide for a global system for all developing countries. The importance of adequate credit facilities need hardly be emphasis
It is to the extent that credit is available that integration would proceed apace since imbalances are bound to arise in the initial stages. The availability of credit facilities would play a key role in determining the magnitude and pace of integration. There is another equally if not more important aspect of the credit factor. It is the magnitude of credit extended by developed countries and international institutions such as the World Bank and the IMF that in the last decade or two has been chiefly instrumental in preserving many developing countries as part of the periphery of the developed country world economic system. The capacity of individual developing countries to break out of this system and engage in meaningful economic cooperation with other developing countries will therefore depend on the availability of adequate credit to support not only the new exchanges between developing countries, but also a simultaneous matching reduction in developed country credits to developing countries. This dual objective calls for not only a multilateralization of credit and aid facilities currently available from developed country sources and related international sources but also a meaningful channelling of such credit into the financing of developing country trade and capital exchanges.

Another basic institutional requirement is the creation of adequate transport links between developing countries. If transport costs are prohibitive or regular shipping services are not available, the entire process of cooperation is bound to slow down. In some cases it may be necessary to subsidise the transport costs of specific
exchanges of industrial goods in the early stages. As the volume of traffic develops, transport costs will naturally become economic. In this connection, it is relevant to note that economic cooperation among developing countries would largely revolve around countries geographically proximate to one another. Accordingly in the long run transport between cooperating developing countries is bound to be cheaper than transport between developing and developed countries which are geographically dispersed. Furthermore, the use of labour intensive techniques of handling goods and the use of technologically less sophisticated transport equipment constitutes built-in advantages in favour of exchanges between developing countries once the basic transport infrastructure is installed.

Transport, both sea and air, also constitutes a field which provides fertile ground for cooperation among developing countries in improving the quality and magnitude of their services vis-à-vis developed country operators, both in serving the movement of goods between developing and developed countries and in international trade in general. Through the institution of mutual cargo sharing arrangements developing countries can not only achieve economies of scale but also improve the frequency and quality of their services. Through the institution of arrangements for the mutual sharing of equipment, similar economies can be achieved which would result in an expansion of the total share of world transport
accruing to developing countries. In fact, for many developing countries, given the sophisticated technologies prevalent in sea and air transport, sharing of traffic and equipment becomes a sine qua non for expansion and in some cases even of existence. In this context, mutually beneficial arrangements between developing countries would be far more advantageous than dependency arrangements with developed countries.

With regard to the harmonisation of economic policies of developing countries vis-a-vis developed countries, the institutional machinery on which progress has been made is limited substantially to the various regional associations that have been set up. Even at regional level the degrees of contact at governmental level are still very rudimentary and at specific industry level, sometimes none at all. The absence of an appropriate institutional framework becomes even more startlingly clear when the entire community of developing countries is considered. The non-Aligned Nations movement has failed to evolve an economic secretariat at all. Whereas developed countries have evolved a very elaborate structure of institutions to deal with economic problems vis-a-vis developing countries both at a general as well as at specific industry levels, developing countries have been content to depend entirely on the United Nations institutional machinery. The setting up of an organisation of developing countries with an elaborate
secretariat in order to provide a regular forum for the harmonisation of policies vis-a-vis developed countries as well as for the harmonisation of regional cooperation policies appears to be urgently required. Such an apex organisation could take the initiative in setting up specific bodies to deal with individual commodities and industries.

Economic cooperation among developing countries should not be considered as a growth strategy that is hostile to developed countries. Basically it seeks to abolish the dependency relationship that subsists between developing and developed countries while simultaneously assisting developing countries to achieve a higher rate of growth than could be possible if they were to depend primarily on the growth impulses generated by the developed countries. If through economic cooperation developing countries are able to achieve a higher rate of growth, their trade exchanges with developed countries will also increase in absolute terms and in some cases, perhaps even in relative terms, since developing countries would be then possessing a richer and more elaborate industrial and technological capability and also be capable of entering into economic relations with developed countries on an equal basis.

That such a prognosis is not mere wishful thinking becomes apparent if one considers the example of the centrally planned economies of Eastern Europe, which having achieved a high level of industrial sophistication through an intraregional growth
strategy, are today entering into increasing economic relations with the developed market economy countries.