

## *Development Cooperation after UNCTAD VI: aspects of the intellectual task ahead<sup>1</sup>*

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The fundamental problem of North-South relations today is the absence of a real intellectual consensus on the functioning of the world economy. The Keynesian consensus which guided the establishment of the Bretton Woods institutions and, in certain respects, some of the early post-war work on development cooperation policy has all but outlived its usefulness. Similarly, there used also to be, but there exists no longer, a broad convergence of views among developing countries, concerning at least some of the policy prescriptions emanating from the centre-periphery model of economic relations between states which has guided the work of UNCTAD since its inception.

Today we are trying to understand the functioning of a world economy which in both its cyclical and secular aspects seems to elude the postulates of conventional theory. In particular there is still no real agreement on what were the origins of the present crisis. Controversy still rages among economists and within governments as to what were the relative contributions to the crisis of three main factors: first, the policy responses of the major developed market-economy countries to the problem of stagflation in the 1970s; second, the effects of the two oil price increases on the distribution of balance of payments disequilibria and their financing; and third, the underlying shifts that have been occurring in international comparative advantage and the associated increase in protectionism. The structural aspects of the crisis are equally obscure. What are the implications of technological change for world production and trade? Is the world economy becoming more polycentric in character and what are the implications of this for global economic management? Are the developed economies themselves entering a phase of slower growth? Until greater clarity is achieved on a number of these questions, policy responses to the present situation will inevitably tend to rely upon intuitive judgements and shots in the dark.

The prevailing international policy response to the problem of development and world recovery largely reflects the view which is dominant among the major developed market-economy countries. This view is that there will be a spontaneous recovery in the international economy and therefore that the only action necessary now is to arrange for a modest increase in the IMF's resources. The passage of recent events has not sufficiently validated this point of view. It is true that there are some indications of a fairly robust consumer-led recovery in the United States, but it remains to be seen whether the subsequent investment is at a high enough level and sufficiently durable to transmit powerful stimuli to the rest of the world. It is also too early to take comfort from the increases that have occurred in some commodity prices, which in a number of cases are due more to special supply factors than to any significant improvements in demand. In any event, any improvement in earnings from commodity exports will most probably be utilised for debt service and to rebuild international reserves rather than to purchase import and stimulate activity at home and abroad. Moreover, even if the recovery were to prove well-founded, the measures taken by developed market-economy countries to increase the capital resources of multilateral development finance institutions have fallen far short of what is required in relation even to the most optimistic growth expectations. Simultaneously, commercial bank lending has shrunk to all but a few countries, as has direct investment. Even for some of those countries for which rescue operations have been mounted the unending process of negotiation and renegotiation of packages illustrates the inadequacy of present efforts. For others, although rescue operations seem to be producing results in relation to the balance of payments, this has been achieved at high social costs in terms of output losses and mounting unemployment. Finally, the

<sup>1</sup> This text contains my personal views and should not in any way be attributed to the UNCTAD Secretariat. It is a revised version of a talk given to the UK Development Studies Association in September 1983.

outlook is poor for significant increases in bilateral official development assistance which could compensate to some extent for the failures of these other resource flows.

A number of proposals designed to take these matters forward were laid on the table at the sixth session of UNCTAD last year. But in the majority of cases agreement was not reached and little has subsequently been done. I believe that the absence of intellectual consensus as to the origins and nature of the world economic crisis was the ultimate cause of these failures at UNCTAD VI, though it will be the task of future scholarship to establish exactly why the opportunity was missed to give the world economy a much-needed shot in the arm and to unblock the stalemate in North-South relations.

The failure to reach agreement at UNCTAD VI was all the more striking in relation to the general acceptance there of the concept of interdependence, both as it applies between developed and developing countries and between major sectors of international economic activity. Practically every delegation that took the floor during the plenary debate stressed its acceptance of the concept and the link between development and recovery which was a corollary of it. Yet as I have already indicated the conference failed to reach concrete agreement on the basic elements of an action programme in these areas.

There are at least two positive lessons which one might draw from the failure of the conference to transform the concept of interdependence into an operational reality. The first is that interdependence and mutual interest do not necessarily imply an identity of interest among the countries in both North and South. It is not, therefore, persuasive enough to argue simply in terms of the overall macroeconomic spin-off effects of a policy package for development and recovery. One has to disaggregate the package and examine what the net effects will be on each country. It is possible that some developed countries, even indeed some developing countries, while accepting the macroeconomic logic of an overall policy package, might nonetheless judge that the benefits to them are not sufficient to join in a consensus, or that the maximisation of their particular net national benefits requires a differently constituted policy package. One of the interesting features of UNCTAD VI, evidenced in the content of plenary session interventions and the voting record on some major issues, was the differences in policy positions between individual developed countries. Examples of this were the efforts made by some developed countries to make progress on monetary questions, especially compensatory financing, in the face of continuing opposition by others, whose main concern was to secure new commitments in the field of

international trade. Developing countries ought to reflect on this and ask themselves whether there is not an opportunity here to work on an issue-by-issue basis with like-minded countries. Such an approach suggests that the Group of 77 should talk separately with individual developed countries and groups of countries to ascertain their precise interests and how these can be accommodated within an overall multilateral package. For consistency these steps should be taken in the framework of a well-coordinated series of multi-bilateral consultations and negotiations.

Technical work will be required to identify those policy areas where it is feasible for developing countries to negotiate a family of arrangements with individual countries and groups. There is a precedent for this in the Generalised System of Preferences. It would be useful to explore how under contemporary circumstances this approach can be applied, for instance in regard to the compensatory financing of shortfalls in commodity export earnings, official development assistance and the refinancing of official debt, to quote three possible examples. As a corollary, the Group of 77 should consider developing a set of common guidelines for North-South trade and economic negotiations between limited groups of countries. These guidelines could *inter alia* provide for transparency in these negotiations in order to safeguard the cohesion of the Group of 77 itself and to promote the multilateralisation of the results as appropriate.

The second lesson which one might draw from acceptance of the concept of interdependence is that it has opened up expectations of reciprocity in global bargaining. In future, developing countries may have to face squarely the problem of what *quid pro quo* could be offered in a global bargain over and above any positive transmission effects to northern economies that would arise from accelerated development in the South. They would have to decide whether it is in the interest of all to negotiate in some areas at a multilateral level or on a systematic multi-bilateral level rather than through a series of uncoordinated bilateral efforts. An example of this is the issue of foreign direct investment, which up to now has not been the subject of multilateral negotiations and where it is not evident that bilateral negotiations are yielding the best results attainable for the developing countries concerned, sometimes even setting bad precedents for other countries. All of this is to say that if North-South relations are to make any real progress in the future, both sides must examine how they can improve the scope, modalities and techniques of negotiations through a more appropriate mix of bilateral, multi-bilateral and multilateral arrangements based upon the specific interests of individual countries and country groups.

That in itself represents an enormous intellectual and technical challenge to the scholarly community. But there is also an urgent need for technical evaluation of development experiences and strategy at the national level. The experience so far of individual developing regions and countries with the recession has raised serious questions about the effectiveness of different strategies of development. This is particularly the case in Latin America where virtually all of the development models have run into trouble, ranging from open monetarism to state capitalism, embracing a variety of mixed economies following strategies of import substitution and/or export-led growth. In some of the countries in that region and countries in other regions no systematic strategy has been followed at all. There development policy in recent years has been little more than a series of *ad hoc* responses to day-to-day events. In disentangling the impact of the crisis on individual countries, it is not easy to determine the precise interaction between exogenous factors and endogenous factors relating to economic structure and policies. A case in point is the difference in recent economic performance between the three regions of the Third World. By and large over the past three years Asia has experienced reduced rates of growth but still managed to achieve an annual average of about four per cent growth. Particularly striking is the experience of India which lifted its growth rate in 1980-81 to about six per cent and, despite the setback that took place in 1982, may well have achieved a growth rate above that in 1983. By direct comparison the years 1980-82 have witnessed negligible growth in Africa and for the last two of those years negative growth in Latin America and the Caribbean.

It would be rather interesting to do a careful comparative assessment of experience with the recession as between India and Brazil say, to see what has been the impact of differences in the composition, origin and destination of trade and financial flows, production structure and economic organisation. For instance, it is fairly evident that Brazil's greater reliance on Euro-market borrowing partly accounted for the more severe impact of high interest rates on its balance of payments. Likewise, one is led to speculate whether the importance of the rural sector and of small-scale enterprise in the Indian economy served as insulating factors from the world recession. An interesting outcome of the crisis in Latin America and the Caribbean has been the virtual explosion in small-scale entrepreneurship which has occurred in response to it. Many of the cities in that region are now overflowing with a variety of small-scale producers and vendors from middle income groups, in some cases trying to supplement fixed incomes eroded by inflation, and in others to compensate for the shrinking of employment opportunities. It would be extremely useful if this phenomenon could be studied.

The evidence it provides of latent entrepreneurship in the system could be valuable for planning and for assessing future options in development strategy.

If interdependence is to be managed successfully, it must imply a greater willingness of countries to discuss their national experiences and strategies at the international level. Developing countries have been rather shy of this, preferring to confine such discussions to bilateral dialogues with sources of finance. Although this has the advantage of confidentiality in dealing with particularly sensitive issues, it has the disadvantage of limiting the range of policy advice open to those countries. There is also a tendency, happily now being slightly modified, for sources of finance to show an exclusive preoccupation with short term adjustment of the balance of payments and to neglect longer term growth potential and social needs. It is vital that developing countries be encouraged to take a longer view of their development potential and carefully assess, in as pragmatic a manner as possible, what alternative paths they can take to help its achievement. Despite the mistakes made with development planning in the 1950s and 1960s there is really in my opinion no substitute for a well-defined economic strategy. This is borne out by a number of the so-called success stories, South Korea, Taiwan, Singapore, to quote three examples, where export-led strategies were not merely products of market processes but also of active government policies.

I come finally to the role of South-South cooperation in future development strategy. Apart from the work that was done in the 1960s on regional integration by some individual scholars and research institutes, the subject of South-South cooperation or ECDC (Economic Cooperation among Developing Countries) as it is presently called has not commanded much attention from the academic community in developed countries. Yet several analysts in the developing countries themselves are pinning great hopes on ECDC as an effort in collective self-reliance and as the best response to the less favourable prospects of the world economy in the decades to come. Indeed, it is argued that the strengthening of South-South cooperation can significantly enhance the collective bargaining power of the developing countries and thereby improve their position in North-South relations itself.

It is important in this context to be aware of the negative impact that the recession has had on South-South cooperation. Global data show that between the first half of 1981 and the first half of 1982 the contraction in intra-trade among developing countries was greater than in the trade of developing countries with the rest of the world. Expressed in percentages of

their exports to the world as a whole, intra-trade fell from 27.5 per cent of total exports in the first half of 1981 to about 25 per cent of total export in the first half of 1982. Since then there has been some rebound in the share of intra-trade but detailed data are not yet available to assess the actual experiences at the regional and sub-regional levels. There are also indications that some of the regional integration groupings have run into serious difficulties because of the foreign exchange difficulties of partner states. In some cases, this involves setbacks with trade liberalisation and expansion and with the operation of financial instruments facilitating the expansion of trade. Because of the importance of this subject, UNCTAD devoted part of its 1983 Trade and Development Report to a preliminary analysis of recent patterns of South-South trade and finance, and to a simulation of the potential importance of this trade to the growth of developing countries and the world as a whole. The simulation illustrates the considerable scope that still exists for expanding intra-trade, and shows that this can have a positive impact on growth in both North and South.

This is very much of a first effort; more refined and elaborate models are needed to inform policy-making. Aggregative models need to be supplemented by careful country studies of the potential contribution of South-South cooperation to national development. If South-South cooperation is to become a major aspect of development then the modalities and instruments of

cooperation need to be formally rooted in a precise identification of country capacities and potential. One of the problems of integration schemes has been that many of them were initially based upon models developed for European integration with insufficient attention being paid to local circumstances. Patching up has subsequently proved to be a costly process.

As I have suggested, the many difficult decisions that face both North and South in the period ahead raise a formidable array of research questions. I would place particular importance on the last issue I have discussed, namely ECDC. There is a need to restate and elaborate the theoretical case for South-South cooperation, especially on a global basis. Theoretical work has not advanced much beyond the original adaptation of the Viner-Meade model of economic integration to take account of the peculiar features of developing countries, giving emphasis to the importance of critical minimum size and economies of scale in industrialisation. The theory needs to be extended to embrace cooperation in areas other than trade, to include the wider concepts of collective self-reliance and collective economic security, which have attracted considerable attention at the political level, and to examine the part that the ECDC process can play in strengthening the position of developing countries in the world economy. Only then can there be a proper foundation for new negotiating approaches that will take place primarily, but not exclusively within UNCTAD, and which may come to distinguish the work of its second 20 years.