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# The Prospects for Tripartite Cooperation

by Leon Zurawicki, Warsaw \*

**It is often argued that cooperation in the East-West-South triangle may become a very promising way of intensification of the international economic relations. After a contribution from the Western point of view in our journal (Klaus Bolz, No. 11/1976) the following article from the East deals with a number of questions arising in this context.**

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**F**or various reasons one can expect that the factors which contributed to the success of East-West industrial cooperation will consequently stimulate the tripartite cooperation between the Western developed market economies, the socialist countries of Eastern Europe and the Third World countries. In general terms it can be observed that the complementary character of factor endowments of the East and West appears still more accentuated when the economies of the developed capitalist countries and the socialist countries are analyzed on the one hand, and those of the developing countries on the other. Simultaneously, the drive for greater economic independence displayed by the South will inevitably incline all the three partners to look for common solutions in order to respect this evolution and to take the possible advantage thereof. It seems that the Western multinationals and among them even those which for a long time already have been engaged through direct investments in the developing countries will step by step have to stick to emerging schemes of tripartite cooperation.

## **Qualitative Change in Division of Labour**

The specific character of the phenomenon is further illustrated by the fact that for the time being there is, according to UNCTAD studies, a low correlation between the participation in the tripartite industrial cooperation projects and the volume of trade between the countries involved. This may in broader terms simply indicate that the tripartite cooperation does not draw on the traditional model of commodity exchange between the East, West and South and thus signifies a qualitative change in the international division of labour.

While the Western and the socialist enterprises in the South compete with each other, this competition is of distinct character from the rivalry between the Western firms themselves. This fact has far reaching implications for the developing

countries as from their point of view the mere alternative of being able to substitute the socialist consorts for the capitalist partners or more seldom vice versa may certainly improve their bargaining position. This the more so since not only purely economic but also political reasons and certain demonstration effects play a crucial role here.

First of all, the socialist countries give an inspiring example how to expand the kind of cooperation with the South based upon other forms than foreign ownership, direct investments or even joint ventures. Next, at least with respect to some of the Third World countries, the resemblance of the instruments of the planning systems renders the socialist partners more suitable as far as particular contracts are concerned. No wonder then that the socialist countries are more inclined to cooperate with the state agencies of the Third World countries and it should be remembered in this context that the role of the public sector in the South is especially significant in the key branches of the economy in general and of industry in particular. Thus the fact that the East may prefer to deal with the public agencies in the developing countries, whereas the West will be more in favour of cooperation with the private enterprises, can lead to a qualitative distinction as far as the means of competition at the disposal of the Eastern and Western firms are concerned. This may constitute an important conclusion even if actually the bulk of the cooperation with the developing countries results from initiatives taken by the private enterprises in the West and South. Besides, industrial cooperation with the participation of private enterprises linked by means of equity control is from the institutional and political point of view entirely different from the cooperation between autonomous public firms, which are, owing to intergovernmental agreements backed by their respective governments.

The above-mentioned factors raise for the developing countries the question, how to assure more favourable terms in their industrial relations with

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the East and West by means of playing a double game in their efforts to utilize the inflow of foreign capital and technology in the most productive way. It can be observed at this moment that the developing countries have continuously learned from the experience of the East-West economic relations and have drawn the necessary conclusions in order to reduce the costs of imported know-how and licenses. One example is the method of collective bargaining, i.e. ordering "en bloc" of similar or the same plants by two or more developing countries. It resembles very much the practice adopted by the Soviet Union during the negotiations with the Western suppliers of turn-key factories. Another possible application of such an attitude may be the tendency of the developing countries to disaggregate the integrated technology packages offered in most of the cases by the Western or socialist enterprises. This procedure which consists of ordering particular components from different suppliers instead of purchasing the whole line from one firm, strengthens the bargaining power of the South, even if in order to achieve this aim certain expertise is needed.

### Flexible Solutions

On the other hand what has been said above does not necessarily imply that whenever Western and Eastern enterprises instead of competing against each other do cooperate in the markets of the developing countries it must occur to the detriment of these latter. One can imagine that just owing to the differentiated experience and diversified accessibility of Eastern and Western partners to different markets and sectors of economy in the developing countries the chances for their fruitful cooperation with the active participation of the South present themselves more clearly. In the case the home country of a given enterprise (be it Western, Eastern or Southern) benefits from preferential treatment in the economic relations with any other country, some kind of co-operative arrangement with the enterprise in question may help the firms from still other countries to take similar advantages, and the argument works in all possible directions. Until the full liberalization of the international economic relations in the global scale is accomplished — which seems to us quite an unrealistic target for 20 years to come — this sort of roundabout settlements will flourish.

As far as the institutional aspects are concerned appropriate flexible solutions adaptable to both the public and private sectors in East, West and South, can be found and in fact are being applied. One example of this approach may be quoted from the practice of international bidding invited

by the developing countries. The particular firms or the state authorities of the Third World do not content themselves with the choice of the lowest individual bid but attempt in the next phase to achieve still more satisfactory terms as a result of an appropriate mix of partial offers. In this way also tripartite industrial cooperation projects may be initiated by the Southern countries.

Another obvious factor stimulating multilateral cooperation are the short-term capacity limitations, if any, encountered by potential partners. In such a case in order to shorten the digestion period of some projects the collaboration of additional firms may prove beneficial. On the other hand the demand for equipment and installations displayed by the developing countries is pretty vast and therefore not always an individual firm is able to meet it.

In these cases the complementary character of Eastern, Western and Southern partners may be somewhat stimulating. What matters here is the matching character of their specialisation, and of the technology and know-how, which can be alternatively supplied by East and West. The techniques of production and the manufactures of Western countries are not seldom too sophisticated for the developing world. The East-West industrial cooperation may therefore result in the elaboration of less expensive bridging technologies better suited to the actual needs of the developing countries, the more so as Eastern European countries have substantial and quite recent experience with the reconstruction and accelerated growth of their post-war economies, the stress having been put on the satisfaction of basic demand of the mass consumer. The last argument becomes more relevant if it is kept in mind that at least some of the developing countries switch their preferences towards a more even distribution of their national incomes.

The developing countries are very sensitive about the actual possibilities and prospects for their exports of manufactures. Initiatives like the New International Economic Order show that in the course of time the Third World will try to change its function in the traditional pattern of the international division of labour switching from the role of the supplier of raw materials and foodstuffs to the industrialized countries, to that of an exporter of more processed products.

However, for a long time to come it will not be easy for the exports of manufactures from the developing countries to penetrate the markets of the industrialized capitalist countries owing to the monopolistic competition typical for these markets. Therefore the classical forms of international

exchange cannot prove to be efficient as far as the sales promotion of the manufactures of the developing countries in the Western economies is concerned. For this purpose some sort of co-operation with leading oligopolies, i.e. the multinational corporations is still desirable.

### Complementary Markets

The differentiated character and structure of demand in the rich capitalist countries, the socialist states and in the developing world may somewhat ease the problem and at the same time indicate the directions of possible adjustments and tripartite cooperation. The more complementary the character of the three markets, the greater the advantage, which may potentially be achieved by all the interested parties. It is therefore useful to observe that products, which are considered a luxury in the Third World or even in the socialist countries, represent the bulk of deliveries to the markets of the West, while the standards required and accepted by the consumers in the developing and partly in the socialist countries are lower in view of their limited purchasing power. In consequence thereof even less advanced products made in the developing and socialist countries may successfully compete in their mutual markets.

Thus the socialist producers backed by their respective states can prove to be very tough rivals for Western enterprises in the markets of the Third World. On the other hand the developing countries can partly complement the stream of exports of consumer goods flowing from the West to the East. As the socialist countries begin to attach more importance to consumer goods one possible solution might be correspondingly to direct imports of Western technology to encourage the tripartite industrial projects in the developing countries in such a way that the advanced technology and partly the capital of the West plus the abundant and less expensive labour force of the South might serve also the interests of the East.

Already at this stage of the analysis one conclusion can be drawn, namely that even in the longer run the structure of the international supplies in the East-West-South triangle will preserve its complementary character. The West will specialize in the advanced technology products or even supply the technology itself, the East in basic heavy industry and some less sophisticated consumer goods and the South in the "residuals"<sup>1</sup>.

<sup>1</sup> As it results from the research of the Kiel Institute of World Economics the following industries can be identified as suitable for the developing countries: clothing, leather products, musical instruments, toys, jewellery, furniture, glass products, telecommunication, domestic electrical equipment. See F. Wolter, A Sound Case for Relocation, in: *Intereconomics*, No. 12, 1975, p. 366 ff.

At this moment arises the question of the transfer of modern technology, which is urgently needed, even at the price of the loss of control over some newly created branches of industry, by the developing countries and not much less desired, however accepted on more restricted terms by the socialist states. It may be argued that the transfer of technology from the West to the East and South generally does not deteriorate the position of the Western producers in the markets of the developed capitalist countries owing to the quality of the technology transferred, which does not always comprise the most recent know-how, internal needs of the recipient countries and specific reservations in the arrangements concluded. It does, however, in many cases aggravate their position in the Eastern and perhaps much more in the Southern markets. Paradoxically enough the latter phenomenon is partly due to the transfer of even out-dated technology from the West to the socialist countries (similarly as the borrowings from the West can indirectly increase the financial aid directed from the East to the developing countries). This phenomenon can help the developing countries to avoid a sort of technological slavery, according to which the Third World countries would be able to manufacture independently only relatively simple industrial products requiring less skilled labour.

The attitude of both the socialist and developing countries with respect to the transfer of technology from the West evolves steadily towards the "learning by doing" approach, i.e. gradual assimilation of more advanced production processes. Thus it may be expected that the Third World countries will try by means of or parallelly to the tripartite industrial cooperation to gain more access to advanced research and development activities considered as a preliminary phase of technological progress. Therefore scientific and technical cooperation is certainly going to become an important supplement of East-West-South industrial cooperation.

### Increase in Compensatory Trade

A precondition to full utilization of the possibilities of East, West and South is the reorganization of the world market in favour of the developing countries, e.g. partly according to the lines suggested in the New International Economic Order. It requires at least greater involvement of the West and East in the development of the South. In order to activate the potentialities of the three partners new channels of international exchange must be constructed. Like the socialist states numerous developing countries are sensitive about the deficits in their balances of payments. It is among others for that reason that developing countries

replace step by step their orders for turn-key plants by arrangements combining the supply of works with guaranteed sales of output.

If compared to the bilateral East-West or West-South cooperation the tripartite scheme widens the chances for compensatory trade not only by the mere fact that the number of partners and products traded increases substantially but most of all owing to the differentiated quality and varying quantities of the products accepted in their respective markets. One possible solution which can help to ease the liquidity problems of Eastern and developing countries and to overcome the limitations of bilateral trade is that the industrial produce of the South, based upon the Eastern and Western technology mix, be shipped to the East — partly to compensate for the socialist deliveries to the South — whereas the remaining debt towards the West would be paid off by the supplies of the socialist countries to the developed economy markets, consisting of the manufactures of the joint East-West ventures. Naturally, another possibility is to sell to the West and East the products manufactured in the South through tripartite industrial cooperation and to supply the South with still other products made in

the East according to the East-West cooperation agreements with the participation of Southern (e.g. OPEC's) capital.

It is difficult and perhaps even a futile task to delimit the most appropriate forms and fields of application for the tripartite cooperation. Owing to the relatively short and modest experience new possibilities are being explored and exploited. In general terms it can be said, however, that tripartite cooperation links are advantageous for planning foreign trade and industrial activities in the socialist countries, for development planning in the Third World and for long-range corporate planning as far as Western companies are concerned. On the other hand if the socialist and those developing countries which attach more significance to the system of the planned economy are to participate in tripartite industrial co-operation projects, which initially have not been incorporated in their appropriate economic plans, some additional more flexible mechanisms ought to be sought and introduced. One example for these is to be found in the concept of marginal reserves in the plans and the delegation of more authority with regard to current decisions to the productive units in the socialist countries.

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