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South-South Cooperation and Economic Order

by Jörn Altmann, Sigmaringen*

Regional associations between developing countries have so far often proved to be less than successful. This, Professor Altmann points out, is hardly surprising in view of the lack of homogeneity of socio-political and economic systems among member countries, without which any integration process is bound to stagnate.

As a rule, economic orders are classified according to a bi-polar scale, distinguishing between market economies on the one hand and centrally administered economies on the other. Adopting this classification, we shall discuss some aspects of economic order in the context of cooperation and integration between developing countries, well aware of the impossibility of treating "the" developing countries as a homogeneous group. The term integration goes further than cooperation, implying a lasting and comprehensive amalgamation of autonomous countries, whereas cooperation may well be applied to partial or temporary associations. As to the intensity of integration, one usually distinguishes free trade zones, customs unions, common markets, economic communities or unions, and totally integrated associations which include political and institutional dimensions. Besides, every country is in principle an example of regional integration in itself, and political boundaries are economically arbitrary and rarely meet economic efficiency criteria, as the balkanization of West Africa exemplifies.

A further differentiation of inter-country integration relates to its strategic ends. On the one hand there are outward-oriented associations aiming at developing countervailing powers on the world markets, which is also referred to as the trade union approach. On the other hand there are inward-oriented alliances aiming at a more or less rigorous dissociation from existing international relations in order to establish among developing countries complementary economic structures largely independent of external ties. Regardless of such classification, every association of countries is a means to achieve greater economic or political efficiency, which has certain consequences for both the international and the national economic orders.

In the course of import substitution, production capacities have frequently been built up which cannot

be fully utilized because national demand is insufficient and export demand is hampered by qualitative and cost disadvantages, insufficient demand elasticities, and protectionist measures by industrialized countries. Integration entails an enlargement of the aggregate demand potential for existing producers. Its realization depends largely on whether complementary or substitutive production patterns are prevailing. In the latter case, existing enterprises would have to cope with increasing intra-regional competition. This may considerably reduce the inclination to liberalize trade and stimulate protectionist measures¹, increasing among other things the propensity to form cartels. Comparatively inefficient production capacities may thus be preserved, though one might argue that microeconomically suboptimal production is better than none². The argument that demand is increased by integration is, hence, without reservation applicable only to complementary production structures. Where protection is redundant, trade liberalization is politically easier to advocate.

Forms of Integration

Increased aggregate demand may yield possibilities for realizing economies of scale for both existing and new industries. In order to avoid duplication, most regional associations between developing countries incorporate agreements on intra-regional coordination of investment. Most common are joint ventures, their importance having recently been underlined by the Group of 77 in Caracas in May 1981. Other forms of coordination are licencing systems such as in the EAC or so-called integration industries as in the MCCA. Within LAFTA "complementation agreements" have been concluded, allotting industrial locations among member countries in order to create horizontally and

* Fachhochschule des Bundes. Shortened version of a paper presented to the Committee for Developing Countries of the "Verein für Socialpolitik" in Munich, November 1981.

¹ It is to be noted that complementary structures, too, may impede intra-regional liberalization if taxes and customs on internal trade are a main source of budget financing of member countries.

² Cf. S.S. D e l l : Trade Blocks and Common Markets, London, New York 1963.

vertically linked production structures. Decision 24 of the Andean Group, as well as other regional integration agreements, entails similar regulations. On the whole, there is a tendency to consider intra-regional competition as undesirable since it ties scarce resources. The often cited positive influence of competition on the quality and cost structures of competing products is considered less relevant for less industrialized countries than is frequently assumed.

Intra-regional apportioning of industrial locations and imperative investment planning provides monopolistic or oligopolistic structures to be protected by state measures. In the absence of protection, external competitors may penetrate into the market, as has happened in MCCA and LAFTA where transnational enterprises are said to have benefitted most from the integrated market. Besides, protection against foreign investment is also favoured in the light of reducing external dependence; we shall pursue this aspect below.

Liberalization and Regional Polarization

Because of trade liberalization and factor mobility, regional integration is prone to favour regional disequilibria if member states bring along heterogeneous preconditions. The positive effects of trade creation and industrialization often accumulate in certain countries or regions because of infra-structural and agglomerational advantages, higher income levels, or better possibilities of forward and backward linkage effects. This is to be observed in practically all regional alliances. For example, EAC has brought most grist to the mill of Kenya, Cameroon has benefitted most from UDEAC, Argentina, Brazil, and Mexico from LAFTA, Guatemala and El Salvador from MCCA, Trinidad & Tobago from CARICOM, Columbia and Venezuela in the Andean Group, and Nigeria can be expected to benefit most from ECOWAS. The development of such asymmetric internal relations and the predominance of individual member countries has in some cases led to the disintegration of existing alliances. To name but a few, the Andean Group is a consequence of disproportional development within LAFTA, and for similar reasons UDEAC has given rise to UEAC; this holds good, too, for the foundation of ECCM within CARIFTA. When they are free to do so, production factors choose their location not with regard to regionally balanced development, but according to micro-economic efficiency criteria. Hence, one may say that competition and factor mobility do not smooth out but, rather, aggravate regional inequalities. Potential or actual regional polarization is thus a considerable

impediment for internal liberalization. This is why disadvantaged countries are commonly granted certain privileges, as exemplified by the Andean Pact or the EAC treaty. In addition, disproportional developments invite counteracting state intervention.

The Role of the State

The lowest level of state activity in the furtherance of regional integration is the establishment of a common regional economic legal order. The next level would include measures to influence economic processes, which usually implies an increasing propensity towards planning. In principle, regional coordination would call for supranational planning, but there is not much inclination to be found to transfer national decision-making competences to supranational bodies, if any exist. As a rule, there is a laborious inter-country agreement process based on national veto rights. This reduces the integration process to unanimously adopted measures³, hampering among other things decision-finding on the allotment of industrial locations, which would be a precondition for regionally balanced development. This is why unplanned disequilibria have to be compensated for ex post. There are many examples of intra-regional compensation schemes, all of which, however, have to be rated as not really successful. State planning, though, does not necessarily imply favouring centrally administered economic systems. The relevant aspect in this context is not the mere fact of planning but the question whether it is imperative or not. Obviously there is a close link between the economic order of the national market and that of foreign trade relations which are crucial for the nature of integration agreements.

The third stage of state activity goes beyond global influence, ex post adjustment and compensation, and entails direct state intervention, including state investment. This applies above all to economic sectors which are not attractive to private capital because of comparatively long amortization periods or high risks. Hence, private investment prevails in consumer and light industries, whereas heavy industry is dominated by state or international enterprises. State enterprises are often preferred to foreign investment in order to prevent or reduce external dependencies. They are further favoured in the case of monopolistic structures in order to render impossible private abuse of such positions. Since private investors are reluctant to engage themselves in some sectors or do not have at their disposal the managerial prerequisites, governments are

³ An attenuated form is the five-minus-one concept of ASEAN providing for decisions which are supported by four countries plus abstention of the fifth.

Selected List of Regional Associations

Latin America

ALADI: Asociación Latino-Americana de Integración, replacing ALALC/LAFTA as of 1981.

ALALC/LAFTA: Asociación Latino-Americana de Libre Comercio (Engl.: LAFTA – Latin American Free Trade Association), since 1960 (Treaty of Montevideo). *Members:* Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela; transferred into ALADI as of Dec. 31, 1980.

AMAZONAS PACT: Tratado de Cooperación Amazónica, founded in 1978 (Treaty of Brazilia). *Members:* Bolivia, Brazil, Columbia, Ecuador, Guyana, Peru, Surinam, Venezuela.

ANDEAN COMMON MARKET: Integración Subregional Andino, founded in 1969 (Acuerdo de Cartagena de Indios). *Members:* Bolivia (unlimited until 1980), Chile (until 1973), Ecuador, Columbia, Peru, Venezuela (since 1973).

CARICOM/CCM: Caribbean Community and Common Market, founded in 1973 (Treaty of Chaguaramas). *Members:* Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Trinidad & Tobago, Windward Islands. Predecessors: CARIFTA (1965) – Caribbean Free Trade Association; several others since 1959 (Federation of the West Indies).

CESCA: Comunidad Económica y Social Centro-Americana (Draft treaty to promote the MCCA of 1976). *Members:* as MCCA.

ECCM: East Caribbean Common Market, founded in 1968 (Treaty of Antigua). *Members:* Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent.

MCCA: Mercado Común Centro-Americano (Engl.: CACM: Central American Common Market), founded in 1960 (Treaty of Managua). *Members:* Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua. After internal conflicts and political instabilities practically paralysed.

SELA: Sistema Económica Latino-Americana, founded in 1975 in Caracas. *Members:* Argentina, Barbados, Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay, Venezuela.

Asia

ASEAN: Association of South East Asian Nations, founded in Bangkok 1967. *Members:* Indonesia, Malaysia, Philippines, Singapore, Thailand.

SPARTECA: South Pacific Regional Trade and Economic Co-operation Agreement, founded in 1973 in Apia, West Samoa. *Members:* Australia, Cook Islands, Fiji, Kiribati (Nauru), New Zealand, Niue, Papua-New Guinea, Solomon Islands, Tonga, Tuvalu, West Samoa.

Africa

ACM: Arab Common Market, founded in 1971. *Members:* Egypt, Iraq, Jordan, Sudan, Syria. Sub-regional grouping of the Treaty of Arab Economic Unity of 1964 (*members:* Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Somalia, Sudan, Syria, United Arab Emirates, Yemen, Democratic Republic of Yemen).

CEAO/WAEC: Communauté Economique de l'Afrique de l'Ouest (Engl.: WAEC – West African Economic

Community), founded in 1975. *Members:* Benin (Dahomey), Ivory Coast, Mali, Mauritania, Niger, Upper Volta, Senegal, (Togo retired); formerly UDAO (1959) – Union Douanière de l'Afrique Occidentale, and UDEAO (1966) – Union Douanière des Etats de l'Afrique de l'Ouest.

CONSEIL DE L'ENTENTE: founded in 1959. *Members:* Benin (Dahomey), Ivory Coast, Niger, Upper Volta, Togo (since 1966).

COMMUNAUTE ECONOMIQUE DES PAYS DU GRAND LAC: (Economic Community of the Great Lake Countries), founded in 1976. *Members:* Burundi, Rwanda, Zaire.

EACM/EAC: East African Common Market/Community, founded in Kampala 1967. *Members:* Kenya, Tanzania, Uganda; practically dissolved since 1977.

ECOWAS/CEDEAO: Economic Community of West African States (French: CEDEAO – Communauté Economique des Etats de l'Afrique de l'Ouest). *Members:* Benin (Dahomey), Cap Verde (since 1977), Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Senegal, Sierra Leone, Togo, Upper Volta.

MAGHREB: Comité Permanent Consultatif du Maghreb, founded in Tunis 1964. *Members:* Algeria, Morocco, (Libya until 1970), Tunisia, Mauritania (since 1975).

OCAM: Organisation Commune Africaine et Mauricienne, founded in Bangui 1974. *Members:* Benin (Dahomey), Central African Rep., Ivory Coast, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta. Predecessors: 1970: OCAMM – Organisation Commune Africaine, Malgache et Mauricienne; 1965: OCAM – Organisation Commune Africaine et Malgache; 1964: UAMCE – Union Africaine et Malgache de Cooperation Economique; 1961: UAM – Union Africaine et Malgache.

OMVS: Organisation pour la Mise en Valeur du Fleuve Sénégal, founded in 1972. *Members:* Mali, Mauritania, Senegal; formerly OERFS – Organisation des Etats Riviérains du Fleuve Sénégal.

UDEAC: Union Douanière et Economique de l'Afrique Centrale, founded in Brazzaville 1964. *Members:* Cameroon, Gabun, Congo (Brazz.), Tchad (until 1968, see UEAC), Central African Republic (withdrew and rejoined in 1968, see UEAC). Predecessor: 1959: UDE – Union Douanière Equatoriale.

UEAC: Union des Etats de l'Afrique Centrale, founded in 1969. *Members:* Tchad, Zaire (Central African Republic 1968, see UDEAC).

Interregional

RCD: Regional Cooperation for Development, founded in 1964. *Members:* Iran, Pakistan, Turkey.

TRIPARTITE PREFERENCE AGREEMENT: New Delhi 1967. *Members:* Egypt, India, Yugoslavia.

INTERREGIONAL PREFERENCE AGREEMENT, 1971. *Members:* Brazil, Chile, Egypt, Greece, India, Israel, Mexico, Pakistan, Peru, Philippines, Rep. of Korea, Spain, Tunisia, Turkey, Uruguay, Yugoslavia; since 1973: Bangladesh, Paraguay.

BANGKOK AGREEMENT, 1975. Preference Agreement between Bangladesh, India, Philippines, Rep. of Korea, Sri Lanka, Thailand, People's Rep. of Laos.

called upon to fill this gap, especially if insufficient capital markets, infrastructural shortcomings and other impediments are added to this situation. It is also argued that state investments are macro-economically more efficient than private ones because government planning avoids duplication of efforts and makes optimal use of scarce resources. This argument is applied among other things to the distribution of foreign exchange since, given competing investment opportunities, the choice could not be left to private decision-making. As a consequence, state-trading organisations are quite common, the activities of which would have to be coordinated in the course of regional integration, possibly giving rise to Regional Trade Organisations as was advocated by the Group of 77 in Caracas in May 1981. Apart from doubts as to the efficiency of such mammoth bodies, national egoism has hitherto impeded developments in this field.

Predominance of state over private activities entails the danger that international integration is confirmed by administrative oath but does not take place in reality. The creation of regional organisations and institutions is not sufficient if the idea of integration is not supported by the private economy. No doubt there is a need for comprehensive state engagement above all on the political level, and for regulating and directing measures in order to get integration processes going. It is to be noted, though, that those regional associations have brought forth the best results where state activities did not suffocate, but rather stimulated, private initiatives, and there is no example of a successful integration scheme between developing countries based on comprehensive state direction both on the macro and micro levels⁴.

Integration and Social Order

Present discussions on development strategies focus on two opposing points of view. On the one hand, a more intensive and better integration of the developing countries into the international division of labour is advocated. We classify such a development-by-trade approach as "evolutionary integration". On the other hand, the critics of present – and not only economic – North-South relations suggest that the developing countries should delink from existing international relations in favour of cooperating and integrating among

themselves. Calling for South-South integration is then not to be interpreted as strengthening countervailing or bargaining powers against the North, but is a consistent and radical rejection of prevailing development philosophies, which we can label "revolutionary integration". South-South integration is viewed as the basis of, and a prerequisite for, freeing developing countries from the biased and hampering influences of the industrialized countries. This dissociation or delinking approach is rooted in the dependence theory of Latin-American origin and is supported by the Collective-Self-Reliance postulate. Central to this approach is the urge to recover strengths and values inherent in the developing countries, the recognition and realization of which is impeded by links with market-oriented industrialized countries.

Though rarely expressed explicitly, dissociative or revolutionary South-South integration implies unequivocally favouring a specific economic order. If the influence of (capitalist) industrialized countries is responsible for biasing or obstructing development in the South, market forces must be deprived of their effect. Hence, only state intervention and state policy could guarantee the observation of an inward-oriented development process. This includes a strong inclination to socialize important enterprises or entire industrial sectors. Certainly, this does not imply a rigorous centrally administered economy of the Soviet type, but there is a clear tendency towards imperative central planning. Those countries commonly cited as positive examples of inward-oriented development such as Albania, North Korea, China, Cuba or Tanzania support this statement. Though dissociation theory has not hitherto put forward specific policy proposals⁵, its consequences as regards the economic and socio-political order are obvious. Dissociation theorists emphasise that delinking is not the same as aspiring to autarchy, since selective external relations should be maintained. This requires political decisions as to which relations should be cut off, which should be preserved and which still have to be established – decisions which are normal and democratically legitimated in market economies, too, so that this alone would not imply changing the political and economic system. Obviously it depends on the range of state intervention and control. Introducing and observing inward-oriented development policies, though, will require such an extent of imperative planning and state control that a market-oriented economic order must be considered incompatible. This more or less pragmatic argument is

⁴ Cf. A.J. Halbach: A Performance Analysis of the Third World, in: *INTERECONOMICS* 2/1982, pp. 75-82. The article is based on a study by Halbach, Osterkamp, Braun and Gälli: *Wirtschaftsordnung, sozio-ökonomische Entwicklung und weltwirtschaftliche Integration in den Entwicklungsländern* (Economic Order, Socio-economic Development and International Integration in the Developing Countries), IFO-Institute for Economic Research, Munich 1981.

⁵ Cf. J. Altmann: Definitiveness and Operability of Dissociation, in: *INTERECONOMICS* 4/1981, pp. 166-170.

supported by references based on theoretical and empirical arguments as to the need for a revolutionary socialist society⁶, which is also to be understood in a regional sense because, as mentioned above, dissociation does not mean autarchy. Selective external links, however, would be maintained or established preferably with countries observing corresponding principles of political economy⁷.

Potential for Disintegration

The performance of regional associations to date, together with theoretical considerations, leads us to the conclusion that the existence of distinctly different socio-political and economic orders represents a considerable potential for disintegration⁸. In the absence of far-reaching conformity as to the principles on which economic and socio-political systems are based, any integration process is bound to stagnate. Heterogeneity of the partner countries will either imply that the integration approach as such is limited to undisputed aspects (examples are LAFTA, ASEAN, or SELA)⁹, or that the goals are unrealistically defined, comprising – as in the ACM – the sum of all national aspirations which cannot be consolidated and realized in practice.

Striving for international integration does not by itself imply a specific economic order, as the European Community and COMECON exemplify. It is to be noted,

⁶ Cf. e.g. Kim Il Sung: Reden und Aufsätze (Speeches and Papers), Frankfurt 1971.

⁷ This does not hold good if there is no choice as to alternative external relations. Though North Korea, for example, has drastically cut down her external trade engagement in the last twenty years, the share of Western industrialized countries therein has risen from 4 to 45 % in the same period. Cf. A.J. Halbach et al., op. cit., esp. pp. 118 ff. North Korea, to be sure, is not a member of a regional association as referred to here.

⁸ Cuba has been excluded from the LAFTA because of the incompatibility of her economic order with the principles of the (more or less) market-oriented LAFTA; Cuba is, however, a member of the SELA.

⁹ In those regional associations multilateral agreements are by far outnumbered by bilateral agreements.

though, that regional integration between developing countries in practice nourishes a tendency to reduce hitherto existing market economic versatility. This is even comprehensible, since an adjustment of different levels of (economic) development does not take place of itself according to the law of communicating tubes, but requires state activities. Any such corrective measure does qualitatively violate the principles of a liberal economic order free of state interference. It is optional whether following an initial interventional phase state regulation is retrenched in favour of strengthening market forces. There are some pertinent national examples¹⁰, and statistics show a rising trend of private investments in developing countries.

Pragmatic Pluralism of Concepts

As long as the prerequisite of largely homogeneous concepts regarding the economic order is not fulfilled, regional integration is bound to be restricted to partial approaches, which we prefer to label cooperation, as opposed to integration in the strict sense. Despite varying concepts, such collectively supported measures have been quite successful. This permits a pragmatic pluralism of concepts, without necessarily committing supranational integration to a certain type of economic order. For South-South integration of a purely market economic orientation the objective and subjective preconditions were inadequately met in the regional associations up to now, and for a strictly centrally administered integration approach attractive examples are lacking. This suggests the application of the national concept of a mixed economy to the regional level, and the empirical results confirm that such an approach has, comparatively, the best prospects of success¹¹.

¹⁰ For instance, Brazil, Columbia, India, Mexico, South Korea or Taiwan.

¹¹ This statement is confirmed by the study referred to in footnote 4, which came to our attention only after the underlying version of this paper had been finalized.

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