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Evolution of South-South co-operation: Trends in a changing political economic context in the post-Cold War era

Chevallier, Romy

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Chapter 2: South-South economic co-operation before and during the Cold War era

As mentioned in the introduction, the purpose of this research is not to add any new information to the abundance that is already available on failed efforts to bring about economic co-operation in the South in the past.[19] It is rather to describe the historical trajectory of South-South co-operation strategies, and to analyse the post-Cold War trends in Third World co-operation within the context of the emerging knowledge economy.

This report distinguishes between two eras in the political economy, and draws a parallel between them and the South-South strategies they gave rise to. The first era started after the end of World War II, and lasted from approximately 1945-1989. The second began in the aftermath of the Cold War (from the 1990s onwards). In the light of dependency and liberalism, which were the dominant theoretical models of these eras, chapters 3 and 4 are dedicated to isolating the political and economic features that have affected
the behaviour of southern economies and therefore helped to shape the structure of the economic co-operation arrangements they currently make.

The author also discusses on regionalisation as a strategy for South-South co-operation. Examples of regional initiatives such as Asean, Mercosur and SADC are used in order to describe co-operative undertakings in three separate continents: Asia, Latin America and Southern Africa. A brief discussion of the successes and failures of each bloc in the first era and the resultant introduction of extra-regional initiatives after the ending of the Cold War is supplied.

2.1 The first generation of South-South economic co-operation

After 1945, the global political economy was characterised by isolationist, inward-looking, dependency-inspired policies among developing countries (World Bank,

[19]Le Pere and White are among the various authors that describe Southern initiatives that have "failed to deliver tangible results, due largely to an amorphous membership with diverse interests" (Le Pere and White, 2005).

2002:4). Analysts argue that this era focused on the political agenda; integration and economic co-operation were a policy option and not seen as essential to development. The issue-based strategies employed during this resulted in the proposal of a New International Economic Order (NIEO), the United Nations Conference for Trade and Development (UNCTAD), and the Group of 77 (G-77). These strategies are by no means the only alliances formed by developing countries at the time, but have been selected as a representative sample.

2.2 The dependence of Southern economies on the North

After 1973, the world economy was shaken by various crises that had a major impact on structural adjustment in developing countries. Among them were the abandonment of the Bretton Woods system of fixed exchange rates; two major oil shocks; various other boom-and-bust cycles in commodities; and the interest rate peaks of the early 1980s. The last of these brought on by the tight-money policies of the Chairman of the US Federal Reserve, Paul Volcker (Rodrik, 1999:116).

The oil shocks, in particular, had a devastating effect on the developing world (UNCTAD, TDR/2005). Gordon describes the rapid increase in oil prices as being part of a much broader commodity boom that affected many of Africa's other major exports (Gordon, 1993:93). The oil boom transformed the availability of credit in the international banking system, while the commodity boom improved international perceptions of Africa's credit-worthiness. The demand for financing was relatively stable in the industrialised countries, but the upward trend in oil price generated a demand for external borrowing both in the oil-importing countries, to cover the additional cost of oil, and in the heavily populated oil-exporting countries, which sought to use their greater credit-worthiness to promote industrialisation. Banks lent to both sets of countries because the suddenly availability funds had to be put to profitable use or run the risk of being eroded by inflation. The commodity boom, on the other hand, had generated the optimistic expectation that future export revenues would be commensurate with new financial obligations. Between 1973–1977,

Africa's total volume of debt increased from $9 billion to $27 billion (Gordon, 1993:93).[20]

For most of the 1980s, the main instrument used to manage Africa's debt crisis was rescheduling. International foreign investors (IFIs) created mechanisms to increase their flows of capital to Africa while simultaneously imposing more stringent conditions on such lending. IFIs were the main conduit of the diffusion of the ideas of economic liberalism in Africa (Gordon, 1993:106) typically seeking a range of structural changes. Typical examples are improvement in producer prices (especially in agriculture); the reduction or elimination of consumer subsidies; the liberalisation of international trade through quota and tariff reduction; the liberalisation of domestic trade through reducing licensing and price controls; the reorganisation and streamlining of government agencies, including reducing the size of the public service; the restructuring of education and health services and the introduction of cost-recovery schemes; the restructuring and sometimes privatisation of state-owned enterprises; and the development of multi-year investment plans (Gordon, 1993:110).[21]

Rodrik and Gilpin describe the inability of the countries of the developing world to adjust their macroeconomic policies appropriately in the wake of these external shocks, giving rise to high or repressed inflation, a scarcity of foreign exchange and high black-market premiums, imbalances in external payments and debt crises. These greatly magnified the damage done (Rodrik, 1997: 20 and Gilpin, 1987). After the crisis of 1970, growth was rooted in the ability of each developing country's the domestic institutions to manage the distributional conflicts that had been triggered by the external crises. Africa is a prime example of a region where efforts to promote import substituting industrialisation (ISI) led to adverse economic outcomes (Gordon, 1993:109).

[20] Gordon, D.: Debt, conditionality, and reform: the international relations of economic restructuring in Sub-Saharan Africa, in Callaghy, T and Ravenhill, J: *Responses to Africa's economic decline,* Columbia University Press, New York, 1993. pp. 90-129.
[21] Also referred to in Callaghy, T.: 'Africa in the world economy: caught between a rock and a hard place' in Harbeson, J and Rothchild: *In Africa in World Politics*. Boulder. Westview, 1991, 39-68.

Frustrated by the minimal progress they were making economically, an increasing number of developing countries turned to their membership in international organisations as a means to foster Third World solidarity and generate a momentum for change in the international political economy. The United Nations Conference on Trade and Development (UNCTAD) was established in Geneva in 1964, as a permanent intergovernmental body, largely through the efforts of 77 developing countries (later known as the Group of 77 or G-77)[22]. It was seen as the principal organ of the United Nations General Assembly for dealing with trade, investment and development issues.

Since its creation UNCTAD has met at four-year intervals in the capital city of a developing country. While its membership has increased over the years, G-77 has been the representative organisation for developing countries at all UNCTAD sessions. The G-77 sought to make UNCTAD a mechanism for dialogue and negotiation between the South and the North, emphasising the need for collective action in the developing world arena (South Centre, June 2004). At UNCTAD I in Geneva, the G-77 proposed a new international trade organisation to replace GATT. For the most part, the developed countries resisted those UNCTAD initiatives that involved trade and other economic activities. Nevertheless, through UNCTAD, developing states were gradually able to secure concessions and some preferential treatment, such as a Generalised System of Preferences (GSPs) on tariffs for their exports to developed nations (Balaam and Veseth, 1996: 317).

However, structural elements in the political economy of the time were often resistant to the realisation of the basic goals and operations of the G-77. During 1973 the Organisation of Petroleum Exporting Countries (OPEC)[23] was forced to pay attention to Southern concerns. Balaam and Veseth describe a particular instance when a cartel made up of oil-producing developing states embargoed oil shipments to some of the industrialised nations, and significantly raised the oil price. “A 400 percent increase in the price of oil jolted the developed economies and temporarily altered the global balance of political and economic power” (Balaam and Veseth, 1996:318). The

[22] According to UNCTAD’s official website (www.unctad.org), the G-77 today has increased to 131 member states.
[23] OPEC is made up of

cartel's pricing policy not only depressed the economic growth of the North but also spurred an inflationary trend in these countries. From the standpoint of relations between the North and the South, the latter gained considerable leverage. For the first time the oil-dependent industrialised countries realised the considerable influence the oil-producing Southern economies could have on their economic well-being (Balaam and Veseth, 1996: 318).[24]

OPEC used its political and economic leverage to bring about the 6th Special Session of the UN General Assembly in 1974, which called for the establishment of a New International Economic Order (NIEO), a goal inspired by dependency theorists and designed both to accentuate the pace of development in countries of the South, and to change the unequal economic balance between the developing countries and the industrialised nations. Unlike previous efforts to accomplish similar aims, the NIEO was seen by the Third World not so much as an attempt to fine-tune the existing international economic order, but as a genuine effort to prioritise the issue of economic development on the international agenda. This would involve changing institutional structures and making them more responsive to the development concerns of LDCs (Balaam and Veseth, 1996: 318)

Although the NIEO set out a number of objectives, few of these were fully implemented in the years that followed (Looney, 1999).[25] A number of factors contributed to the failure. Foremost among these was the general opposition of the North, especially the United States (US), which did not consider the initiatives as central to the development concerns and dilemmas of the LDCs. Furthermore, many officials argued that the initiatives promoted an atmosphere of 'micro-managing' the global economy. This would, on the one hand, be impractical, and on the other, restrict the free market. The North interpreted Southern demands for a NIEO as a political threat which represented an effort by radical LDCs to redistribute global wealth and power in their own favour (Looney, 1999).

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[24] This was also discussed in Birdsall, N. and Williamson, J.: 'A new aid architecture' in *Delivering on debt relief: from IMF gold to a new aid architecture.* Washington: Center for Development and Institute for International Economics, 2002. pp. 101-114.

[25] Looney, R.: "The New International Economic Order" in Jones: *Routledge Encyclopaedia of International Political Economy*, Routledge, London, 1999.

Another factor that hindered co-operation was dissension among the developing states themselves. While the oil crisis created a motive for co-operation among LDCs to seek substantive institutional reforms through the NIEO initiative, these countries were plagued by competing and conflicting national interests which often undermined their attempts to present a united force. OPEC's economic strength and the prosperity of its member states added to the disparate economic conditions among the countries of the South. The majority of OPEC members were inclined to pursue their own political and economic agendas rather than use their collective strength to promote the implementation of the broader NIEO initiatives. Added to this, and mentioned previously, were the devastating economic problems caused by the oil crisis for the oil-consuming. These compounded their economic woes. (Balaam and Veseth, 1996:319) For many of the poorer states, this resulted in increased dependence on loans from the private banks to finance their balance of payment deficits. The cumulative effect of the oil crisis was a global recession, which affected those LDCs that were not oil producers most severely. This deflected attention from the NIEO and undermined the position of the South.

In the late 1980s, the major powers of the North altered the international development agenda, which had been laboriously crafted by the UN during the previous decades. These countries suspended North-South dialogue and effectively kept the issues of international economic environment and its effects on development off the agenda. In this way they undermined the processes in which the G-77 had played a major role in the past (Hettne, 1998).

Rothstein's analysis of the failure of the NIEO is as follows: "a new approach to regime creation by the G-77 would have required greater understanding by the Group's leadership as well as greater willingness to actually exercise leadership – that is, to lead the group rather than merely express its aspirations". Rothstein argues that one essential was that the Group should understand correctly the power it had and did not have. It needed a strategy of persuasion (which would have meant far more concern for the technical quality of proposals, to make them convincing to both sides), and a strategy to deal with the problems of keeping its own coalition unified (Rothstein, 1984:311).

2.3 The South's efforts to form economic alliances

Although South-South strategies during this era cannot be considered major successes, Krasner adds value to the debate by examining why such initiatives were of significance to the South during this era. The reason he gives is that during this period there was a fundamental change in the global economic regime that made it more accommodating of the desires of the developing countries (Krasner, 1981:122). Factors to which he attributes this change are: the international weaknesses and domestic limitations of all developing countries; the systematic opportunities offered by the international institutions which had been created by a hegemonic power now in decline; and finally and most relevant in this context, the general acceptance of a dependency-orientated system. This has been a critical factor which has accounted for not only some of the Third World's successes, but also for its extraordinary unity on questions associated with regime transformation. Even economically successful developing countries with flexible domestic structures and conservative political regimes remained members of the G-77 during this time.

Krasner declares that the ideological hegemony enjoyed by the US at the end of World War II collapsed, and that the alternative world view presented by dependency analyses enabled the South to form a unified bloc on questions related to fundamental changes in the trade regime. Krasner describes the Third World proposals for regime change as reflecting an effort to exercise meta-power (1981:123). The objective of these proposals, like the NIEO, was to transform the basic institutional structures, norms, principles, and rules that conditioned the international movement of services, capital, labour, and technology. Such transformation was particularly attractive because the ability of Third World states to accomplish their objectives solely through the exercise of relational power was limited by their lack of national material-power capabilities. These alone could not resolve the vulnerability problems of poorer states.

In his final analysis, Krasner explains that demands for regime restructuring thus occupied a dominant place in North-South relations, not simply because this approach could compensate for the international and domestic weakness of the Third World states, but because the post-war system offered developing countries a setting in

which to pursue this strategy. This post-war regime, especially because of the importance that it accorded to international organisations, provided the Third World countries with forums in which to press their demands. As a result the South succeeded in dominating the agendas of many multifunctional universal organisations. Debates and resolutions presented at international forums altered norms, rules and procedures in a variety of ways that favoured the developing countries. UNCTAD, for example, was a major contributor to the definition of the target of 0.7% of gross domestic product (GDP) to be given as official development aid by developed countries to the poorest countries. This target was adopted by the UN's General Assembly in 1970. Thus, through the post-war efforts made by the Southern bloc, the institutional structure of the international trade regime became more responsive to the South (Krasner, 1981).

In summary, during this period the G-77 consolidated their call for a new NIEO (Looney, 1999). However, as the political economy was transformed, the behaviour of the developing countries changed. The economic power of OPEC waned, the debt problem was aggravated, and the drive towards a NIEO began to flag (Leysens and Thompson, 2003:84). The demands for a NIEO, and the solidarity that UNCTAD was supposed to guarantee, were undermined by the failure of the developing world's countries to co-operate effectively and forge powerful alliances. This was the result of ideological differences[26] as well as widely dissimilar economic situations and priorities. However, although South-South strategies did not accomplish many of the goals put forward by the developing world, the structural changes in the political economy (both internal and external) at this time created a wave of confidence among developing states that enabled them to make greater progress from the 1990s onwards.

2.4 Regionalism as a strategy for South-South co-operation

Co-operation at a regional level has affected Southern dialogue significantly and therefore deserves mention. Regional economic and trade co-operation, including bilateral and regional trade agreements (RTA), is a mechanism employed by an

[26] The ideological leaning of a state has a direct influence on its economic agenda. For example, Nigeria's following a nationalist agenda and Tanzania a Marxist-socialist pattern made them less likely to liberalise than other states pursuing capitalist systems.

increasing number of developing countries to expand mutual trade and investment. Initiatives in Northern markets, such as the European Union, have often been successful. Other regional groupings such as the Association of South East Asian Nations (ASEAN), *Mercado Commun del Sur* (Mercosur) and the Southern African Development Community (SADC) have been formed by Asian, South American and African states respectively to encourage South-South co-operation. These intra-regional arrangements seek to enlarge economic space through "strength in numbers"; to attract FDI to the region on better terms; and to pool the economic, human, institutional, technological and infrastructural resources of participating countries.

Although in principle economic alliances should benefit the states incorporated in them, many regional groupings have failed to meet expectations (although some have done better than others). There are various reasons for poor performance. Economies within SADC, for example, are largely competitive rather than complementary because of the inherited (colonial) duplication of commodities produced. As a result, intra-regional trade in Africa has remained very low (5% in the case of SADC). States in these groupings fear that larger states (such as South Africa in SADC and Brazil in Mercosur) will dominate the market. There are also numerous institutional weaknesses among countries of the South. These include transport problems, weak marketing networks, and discrepant banking and monetary systems in member states. Political instability, lack of political commitment to the integration process and the duplication of effort through the creation of too many groupings with overlapping functions have also prevented these groupings from bearing economic fruit.

However, in recent years Asean co-operation, in particular, has resulted in greater regional integration. Within three years from launching of Asean's Free Trade Area (AFTA), exports among Asean countries grew from $43 billion in 1993 to almost $80 billion in 1996, an average yearly growth rate of 28.3% (Asean homepage). In the process, the share of intra-regional trade in Asean's total trade rose by 20% to almost 25%. This rapid rise has been brought about by the enormous growth in the majority of countries in the Asean grouping.

However, over time regionalism as a strategy for South-South economic co-operation has expanded to include new South-South initiatives that are *not* bound within the

regional context. *Extra-regional* Southern strategies have been introduced as possible new patterns of economic co-operation amongst developing countries. These strategies are explored in the following chapters.