Introduction

The modalities followed by India in pursuing her mission of South-South Cooperation (SSC) are referred to in the relevant literature as “Development Compact”. The idea was derived from the original proposal of Thorvald Stoltenberg made in 1989 and later articulated by Arjun Sengupta in 1993, when he argued in the context of the hardship faced by the developing countries in fulfilling their contractual agreements linked to the Structural Adjustment Programme (SAP) which emerged as the cornerstone of what was labeled as the “Washington Consensus”. He proposed that compacts (or agreements) be established between industrialised and developing countries to ensure that the latter received sufficient resources for development as they tried to reform their economies though programmes such as SAP, and in that way minimise the social costs of reform.

According to Chaturvedi (2016) Sengupta’s concept of development compact can be explained as “based on the principles of ‘mutuality of obligation’ and ‘reciprocity of conditionality’. Under the compact developed countries and international organisations will provide assistance necessary for the successful implementation of development plans in poor countries, while in return developing countries will cooperate in the process through bold reform programmes. In the absence of appropriate capacity within a developing country, the developed countries will be obligated to provide whatever assistance is necessary for developing countries to achieve their targets. The development compact envisages a reciprocal obligation between developing countries and bilateral donors, international organisations and the UN system; hence it will be a country-specific arrangement, instead of a traditional one-size-fits all’ solution applied across the board to all problems of developing countries.”

The UNDP Human Development Report of 2003 further explained the proposition, defining the development compact as an arrangement based on a system of shared responsibility, where all countries could orientate their efforts towards helping poor countries achieve their development goals. The compact allows poor countries to pitch for higher assistance and improved market access, while provider countries can demand better governance and accountability in return.

It should, however, be noted that while Sengupta’s call for development compact emerged out of an understanding of the North-South Cooperation (NSC), the term, in the present context is linked to modalities followed by India in implementing her perceptions of SSC. Such an imposition of the concept to operationalise SSC, apparently coined in the context of NSC is justified in terms of the principle of ‘mutuality of obligation’ consciously followed in case of the former. Development Compact is visualised as providing an analytical structure to India’s philosophy of development cooperation that is composed of five distinct but very much interlinked components (Chaturvedi 2016, p. 63). They are: Capacity Building, Development Finance (Lines of Credit), Trade and Investment, Technology Transfer and Grants.

The present policy brief will draw upon recent advances in development theory to provide a theoretical logic towards identification of these modalities as the main pillars of India’s version of SSC. In so doing, we divide the document into five sections. The next section gives...
a brief historical background of the idea and institutions of NSC. The following section provides the theoretical framework that guided the philosophy of NSC. The fourth section is devoted to developing the conceptual framework that underscores SSC and places the role of positive externalities in perpetuating India’s logic of development cooperation. The final section concludes.

North-South Cooperation: Ideas and Institutions

The decolonisation process that started almost immediately after the World War II divided the world into two distinct categories of countries – the North and the South. While the former comprised mainly of the colonizers, the latter represents the group of countries that came out of liberated from their colonial past. Another taxonomy was also developed simultaneously that divided the globe between the West and the East. The Eastern block, in keeping with the economic philosophy of the erstwhile USSR and its communist allies, emphasised the primacy of state in major decisions related to allocation of resources among their citizens. Private sector was accorded a secondary role in most of these newly liberated countries to play the second fiddle. Such reliance on State led to unqualified faith on industrialisation that promotes import substitution. The political leadership in these countries also believed that the private sectors in their countries were too weak to contribute to the process of intended rapid rate of “development” necessary to bridge the existing and, for that matter, huge gap between quality of life in the liberated colonies and the colonizers. Interestingly, the Western Block and their allies in the form of multilateral development institutions also subscribed to this idea out of a belief that the economies of the newly independent countries were structurally different from them. As the arguments put forward in the Bombay Plan suggest, the champions of private capital in India also favoured a commanding role for State in India to lay the foundation of a sustained take off for the economy to drive to maturity in a considerably shorter space of time. As Heidhues and Obare (2011) would argue, “guided by this approach and with donor support, governments drew up comprehensive five-year plans, invested in large state-run basic industries, and enacted comprehensive regulations to control prices, restrict trade, and allocate credit and foreign exchange”. Justin Yifu Lin, calls this as the first wave of development thinking (Lin, 2012).

In this context, it will be interesting to note that Harry Truman, the 33rd President of the USA also underscored the need of supporting this quest for “development” in his 4 point inaugural address in 1949. He retorted,

“…..we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas…”

Needless to add, the success of the Marshall Plan (1947-49) in restructuring Europe emboldened the USA to engage in international development assistance as a part of her foreign policy. Truman’s Point Four Program centred around two goals:

“Creating markets for the United States by reducing poverty and increasing production in developing countries

Diminishing the threat of communism by helping countries prosper under capitalism

From 1952 to 1961, programs supporting technical assistance and capital projects continued as the primary form of U.S. aid”.

Subsequently, the USAID was set up in 1961 to usher in, what they call the “decade of development”. Over the decades the emphasis of their aid programme shifted to “basic human needs”, during the 1970s, a turn to free market (1980s), sustainability and democracy (1990s), and war and rebuilding (2000s). As per the USAID official website, it works to end extreme global poverty and enable resilient, democratic societies to realise their potential.
Incidentally, India never became a member of Nepal Aid Group constituted by the World Bank way back in 1976, even though she continuously provided developmental support to Nepal in several forms and ways. China also initiated her efforts at development assistance quite early. There are reports about her contributing to Egypt for the construction of the Suez Canal way back in 1955. However, development assistance efforts from erstwhile colonies like India had been very insignificant in quantitative terms, even though their impacts were not so insignificant. It should, however, be clarified that such assistances were not huge in financial terms but they were provided more as a gesture of solidarity, than as an effort to bridge the resource gaps then thought required as an antidote to usher in “development” (more about the resource gap in the next section).

The experience of development assistance from the Northern nations to their Southern counterparts in keeping with the norms modified from time to time by DAC did not result much in attaining the stated objective of reducing the gap between the quality of life that was historically created during the era of colonisation. Commentators started raising questions about the effectiveness of such development aid provided by the members of DAC.

It was at this juncture that leaders of the Southern nations started thinking about the possible role that can be played by what came to be identified as South-South Cooperation. Reduced flow of aid (See Figure 1) from the Northern nations since the early 1980s and the subsequent initiation of Structural Adjustment Programme as a follow up to the famous (or infamous) Washington Consensus also compelled the Southern Nations to consider opportunities for enlarged cooperation in economic terms among themselves. This approach was altogether different from the spirit of Bandung Conference (1955) and the resultant formation of Non-Aligned Movement (NAM) in 1961 and G 77 in 1964 which emphasised mostly on the need for political solidarity and social networking.
among the newly independent colonies. UN also played its role in helping form a platform for SSC with a clear focus on economic cooperation among the Southern nations, when it set up UNCTAD (1964) for cooperation in trade, UNFSTD for cooperation in science and technology and TCDC (1974) for promoting technical and economic cooperation among the Southern nations. However, the fact remains that SSC is yet to acquire a particular structural shape and it is still mostly influenced by policies and modalities identified by individual Southern countries participating in bilateral cooperation between themselves. Some consensus in terms of guiding principles vis-à-vis SSC has, obviously emerged. They are: Respect for national sovereignty; National ownership; Independence; Equality; Non-conditionality; Non-interference; and Mutual benefit.  

But, the fact remains that countries engaged in SSC have not bound themselves to any given set of modalities in carrying out their cooperation with their southern counterparts.

**Development Assistance From DAC Members – Theoretical Logic**

The earlier efforts at development interventions were singularly focused around the centrality of investments in physical capital - infrastructure, heavy industries etc., even though most of the developing countries were content to follow an economic model of resource allocation – “dirigiste dogma” as identified in the literature on development -centred around the State as the prime directing force in the economy. While a large part of these investment requirements in the developing economies were met out of domestic resources, investible resources from the developed ones also contributed to fill, to a considerable extent, the resource gap that could not be filled through mobilisation of internal resources alone. This is often referred to as the Two Gap Theory – gap between the required and actual rate of domestic savings, and that in balance of trade, leading to reduced capacity to import required capital goods and technology that can contribute to the process of growth and development. Thus was institutionalised the term which is commonly known as “official development assistance” (ODA). Initially ODA comprised of grants and soft loans in accompaniment of "technical assistance" that facilitates the conversion of financial flows into usable and productive physical capital. However, grants, loans and credits for military purposes are kept out of the purview of ODA.

ODA has long been considered the backbone of North-South Cooperation (NSC) in development intervention. Stemming purely from an approach that considered the lack of capital, the theoretical construct of NSC underscores the primacy of NSC in supplying investible funds to reduce the existing gaps between savings and investment in a developing country. The idea emanates from the belief that such an effort would help generate productive capital – physical, human and of late natural as well – in ensuring a sustained growth of

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9 The Yamoussoukro Consensus 2008 and the Nairobi Outcome Document 2009 provide the consensus, reaffirm, clarify and illuminate the core guiding principles of SSC. These principles were initially articulated by Buenos Aires Plan of Action (BAPA, 1978).
GDP and employment in the developing economies. In the process, the existing gap in the quality of life between the northern and southern countries will reduce a la Sollow’s model of convergence. Researchers since the late 1970s and early 1980s, however, started questioning the efficacy of such a model in reducing the gaps that exist between the North and South. The role of negative externalities as exemplified by the “poor governance structure” prevailing in the developing economies were identified as the major stumbling blocks in achievement of the desired impact of the flow of financial resources effected from the North to the South. Thus emerged the “Washington Consensus” that argued, broadly, the following 10 fundamental policy prescriptions as conditions to accompany the flow of financial resources from the developed world to its developing counterpart. These conditions constitute what is commonly referred to as the “structural adjustment programme”. A close look at the conditions specified reveal that they have been aimed at removing the potential sources of negative externalities that contribute to the inefficiencies of resource allocation mechanism in the developing economies.

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending from subsidies (“especially indiscriminate subsidies”) toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates;
4. Interest rates that are market determined and positive (but moderate) in real terms;
5. Competitive exchange rates;
6. Trade liberalisation: liberalisation of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
7. Liberalisation of inward foreign direct investment;
8. Privatisation of state enterprises;
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
10. Legal security for property rights

This emphasis on fulfillment of conditionalities by the South in return for development assistance from the North was predicated by some major research findings that dot the development literature of the 1980s. Such studies argued that the variations in growth among developing countries, in spite of considerable inflow of investible resources can be explained by factors that lie beyond the ambit of “resource gap” theories, the fundamental premise of NSC. Acemoglu categorises those factors under four groups. They are: Luck hypothesis; Geography hypothesis; Institutions hypothesis and Culture hypothesis (Acemoglu, 2007, Chapter 4).11

While luck hypothesis underscores the choice of one particular among the multiple equilibria (often referred to as the “initial condition”), say for example, in the context of technology adoption – with diversified focus on human capital and physical capital, geography hypothesis refers to variations across countries in terms of their physical, geographic and ecological environments, that include soil quality affecting agricultural productivity; natural resources, such as coal and iron ore that facilitate industrialisation; climate; topography, which can influence transportation and communication costs of economic activities; and “disease environment, which can affect individual health, productivity and incentives to accumulate physical and human capital” (Acemoglu, 2007, p. 158). Institutions refer to rules, regulations, laws and policies that affect economic incentives and thus help coordinate effective and efficient investments in technology, physical capital and human capital. Institutions hypothesis ascribes the differential growth performance of countries to institution differentials across the nations. Culture hypothesis, on the other hand, refers to variations in beliefs, values and preferences having considerable bearings on individual economic behaviour and thereby, the socio-economic behavior of a nation.

Development theorists, operating out of the Northern Countries, came to a realisation since the late 1980s that while it is difficult and almost impossible to alter the initial conditions and geography of a country, it is also difficult to change the cultural attributes of a nation in an abrupt manner over a shorter period of time. Institutions, on the other hand, being results of collective decisions of a community are amenable to faster changes. The conditionalities put forward under “Washington Consensus” emerged from the belief that development cannot happen in the absence of a set of institutional structure that “historically” facilitated the sustained growth and subsequent development of the countries that imbibed such institutional prerequisites. Chang (2011) would later term these institutional prerequisites as Global Standardised Institutions (GSI).

To cut the whole story short, development as a process has ceased to be considered as fuelled alone by flow of financial resources from affluent regions to the not-so-affluent ones. Given the present day realisation that the level of development is significantly and often linked to the degree of coordination failure (Hoff, 2000), the theoretical perspectives on the pathways to development have also undergone considerable changes. In terms of the tenets of coordination failure, development or lack of it, is meaningfully dependent on a number of factors that are called spill-over effects and which are not considered integral to an ideal market system operated by “invisible hands” a la Smith and taken as given, by mainstream neo-classical economics. The possibility of underdevelopment equilibria and vicious circle of poverty was underscored in development literature during the 1950s by many commentators (Hoff, 2000). In the absence of a meaningful theoretical construct to integrate such spillover effects into the neo-classical thought process, the only credible theoretical way out in the earlier days in solving the vexed problem of underdevelopment was considered to be facilitating expansion of the space for market in developing economies. Recent advances in economic understanding not only identified some such spillovers but also helped integrate them with the mainstream economic model of growth and development. Some of these spillover effects – often described as externalities – are in terms of technology, international trade, social and political interactions, information and knowledge, networking, innovation etc. These externalities, if used effectively from a positive perspective with concomitant investments, can contribute considerably to reduce the coordination failure faced by a community that is caught in what is known the literature of development as low-level equilibrium trap. There are some negative externalities identified as well, like corruption, lack of unambiguously defined property rights over resources, absence of appropriate mechanisms to enforce contracts and apparent failure of state to allocate resources efficiently.

Needless to add, reduction of coordination failure requires effects of these negative externalities to be considerably reduced to help the concerned economy transcend closer to an ideal market based exchange mechanism that “ensures” optimum efficiency in resource allocation. They are, often in the development literature, referred to as “governance mechanism”.

An attempt to link such negative externalities with the emerging development paradigm of governance conditionalities – introduction of global standardised institutions a la Chang – through Structural Adjustment Programme leads us to the theoretical basis for NSC. The conditionalities espoused under the “Washington Consensus” charted above were introduced to ensure reduction in the extent of generation of negative externalities. Such a possibility of reduction in negative externalities would increase the efficiency of exchange mechanism through the market space and thereby usher in development in economies suffering from the lack of it if the existing resource gaps are bridged through investible resources flowing from the economically advanced countries. The next section elaborates the idea to tap the positive externalities through the “development compact” model of SSC as practiced by India.

### Development Compact as seen Generating Positive Externalities

Just at the juncture of history when the
arguments away from dirigisme was unfolding in the development discourse and conditionalities in development assistance gained prominence, a second strand of arguments in favour of South-South Cooperation (SSC) also made its entry into the arena.

In this section we shall argue that the inherent theoretical framework in favour of strengthening SSC as an alternative approach to development, even though not as a substitute to NSC altogether, focuses on taking advantages of the positive externalities or spillover effects, referred to in the previous section, in breaking the low level equilibrium trap in a developing country. Such a framework of cooperation among the developing countries creates an effective roadmap to development that is not only intended to inflict any pain of conditionalities linked to internal structural reforms, but also aimed at garnering “mutual benefits” for the partners engaged in such cooperation.

A perusal of the modalities of development cooperation pursued by India reveals how these five components are being effectively utilised to not only meaningfully contribute to the development of partner countries without infringing on their sovereignty, but also derive mutual benefits for both the countries engaged in such a partnership. How do these efforts generate positive externalities for both the partners? Let’s take a brief look at the capabilities of components of development compact in tapping the positive externalities or the spillover effects. The several sub-components identified in this context have been enumerated in detail elsewhere (Chaturvedi and Mohanty 2016). To get a schematic understanding we may note them as follows.

Capacity Building
- Training programme in host country
- Sending experts to partner countries
- Scholarships
- Third country training programmes
- Deploying volunteers
- Conducting feasibility studies
- Prototype production and training centre

Development Finance
- Concessional Loans on interest with or without capacity building component
- Commercial Rate of interest for different time periods

Trade and Investment
- Duty Free Trade Preference
- Trade permits
- Infrastructure improvement for trade facilitation
- Trade promotion and trade support services
- Providing business facilitation services
- Assistance for improving regulatory capacity
- Providing investment funds
- Developing Intra-Regional supply chains
- Regional and sub-regional trade agreements
- Providing freely convertible currency for trade
- “Tax preference for FDI

Technology Transfer
- Technical Cooperation
- Joint scientific and academic research
- Turnkey Projects
- Technology Transfer with or without component of capacity building
- Subsidising licensing or exemption from IPR arrangements

Grants
- Debt Forgiveness
- Grant in Kind

It has been evident from Indian experience in development cooperation so far that there has been considerable generation of positive externalities contributing to mutual benefits between the partners in terms of technology, international trade, social and political interactions, information and knowledge, networking, innovation, without taking any resort to conditionalities. To echo Hoff (2000), SSC “argues for an “ecological” perspective on development, where the influences from others in one’s environment are a critical determinant of outcomes, and many interaction effects are not mediated by markets”.

Another significant characteristic of this process involved the participation of non-state actors – private sector enterprises and...
civil society organisations – in development cooperation functions that played a unique role not only in extending social and political interactions and facilitating networking at different tracks, but also initiating a long term effort at moulding the existing institutional structures prevailing in partner countries without anyone feeling the short term pains of adhering to such forced conditionalities for reforms as demanded under NSC.

Conclusion

The present policy brief attempts developing a theoretical basis for “development compact” being used as the cornerstone of India’s development cooperation in the spirit of SSC. In the process, it identified the rationale and theoretical contours of NSC. It is observed that in the absence of a theoretical model that could not go beyond the market-centric neoclassical basis of analyzing the process of growth and development in an economy, votaries of NSC had no options but to prescribe measures that could reduce the generation of negative externalities out of a process of aid flow from the North to the South. Such prescribed measures happen to emerge as the painful conditionalities imposed on the aid recipient countries. Modalities of SSC followed by India as espoused in the form of “development compact”, on the other hand, shunned conditionalities and captured potential avenues of development cooperation that could thrive on the positive externalities generated out of the efforts and thereby ensure a win-win situation for both the partners in cooperation. However, empirical validation of this argument is necessary to be tested with extensive studies on the nature and extent of “mutual benefits” generated out of India’s development cooperation through capacity building, trade and investment, development finance, technology transfer and grants.

References


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