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Key trade and development issues and the new realities in the geography of the world economy

Emergence of a new South and South–South trade as a vehicle for regional and interregional integration for development

Note by the UNCTAD secretariat

Executive summary

The opening of the twenty-first century was heralded with globalization picking up pace and widening its scope on an unprecedented scale. Integral to this trade expansion has been the rise of the dynamic South and a rapid expansion in trade among developing countries. The world is witnessing the evolution of South–South trade and investment models in sectors and areas such as minerals, metals, fuels, manufacturing, services, trade logistics and facilitation. Economic and trade interaction among the South in recent years has been market-driven, with enterprises of the South and the North linking up southern markets through intra- and inter-industry networks. As more and more southern enterprises do business with other developing countries and economies in transition, there will be greater mutual understanding of development imperatives and conditions, which will in turn generate greater interest in creating public–private partnerships for deeper economic integration and institutional cooperation. It is hoped that the South's impressive growth will provide new impetus to a sustained growth of the global economy, and contribute to the achievement of the Millennium Development Goals and poverty reduction. This constitutes an international public good and promises a win–win scenario, not only for the South, but also for developed countries and economies in transition, as the rapid increase in demand from the South creates trading opportunities for all.

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I. Introduction

1. Today, the world economy is more than ever interlinked via trade and investment flows. Since 1995, world merchandise trade has been growing at an average annual rate of 7.5 per cent. Overall, the share of developing countries in global merchandise trade increased from 29 per cent in 1996 to 37 per cent in 2006.

2. These developing countries have become regional and global engines of international trade growth by virtue of a massive upscaling of their productive capacities and under the influence of changing structural diversification of their economies and trade. They have been able to yoke their traditional natural resources and labour strengths, and generate new and significant capacities in technology and capital. The dynamic South is also developing global brand equity, especially in specific areas of manufacturing, services and agriculture. Furthermore, in critical areas such as food and energy security, these developing countries are becoming major players as producers and consumers in global markets.

3. The dynamic South – including China (especially as a manufacturing hub), Brazil (notably as agricultural and agri-processing hub) and India (principally as services hub), in addition to the first and second tiers of newly industrialized countries (NICs), as well as some other countries in Africa, Asia and Latin America – has been the locomotive of export expansion from developing countries in general, and of trade among themselves (South–South trade) in particular. South–South merchandise trade has more than tripled in just over a decade, from $577 billion in 1995 to over $2 trillion in 2006. In 2006, South–South trade accounted for 17 per cent of world trade and 46 per cent of developing countries' total merchandise trade. The manufacturing sector represented almost half of South–South trade, but the commodity sector including fuels has been driving up interregional trade flows among countries of the South. Major energy producers and new and considerable demand for energy are also coming from the South.

4. Growing faster than both the world gross domestic product (GDP) and world merchandise trade, between 1980 and 2006 the total world exports of international trade in services increased from around $400 billion to $2.8 trillion. World services trade continues to accelerate, particularly in recent years, with an average annual growth rate of 12 per cent between 2000 and 2006. Recent analyses and estimates also suggest that South–South services exports, predominantly intraregional in nature, now account for over 10 per cent of world services exports.

5. The dynamic South has become an essential trade partner to both developed economies and economies in transition. Exports from developed countries to the South increased by 70 per cent in the decade ending in 2005, largely at the same pace as their exports to the rest of the world. Their imports from the South in the same period, on the other hand, increased by a massive 161 per cent, while imports from the rest of the world stood at 97 per cent. As regards countries with economies in transition, recent years (2000–2006) witnessed a genuine explosion of merchandise trade between developing countries and these countries. Thus, exports from developing countries to the latter increased by more than 382 per cent from 2000 to 2006.[1] The growth of their imports from economies in transition during the same period was 123 per cent.

6. The increasing role played by the dynamic South is equally well manifested in world investment flows. The South is not only a recipient of significant foreign direct investment (FDI) flows, but also increasingly the source of such flows.

[1] UNCTAD South–South Trade Information System (SSTIS) data.

Outward FDI flows from developing countries and countries with economies in transition increased from $65 billion in the 1990s to $193 billion in 2006, 16 per cent of world total. As recently as 1990, only six developing and transition economies reported outward FDI stocks of more than $5 billion; by 2005, that threshold had been exceeded by 25 developing and transition economies.[2]

7. The number and economic scale of southern transnational corporations (TNCs) are rising. Foreign assets and foreign sales of the top 100 developing country TNCs increased by over 40 per cent from 2004 to 2005. These TNCs employ 1.9 million people worldwide. The "new breed" of multinational companies is rapidly expanding and taking up a growing share of global economic activities, often by acquiring well-established global brands.[3]

8. At this pivotal point in the world economy, particularly with regard to trade and investment, it is imperative to assess how the international community can best take this dynamic transformation of trade and investment patterns as an opportunity to make globalization more inclusive than it has been, and to place world economic growth on a more solid and balanced foundation. Indeed, the dynamic South has become, as Dr. Manmohan Singh, the Prime Minister of India, put it, "an international public good", as it offers new opportunities to sustain global growth at a time when there are concerns about a global economic slowdown.[4]

9. The emergence of the dynamic South, and the ongoing current pattern of globalization, can be the guiding light as the international community seeks ways, in a positive-sum framework, to lift up those countries still seemingly marginalized from the global economy. The paradigm is shifting, and promising developments are occurring, albeit slowly. For example, the three-fold growth of Africa's exports to the rest of the South in the decade up to 2005 was irrefutably the highest among all developing regions. In the area of investment, South–South FDI flows make up the bulk of FDI inflows to low-income countries, particularly least developed countries (LDCs).

II. The emergence of the dynamic South as a new reality in the geography of the world economy

A. South–South trade in goods

10. The ongoing expansion of world trade has a marked southern face. Total merchandise exports from all developing countries reached $3.7 trillion in 2005, and are estimated to have reached $4.5 trillion in 2006.[5] As mentioned before, the share of exports of goods from the South reached 37 per cent of world trade in 2006. The ascent of the dynamic South gained greater velocity, quality and momentum in the 1990s. In 1985, there were no developing countries in the top 10 largest exporters in the world. In 2005, China moved to 3rd place, up from 11th in 1995, and seven others (Hong Kong (China), Republic of Korea, Singapore, Mexico, Taiwan Province of China, Saudi Arabia and Malaysia) were ranked in the top 20. The share of exports from the most dynamic developing countries increased

[2] UNCTAD FDI data.

[3] Emerging market multinationals. *The Economist*. 10 January 2008.

[4] "PM calls for increased economic engagement between India and China", Press Release, the Office of Prime Minister, (http://pmindia.nic.in/pressrel.htm), 13 January 2008.

[5] The value is based on 2006 data available in United Nations Comtrade. Countries included in this estimate cover 86 per cent of estimated world trade.

from 13 per cent of world trade in 1985 to 20 per cent in 1995, and 26 per cent in 2006, with an average annual growth of 3.5 per cent between 1990 and 2006.[6]

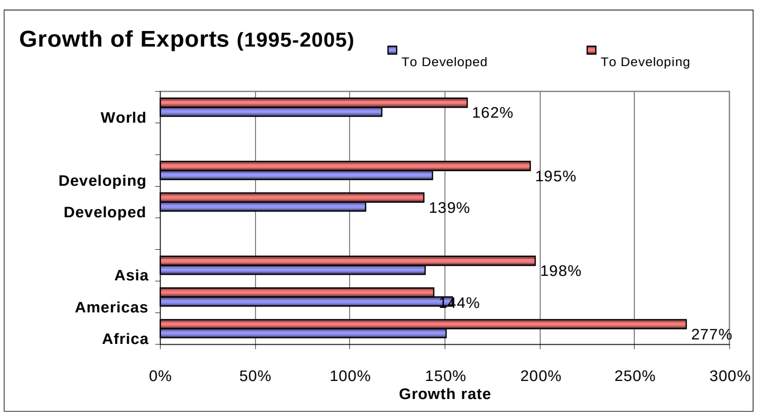
11. Within South–South trade, developing Asia acts as the centre of gravity of the majority of trade flows. In 2006, Asia's exports accounted for 86 per cent of total South–South exports, of which intra-Asian trade claimed 78 per cent. Furthermore, as a market, Asia receives more than half the South–South exports from Africa, and around a third from developing America. In recent years, there has been a surge in developing Asia's imports from other regions, particularly from Africa, driven largely by massively increasing demand for energy and industrial raw materials. As for trade between Africa and America, it has been relatively limited, but with a clear sign of rising further.

South–South trade – destination breakdown, 2006
(as a percentage of total South–South trade)

	Africa	Americas	Asia
Africa	**1.4**	0.6	2.6
Americas	0.6	**5.8**	3.3
Asia	4.3	3.9	**77.6**

12. South–South trade is also expanding in terms of export mix. All developing regions increased their export portfolio in the period between 1995 and 2005. The manufacturing sector is the most traded sector within the South. Manufactured goods such as electrical/electronic goods, machineries, mechanical appliances and computer and telecoms equipment accounted for nearly 40 per cent of total South–South trade in 2006, as compared to 31 per cent a decade earlier.

13. Fuels and industrial raw materials (e.g. mineral ores, base metals, etc.) are among the other major sectors in South–South exports, particularly from Africa. Fuels stand out as the top sector of South–South exports, when Asian NICs are excluded. All developing regions export industrial raw materials, but a more disaggregated view reveals a certain specialization occurring within the sector, particularly in terms of factor intensity. At a subregional level, mineral ores are exported largely by African subregions and the Andean region of Latin America. Base metals that have undergone primary processing (e.g. semi-finished products of iron and steel) are exported by South Asia, the MERCOSUR region (plus Chile) in Latin America and Southern Africa, and processed metal articles from East Asia, South-East Asia and Central America.



[6] Countries included here are: China, Hong Kong (China), Republic of Korea, Mexico, Taiwan Province of China, Singapore,

14. Dynamic products in South–South trade, i.e. those which exhibited a massive increase (over 500 per cent) in South–South exports between 1995 and 2005, largely belonged to the following sectors: (a) ores and minerals (e.g. iron, copper, nickel, cobalt and lead); (b) organic chemicals; (c) iron/steel and other metal products; (d) plastic and articles; (e) parts and components of mechanical appliances and electronics; and (f) optical and precision articles (e.g. optical fibres, lenses, liquid crystal devices, etc.).

15. The spread of dynamic products across different sectors of factor-intensity suggests that many developing countries are increasing their supply capacity but are at different stages of product and export diversification, i.e. they are in different productive areas in terms of quality, processing, technology and prices. The South as a market is particularly important for export diversification of lower income countries, such as those in Africa, as demand for imports among the South, particularly by the dynamic South, is likely to increase continuously in terms of volume as well as in variety.

16. A recent UNCTAD study reveals that all developing subregions increased the degree of trade complementarity with other trading partner subregions in the South in the decade up to 2005.[7] The study also notes that a significant amount of South–South trade occurs between certain subregions even when there is relatively low trade complementarity between them. Such trade takes place between subregions either with geographical proximity (e.g. the Caribbean and Central America), close cultural proximity (e.g. North Africa and Western Asia), or traditional trading networks (e.g. South Asia and East Africa).

B. South–South trade in services

17. The services sector’s contribution to income generation, employment creation and foreign exchange earnings has increased significantly over the last two decades. Between 1990 and 2006, the share of services in GDP has grown continuously, from 65 per cent to 73 per cent in developed countries, and from 50 per cent to 51 per cent in developing countries. Services now account for about 72 per cent of employment in developed countries and 35 per cent of employment in developing countries.

18. The South is increasing its participation in world services trade.[8] The South’s exports of services have expanded sharply, increasing from only $155 billion in 1990 to over $700 billion in 2006. Developing countries’ rankings in world services trade have also improved. While only one developing country ranked among the world’s largest services exporters in 1985 (Mexico), this number increased to four in 2005 (China, Hong Kong (China), India and Singapore). However, services exports are still concentrated in a small number of developing countries. The top 15 developing country services exporters, many of which are in Asia, account for 80 per cent of all services exports from the South.

19. Transport and travel services continue to represent the major proportion of developing country services exports, accounting for, respectively, about 27 per cent and 36 per cent of their services exports in 2005. However, many developing countries are now placing increased emphasis on building supply and export capacity in new and emerging services sectors with higher value added – including computer and information, financial and insurance, and business services, which

Malaysia, Thailand, Indonesia, Brazil, India, Philippines and South Africa.

[7] Molina C and Shirotori M (2007). *South–South Trade: the Reality Check*. UNCTAD (forthcoming).

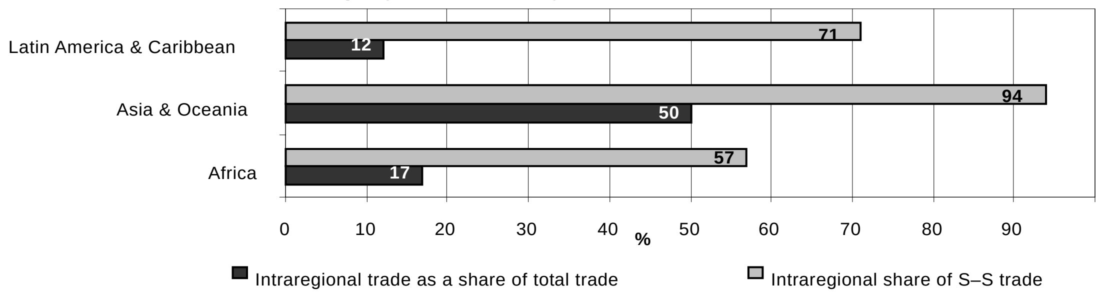
[8] Handbook of Statistics, 2007, UNCTAD.

together accounted for over one third of developing countries' $606 billion of services exports in 2005. Much of this is facilitated through FDI.

20. FDI inflows into the South are increasingly targeting the services sector.[9] The share of FDI inflows into the services sector in the South rose from 35 per cent of total inflows in 1990 to nearly 50 per cent in 2004.[10] Currently at about $1.2 trillion, FDI inward stock in developing countries' services sector is now twice the value of that in their manufacturing sector, and represents 20 per cent of total world FDI inward stock in the services sector. Over the past decade, developing countries themselves have become a major source of FDI flows to the services sector. Their total FDI outflows rose from only $2 billion in 1990 to nearly $30 billion in 2004.[11]

21. Intraregional services trade accounts for most South–South services trade, and intraregional services trade accounts for 57 per cent, 71 per cent and 94 per cent of South–South services trade for Africa, Latin America and the Caribbean, and Asia and Oceania, respectively.[12] Intraregional services trade is particularly significant in developing Asia; about half of its total services exports are intraregional.

Developing countries' regional trade in services in 2002



Source: UNCTAD calculations based on Organization for Economic and Cooperation and Development (OECD) estimates.

C. Drivers of South–South trade expansion

22. Several factors are identified as major drivers of the recent dynamic expansion of South–South trade. Firstly, rapidly expanding levels of demand for various imports, as well as for new markets in the South, impelled particularly by the dynamic South's rapid economic growth, has been providing developing countries with vibrant as well as sustainable market opportunities. Secondly, a large share of total South–South trade is claimed by exports of manufacturing parts, components and associated services, reflecting a growing importance of production-sharing schemes in global economy, boosted largely by TNCs of the North, but also by those of the South. Thirdly, improved physical connectivity via transport networks has reduced certain transaction costs linked to trade among developing countries.

1. Growth in demand and supply within the South

23. Intraregional trade has been driven largely by trade among Asian NICs. At a subregional basis, trade between and among developing countries in East Asia and South-East Asia accounts for 70 per cent of total value of South–South trade. Cross-

[9] *World Investment Report, 2004*, UNCTAD.

[10] *World Investment Report, 2007*, UNCTAD.

[11] *World Investment Report, 2006*, UNCTAD; figures above exclude FDI to offshore financial centres.

[12] Trade in Services and Development Implications, 2007, note by the UNCTAD secretariat, TD/B/COM.1/85; Dihel et al., South–South services trade, 2006, Organization for Economic Cooperation and Development (OECD) Trade Policy Working Paper No. 39.

continental trade among the dynamic South is also increasing, especially in the manufacturing sector.

24. The dynamic South is also boosting exports from other developing countries, including LDCs, as their demand for energy and industrial raw materials increases. Their rapid industrialization, growing market size and increasing purchasing power have created a huge demand for imports of different products from different developing regions, taking into account different cost, market and production connectivity. This demand-led expansion in South–South trade is becoming more sustainable and economically viable in nature, particularly for low-income developing countries, than traditional North–South trade with the European Union or the United States, where the basic stimulation of exports largely has been preferential market access provided by the northern markets.[13]

2. Proliferation of production-sharing schemes in the global economy

25. A 1998 study suggested that, even then, around 30 per cent of world trade in machinery and transport equipment consisted of parts and components for further processing or assembly.[14] Exports of these goods have been increasing at a far higher rate than the finished products of these categories in the past decade.

26. Production-sharing today is becoming a common method for production in almost all consumer goods, ranging from processed food and apparel articles to electronic goods and high-end precision tools. The largest wave of production-sharing schemes has been found in developing countries, particularly in the dynamic South in East and South-East Asia, often as a part of triangular (South–South–North) trading networks for parts and components of electrical/electronic goods, automobiles, telecom equipment, computer equipment and electric circuits. The production-sharing has also been a key feature of intra-MERCOSUR trade in Latin America, particularly involving transport equipment.

27. Many TNCs play a key role in the ongoing evolution of production-sharing. The major motive of shifting production to developing countries since the 1980s has been of efficiency-seeking, i.e. in order to take advantage of low input costs, especially labour costs. Recently, it has been driven also by market-seeking motivation, i.e. in order to capture the rapidly growing demand for manufactured goods in developing countries themselves. In a variety of cases, parts and components for different production stages are produced in a number of developing countries in the same region, in order to attain economies of scale, which in turn creates a production network within this developing region.

28. Developing countries' TNCs are also becoming active in production-sharing, largely through cross-border mergers and acquisitions. More and more southern TNCs are expanding their production and sales networks worldwide. The single most important industry where the top 100 TNCs from developing countries operated in 2005 was electrical/electronic equipment and computers.

3. Improvement in the areas of trade facilitation and transport

29. This dynamic increase in South–South trade would not have been possible without global shipping networks, port reforms and investment in transport infrastructure. South–South trade has benefited from the establishment of global shipping networks, which connect North–South and East–West shipping routes via trans-shipment ports. Improved connectivity has created for many countries the

[13] Broadman H (2007). Connecting Africa and Asia. *Finance and Development.* International Monetary Fund, Vol.44, Number 2. June.

[14] Yeats A (1998). Just how big is global production sharing? World Bank Policy Research Working Paper 1871, World Bank.

environment necessary to improve international competitiveness of their industries and traders.

30. The indirect benefit of trans-shipment services for intraregional trade can be illustrated by the recent reorganization in the shipping network pattern between Central and South America and other continents. While the region's countries now count on fewer direct services with the North, they gain higher frequencies of services interregionally as well as intraregionally, and more options and choices among competing carriers by connection to regional hub ports.

31. Changing transport practices and patterns, together with developments in world trade, has been at the source of spectacular growth in demand for port logistics services. The emergence of practices such as the hub and spoke system of port connectivity – with its resulting need for trans-shipment operations, multimodal transport and door-to-door operations – has changed the role of sea ports, transforming them into critical nodal points linking national and international transport systems. Efficient ports have thus become an indispensable part of any country's physical and administrative infrastructure. Increasing investment opportunities and high growth prospects have also encouraged global terminal operators to base their operations in developing countries.

III. Enhancing regional and interregional integration for development: areas for policy coordination

32. The emergence of the dynamic South and the spectacular growth of South–South trade and investment, often coined as the new trade geography, present an important window of opportunity for the dynamism of the South to progress beyond a hunt for natural resources and for new markets, and to contribute to positive economic and social development by all countries, regardless of their development levels. This will require continuous nurturing through effective and coherent policies, coordinated not only among developing countries but also with developed economies and economies in transition in a triangular South–South–North framework, in trade, investment, competition policy, commodities, energy and food security, infrastructure and other trade logistics development, as well as in facilitation of trade financing, consultative and dispute settlement mechanisms.

33. South–South regional trade agreements (RTAs), including bilateral, regional and interregional free-trade agreements (FTAs), may constitute important instruments for trade creation, investment and regional development. South–South RTAs face the challenges of deepening and expanding integration measures in goods and services sectors in terms of their quality – e.g. by effectively addressing non-tariff barriers (NTBs) – and coverage. So far, many South–South RTAs cover only some goods and services sectors, do not address NTBs, while their utilization rates remain quite low.[15]

A. Policies concerning trade in goods

34. Tariff barriers in general were substantially reduced in the past three decades, as a result of unilateral liberalization and various tariff negotiations either at the multilateral, regional or bilateral levels. The trade-weighted average of effectively applied tariff in the world was around 2.1 per cent in 2006. However, tariff barriers among developing countries remain on average higher than in world trade, despite numerous South–South preferential regional trade agreements. In 2006, the

[15] See *South–South Trade and Regional Trade Agreements in Asia,* joint UNCTAD/JETRO study, 2008 (forthcoming).

weighted average of applied tariffs in South–South trade (i.e. tariffs effectively imposed by a developing country on exports from another developing country) was 4.3 per cent, compared to the weighted average of 2.3 per cent imposed by developed countries on exports from the South. In aggregate, approximately 71 per cent of tariffs imposed on exports from developing countries were by other developing countries.

35. Therefore, it appears there has been a gap between the trade realities (i.e. rapidly increasing trade flows among developing countries due to rapidly evolving intra-industry cooperation) and supporting trade policies (i.e. tariff liberalization among developing countries, particularly in the case of South–South RTAs), as much of trade creation appears to be taking place outside their scope.[16]

36. Recent UNCTAD research suggests that a most commonly manifested fear as regards South–South tariff liberalization – i.e. that markets of lower-income countries may be swamped by competitive imports from the more industrialized dynamic South, particularly China – is an unwarranted concern. Evidence suggests that South–South trade liberalization would actually result in much larger welfare gains than North–South liberalization, or any other regional trade liberalization among developing countries.[17] This is because low-cost imports of consumer goods and food allow poorer consumers in developing countries to access these goods which otherwise are not affordable. At the same time, the increase in competitive exports from China will be associated with an increase in China's imports from the South. Under the South–South liberalization scenario, these increased imports will be captured by other developing countries.

37. Beyond tariffs, NTBs such as technical regulations, standards and sanitary/phytosanitary regulations, and price control measures such as anti-dumping actions, are becoming the most worrisome trade barriers in the current North–South trade. In South–South trade, the types of NTBs that have been identified as major trade impediments include customs and administrative entry procedures, para-tariff measures (e.g. additional import charges and duties), and other regulatory measures affecting infrastructure and institutions. Also, as the export mix in South–South trade expands, there has been a concern over potential conflict with respect to proliferating standards and regulations on major products traded among developing countries.

38. While the relative importance of NTBs as an instrument of trade policy has been rising, there is no comprehensive information that is required for an in-depth analysis on the actual impacts of various NTBs on trade and development. In this respect, UNCTAD, in cooperation with other relevant international organizations, has recently updated the UNCTAD Coding System of Trade Control Measures (TCMCS) in order to streamline the items within the core categories of NTBs, expand the categories of technical measures and other non-core categories, and add new measures such as procedural obstacles to trade. This work is in progress in close collaboration with the Food and Agricultural Organization of the United Nations (FAO), International Monetary Fund (IMF), International Trade Centre (ITC), United Nations Industrial Development Organization (UNIDO), World Bank, World Trade Organization (WTO) and OECD. In association with this effort, a joint pilot project aiming at NTBs affecting exporters and importers of several developing countries was launched by UNCTAD and ITC at the end of 2007.

[16] *Latin America and the Caribbean in the World Economy 2006*, (LC/G-2341-P/1), UN ECLAC (2007).
[17] Fugazza M and Vanzetti D (2006). A South–South survival strategy: the potential for trade among developing countries. *Policy Issues in International Trade and Commodities*. Study Series No. 33, UNCTAD.

B. Regional cooperation on trade in services

39. Developing countries are increasing South–South services trade and cooperation, including through South–South RTAs, which cover services, to enhance, among others, supply capacities, financial cooperation and institutional arrangements to facilitate services trade. Through extending their coverage to services, South–South RTAs can become an important element in development strategies of the South. One estimate points to a global $130 billion welfare gain resulting from complete liberalization of trade in services, roughly equivalent to gains resulting from liberalization of trade in merchandise.[18]

40. In Asia, the impetus to include services in RTAs has been gradually growing as some Asian countries become global powerhouses in manufacturing, and the importance of regional services capacities to further support manufacture trade is being increasingly recognized. The Association of South-East Asian Nations (ASEAN) was among the first to embark on services liberalization in Asia, with the signing of the ASEAN Framework Agreement on Services (AFAS) in 1995. AFAS commitments, being characterized as "General Agreement on Trade in Services (GATS) plus", aim at eliminating restrictions on trade in services among members in all four modes of service supply in the areas of air and maritime transport, business services, construction, financial services, telecommunications and tourism sectors. Liberalization commitments are complemented by mutual recognition agreements (MRAs) for professional services, including engineering, accountancy, architecture, surveying and nursing, and cooperative mechanisms, such as for infrastructure development.

41. In Latin America and the Caribbean, the Andean Community, the Caribbean Community (CARICOM) and MERCOSUR have adopted disciplines for services trade liberalization, the depth and the width of which go beyond those so far achieved under GATS. For instance, the Andean Community adopted full liberalization of services in 2006, and has lifted all measures registered in the inventory of restrictive measures except national content in audiovisual services, and the requirement for incorporation under type of company for public services.[19] CARICOM has made considerable progress in creating a single market for services. All services sectors without restrictions in national schedules were completely liberalized in 2002. Within MERCOSUR, the number of restrictions on services trade has been reduced significantly.

42. In Africa, the Common Market for Eastern and Southern Africa (COMESA) has established a working group to spearhead the development of a framework for trade in services. In the Southern African Development Community (SADC), the importance of adopting policies and implementing measures with a view to liberalizing services sectors within the community is formally recognized in the SADC Trade Protocol. A draft services protocol is being finalized by SADC member States, with the aim to achieve substantial liberalization of trade in services by 2015.

43. Regarding financial services, some South–South RTAs have established institutional arrangements to promote further harmonization of regulations and standards of the sector, as well as to strengthen regional capacities and promote greater stability in financial markets.[20] Following financial crises in the 1980s, the Economic and Monetary Community of Central Africa and the West African

[18] Dee P and Hanslow K (1999). Multilateral Liberalisation of Services Trade. Canberra, Australia Productivity Commission.

[19] Bolivia has been granted special treatment until 2009.

[20] Trade and development implications of financial services. (TD/B/COM.1/EM.33/3, 3 August 2007).

Economic and Monetary Union implemented regional approaches to financial services regulation through a regional banking commission.

44. South–South RTAs can provide a promising avenue for services-related temporary movement of persons and workers at all skill levels beyond the existing mode 4 commitments and offers in the GATS which are limited in scope and depth, generally focusing on skilled workers. Some South–South regional groupings have specific initiatives relating to services workers (e.g. SADC, Economic Community of West African States (ECOWAS) and the Andean Community).

C. South–South cooperation on competition policies

45. Many developing countries lack effective competition laws or enforcement mechanisms, and they may not have the resources or expertise to prosecute international cartels. This renders them vulnerable to, among other things, international cartels or other anticompetitive practices as their generally smaller consumer markets with less depth (both in terms of the quantity and range of products) can be overwhelmed by dominant global TNCs.

46. When developing countries adopt their national competition laws and set up national competition agencies, these prove to be inadequate in dealing with anticompetitive cross-boarder mergers. Anticompetitive practices affecting the bilateral and regional trade South–South cooperation in competition policies can be an effective tool to ensure that the benefits of trade and investment liberalization are not compromised by such practices.

47. Provisions of South–South cooperation agreements on competition policy can involve, among other things, (a) the adoption, enforcement and harmonization of competition laws; (b) competition norms applicable to trade between the parties; (c) control of State aid and subsidies; and (d) provisions on technical assistance.

48. As regards the legal aspects of such provisions, many existing South–South RTAs simply have "best endeavours" measures to adopt, maintain and apply competition law. In rarer cases, the RTA language used is more legally binding. There may also be provisions for cooperation or coordination of activities by competition law enforcement bodies to cover cases. At a deeper end, there can be an independent dispute resolution or consultation mechanism, a supranational authority that can apply competition law directly on private entities or limit the application of trade remedies such as anti-dumping.

49. There are various modalities in the case of existing South–South cooperation in competition law and policy: (a) a supranational competition law that would supersede national laws; (b) cooperation on competition policies enforcement which can be translated into provisions for a cooperation mechanism; (c) provision of mechanisms, such as technical assistance, to establish and/or strengthen national competition law and policy, which aim at fostering cooperation.

50. The costs of enforcing regional competition provisions will vary greatly depending upon the current competence of the competition authorities. For developing countries, special and differential treatment may help achieve a proper balance between costs and benefits. A delay, exemption or technical and financial assistance in the formulation and implementation of a regional cooperation agreement could reduce such costs.

51. In this overall context, the challenges faced by developing countries with regard to the adoption and implementation of regional competition rules need to be discussed by the international community. Firstly, developing countries require "tailor-made" technical assistance from more experienced countries, regional and international specialized organizations in order to prepare and implement regional

competition laws. Secondly, the United Nations Set of Principles on Competition should be used, while taking into account the development dimension, in particular its section F. Finally, developed countries should consider applying "positive comity" as an instrument of regional and bilateral cooperation with developing countries, particularly in preventing hard-core cartels, abuse of dominance, anticompetitive mergers and unilateral conduct.

D. Cooperation in the areas of commodities and the energy sector

52. The world has been witnessing a "commodity boom" since 2002, with international commodity prices showing a strong upward trend. The strong growth in the import demand of developing countries, especially in China, India and other dynamic developing countries, is one factor behind this upward drive. Prospects of better prices and stable demand growth for a considerable period of time, perhaps as much as 10 years, provide commodity-dependent developing countries with an opportunity to generate sufficient finance to invest in their development and poverty reduction programmes.

53. Harnessing the present boom in commodity prices for development by generating substantial investment in infrastructure and supply-side capacity-building is an urgent matter for developing countries and the international community. South–South cooperation – in addition to international efforts such as the Aid for Trade initiative – could play a critical role in supporting improvements in the competitiveness of traditional commodity sectors, vertical and horizontal diversification in commodity-dependent countries and the mitigation of the short-term impact of commodity "shocks" at the national level.

54. Energy demands by developing countries are growing exponentially, owing to population growth and economic requirements for building infrastructure, including transport, productive capacity in agriculture and manufacturing, and trade competitiveness. By 2030, developing countries will account for almost half of total energy demand.

55. Under these circumstances, there is a need for enhanced cooperation among developing countries and with development partners, starting with a regional basis. The perception that regional cooperation has an important role to play in the energy sector is not new: it already formed the basis of regional institution building in post-war Western Europe. Energy management in the new millennium is not only about ensuring that traditional energy supplies match increasing demand; it also has to do with innovative policies to increase energy efficiency and support the exploration and use of alternative sources of energy.

56. In Asia, for example, ASEAN Vision 2020 seeks to establish interconnecting arrangements for electricity and natural gas within the region. More recently, the initiative to finalize a new ASEAN Petroleum Security Agreement has been launched. In Africa, ECOWAS initiated regional cooperation in power supply in 2000 with the launching of the West African Power Pool project. The Southern African Power Pool (SAPP) was created with the primary aim to provide reliable and economical electricity supply in this subregion. In Latin America, the Petroamerica project launched by the Bolivarian Republic of Venezuela involves three initiatives – Petrocaribe, Petrosur and Petroandina – which (a) guarantee the supply of Venezuelan oil to Caribbean countries and Suriname under special financial conditions; (b) provide a framework for a set of bilateral agreements to foster cooperation and joint ventures between public oil and natural gas enterprises of these countries for exploration, exploitation, distribution and joint construction projects; and (c) is intended to serve as a platform for strategic associations of public oil companies of the Andean Community countries.

E. Cooperation on trade logistics

57. In recent years, many South–South RTAs have attached high priority to transport and trade facilitation issues. In Asia, for example, ASEAN adopted the Roadmap towards an Integrated and Competitive Maritime Transport (August 2007) which sets out the framework for the progressive development of a globally competitive and integrated ASEAN ports and shipping sector by developing infrastructure, promoting a liberalized regulatory environment, harmonizing standards and building human resources and institutional capacities. In Latin America and the Caribbean, the Central American Common Market, CARICOM, the Andean Community and MERCOSUR are linked by their respective land and sea transport systems that have their own transport networks, institutional framework, established regulatory schemes and particular infrastructure development plans.

58. In Africa, COMESA has introduced the Trade and Transit Transport Facilitation Programme, which contains practical measures and instruments that facilitate trade within the region. SADC adopted the Protocol on Transport, Communications and Meteorology, which encourages the development of multimodal services, and supports the development of major regional development corridors to allow landlocked member States unimpeded access to and from the sea.

59. The critical importance of transport connectivity for the development and strengthening of cooperative trading arrangements applies also to interregional trade. For instance, in the India–Brazil–South Africa (IBSA) Initiative, transport linkages have been among the main issues addressed since its inception. In 2006, IBSA concluded the IBSA Maritime Transportation Agreement, which is intended to create the framework for improving logistics, enhancing maritime skills base and fostering trilateral trade flows.

IV. Making the best of the emergence of the dynamic South: the role of UNCTAD

60. Since its creation in 1964, UNCTAD has supported economic cooperation among developing countries (ECDC) as an essential complement to national development strategies. UNCTAD should continue to play a major and critical role to consolidate cooperation among developing countries, as well as with developed economies and economies in transition in a number of the following essential policy areas.

A. Regional and interregional collaboration in trade and investment policies

61. Policy-driven trade liberalization and investment promotion will continue to play a critical role in advancing South–South trade and investment both regionally and interregionally. Regarding intraregional trade, South–South trade liberalization needs to be consolidated and pursued further, including through the rationalization and better implementation of South–South RTAs. Regional trade liberalization needs to be complemented by a provision of finance and capital for building the required air, rail, road and maritime transport infrastructures, as well as market-entry enhancing measures such as those for standards, testing and conformity assessments, and mutual recognition of qualifications. Investment in research and development and technological cooperation at the regional level are needed to build the scientific and technological basis for future economic relations. A new generation of South–South interregional cooperation arrangements such as the IBSA Trilateral Cooperation Forum should enable developing countries to leverage their

existing and potential comparative advantage vis-à-vis each other and in South–South–North triangular cooperation relationships.[21]

62. The successful outcome to the third round of negotiations under the Global System of Trade Preferences among Developing Countries (GSTP) that was launched at UNCTAD XI is crucial in this regard. Adoption at UNCTAD XII of GSTP modalities for tariff liberalization of applied tariff rates with special consideration for LDCs and requisite rules, which complements WTO and South–South RTAs, is expected to boost already dynamic demand for goods and associated services among developing countries.

63. In North–South economic relationships, a growing number of developed economies are now entering into FTAs with developing countries, or with regional and subregional groupings in the South. There is a new generation of North–South RTAs, which are sometimes replacing traditional non-reciprocal preferences. In this context, it is vital that these new agreements provide real, effective and additional market access for exports from developing countries, not only through tariff reductions, but also dealing with market entry barriers such as NTBs, including simplification of rules of origin, in particular by regional or interregional cumulation provision, in order to extend the trading opportunities to developing countries at different stages of production and export diversification. Furthermore, such agreements can become truly pro-development only if they also provide adequate policy space and flexibility for development. Aid for Trade programmes should also be destined to cushion the adjustment costs for developing countries arising from trade liberalization and reforms, including on account of North–South RTAs.

64. UNCTAD, with its unique expertise in trade, investment and development, can contribute to identifying and nurturing new models for “development-transmitting” and “development-multiplying” trade and investment cooperation within the South. In the area of trade, it is imperative that UNCTAD continue systematic monitoring and in-depth research and analysis of lessons and best practices in South–South trade, as they can contribute to the replication of positive experiences. The development of a South–South trade information system by UNCTAD is particularly useful in this regard. With a view to establishing comprehensive information on NTBs affecting developing countries, UNCTAD will continue its work – in collaboration with FAO, IMF, ITC, UNIDO, the World Bank, WTO and OECD – on identifying and codifying essential information on NTBs that are affecting developing countries.

65. UNCTAD has launched an initiative to encourage networking among the RTAs of developing countries through the sharing of experiences on positive development instruments for regional integration. This initiative needs to be consolidated to provide a forum for the regular exchange of experiences among South–South RTAs. In the area of South–South trade in services, UNCTAD is conducting pioneering work – for example, with SADC – to develop a regional services agreement based on in-depth services assessment and negotiations.

66. UNCTAD should also become a forum for promotion and facilitation of trade in goods and services between developing countries and countries with economies in transition.

[21] Puri L (2007). IBSA: An emerging trinity in the new geography of international trade. *Policy Issues in International Trade and Commodities.* Study Series No. 35, UNCTAD.

67. For sustaining South–South trade, it is important to conclude the third round of GSTP negotiations. The continued servicing of the GSTP Agreement and its third round of negotiations by UNCTAD remains its priority task on South–South trade.

B. Sharing experiences and ideas on "southern solutions" for development challenges

68. The emergence of a dynamic South also calls for improved South–South institutions and well-coordinated strategies for tapping the entrepreneurial, capital, technological and labour-related resources of the South. Awareness-raising about successful development models, best practices and their replication would be an important area of South–South cooperation. Technological progress in recent years, particularly those information and communication technology-related ones, has allowed production and business know-how to become more easily attainable by developing countries. Still, little has been done in terms of sharing each other's experiences on finding a "southern solution" which would complement relevant global solutions and would be designed to cater to the South's specific needs and circumstances, e.g. environmental degradation, health care, food and energy security, and the digital divide. Establishment of effective institutions for sharing experiences and models at the regional and interregional levels would be required and would involve government, private sector and civil society participation. For instance, while solving the health care problem in a developing region, a single integrated South–South knowledge base can pull together expertise in India on low-cost pharmaceuticals.[22]

69. UNCTAD can play an effective role in identifying ways for creating and harnessing such South–South cooperation in knowledge transfers via fostering new models of ECDC. It is also important to create new dialogues among the institutions of the South, and with those in developed economies and economies in transition, in a triangular cooperation, with a view to enhancing partnerships on trade, investment, finance, research and development, enterprise development, technical cooperation, and trade and transport infrastructures.

C. Strengthening capital and financial markets in the South

70. At this stage, capital markets in the South are not operationally sophisticated enough, nor are they strongly integrated among themselves or with the global financial markets. This is a significant impediment for developing-country enterprises, particularly small and medium ones, to enter into new and dynamic markets in the South, as well as in the North.

71. In this context, a new look can be given to initiatives such as the South Bank, both as regional and interregional concepts. The Banco del Sur, launched in December 2007 by several Latin American countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay and the Bolivarian Republic of Venezuela) is a concrete step towards promoting financial and monetary cooperation among these countries in support of their mutual trade, investment and development. Equally, the South Fund for Development and Humanitarian Assistance, launched at the Second South Summit, could provide useful support to sustaining South–South dynamism.

72. To enhance South–South trade and development finance, initiatives such as the Global Network of Export Import Banks and Development Financial Institutions (GNEXID) promoted under UNCTAD auspices could play a significant role.

[22] Vaidyanathan R (2008). UNCTAD mimeo.

73. Furthermore, developing countries such as China and Middle Eastern oil producers are increasingly piling up financial reserves and have set up sovereign funds available for investment abroad. In this connection, ways should be established to stimulate investments from these funds, mostly in other southern economies.

D. Enhancing trade facilitation and access to transport services

74. South–South trade requires that traders have access to the appropriate transport services. Trade volumes on many South–South routes are still low, which in turn leads to more costly and less frequent transport services. The challenge for policymakers is to initiate a virtuous cycle, where growing trade helps to achieve economies of scale in transport, which in turn encourages further South–South trade. UNCTAD can help analyse and identify opportunities of intraregional and interregional South–South cooperation in the area of transport.

75. Trade and transport facilitation measures can reduce transactional costs through simplified procedures, the promotion of uniform laws and regulations, and the use of modern technologies. As regards customs issues, there exists a need for speedy and transparent import, export and transit procedures. Automated systems such as UNCTAD's Asycuda programme are an important tool to this end.

E. South–South–North triangular cooperation

76. The dynamic South's ever-growing purchasing power, augmented by economic progress and increasing population, is beginning to provide the much-needed impetus to a more sustained growth of global economy and trade. This promises a win-win scenario – not only to the South, but also for developed countries and economies in transition – as the rapid economic expansion of the dynamic South increases the demand for high value added goods and services from them.

77. Trade, investment and development cooperation policies of the North remain critical. As discussed above, the North–South RTAs need to confirm both enhanced market-access and market-entry conditions, and adequate policy space for developing partners in accordance with their trade, development and financial needs. Otherwise, such new trade arrangements would not be sustainable in the long run. As regards trade-related institutions, it has become evident that reflecting developing countries' perspectives is essential for credibility, inclusiveness and effectiveness of global economic governance. International monetary and financial institutions – the World Bank and IMF – also need to adapt to the new reality in trade and the global economy by allowing developing countries to take a bigger stake in their decision-making process.

78. The utmost challenge for South–South–North triangular cooperation is to ensure that development gains from the new and dynamic opportunities of global trade are equitably distributed among all stakeholders. Within the South, a worrying degree of divergence among developing countries is noted with regard to the benefits they are deriving from globalization. Most of the progress that has been achieved is due to significant advances made by several dynamic developing countries. Low-income countries, particularly LDCs, are still left waiting for the fruits of increasing interdependence in the global economy.

79. At the same time, impressive trade performance by the dynamic part of the South does not imply that these developing countries have overcome their inherent and persistent trade and development constraints, challenges and vulnerability. UNCTAD's Trade and Development Index, for example, reveals that even countries of the dynamic South still suffer considerably from widespread poverty and serious infrastructure deficits, as well as financial, structural and institutional shortcomings.

They also face the daunting challenge to bridge the inequality gap within their societies, and to ensure more widely distributed trade and development gains for women and the urban and rural poor.

80. In this overall context, the international community at UNCTAD XII should discuss, identify and establish a new model of trade, investment and economic cooperation aiming at a positive-sum outcome for all, in the North–South and South–South context at the national, regional and international levels, including specially-designed programmes and enabling measures to promote South–South trade. Main questions to be addressed in this regard include:

(a) How big and significant is the emergence of the dynamic South in international trade, finance, investment and technology? How sustainable is the southern economic and trade renaissance?

(b) What are the strategies, policy measures and institutional frameworks that need to be adopted in potential models for trade, investment and economic cooperation in the South–South and South–North context, in order to make the dynamic growth of the South more "development transmitting" and "development multiplying"?

(c) While the South is increasing its strengths in labour and natural resources, as well as combining that with acquisition of capital and technological capabilities, what internationally-coordinated actions are needed, particularly in the areas of economic intermediation (e.g. capital and commodity markets, financial institutions, frameworks for business and technological knowledge transfer, standard-setting, regulations on labour mobility, etc.), that will successfully lift up the genuine economic power of the South?

(d) How can South–South RTAs and economic partnership agreements be rationalized, linked and consolidated for maximizing development impacts, including through South–South RTA cooperation networks?

(e) How can the GSTP be made an effective instrument of regional and interregional South–South trade liberalization, trade facilitation and investment?

(f) How can growing complex mechanisms in South–South trade and investment be further tapped and regional/interregional South–South "flying geese" formations of South–South trade and investment be fostered?

(g) While the South is currently generating capital surpluses and becoming an increasingly attractive investment destination, will it soon become a major provider of capital and investment?

(h) How can UNCTAD develop and constitute – in terms of its traditional and ongoing mandates and comparative advantages – a new programme on ECDC?