Chapter 1

INTRODUCTION

The historic process of decolonisation, substantial world changes in resource control and its distribution, recessionary tendencies in the first world during the 70s have brought home the fact to the developing countries that for promoting their development, they need now to increasingly look forward to cooperation among themselves both in the context of Economic Cooperation (EC) and Technical Cooperation (TC). For the developing countries collective self-reliance, rightly called "South South Cooperation" has seized to be a possible ideological option and has now become an inescapable and practical necessity - an integral part of the New International Economic Order.

The concept of ECDC and TCDC (Economic and Technical Cooperation among Developing Countries) is not a novel idea - the Bandung Conference of Afro Asian countries of 1955 was one of the early occasions which had emphasised ECDC and TCDC, on the basis of mutual interest and respect of national sovereignty. In early sixties, it was possible for the developing countries to seriously discuss questions relating to progressive liberalisation of their inter-trade and harmonisation of their development plans in the field of trade and industry which finally emerged as a genesis of the
Group of 77 in 1964 at UNCTAD I, and a new era of the evolution of international economic cooperation started. Soon after cooperation among developing countries in general and TC in particular has been recognised in a series of declarations, resolutions and discussions of the UN general assembly and world bodies - the more notable being the UN conference on TCJC held at Buenos Aires in '78 and the high level conference on ECOC at Caracas in '81.[1]

ECDC and TCDC, which are interdependent, mutually support/contribute to the wider objectives of development in developing countries. They reinforce those of closely related forms of cooperation, including economic cooperation among developing countries, for which TCDC is a key instrument. Therefore, Economic Cooperation (EC) and Technical cooperation (TC) should not be regarded just as a mode of trade expansion and engineering technology transfer among the developing countries, rather it covers the wide

spectrum of development modes, such as: Exchange of experience, pooling, sharing, utilization of technical resources and development of complementary capacities, to promote and strengthen collective self-reliance among the developing countries. Exchange of information relating to the existing opportunities i.e. trade in commodities, as well as trade in technology, and to strengthen the capacities of regional and sub-regional organizations to implement EC and TC activities and projects.

Thus the basic objective of ECOC and TCDC is the furthering of the national and collective self-reliance of developing countries and the enhancement of their creative capacity to solve their development problems in the context of South South Cooperation. It is also felt that greater collective self-reliance among developing countries will strengthen their economies, improve their terms of trade, enable them to negotiate better with developed countries and will help speed up the process of their development. However, the collective self-reliance among developing countries or South South Cooperation should not be taken as a substitute for cooperation between North and South nor should it, in any way replace the industrialized countries from their responsibility and commitment towards their less developed counterparts. In other words, South South cooperation would supplement and indeed complement the
global efforts and in no way supplement the interaction between North and South.

Third world countries, taken together, possess enormous natural resources, large capability to manufacture or produce nearly everything. These countries, therefore, stand to derive greater mutual benefit by working together and in close cooperation with each other. This cooperation may encompass the areas of trade, finance, manpower, food industry, energy and technology.

South South cooperation has been extended through increasing commercial and trade transactions among developing countries. More recently it has been coupled with production cooperation through transfer of technology by newly industrializing countries to other developing countries. One example of such cooperation has been among the developing countries of Asia and Africa, constituting the major part of the third world or the South. Among the Asian countries, India has been one of the keenest supporters of economic and technical cooperation among developing countries. In the context of Indo-African economic cooperation trade in traditional items like spices, tea, cotton, yarn and manufactures, and jute manufacturers
has played a crucial role during the last two decades of sixties and seventies. In recent years this cooperation has further strengthened and extended to the export of non-traditional items like engineering goods, chemicals, machinery and transport and plastic products which have now emerged as major exports to the African counties. On the other hand India's imports from African countries are either agricultural or mineral raw materials and intermediate product used in her manufacturing industries. The vast reservoir of untapped development potential in the African countries do provide an opportunity for India to exploit these potential for their mutual benefit.

India, relatively placed high among developing countries is capable to share her development experience with African countries which has been of greater relevance for these countries which are going through the development drill of the kind that India has gone through certain areas, (& it is still engaged in). India's vast industrial and technological development coupled with world's third largest reservoir of technical and scientific manpower has enabled her to harness the potentials of Africa. Success of India's effort to venture in production cooperation in African counties stems from Indian technology appropriateness in
terms of: (a) scale of development and plant size required by most of the African countries, (b) India's ability to utilise local (African) resources and India's ability to meet relatively low market demands of these countries have been some factors that have helped Indian technology to be attracted in Africa. The lower degree of sophistication of Indian technology in certain cases, capability of such technology to generate employment both in the rural and urban areas have been added attraction as far as suitability of Indian technology is concerned.

There is also greater awareness in African quarters that the nature of technology and know how available in countries such as India, is more relevant and appropriate to their present development needs than the highly sophisticated technology and high level skills from the west.

This trend, thus, partly reflects growing endowment complementarities between India and African countries and could be placed in the broader context of South-South cooperation with a view to promoting collective self reliance.
SCOPE OF THE STUDY

The present study examines the trade intensity among the selected developing countries of Asia and Africa in the per view of economic cooperation among developing countries with a particular attention devoted to India-Africa trade/economic and technical cooperation. Selection of the countries has been on the basis of their performance in extending the economic relations among themselves which means that the sampled countries represent their continents respectively to each other. Asian countries (sampled) justify their representation at a higher degree than that of Africa's—reason being that most of the African countries are single commodity based economies and therefore more vulnerable to world market fluctuations.

The study is based on the experience of last one decade i.e. 1975-85. Though late sixties have been the most favourable period for Indo-African economic cooperation but that was merely in terms of trade. It was late seventies when diversification of their trading pattern reflected growing complementarities between India and the countries of Africa. Early eighties gave momentum to this phenomenon resulting a wide expansion of manufactured/engineering goods.
exports from India to Africa and establishment of a large number of Indian joint venture, turnkey contracts, consultancy services in some of the African countries.

Apparently, this is the period, when Lagos plan of Action (a programme to bring self sustained industrial development to Africa by 2000 A.D.) was adopted and most of the African countries became conscious to seek industrialisation through the approach of economic and technical cooperation among developing countries.

The rationale for undertaking this study is to bring better understanding of some of the ramifications of the selected aspects of the new processes of South South cooperation as a means of strengthening their collective self reliance.

HYPOTHESIS

The study has been undertaken by the following hypothesis:

1. Trade relations among developing countries of Asia and Africa have not been significant to the mutual advantage of trading countries during the past—However, potential for economic cooperation through trade and technology transfer is immense.
2. Factor endowment complementarities among developing countries of Asia and Africa will prove helpful in furthering trade/economic and technical relations.

3. The main hypothesis while analysing India's technical cooperation with African countries has been employment generation and import substitution in the host countries and further expansion in India's exports. Thus technical cooperation will be to the mutual advantage of the concerned countries.

**METHODOLOGY**

The study is based on the analysis of empirical data collected mainly from United Nations sources such as Direction of Trade Statistics - yearbooks, UNCTAD, GATT, ESCAP, ECA, and world development reports. Data on India's trade with African countries has been collected from Directorate General of Commercial and Intelligence Statistics (DGCIIS), Report on Currency and Finance (RBI), studies and surveys done by India Institute of Foreign Trade (IIIT) Annual Reports of Ministry of Commerce, Ministry of
External Affairs and Federation of Indian Chambers of Commerce and Industry (FICCI) reports. Information on Indo-African trade relations, has also been collected through correspondence with Indian mission in African countries. Indian Investment Centre (IIC) has been the nodal source to provide information of India joint ventures in Africa. Market surveys done by IIFT have been consulted to identify the areas for further scope of joint ventures in African countries.

Information on project contracts and consultancy services rendered by different public and private firms is taken from their official records and partly from annual reports. Apart from this analysis, interview technique has also been used to enquire deeply into the working of these contracts and policy aspects relating to the choice of technologies and developmental priorities of the participating countries.

To test the above mentioned hypothesis, Bela Blassa’s Revealed Comparative Advantage approach has been adopted. Unlike the theories of comparative advantage given by Ricardo, Hekshcer-Ohlin and others, Bela Blassa’s approach of Revealed comparative advantages recognises that the
pattern of comparative advantage of a country cannot be identified well by examining only one or two determinants of trade flows, instead it can only be done by analysis of the observed trade flows in totality. The methodology of constructing the indices of Revealed Comparative Advantage (RCA) is as follows:

\[
RCA = \frac{X_i^k}{X_i^s} \div \frac{X_w^k}{X_w^s}
\]

Where,
- \(X_i^k\) - Export of commodity K by country i,
- \(X_i^s\) - Total exports of country i,
- \(X_w^k\) - Export of commodity K by world,
- \(X_w^s\) - Total exports of world.

Indices of trade intensity among the selected developing countries of Asia and Africa have been evolved for the benchmark years i.e. 1976, 1980 and 1985.

Export Intensity Index is defined as:

\[
X_{IJ} = \frac{X_{ij}}{X_i} \div \frac{(M_j / M_w - M_i) \times 100}
\]

Where,
- \(X_{IJ}\) - Export Intensity index of trade of country i with country j,
$X_{ij}^J$ - Export of country $i$ to trading partner $J$,

$X_i^J$ - Total exports of country $i$,

$M_J^J$ - Total imports of country $J$,

$M_w^J$ - Total world imports,

$M_i^J$ - Total imports of country $i$;

**Import Intensity Index is defined as:**

$$MIJ = \left( \frac{M_{ij}}{M_i} \right) \times \left( \frac{X_{i}^J}{X_w^J - X_i^J} \right) \times 100.$$ 

Where,

$MIJ$ - Import Intensity index of trade of country $i$ with country $J$,

$M_{ij}$ - Imports of country $i$ from trading partner $J$,

$M_i$ - Total imports of country $i$,

$X_{i}^J$ - Total exports of country $i$,

$X_w^J$ - Total world exports,

$X_i^J$ - Total exports of country $i$.

The degree of trade intensity is explained with Bela Blassa's approach. Trade policies adopted by the trading countries have also been analysed as a factor influencing trade intensity.
CHAPTER SCHEME

The study is divided into seven chapters. Chapter 1 provides an introduction about the study which gives rationale for the present study in the context of South South Cooperation.

A survey of International Trade theories is given in chapter 2 highlighting the determinants of trade given by classical and neo-classical economists. It also underlines other important determinants of trade flows among developing countries such as government Policies, market imperfections, etc.

Chapter 3 provides a synoptic view on Asia-Africa trade relations, highlighting the emergence of newly industrialising countries of Africa and Asia. The chapter describes in details the Revealed Comparative Advantage in different sectors that prevailed in both the continents, justifying the trade pattern among the developing countries from both the region and further proving it through trade intensity index metrix of the concerned countries.
Chapter 4 deals specifically with India–Africa Trade relations. Apart from giving description on existing trade pattern in general and with selected countries in particular, the chapter identifies the areas for further trade expansion based on the existing complementarities. A special mention has been made on India's policy of trade with African countries. The chapter also suggests some measures to strengthen the economic linkages between India and Africa.

Chapter 5 deals with the joint ventures set up by India in some of the African countries. These ventures are dealt as an agent to promote industrial development in Africa and employment generation to African locals, plus further export expansion from India. A focus has been made on policy aspects adopted by India in this context. The chapter identifies specific areas in individual countries to set up further joint ventures, on the basis of market surveys done by IIFT and FICCI.

Chapter 6 focuses mainly India's production cooperation in Africa on bilateral and multilateral level. The chapter also details project contracts and consultancy services rendered in various African countries, by Indian public and
private sectors. Problems of acquisition/adaptation of imported technology in Africa's context have also been dealt with. Few suggestions to overcome these problems have been made while concluding the chapter.

Chapter 7 highlights the major findings of the study based on the analysis of trade and economic relations of Afro-Asian countries in general, and Indo-African economic and technical relations in particular.