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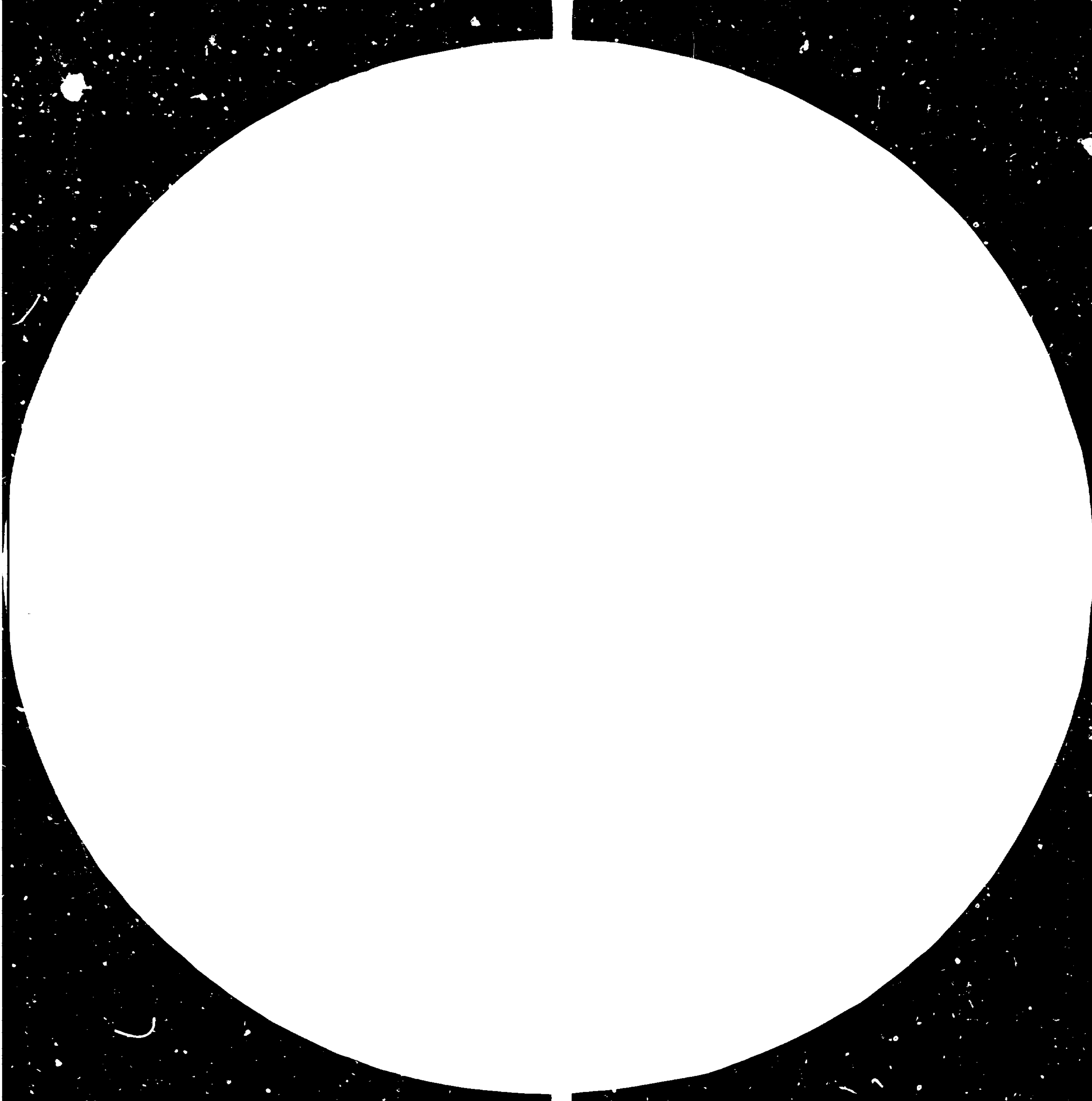

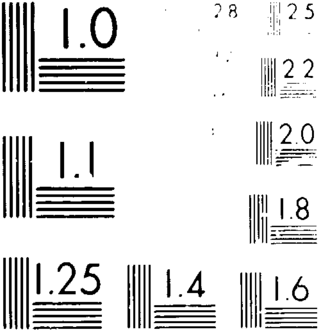
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# INDUSTRIAL INTERDEPENDENCE AND POSSIBILITIES FOR POLICY INITIATIVES BY THE SOUTH*

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## 1. INTRODUCTION

As of 1982 it appears that the old international economic order, dominated by the developed market economy countries and operated under rules reflecting their requirements, is disintegrating, but, due to the opposition of the North, there seems little chance of its replacement in the near future by the proposals of the South known collectively as the New International Economic Order (NIEO). So where does the South go from here? Must it passively accept the existing situation or are there real possibilities for new initiatives? What can the South collectively do to help itself in the 1980s (and beyond)? These questions are the general subject of this paper.

After examining where we are and how we got there, growth rate requirements for achieving the Lima target are discussed. Next, a number of factors likely to influence the scope and form of future economic co-operation within the South are identified. Reflecting these factors, a "reasonably realistic" package of policy measures intended to increase South-South co-operation in the 1980s is outlined and implications of such measures are discussed. The main assumption underlying this package is that co-operation is intended to accelerate economic development by expanding linkages within the South on the basis of the principles of efficiency and equity, while maintaining existing linkages with the North (and thus avoiding retaliatory measures by the North); dependence on the North therefore will decline relatively. The paper concludes with some brief observations on relations of the South with the North. Although the emphasis is on industry and industrial inputs, the broader range of economic issues is necessarily considered.

## 2. ACHIEVEMENTS, FAILURES AND POLICY EFFECTS

Starting in England during the 18th century, modern industrialization based on the factory rather than the workshop, labour specialization, technological innovation, capital accumulation and mass production, spread in the 19th century to other Western European countries, mainly Germany, and the United States. The geographical evolution of world industrial output over the period 1870 to 1953 is shown in Table 1. The share of Western Europe declined steadily over the period, mainly explained by the decreasing United Kingdom share, and the United States gradually became the dominant industrial power, with the USSR gaining rapidly towards the end of the period. Global average annual growth rates were 3.7 per cent for 1860-1913, 2.4 per cent for 1913-1938 and 4.9 per cent for 1938-1958. The global industrial ouput index increased as follows: 1860 - 4; 1900 - 16; 1913 - 28; 1938 - 51; 1953 - 100 (base); 1958 - 133.[1/] Thus world industry expanded 33-fold over a period of about 100 years.

TABLE 1: Country or country group shares in world industrial output (per cent)

| Year | Western Europe (total) | United Kingdom | Germany[a/] | United States | Japan | USSR, Eastern Europe and China | Other countries (including colonies)[b/] |
|---|---|---|---|---|---|---|---|
| 1870 | 62 | 32 | 13 | 23 | - | 3 | 12 |
| 1896-1900 | 53 | 20 | 17 | 30 | - | 4 | 13 |
| 1913 | 44 | 14 | 16 | 36 | 1 | 5 | 14 |
| 1926-1929 | 35 | 9 | 12 | 42 | 2 | 5 | 16 |
| 1953 | 25 | 6 | 6 | 41 | 2 | 23 | 9 |

a/ For 1953, the Federal Republic of Germany only (D.D.R. with Eastern Europe).

b/ Separate data for the present developing countries is not available.

SOURCE: S.J. Patel, "Rates of industrial growth in the last century, 1860-1958", Economic Development and Cultural Change, Vol IX, (April 1961).

1/ Source: Same as Table 1 above. The data should not be considered as precise. Also the concept of industrial output differs from manufacturing value added, mainly used later in this paper. Price bases also differ.

With the major exception of the USSR after the revolution, this industrial transformation was largely based on laissez-faire economic policies. Government intervention was limited mainly to currency stabilization through the gold standard (and, in the United States and Germany in particular, to import control). In the developing countries of today (the South), however, then under colonial rule or domination, existing evidence indicates that manufacturing industry grew but little in most cases and even declined in some.

With the end of World War II, the reconstruction of Europe and de-colonialization, a new economic era emerged. Western Europe, the USSR and later Japan began to challenge US industrial power, and sustained economic growth began in many developing countries, confounding the pessimism of many experts in the 1950s.[2/] A number of key international economic institutions, particularly the IMF (monetary arrangements), IBRD, or World Bank (development lending) and GATT (trade regulations) were established. These provided the foundation for a set of "rules of the game" in each of these areas.[3/]

As of 1960, the first year for which reliable data on manufacturing in the developing countries were available, the developing countries accounted for 60 per cent of world population but only 8.0 per cent of manufacturing value

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2/ As an extreme example of how expectations may be disproved, we quote the following (emphasis added):
"Libya ... is ... a prototype ... poor country ... at the bottom of the range in income and resources and so provides a reference point for comparison with all other countries ... . The Libyan economy offers discouragingly little with which to work. For decades to come, economic development of Libya must consist largely of raising productivity in agriculture, including animal husbandry."
(B. Higgings, Economic Development, Pp. 26-27, Norton, New York, 1959). Thanks to the discovery of oil, Libyan GNP per capita had increased by 1979 to US$ 8,170, only slightly below the average for industrial market economies (World Development Report 1981, Annex Table 1). The Republic of Korea is another such example.

3/ Organizations for economic co-operation among the developed market economy countries (OEEC, later OECD) and among the centrally planned countries (COMECON, later CMEA) were established. The EEC was created in the 1950s, and several less successful regional organizations followed in the South. The United Nations became increasingly involved in economic affairs, especially after the creation of UNCTAD in the early 1960s provided a "voice" for the developing countries.

added (MVA).[4/] The regional breakdown of the developing countries, share of world MVA was as follows: Latin America - 4.93 per cent; South and East Asia - 1.96 per cent; West Asia - 0.43 per cent; Africa - 0.72 per cent. The least developed countries (LDCs) accounted for only 0.18 per cent of world MVA. See Table 2 below.

TABLE 2: Distribution of world MVA at constant prices, by economic grouping, selected years (in per cent)

| Group | 1960 | 1965 | 1970 | 1975 | 1980 | 1981 |
|---|---|---|---|---|---|---|
| All developing countries (equals a + b + c + d) | 8.0 | 8.2 | 8.7 | 10.2 | 10.3 | 10.3 |
| (a) Africa | 0.72 | 0.76 | 0.80 | 0.84 | 0.86 | 0.92 |
| (b) West Asia | 0.43 | 0.49 | 0.57 | 0.68 | 0.68 | 0.70 |
| (c) South and East Asia | 1.96 | 2.09 | 2.20 | 2.65 | 2.68 | 2.74 |
| (d) Latin America | 4.93 | 4.83 | 5.12 | 6.00 | 6.10 | 5.98 |
| All least developed countries | 0.18 | 0.18 | 0.19 | 0.19 | 0.18 | n.a. |
| Developed market economies | 78.0 | 76.3 | 72.7 | 67.0 | 65.5 | 64.7 |
| Centrally planned economies (excluding China)[a/] | 14.0 | 15.6 | 18.6 | 22.9 | 24.2 | 24.9 |

a/ The estimated share of China as of 1979 was 3.49 per cent of the world total.
SOURCE: "A Statistical Review of the World Industrial Situation, 1981", (UNIDO/IS.292).

The share of the developing countries (DCs) in world MVA remained almost stable during the first half of the 1960s, then rose stadily (from 1966), largely due to the industrial "take off" in a few countries such as Brazil and the Republic of Korea (now known as the newly industrialized countries or NICs), to reach 10.2 per cent in 1975, the base year for the Lima Target.[5/]

4/ SOURCE: UNIDO, "A Statistical Review of the World Industrial Situation 1981", IS/292; for population, United Nations, "World Population Trends and Prospects by Country, 1950-2000", ST/ESA/SER.R/33.

5/ The Lima Conference of UNIDO set a 25 per cent target share for the developing countries to be achieved by the year 2000. The implications of this target are examined in several articles in Industry and Development No. 6 (UN publication, sales No. E.81.II.B.4) and No. 3 (Sales No. E.79.II.B.2).

The share remained virtually unchanged after that (through 1981) as growth rates in the NICs moderated. Real growth in MVA averaged 7.3 per cent per annum during 1960-1970 in the developing countries, higher than in the developed market economy countries (DMECs) (5.2 per cent) but below growth in the centrally planned economies (CPEs) (9.6 per cent). For reasons discussed below, growth rates declined in all groupings during the period 1970-1981, to 5.8 per cent in the DGs, 3.0 per cent in the DMECs and 7.0 per cent in the CPEs. Within the developing countries, MVA growth rates varied widely, with lower than average growth occuring in particular in many of the poorest countries. After 1967 growth in the LDCs dropped below the average (influenced by the boom in the NICs) for the developing countries as a whole (although their share in world MVA remained constant through 1980).

Manufacturing provided an "engine of growth" for the developing countries in the 1960s and 1970s, during which time MVA growth rates exceeded GDP growth rates on average by more than a quarter; by 1980 the average share of MVA in GDP was almost 19 per cent, as compared to about 15 per cent in 1960.

Manufactures, mainly destined for DMEC markets, also provided the principal source of growth in the South's merchandise exports in the 1960s and 1970s. Growth of manufactured exports was particularly rapid in the middle income oil importing countries, where the share of manufacturing in merchandise exports rose from 17 per cent in 1960 to 52 per cent in 1978 (latest year data available). This restructuring of the composition of exports was most rapid in the NICs, with, for example, the share of manufactures increasing from 14 per cent in 1960 to 89 per cent in 1978 for the Republic of Korea and from 3 to 34 per cent for Brazil (World Development Report, 1981, annex).

Reflecting this dynamic change, the share (in current prices) of the developing countries in world export of manufactures rose from 4.26 per cent in 1963 to 5.10 per cent in 1970 and 8.84 per cent in 1979, whereas the share of the DMECs remained about the same and the CPEs share declined (see Table 3). As aggressive export promotion policies began to be followed, especially by the NICs, developing country export of manufactures within the grouping and to the DMECs increased in terms of the world total, and the ratio of (DMEC export of manufactures going to DG markets)/(DG export of manufactures going to DMEC markets) dropped from almost 10 to 1 in 1963 to about 4 to 1 in 1979, a considerable improvement in trade balance.

TABLE 3: Distribution of world exports of manufactures (SITC 5-8 ex. 68), 1963, 1970 and 1979

| | | Shares in world total (per cent) | | |
|---|---|---|---|---|
| | | 1963 | 1970 | 1979 |
| Developing countries | | 4.26 | 5.10 | 8.84 |
| of which (destinations): | DG | 1.75 | 1.81 | 3.19 |
| | DMEC | 2.37 | 3.04 | 5.46 |
| | CPE | 0.13 | 0.25 | 0.19 |
| Developed market economies | | 82.23 | 84.82 | 82.81 |
| of which (destinations): | DG | 21.16 | 17.36 | 20.11 |
| | DMEC | 58.36 | 64.14 | 58.65 |
| | CPE | 2.71 | 3.32 | 4.05 |
| Centrally planned economies a/ | | 13.52 | 10.08 | 8.35 |
| of which (destinations): | DG | 2.04 | 1.53 | 1.38 |
| | DMEC | 1.43 | 1.47 | 1.65 |
| | CPE | 10.04 | 7.08 | 5.32 |
| World TOTAL (value in current $millions) | | 100 (80091) | 100 (189046) | 100 (938876) |

a/ CPEs of Asia excluded.

SOURCE: See Table 2.

The post-World War II world economic boom may be taken to have ended by 1973, the watershed year of the OPEC oil embargo, after which a combination of factors-soaring energy prices, general inflation, exchange rate instability, increased interest rates, among others - resulted in a general slowdown of economic growth, structural disequilibrium and greater unemployment, first in the DMECs and then spreading to developing countries.6/

A variety of macro-economic policies by the DMECs - Keynesian expansion, monetarist restrictions on money supply growth, income policies - have so far had little success in overcoming the phenomenon now known as stagflation. The effects in the developing countries have varied widely. The initial huge BOP surpluses accruing to the oil exporters are now declining, with several

6/ For an analysis see for example the IMF, World Economic Outlook, 1982 edition, and the World Bank, World Development Report, 1982. The CPEs have also been affected.

countries having to cut back ambitious development programmes because of declining revenues. Many of the middle income oil importers, and especially the NICs, faced with large trade deficits, attempted to maintain economic growth by borrowing heavily, mainly through commercial loans provided by the US and Western European banking system. With the recent increase in interest rates, debt service in these countries has risen rapidly, and both potential borrowers and lenders have become increasingly reluctant to enter into new loans. Thus, these countries may have increasing difficulty in maintaining the high rates of investment which prevailed in the mid-1970s. Because of poor credit ratings, the least developed countries have been unable to borrow from the commercial banking system, or to attract significant private foreign investment. They have had to rely heavily on foreign aid flows, which have become increasingly insufficient relative to growing needs.

Thus, within a decade (1972-1982) the world economc situation has generally changed from one of high hopes and good prospects to one of frustration and gloom, thus decreasing the likelihood of acceptance by the North of proposals such as the NIEO, the Brandt Report, 7/ or the New Delhi Declaration and Plan of Action.8/

As growth rates decline, competitors become more and more concerned with maintaining their market shares, and protectionist pressures increase. Declining profits and higher interest rates mean greater difficulty in funding new investments and research and development activity, while at the same time shifting relative prices, especially the balance between energy and other factors of production, necessitate structural changes. Even if the vicious circle of stagflation and related problems could be overcome in the 1980s, countries unable to adjust to an era of high energy cost and the coming computer/microelectronics/communications revolution, with its potential negative effects on employment, will face great long-term difficulties.

Clearly, to cope, national efforts alone will not be sufficient for many developing countries. As world economic interdependence grows, co-operation among the developing countries must increase. At the same time, the South can only hope that the North, in control of the bulk of world resources and

7/ Independent Commission on International Develpment Issues, North-South: A Programme for Survival (Pan Books, London, 1980).

8/ Declaration of the Third General Conference of UNIDO, 1980.

primarily responsible for the present mess, will ultimately reject policies based on narrow short-term national interests and face its international responsibilities by joining the South in formulating and implementing more efficient and equitable rules of the game and programmes for world development.

### 3. GROWTH REQUIREMENTS FOR ACHIEVING THE LIMA TARGET

On the basis of current trends, prospects for achieving the Lima target, i.e., an increase in the share of the developing countries in world MVA to 25 per cent by the year 2000, are not good. Several scenarios for achieving the target recently developed by the UNIDO Secretariat are examined below[9/].

One scenario, the "reference" scenario, incorporates hypothesized future world economic conditions as they were seen in the mid-1970s. It is specified in the scenario that the target will be achieved on the basis of the followng regional distribution: Latin America - 13 per cent; Asia (excluding CPEs) - 7 per cent; Middle East - 3 per cent; Africa - 2.0 per cent (giving a total of 25 per cent). GDP in the developed countries is assumed to grow at an average of 4 per cent per annum from 1975 (the base year), trade balances are specified exogenously.

Growth rates required in all sectors are considerably above growth rates for the developing countries during 1970-1981. Also, the fact that the share of the South in world MVA hardly changed during 1970-1981 means that even higher growth rates will be required during the remaining 19 years of the century. The table also indicates a major (and continuing) shift away from agriculture, and to a lesser extent mining, to manufacturing and other activities (mainly services).

Table 4 below shows the results in terms of growth rate requirements, 1975-2000 and sectoral shares in GDP in the year 2000.

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9/ These scenarios and their assumptions are described in UNIDO, "Modelling the attainment of the Lima target: The LIDO model", in Industry and Development, No. 6 (op.cit.).

Table 4: Value added: average annual growth rates, 1975-2000 and sectoral shares in GDP, year 2000 (reference scenario)
(percentage)

| Region/grouping | GDP | Agriculture | Mining | Manufacturing | Other |
|---|---|---|---|---|---|
| | | | Growth Rates | | |
| Africa | 7.2 | 5.0 | 5.8 | 9.4 | 8.0 |
| Asia | 8.3 | 5.7 | 6.4 | 10.4 | 8.9 |
| Latin America | 8.5 | 6.0 | 8.5 | 9.4 | 8.6 |
| Middle East | 7.4 | 6.1 | 4.3 | 11.0 | 8.8 |
| Industrialized countries | 4.0 | 2.0 | 2.3 | 4.6 | 3.9 |
| | | | Shares in GDP | | |
| Africa | 100 | 18.8 | 7.4 | 18.9 | 54.9 |
| Asia | 100 | 18.7 | 2.3 | 24.5 | 54.5 |
| Latin America | 100 | 6.7 | 4.8 | 27.5 | 61.0 |
| Middle East | 100 | 5.0 | 22.3 | 18.3 | 54.4 |
| Industrialized Countries | 100 | 4.3 | 1.9 | 33.4 | 60.4 |

SOURCE: See Footnote 9.

The second scenario is more directly related to the assumptions underlying the growth targets of the Third Unted Nations Developmet Decade exercise. It reflects lower than expected GDP growth during 1975-1980 and a general downward revision in expected GDP growth up to 1990, an assumed rate of growth of agriculture in the developing countries of 3.6 per cent during 1975-2000 and adjustment in trade balances. The results are shown in table 5.

Table 5: Value added: average annual growth rates, 1975-2000 and sectoral shares in GDP, year 2000 (DDIII scenario)
(percentage)

| Region/grouping | GDP | Agriculture | Mining | Manufacturing | Other |
|---|---|---|---|---|---|
| | | | Growth Rates | | |
| Africa | 6.2 | 2.6 | 6.0 | 8.5 | 7.1 |
| Asia | 7.5 | 3.7 | 7.4 | 9.4 | 8.4 |
| Latin America | 8.0 | 4.5 | 6.5 | 8.4 | 8.5 |
| Middle East | 6.6 | 2.4 | 3.8 | 9.4 | 8.4 |
| Developing countries | 7.4 | 3.6 | 5.2 | 8.8 | 8.3 |
| Industrialized countries | 3.7 | 2.8 | 0.1 | 4.2 | 3.8 |
| | | | Shares in GDP | | |
| Africa | 100 | 11.2 | 17.9 | 17.3 | 53.6 |
| Asia | 100 | 14.1 | 5.4 | 26.2 | 54.3 |
| Latin America | 100 | 5.2 | 4.8 | 28.6 | 61.4 |
| Middle East | 100 | 3.8 | 22.6 | 19.0 | 54.6 |
| Developing countries | 100 | 8.1 | 9.3 | 25.2 | 57.4 |
| Industrialized Countries | 100 | 5.0 | 1.9 | 32.7 | 60.4 |

SOURCE: See Footnote 9.

It can be seen that manufacturing growth rate requirements in the South are about 1 pe cent lower than in the previous scenario, but nevertheless required growth remains very high by current standards, particularly during 1990-2000, when a "catching-up" process will be required in order to compensate for the downward adjustment of growth during 1975-1990 10/. These growth rates may be even more difficult to achieve than under the reference scenario in that they are linked to growth in the North; lower growth in the North means lower growth in the South as long as the two are bond together through trade and investment flows.

Thus it appears that if the target is to be achieved major policy and structural reforms, both national and international, will be required. A possible element in such reform, increased South-South co-operation (which would reduce reliance of the South on growth in the North), is examined next.

## 4. MAIN FACTORS AFFECTING SOUTH-SOUTH CO-OPERATION POSSIBILITIES

The extent to which South-South co-operation might increase in the 1980s, and the forms which co-operation might take, depend on several basic economic and political forces, some exerting a positive influence and others negative. The balance of these forces, and how that balance changes in the future, will largely determine whether South-South co-operation becomes a working reality.

Nationalism is one of the most important forces inhibiting co-operation within the South. It may be remembered that nationalism was until very recently a major factor in European history, resulting, for example, in three wars between Germany and France between 1870 and 1945. Now that the process of nation-building in Europe has reached a fairly mature stage, nationalistic tendencies have weakened somewhat, partly being directed towards football

10/ In the reference scenario GDP in the developing countries grows at an average annual rate of 8.1 per cent, whereas in the DDIII scenario, GDP growth rates are 6.2 per cent for 1975-1980, 7.4 per cent for 1980-1990 and 8.4 per cent for 1990-2000, and the required MVA growth rate rises from 8.7 per cent in 1980-1990 to 10.2 per cent in 1990-2000. See Industry and Development, no. 6. op.cit., pp.12,14.

matches, song contests, etc. In the South, for the most part newly independent, the nation-building process is only just starting, however, and nationalism provides the "cement" for the building. Thus governments of developing countries tend to be highly reluctant to give up or share national decision-making powers, a concession implied by South-South co-operation.

Nationalism is offset to some extent by feelings that the developing countries are all in the same boat, even if some are first class passengers and other are steerage class, and that some problems are not solvable through individual national action. Thus collective self-reliance, taken here to mean partnership to reduce major areas of one-sided dependence on the North (rather than separation from the North), has a real political basis, although generally it is not as strong a force as nationalism. The concept of a common interest, institutionalized in the Group of 77 and bodies such as OAU and the Arab League, is conducive to declarations of intent and talking shops, but so far rarely strong enough to result in firm commitments.

Nevertheless, the idea of collective self-reliance is being treated with increasing seriousness by the South because of several factors. First, the feeling of unequal exchange, or lack of justice resulting from the weak bargaining position of the South in its economic transnations with the North has been strengthened by a mass of empirical evidence. Prebisch was one of the first to document the declining terms of trade of the South, exporting raw materials, relative to the North, exporting mainly manufactures.[11/] Although the Prebisch analysis was quickly called into question for technical reasons, it seems clear that his underlying idea is generally valid, i.e., development and more equal exchange require strengthening human and technical resources and inter-industry linkages, changes not likely to occur without industrialization. The usefulness of ODA has also increasingly been questioned. Not only have the DMEC failed to meet their commitments (official aid fell from 0.52 per cent of GNP of the DMECs in 1961 to 0.35 per cent in 1981), but strings continue to be attached (purchase requirements from

11/ United Nations, The Economic Development of Latin America and its Principal Problems (1950); R. Prebisch, "Commercial Policy in the Underdeveloped Countries", American Economic Review (Papers and Proceedings, May 1959).

the donor country, interference by donors in investment decisions), and it is argued by some that food aid has inhibited agricultural production in recipient countries while providing a convenient means of getting rid of surpluses in donor countries. The TNCs have come under increasing criticism for a variety of reasons and technological transfers from the North appear in many cases to be inappropriate to prevailing factor supplies in the South and may also inhibit development of indigeneous technologies.

Second, the North has generally been unwilling to make real concessions which would help correct this situation or to alter the "rules of the game" in favour of the South, or has done so only with great reluctance. From the UNCTAD I Conference to the Cancun meeting the North has demonstrated opposition to such changes. Real concessions have been fairly minor, e.g., a watered-down Generalized System of (tariff) Preferences, some modification of the GATT rules, relaxation of some IMF lending requirements. The South also gained little (or perhaps lost) in the multilateral tariff-cutting rounds, since it had little to offer in concessions, and selective protectionism (e.g., the Multi-Fibre Arrangement) has limited export prospects for South manufactures. It should be noted that these limited concessions required considerable negotiating efforts by the South within the international fora concerned, but retoric and pleas for justice by the South have rarely been successful unless the interests of the North happened to coincide.[12/]

Third, the recent slowdown in the economic growth of the North has resulted in reduced import demand by the North and the related crisis in financing (high real interest rates, threats of default) has resulted in a sharp reduction in financial flows to the South. Also, increased inflation has been spreading from North to South. Thus, there is greater incentive for the South to look inwards for trade and financial partners.

Finally, there is the demonstration effect of the OPEC oil embargo and subsequent increase in oil prices. OPEC showed that the South was not without bargaining power, and that co-operation could pay.[13/] By the mid-1970s numerous other commodity agreements were being considered within the UNCTAD

12/ Negotiating postures of the South based on confrontation tactics have been particularly unsuccessful.

13/ For an analysis of the 1973 "crisis", the formation of OPEC and the history of relations between the oil-exporting countries and the major oil companies, see A. Sampson, The Seven Sisters (Hodder and Stoughton, London 1975).

forum, in particular for coffee, tea, sugar, cocoa, rubber and tin.[14/] None of these, however, are likely to function as producer cartels, and price raising possibilities are, for various reasons, limited. Also, by 1982 even the OPEC cartel seemed incapable of functioning well during a period of low consumer demand.

On the other hand, a number of factors weigh against increased South-South co-operation. First, the South is not one; its members have a variety of interests and widely differing degrees of bargaining power. OPEC wants high oil prices, the NICs want easy access to markets for their manufactures and to investment funds and the LDCs want more ODA. The oil exporters have considerable economic bargaining power while the LDCs have little. Within these groups interests and bargaining power also differ. These differences present a major obstacle to increased South-South co-operation.

Second, possible reactions of the North must be considered. If the South adopted co-operative measures having a negative impact on the North, retaliatory measures by the North could wipe out any initial gains from co-operation. For example, if the South were to increase restrictions on imports of machinery from the North, the latter might respond by not renewing the GSP.

Third, the economic costs of increased trade within the South may be high. Transport and communications costs between neighbouring African countries are in many cases higher than those between Africa and Europe, established since colonial times. The investment required to improve South-South transport and communications infrastructure may be so large as to offset any potential gains from trade, especially since levels of demand are low in many developing countries and do not justify the export effort required. Moreover, given (in general) greater efficiency in producing manufactures in the North than in the South, substitution of manufactured imports from the North by those from the South will be costly to importing countries until efficiency increases in the South.

14/ See A. Maizels, "Selected issues in the negotiation of international commodity agreements", Trade and Development, No. 3 (Winter 1981).

Finally, the experience of existing co-operation schemes is not encouraging. Although there are a few exceptions such as ASEAN and the French African Community, the experience has generally been one of failure to push such schemes much beyond the paper proposal stage, and several co-operation schemes have broken down completely. Lack of strong political commitment (see the discussion of nationalism, above) seems to have been a major factor in most such failures. If sub-regional co-operation is difficult, what chance has co-operation among developing countries as a whole? Little, one might say, but the forces favouring increased co-operation, discussed previously, are growing in significance.

## 5. ELEMENTS OF A SOUTH-SOUTH CO-OPERATION PACKAGE

South-South co-operation based on collective self-reliance could provide some important advantages to the South, especially if it can be achieved without significant cost (which might result in retaliation) to the North. It is assumed here that South-South co-operation will be aimed at expanding linkages within the South on the basis of effciency and equity criteria while maintaining existing linkages with the North to the extent that these are compatible with expanded linkages within the South. Co-operation is thus seen as a positive means of expanding South-South trade and other relationships by reducing existing barriers, rather than of replacing North-South linkages. The possibility of retaliation by the North therefore will be minimized while the one-sided dependence of the South on the North will decline relatively.

South-South co-operation will imply rationalization of industrial structure within the South on the basis of comparative advantage, taking into consideration how this may change over time, plus support for ... tries with weak industrial bases. To begin, the NICs will need to su... South with engineering goods, machinery, metal products, subject to ... economies and high technology products.15/ The oil exporters could continue to develop their petro-chemical industries and supply other capital- and energy intensive manfactures. The LDCs and other low income countries with a weak industrial base could initially supply low technology, labour intensive products, especially those utilizing available natural resources. Other middle income countries could supply light consumer goods and increase their processing of raw materials. A gradual "catching-up" process favouring the less advanced countries of the South should be built into the co-operation mechanism.

15/ Countries such as India would also be included in this category.

Some of the more realistic South-South policy options are briefly examined below within the following headings:16/

- currency convertibility or common South currency;
- selective (by country and product) trade preferences;
- liberalization of/greater consistency in application of non-tariff trade barriers;
- joint investment fund (lending, direct investment);
- joint technology development;
- skilled manpower transfer agreements;
- joint ventures (MDCs), including shipping;
- complementary production/subcontracting;
- OPEC and NIC aid to LDCs;
- consistent/common treatment of TNCs, PFI from North.

Within each of these policy areas, co-operation may be between groups of countries having perceived mutual or common interests or (less likely) for the South as a whole. Although co-operation need not extend to all these policy areas, it would be desirable because of the linkages between them.

Because the currencies of most developing countries are not freely convertible, the mighty US dollar provides the basis for trade and other international transactions in the South. The main trouble with this arrangement is that the South has no control over the supply of its medium of exchange.17/ It is hard to imagine that the South could agree in the near future on the creation of a "Third World dollar" for use in South-South transactions (except in the case of complete delinking with the North), or

16/ Some of the options discussed here are incorporated in the concept of ECDC now under discussion in various international fora. For a review, see J. Barnouin, "Trade and economic co-operation among developing countries", Finance and Development, July 1982.

17/ The same would be true with gold. The original hope that the SDR would replace the dollar and provide the developing countries with "backdoor" aid has not been realized.

total monetary integration, but steps along that path are surely feasible.[18/] Reduction of limitations on convertibility would be a major improvement. Co-ordination of exchange rate alterations would be needed, currency swaps would be arranged and commitments to minimize variation in exchange rates (ie., creating a "snake") could follow. Eventually a "South SDR" might be agreed.

Selective tariff preferences are already in effect in a few groups of developing countries and negotiations are underway in others. Such efforts could be intensified. The NICs and OPEC, for example, could easily afford to grant duty free access to the manufactures of LDCs. Preferential access should be a cornerstone in South-South co-operation. Apart from allowing greater trade among the developing countries, preferences granted on products being supplied by high cost or monopolistic domestic producers would create greater competition and help to increase efficiency in domestic resource allocation. In order to have the benefits of preferences distributed widely among exporting countries, including the LDCs and other less competitive exporters, the scheme could be supplemented by a system of country quotas carefully designed to attain equitable market sharing without greatly reducing the trade creating effects of preferences. This would have to be done on a product-by-product basis and thus might involve complex negotiations. Thus other methods for maintaining a fair share of increased South-South exports for less competitive exporters should be examined.[19/]

Non-tariff trade barriers (NTBs) are more significant than tariffs in many developing countries. Ways and means of minimizing the effect of NTBs on

18/ The common usage of the franc CFA within the French African Community has contributed to a substantial recent increase in trade within the group. See The Economist, 10 July 1982, Pp. 74-75. The costs and benefits of monetary integration are discussed in S. Nsouli, "Monetary integration in developing countries, Finance and Development, vol. 18 (December 1981).

19/ Yeats has pointed out that since transport costs within the South tend to be higher than between South and North, and tariffs are usually assessed on a c.i.f. basis (i.e., including transport costs), importing countries in the South effectivly discriminate against South exporters. He proposes that importing countries in the South should assess tariffs on goods coming from the South on an f.o.b. basis (i.e., excluding transport), thus providing South exporters with a preferential margin. See A.J Yeats, "Tariff valuation, transport costs and the establishment of trade preferences among developing countries", World Development, vol. 8 (1980).

South-South trade should be examined. Health and labelling regulations, for example, could be made more consistent and full or partial exemptions from import licensing etc., might be negotiated among developing countries.

A number of regional investment banks already exist. These need to be strengthened and co-ordination among them should be increased. The possibility of creating a South "World Bank", with both lending and direct investment capacity, should be considered. Equity for such a bank could come mainly from OPEC resources diverted from banks and property holdings in the DMECs, with additional help from the NICs. Preferences, in terms of acceptance of lower rates of return, for projects and programmes in the LDCs and other low income developing countries should be established.

At present the South relies heavily on the North for technological design. Technologies are often transferred with little or no adaptation to local conditions. For collective self-reliance to work, greater efforts towards development and application of appropriate endigenous technologies are needed.[20/] Several sub-regional or regional technology development centers are now in operation, but these require more resources and greater co-ordination. Technology information banks such as that operated by UNIDO need to be given greater priority. Joint technological development in specific product areas such as capital goods requires emphasis. Agreements on patents and product standardization could be negotiated. The NICs in particular could provide necessary technological know how to other developing countries.

Technical co-operation could be complemented by increased international mobility for skilled manpower within the South. In several OPEC countries inflows of labour, unskilled as well as skilled, have been crucial in reducing specific manpower shortages. Inter-country agreements on labour flows, carefully designed to match availability of other resources and to minimize social adjustment problems (not likely to be significant if flows are limited to skilled labour), could be an important element in South-South co-operation.

20/ The concept of appropriate technology is examined in UNIDO, World Industry, since 1960: Progress and Prospects, Chapter VIIE (UN Sales publication E.79.II.B.3). Hundreds of industrial technologies developed in the South are described in UNIDO, ID/208 and ID/246.

Considerable scope exists for increased co-operation in production of specific industrial products, especially those subject to economies of scale, through joint ventures, or multi-national corporatons (MNCs), such as those currently being implemented by ASEAN.21/ Joint ventures in areas such as shipping also should be considered in order to reduce foreign exchange losses to the North and generally improve infrastructure. Possibilities for vertical integration through establishment of complementary production facilities and international subcontracting need to be examined in cases where such integrated production possibilities are not excluded because of high transport costs.22/ Countries co-operating in the production of specific goods should also develop market sharing arrangements to provide producers with a stable basis for growth.

Increased aid flows from the richer to the poorer developing countries would be another important element in South-South co-operation. Aid flows from the OPEC countries are already considerable (1.36 per cent of GNP of the OPEC countries in 1980), but these will need to be increased and supplemented by aid from other higher income developing countries, so as to allow growth in the LDCs to increase from existing low levels. Financial aid needs to be supplemented by other special measures favouring the LDCs and other low income developing countries.

Finally, the South requires a more consistent set of policies in regard to treatment of PFI from the North and privileges to be accorded to the TNCs. Because taxes and other regulations vary so widely between developing countries, the TNCs can to a considerable extent pick and choose their locations and "play off" one country against another. Better co-ordination among developing countries in this respect would allow an increase in their joint bargaining power vis-á-vis the TNCs and lead to improved national benefit-cost ratios for investments by TNCs.

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21/ For analysis of industrial co-operation in the ASEAN group, see UNIDO/IS.281, IS.282, IS.291, IS.310 and IS.311.

22/ Production of the TNCs in developing countries is largely based on integrative concepts. For an analysis related to US tariff regulations favouring integrated production see, "Economic factors affecting the use of Items 807.00 and 806.30 of the tariff schedules of the United States", (US Tariff Commission, Washington, 1970).

Having roughly sketched a policy package for a South-South co-operation scenario, certain implications may be drawn. First, co-operation would draw the South more closely together and reduce its dependence on the North, a major goal in itself. Second, it would provide the possibility for signficant economic gains for the South given that the North is unwilling or unable to play the co-operative game. Third, it would require major efforts in terms of political will, especially readiness to surmount transitional problems, to concede some national advantages for the great good of the South and to accept some redistribution of wealth and income from the richer to the poorer developing countries. Fourth, because it would be fairly neutral vis-à-vis the North, in the sense that co-operation would not be designed to discriminate against the North in the positive sense of increased barriers (some loss to the North may of course occur because of reduced barriers within the South), it should not result in retaliatory measures by the North and might even increase the bargaining power of the South without confrontation. It therefore seems worth consideration by the South.

## 6. RELATIONS WITH THE NORTH: CO-OPERATION OR CONFRONTATION?

So far it has been assumed that future South-South co-operation, by reducing barriers within the South, will only indirectly effect economic linkages between South and North, i.e., that increased South-South linkages will be imposed on existing North-South ones. We conclude by briefly considering the two main directions in which future North-South relations may go: co-operation or confrontation.

Three general areas of confrontation may be identified. First, pressure within the international institutions could be increased to change the rules of the game in trade and other international transactions. As previously noted, however, such pressure in the past has not been particularly successful, and may have contributed in some cases to a hardening of the position of the North, which because of its increasing economic difficulties, is in no mood to make concessions. Thus, such pressure, to work, would need to be selective, so as not to dilute the forces of the South in making numerous demands irreconciliable with the interests of the North, and be based on reasonable argument rather than retoric.

Second, the South could take measures to raise prices of its exports to the North. Producer cartels and, for products with low price elasticity of demand, export taxes would be the main instruments of such a policy. The scope for price raising measures, however, appears to be quite limited in practice.

Third, the South could actively pursue a policy of delinking with the North, i.e., going it alone. This would require progressive reduction in trade, financial and other linkages with the North, especially those reflecting one-sided dependence on the North. Delinking in this sense would differ considerably in sprit from the type of South-South co-operation discussed in the previous section in that it would be aimed primarily at reducing existing linkages with the North, rather than increasing South-South linkages while maintaining those with the North. For example, under delinking the main trade policy might be to raise import barriers drastically against the North, rather than to reduce barriers within the South. Thus delinking may be viewed as a negative policy, and one where the South has less to gain, even if North-South linkages are replaced by equivalent South-South linkages.

Increased co-operation with the North, on the other hand, is clearly a positive sum game, at least in concept. The problem is how to create an environment conducive to making concessions which may conflict with short-term national interests. If the South were to take the initiative by limiting its demands and by taking measures to help the North out of its present economic difficulties, by stabilizing oil prices for example, would the North respond in kind?

The growing importance of the South as a market for the North's manufactured exports might provide a basis for co-operative policies. Since the first oil price increase in 1973 such exports have played a significant role in reducing the effects of recession in the North. Policy-makers in the North need to be sold the idea that continued growth of manufactured exports to the South will assist them to resolve their own problems, and to achieve the structural transformation implied by the computer/electronics revolution, but that continuation or increase in this trend requires some concessions. Thus the South might specifically link acceptance of growth in such exports to liberalized access of the South to the North's markets, for example through reductions of the restrictions of the Multi-Fibre Arrangement. The North's export producers could lend a hand by lobbying policy-makers for such changes.

This paper has argued for increased co-operation, both within the South and between South and North. In reality, the 1980s will probably see a combination of co-operation and confrontation, and quite likely a continuation of "muddling through" or wait and see policies. Also, actions within the South and North groups are unlikely to be entirely consistent; the NICs may wish to "graduate" to the status of developed countries, the ACP arrangement with the EEC provides a source of conflict with other developing countries, and so on. Nevertheless, co-operative policies should be pushed to the limit of their feasibility.