IS SOUTH-SOUTH TRADE THE ANSWER TO BRINGING THE POOR INTO THE EXPORT PROCESS?

A paper contributed by
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Abstract
Trade flows between developing economies continue to increase steadily since the early 1990s. At more than $1 trillion in 2003, they already represent close to ½ of all developing country trade.[2] This is a far cry from only two decades ago, when developing country trade represented less than ¼ of global merchandise trade and South-South trade was viewed as the "weakest segment of world trade".[3] Nowadays, it is tempting to see it as the silver bullet to spearhead socioeconomic development.

Network of exports to developing economies in 2003 By groups of countries			
Origin	**USD billion**	**Share by origin**	**Share by destination**
World	2082	100.0	28.2
Developing economies	1008	48.4	42.5
Developing economies: America	94	4.6	25.5
Developing Africa	44	2.2	27.7
West Asia	87	4.2	31.4
Other Asia	780	37.5	50.1
China	181	8.7	41.5
Developing economies: Oceania	1	0.1	27.7
LDCs	15	0.7	40.9
Landlocked countries	14	0.7	36.2

Source: UNCTAD

Much of it is the result of regional preferential trade agreements (PTAs).[4] However, although the benefits of their impact are arguable –the dilemma of whether they constitute trade-diversion rather than trade-creation mechanisms– available evidence shows that in many cases intra-regional trade has grown not only where formal trade agreements have been in place but also where there was none. In other words, South-South trade expansion is a market-driven development –mostly resulting from the widespread operation of international supply chains of the South– that may be enhanced by government intervention but seldom spearheaded by it in the long run.[5] Naturally, not all regions, countries, products and services fair equally within this context. And that South-South trade expands at a much faster pace than other trade, although it is subject to higher barriers and higher distance-related costs, would suggest that addressing trade facilitation issues is of the essence for future progress, including major investments in trade-related infrastructure, like the modernization of air and water ports, roads, transport and customs services.

[2] Based on *UNCTAD Handbook of Statistics On-line* figures, South-South trade has grown from 25.99 percent of world trade in 1999 to 28.24 percent in 2003.

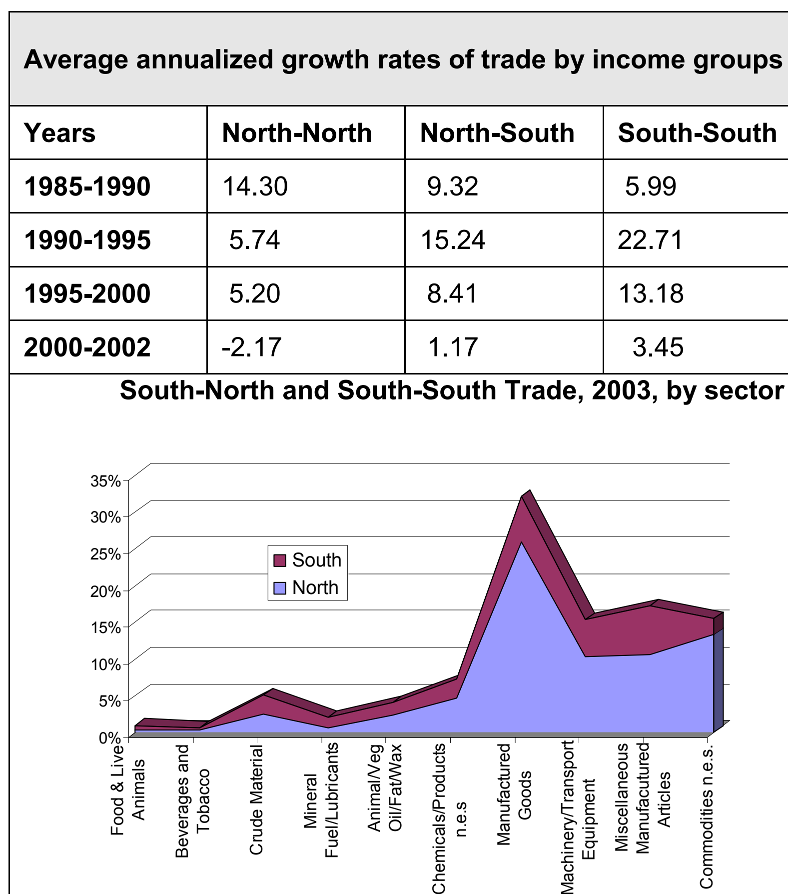
[3] Ventura-Dias 1989, Greenaway and Milner 1990, Møen 1998.

[4] *South-South trade 2004.*

[5] Cernat 2003.

Average annualized growth rates of trade by income groups			
Years	**North-North**	**North-South**	**South-South**
1985-1990	14.30	9.32	5.99
1990-1995	5.74	15.24	22.71
1995-2000	5.20	8.41	13.18
2000-2002	-2.17	1.17	3.45

South-North and South-South Trade, 2003, by sector



Source: OECD, percentages

The 'natural' next questions are whether South-South trade can be an alternative to North-South trade; whether the learning process for international trading is enhanced or retarded by it; and whether the proliferation of PTAs is strangulating progress in rules-based multilateralism, the first-best choice, according to mainstream economic theory. Even more important in development terms is whether South-South trade can help bring developing countries, SMEs and the poor into the export process or, rather, it is a distraction from the real targets. This paper suggests there are robust answers to these queries already.

All developing countries and their companies, especially SMEs, face options they cannot postpone and that require the interaction of an aggressive private sector; the intervention of governments providing proactive assistance to international private efforts; the deepening of cross-border regional integration with the aim of creating economies of scale; and the support of international organizations that can help level the playing field of international trade. South-South trade is a crucial part of the puzzle.

A new geography of trade and investment
South-South trade, defined as trade between developing economies, including the east European and Asian economies in transition from centrally-planned Communist systems to market economies, is a vibrant marketplace reality. This is the result of a series of converging factors. High rates of economic growth in some developing countries, particularly in east Asia, are a part of the explanation, as they have increased demand for goods and services from all countries, including other developing countries. Also, average tariff reductions, resulting from Uruguay Round commitments and trade integration agreements, have trimmed down developing country tariffs to about ⅓ their level two decades ago, while quantitative restrictions, such as quotas and import licenses, have been radically reduced.[6]

During the same period, developing countries have experienced a shift to value-added exports as hundreds of their companies have joined international value chains for the production of components and the assembly of completed products. Not only do manufactures now represent around ⅔ of developing country merchandise exports but also exports of manufactures to other developing countries represent nearly as much of their total exports (65 percent and 64 percent, respectively, in 2001).[7] As a consequence, low tariffs on and just-in-time delivery of imported components have become a competitive *sine qua non* for a large number of developing country exporters and their governments, even in the case of the 50 least developed countries (LDCs), where vigorous private exporters excel.[8]

This phenomenon is not restricted to merchandise trade only but services also account for a larger share of developing country output, reaching 60 percent of GDP or more for upper middle-income countries (UMICs, see table below).[9] Lower tariffs bring about lower input costs and extra consumer spending power that may raise demand for other goods and services as well. For instance, an estimate purports that China's service sector alone could grow by $100 billion if trade barriers in services were eliminated across all countries.[10] As the output of a number of developing countries continues to grow at a much faster pace than that of developed ones, their services sector in general, and South-South trade in services in particular, is also expanding, especially tourism, transportation, information, education, medical, telecommunications and financial services.

Nevertheless, barriers to trade in services are abundant and hard to quantify, in developed and developing countries alike, taking the form of qualification requirements, technical standards and licensing for the provision of business and professional services as well as restrictions to the admission of newcomers, foreign ownership and the movement of people, no matter how qualified. This changed in many developing countries with the first wave of privatization of the 1980s and 1990s but only partially and certainly not irreversibly. In fact, average applied *ad valorem* tariffs in developing countries remain more than three times as high as those in industrial countries and nearly ¾ of all tariffs faced by developing country exporters are imposed by other countries in the South (12.6 percent and 3.4 percent, respectively, in 2000). For instance, while average applied tariffs in Hong Kong amount to zero, tariff peaks –those that are three or more times the size of the average applied tariff in a given country– are very common in ⅔ of developing countries, predictably in raw materials and basic manufactures, like textiles, apparel and footwear.[11]

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[6] *UNCTAD handbook*, 2004.

[7] *Global economic prospects 2004.*

[8] *South-South trade* 2004.

[9] *World trade report 2003.*

[10] Dee and Hanslow 2000.

[11] *World trade report 2003.*

Value added in services as percentage of GDP	
World	68
OECD developed	73
Upper middle income	62
Least developed	47
Argentina	54
Brazil	50
China	41
Egypt	48
India	52
Indonesia	41
Mexico	69
South Africa	65

Source: *World Development Indicators 2006*

Moreover, while developed countries bind the vast majority of their tariff schedules at low levels and the gap between binding and applied tariffs –their binding *overhang*– is usually small, developing countries keep numerous tariff lines unbound as well as large overhangs for bound tariffs. This makes the calculation of economic benefits from bound tariff reductions rather unpredictable, as overhangs allow for significant discretionary adjustment. According to World Bank estimates, if developing countries eliminated their mutual manufacturing and agricultural trade barriers altogether they could obtain welfare gains for $62 billion per annum.[12] But this calculation can be misleading as it can be used both ways, to advocate in favour of trade liberalization across the board as much as to promote the Global System of Trade Preferences among Developing Countries (GSTP), as discussed in the next section. In any case, the argument is not going to convince developing country exporters, especially those from middle-income, highly-competitive developing economies, that their paramount target should not be better access to markets in the North, the locomotives of world trade.

Although the trend is clear and likely to remain so, referring to South-South trade as a global reality may be quite a misnomer at this point in time. While in Asia it reached around 40 percent of merchandise exports in 2001, it barely represented ¼ of the total exports of the developing countries in the Western Hemisphere and Africa.[13] In fact, Asia accounts for more than ⅔ of all South-South merchandise trade, largely due to intra-industry, intra-regional flows in a region of high economic growth rates. And even there, the three most-highly protected areas in intra-east Asian trade –

[12] *Global economic prospects 2004.*

[13] *World trade report 2003*, Kuwayama 2005.

agriculture, light industry and food and beverages– face *ad valorem* tariff equivalents of 41, 27 and 22 percent respectively.[14]

Having said that, evidence mounts in some extra-Asian developing countries experiencing spectacular trade booms that South-South exchanges represent a growing share of their trade. Outside East Asia the trend is characterized by inter-regional trade and may be explained as a discrete trade and investment offensive from developing giants like China, India and Brazil. For instance, between 2002 and 2005 Brazilian worldwide exports almost doubled to $118.3 billion, with developing countries absorbing 53 percent of the total by end-2005. During this period, Brazilian trade with Africa rose by 153 percent (exports) and 149 percent (imports) while trade with Asia grew by 111 percent (exports and imports almost equally).[15]

Mounting evidence suggests that trade liberalization and the ability of much of Asia to flexibly respond to world demand –the establishment of intra-regional supply chains since the 1980s and of inter-regional ones since the late 1990s– is the best explanation for the spectacular growth of South-South trade of recent.[16] The development of regional and subregional trade agreements (RTAs) in latin America, the Caribbean, the Baltic states, the Balkan countries, the Middle East, North Africa, the Pacific islands, South Asia and Southeast Asia may have an impact on South-South trade expansion but performance comparisons between RTAs, bilateral trade agreements (BTAs), free trade agreements (FTAs) or other developed-developing country trade and investment integration arrangements are very difficult, given their singular scope, content, history, and extra-economic objectives. For instance, trade within and between the four subregional blocs in latin America and the Caribbean (the Andean Community, Mercosur, the Central American Common Market and the Caribbean Community and Common Market) continues to be marred by non-tariff barriers, perforations of common external tariffs (CETs), an underdeveloped infrastructure badly in need of investment and design shortcomings of the very integration institutions that should lead the way for macroeconomic convergence and business facilitation.[17]

Implications of South-South trade for development strategies

While no country has ever consolidated its socioeconomic development by rejecting international trade and long-term capital inflows, no country has achieved it by opening up to foreign trade and investment *alone* either. The questions of *why* doing it, *for what*, *how* and *through which instruments* continue to be of the essence in this discussion on development fundamentals, a process usually dominated by prejudice and vested interests. Like in all things doctrinal, South-South trade can be viewed in a very different light, according to the social, political and economic persuasion of the beholder.

The macro discussion - At one end of the spectrum are those who see it as a substitute to North-South trade and a tool for nurturing regionalism as the favourite national option for international trade relations.[18] Although outside the consensus of mainstream economic policymaking, these ideas still hold their grasp in parts of Africa and latin America and are experiencing a rebound in some countries as the export-led growth benefits actually reaching the poor prove disappointing.

At the opposite end gather those who deem South-South trade a distraction to progress towards multilateralism, traditionally considered the first-best policy option.[19] Advocates of this approach view trade liberalization not only as beneficial in its own right but also yielding spill-over effects on other reforms that contribute to sustainable socioeconomic growth.[20] The hypothetical removal of all trade

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[14] Freudenberg and Paulmier 2004.

[15] Indicadores e Estatísticas 2006,

[16] *World trade report 2003*, Cernat and Laird 2003.

[17] Devlin and Ffrench Davis 1998, Kuwayama 2005.

[18] *Strengthening the South* 2005; Khor 2000.

[19] Greenaway and Milner 1990, Havrylyshyn 1985.

[20] Berg and Krueger 2003, Hausmann and Rodrik 2002, Santos-Paulino 2005, Wang and Schiff 2004.

barriers by all countries is calculated to have the potential to render global welfare gains of over $260 billion annually, 20 percent from agricultural liberalization, 30 percent from manufactures liberalization and a full 50 percent from services liberalization. The World Bank calculates gains to developing countries in excess of $108 billion per annum, or 40 percent of all potential gains.[21] The preferred path for this school of thought would be unilateral trade liberalization, considered to be a much more potent driver of export performance than negotiated liberalization.[22]

At various points in between stand those who recognize South-South trade as an intermediate step on the road to convergence with the world economy. For its supporters, South-South trade can be a harbinger of progress in the reduction of tariff and non-tariff barriers, focusing on tackling impediments to the movement of goods, services, capital, technology and people as well as on promoting public sector-private sector cooperation at a national, (sub)regional and international level.[23] It is hard not to agree with them.

The micro discussion - A microeconomic approach –the *trading community*'s needs and aspirations as the focus of attention– turns upside down the universe of queries that need a response in the design of a country's trade policy:

- Is it comparative advantage what determines trade still today?
- Or is it enabling credit instruments and institutions that supersede it?
- Or is it the political commitment and unwavering attention of government authorities?
- Or is it rather the existence of an adequate physical infrastructure?
- Or a sound foreign exchange policy?
- Or is it subsidies, speedy drawback processing, tax rebates, exemptions and other fiscal incentives?

Surely some of these conditions, benefits and decisions, and similar ones as well, may help private efforts but *what determines trade is traders themselves*, that is, the presence and positioning of buyers, sellers and investors at the right time and the right place, identifying business opportunities and effectively acting upon them. In other words, the macroeconomics of trade cannot substitute for business acumen and shrewd risk-taking in the long run.

Having said that, governments, country groupings and international organizations can go a long way in helping international traders and investors spot opportunities and trends, and match their bottom-up, demand-driven approach with macro, top-down national and cross-border initiatives. Public-private partnerships (PPPs), especially in what concerns fluent dialogue and collaboration, are not an option but a necessity in times of globalization. This means mutual access (to make interaction possible), autonomy (meaning impartial government authorities that can say no for a valid reason) and cross control (to impede some politically-connected operators to unduly end up with the lion's share and discriminate against the rest).

The whole spectrum of trade promotion services can be encompassed in a well-organized export-oriented strategy, including:

- Market research, through trade flow analyses by products, sectors, countries and regions, surveys that identify supply and demand capacities, the development of regional information platforms, business networks and sectoral clusters, and screening the realities and potential of identified companies, trade-related investors and services providers;
- Trade support services, through awareness creation and targeted technical assistance, like how to select sectors with growth capacity and prioritize efforts to capture promising business opportunities;

[21] Dee and Hanslow 2000, *Globalization, growth and poverty* 2002.

[22] *Global economic prospects 2004.*

[23] *South-South trade* 2004, *World trade report 2003, Making global trade work* 2003, Crawford and Fiorentino 2005.

- Sector and market development, through networking events with a regional and sectoral scope *simultaneously*, if possible; and
- Institutional capacity building, through the involvement of trade support institutions (TSIs), government-sponsored as well as private, like chambers of commerce, professional associations and trade-related services providers, in research, organization and follow-up activities that make good use of information and communication technologies (ICT).

The need to identify and fill gaps in the trade promotion infrastructure of countries, regions and subregions in the South, including trade information and trade promotion facilities, infrastructure, trade-related services, and the like, when what exists is not effective enough and those gaps remain unheeded, is a major part of the task. Additionally, the regional marketplace frequently provides an opportunity to trigger the learning process for export and international procurement, a sort of training ground for trading and investing across borders on a manageable scale. Arguably, the relevance of this notion may be diminishing as international production chains provide the necessary incentives/disincentives, facilities, technologies, skills and know how.[24]

Whatever the policy framework, South-South trade can help create a catalytic environment for companies, small, medium and large, especially those targeting *bottom-of-the-pyramid* approaches. It can engage them in a learning-by-doing process of exploring real-world business opportunities, evaluating how to tackle them, dropping the long shots (especially when depending on government subsidies), and capturing the most promising ones.[25]

The 'bottom of the pyramid' concept

Bottom of the pyramid refers to strategy, design, knowledge, management and marketing focused on serving the world's developing country majority, starting with the poorest. The concept was introduced by University of Michigan professor Coimbatore Krishnan Prahalad. By producing affordable products for the poor, companies become purveyors of prosperity. The classical example is Nirma Ltd, a local company that started as a one-man operation in 1969, that began offering detergent products for poor Indian consumers, with an innovative formula and using as sales channels the thousands of small outlets where people at the bottom of the pyramid actually shop, especially in the countryside. By 1995, when competitors reacted, it was MNCs that had to labouriously fight for a share of a gigantic market.

RTAs, GSTP, BF

However important making the right international trade decisions might be, most developing country governments find it extremely difficult to keep informed on the array of options they face –an avalanche of highly-legalistic agreements and initiatives that require dedicated specialists, resources that are both scarce and costly.[26] It is even more difficult for them to assess the relative importance and chances of success of each path.

Of the roughly 300 PTAs that have been notified to the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) over the years, 150 are still in force. An additional 70 have never been notified to WTO and it is estimated that the number of operational agreements of this sort will reach another 300 by the end of this decade. Very few of them comply with Article XXIV, GATT 1994, that requires that "substantially all" barriers between PTA members be dismantled.[27] Not only do the various trade arrangements a country is a party to frequently contradict each other but also they block the automatic processing of computerised trade operations, requiring discrete customs

[24] Kulkarni 2004.

[25] Devlin and Ffrench-Davis 1998, Kahnert et al. 1969, Robson 1987; Møen 1998.

[26] Crawford and Fiorentino 2005.

[27] Sutherland et al 2004, Crawford and Fiorentino 2005.

authority rulings, with the consequent loss of time and money. Preventing particularism is the very *raison d'être* of rules-based multilateralism. Having said that, the fact is that, without a resumption of multilateral trade negotiations in sight, PTAs offer the only way forward. [28]

Every developed country has a bilateral trade and investment promotion programme, at times disguised under a technical cooperation façade, to advance the interests of its exporters, investors and business intermediaries, carve a niche in the public sector procurement of developing countries and obtain key information for its own business community. It is important for trade officials and the trade community of developing countries to single out the concealed geographic, thematic or sectoral agendas pursued by national, bilateral and regional institutions and special interests, and weed out the promotional components that are not in their long-term self-interest. Sellers abound in the trade promotion business but very few programmes assure the participation of focused buyers and investors, in spite of the proliferation of trade fairs and business jamborees in all continents.

The Global System of Trade Preferences among Developing Countries (GSTP) is a formal negotiating mechanism for the mutual granting of preferential tariff treatment for eligible products between selected developing countries. The secretariat of the United Nations Conference on Trade and Development (UNCTAD) provides technical support and administrative assistance to GSTP, which is reserved to the "exclusive participation" of developing countries and country groupings that are members of the Group of 77 (G-77) and parties to the GSTP agreement of 1988 (see table below). The economic and legal rationale behind GSTP is that of most RTAs–a partial, temporary derogation of the most-favoured nation clause (MFN).[29]

The progressive liberalization of trade between developing countries through reciprocal negotiations, GSTP's declared objective, is its main difference with the Generalised System of Preferences (GSP), a mechanism for the granting of one-way preferences by developed countries in favour of developing ones introduced at UNCTAD II (New Delhi, 1968). Another difference is that GSTP preferential rules of origin are designed to be more transparent and generous than those of GSP, especially because they rely on rules rather than the benevolence and conditionality of the grantor.

The first round of GSTP negotiations took place between 1986 and 1988, at the conclusion of which the GSTP agreement was adopted.[30] The second round was launched in 1990 and ended in 1998, when 24 countries individually and the Mercosur countries as a bloc (at the time, Argentina, Brazil, Paraguay and Uruguay) exchanged preferential tariff concessions for about 900 products. However, they never entered into force because less than the required 15 members ratified the protocol. A third round, making *tabula rasa* of the second round concessions as if they had not existed, was launched in June 2004 at UNCTAD XI in São Paulo but no new tariff concessions have been exchanged as of yet. The success of the third round depends on a significant linear tariff cut among a bigger basket of participants, particularly China and other G-77 members, like Saudi Arabia, the Gulf states and much of sub-Saharan Africa, as well as substantial tariff reductions with wide product coverage. UNCTAD estimates that if developing countries reduced mutual average tariffs by 50 percent during the third GSTP round, an additional $15.5 billion in trade would be generated.[31]

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[28] Besides, on 10 July 2006 the WTO Negotiating Group on Rules approved a new transparency mechanism for all RTAs which may help to put order in the system. Baldwin 2006; http://www.wto.org/english/news_e/news06_e/rta_july06_e.htm.

[29] Decision of 28 November 1979 (L/4903), Differential and more favorable treatment, reciprocity and fuller participation of developing countries. http://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm, http://www.wto.org/english/docs_e/legal_e/enabling_e.pdf

[30] Agreement on the Global System of Trade Preferences among Developing Countries. GSTP/MM/BELGRADE/10, 12 April 1988. http://www.g77.org/gstp/gstptext.htm

[31] Puri 2005.

GSTP members

Country	LDC	Parties to the GSTP agreement ⇩	Parties that exchanged tariff concessions during the second GSTP round ⇩
Algeria		▪	
Argentina		▪	▪
Bangladesh	LDC	▪	▪
Benin	LDC	▪	
Bolivia		▪	▪
Brazil		▪	
Cameroon		▪	
Chile		▪	
Colombia		▪	▪
Cuba		▪	▪
Ecuador		▪	▪
Egypt		▪	▪
Ghana		▪	▪
Guinea	LDC	▪	
Guyana		▪	
India		▪	▪
Indonesia		▪	▪
Iran		▪	▪
Iraq		▪	▪
Libya		▪	▪
Malaysia		▪	▪
Mexico		▪	
Morocco		▪	▪
Mozambique	LDC	▪	
Myanmar	LDC	▪	
Nicaragua		▪	
Nigeria		▪	▪
North Korea		▪	▪
Pakistan		▪	▪
Paraguay			▪
Peru		▪	▪
Philippines		▪	▪
Romania		▪	▪
Singapore		▪	
South Korea		▪	▪
Sri Lanka		▪	▪
Sudan	LDC	▪	▪
Thailand		▪	▪
Trinidad and		▪	
Tunisia		▪	
Tanzania	LDC	▪	
Uruguay			▪
Venezuela		▪	
Viet Nam		▪	
Yugoslavia		▪	
Zimbabwe		▪	

Source: GSTP webpage, http://www.g77.org/gstp/#members, and

In other words, the effectiveness and credibility of GSTP as a real option rests on the political will of member countries and their capacity and determination to recruit more, and more committed, participants. Unfortunately, although a ready framework for negotiations among developing countries, GSTP is still a project that does not even mobilize its natural constituency. According to article 17 of the GSTP agreement, its manifest beneficiaries should be the LDCs, "that shall not be required to make concessions on a reciprocal basis" but only seven of the world's 50 LDCs are GSTP members to date.[32]

In spite of the formidable presences of India (a major GSTP promoter, together with Brazil) and China (not a party but participating in the third round), the latter seems to be much more attentive to consolidating its insertion in the WTO system, which it only joined in 2001. However, given the suspension *sine die* of the Doha Round negotiations on 27-28 July 2006, the more advanced GSTP participants, such as China, India, Brazil and some ASEAN countries, with the support of donors and regional and international organizations, could convene a GSTP negotiating conference and pledge concrete market access offers, with extra concessions for LDCs.

Business facilitation (BF) – By concentrating in the elimination of tariff and non-tariff barriers, regional integration processes should deepen trade-related commitments, fostering productive and financial integration via forward and backward linkages along regional value chains and across sectors and markets. Strengthening the provision of regional public goods (RPGs), macroeconomic coordination and convergence become a requisite, competition is regulated, compensatory funds are established to reduce social adjustment frictions, and internal and cross-border migration is carefully managed.[33]

Currently, the political and economic environment in most of the developing world is one in which most countries face a number of competitive scenarios for bilateral, subregional, intra-regional, inter-regional and multilateral trade and investment integration, very few of these scenarios actually address their development needs, and an even smaller number is making any progress at all. In this context, tackling trade and business facilitation (TF/BF), technical barriers to trade (TBTs), and practical questions of physical infrastructure (PI), all urgent matters for private sector operators, becomes a welcomed respite. Few cast doubts about the need to do it; the question is where to get the resources to finance mounting capacity building requirements.

BF aims at opening markets by reducing the cost of cross-border trade, simplifying regulatory and administrative processes, improving access to trade information, and aligning policy and business strategies to liberalise trade and assist growth across sectors. It has captured the imagination of governments and companies alike, with tens of public-private initiatives being pursued in all developing regions, especially in the context of trade negotiations, from the automation of trade procedures to the modernization of customs services to the joint border inspection by customs, agriculture, veterinary, health, phytosanitary and security controllers of neighbouring countries. Focus on BF, with special emphasis on customs rules and procedures and technical standards and related testing and certification as well as SME-targeted improvement measures, like human resource development, information access, technology and technology sharing, financing and joint ventures, can provide a non-contentious path for effective progress that may pave the way for more ambitious cooperation plans.

Given the recent suspension of the multilateral trade negotiations, the discussion now is whether trade facilitation as a negotiating issue –the main segment of business facilitation that deals with a

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[32] Obtaining LDC status is not automatic. China's remote provinces of Ningxia and Guizhou, for example, register a lower per capita income than many LDCs but stay unnoticed within the country whole. Based on a report by the Committee for Development Policy (Department of Economic and Social Affairs, United Nations Secretariat), the Economic and Social Council (ECOSOC) makes a recommendation to the United Nations General Assembly (UNGA), which is responsible for the final decision on the list of LDCs, that is, including new ones, and maintaining and 'graduating' others. The WTO secretariat adopts the UNGA decision and applies its special and differential treatment (SDT) provisions for LDCs.

[33] Devlin and Estevadeordal 2002, Kuwayama 2005.

new redaction of the WTO disciplines contained in GATT 1994 Articles V (Freedom of Transit), VIII (Fees and Formalities Connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) and correlated commitments for capacity building and technical assistance in favour of developing countries to respond to the new disciplines– can be 'unbundled' from the Doha Development Agenda's *single undertaking* that prevents progress in one topic without progress in the overall negotiation agenda.

The way forward

It is now time to respond in detail to the questions of the introduction.

Are South-South value chains more "poverty sensitive" than those of South-North trade and do they have greater impact on poverty reduction (i) through greater job creation; (ii) through generating wider opportunities for the poor to become directly involved in the export process, or (iii) both?

In principle, yes and both. Developing country policymakers naturally aim for trade and investment initiatives that foster poverty reduction (like microfinancing); assure the provision of goods and services (especially affordable public goods, like potable water and public health); create and deepen linkages between the international and the local economy (such as developing local supplier networks, providing training and creating employment); and facilitate the transfer of appropriate technology. Governments can introduce incentives to reach these goals and South-South regional and sub regional trade and investment agreements invariably provide for such a composite.[34]

Multinational corporations (MNCs), on the contrary, are dominated by the profit motive and their concerns for total factor productivity, global market share and overall profitability so that national or regional development targets can only occupy a fraction of their attention. Having said that, some innovative, regional public-private initiatives that encourage and enable private engagement in trade and investment promotion for poverty reduction show promise. For example, the *Emerging Africa Infrastructure Fund* was designed to meet the demand for upgrading and privatizing existing infrastructure in Africa. And the *Financial Deepening Challenge Fund* aims at contributing to the achievement of the Millennium Development Goals (MDGs) by harnessing private sector resources in ways that generate high levels of pro-poor economic growth.

However, by definition, these are temporary measures, until the marketplace takes over. In the long run, it is unlikely that the business plans of, say, Korean or Malay companies will differ very much from those of MNCs from developed countries in terms of profitability margins, security interest and productivity targets. It is in the fine print of business-to-business (B2B), business-to-government (B2G) and government-to-government (G2G) stipulations that differences and benefits will truly show.

Should strategy-makers be placing greater attention on South-South trade development and, if so, what are the most effective means of promoting the further acceleration of South-South trade: (i) regional economic integration, (ii) bilateral or regional trade agreements, (iii) South-South investment promotion, (iv) trade facilitation or (v) supporting networking and contact among business practitioners in the South?

All of the above, with careful, case-by-case sequencing and mixing. Growing trade within a region may be a consequence of the globalization process, led by MNCs and other international investors; or it may be a conscious political decision aimed at promoting a regional identity, like the European Union model; or it may manifest the herd instinct of governments that want to postpone fundamental decisions and just follow the trend of the moment.[35] Whatever the case, there are a number of economic arguments in favour of promoting regional trade.

On the supply side, there is the potential of standardization and economies of scale, that is, the disseverance of quality production processes that are very sensitive to proximity, particularly as a consequence of reduced logistics costs. On the demand side, in theory proximate countries should have similar spending habits, at least more similar than those in countries that are far apart.

[34] *Unleashing entrepreneurship* 2004.

[35] Hveem 2000.

Gravitational models can explain the power of proximity in general, and test whether dividing a region into sub regions is more relevant than using the "common border" variable. Policymakers need to decide whether organizing a regional trading bloc, which aligns the economies within a region more closely with one another, provides greater benefits than trade liberalization on a most-favoured-nation (MFN) basis, which aligns their economies more closely with the world economy at large, giving them a competitive edge while increasing the exposure to external shocks. For the trading community, these government decisions, especially any brusque rudder shifts, can make or break their business plans.

In the case of east and Southeast Asia, regional trade has resulted from the geographical dispersion of production processes, with lower-wage countries absorbing the labour-intensive segments and intermediate products dominating the intra-regional exchange, that is, bringing the poorer ones into the export process. In the case of Latin America and the Caribbean –and the same reasoning applies to Africa–, regional trade seems to be the result of the political will that inspired the sub regional integration trends of the last three decades. UNECLAC estimates total Latin American and Caribbean intra-regional trade in 2004 at a meagre 17 percent of total regional exports. It is not for lack of summits, negotiations, treaties, regulations, institutions and structured dispute resolution mechanisms but plausibly because of the pro-cyclical nature of intra-regional trade in the region, an overall declining trend in the combined shares of intra-group trade of all four customs unions, and a growing shift in favour of inter-regional trade, including with developing Asia.[36]

What represents an effective pro-poor, South-South trade development strategy? How would its emphasis substantively differ from that of a strategy focusing on the South-North axis? What are the implications for those institutions, public and private, concerned with delivering support services to the business community and "the poor"?

An effective, pro-poor South-South trade development strategy will not differ much from a North-South one in its tools and objectives. That said, South-South trade promotion activities based on bilateral, sub regional and regional approaches may profit from economies of scale and the comparative advantages resulting from cross-border linkages and low factor costs. As pointed out above, it is in the mutual knowledge of neighbours that the training ground for exporting at a manageable scale can be nurtured rather than aiming for North markets that require large volumes and exacting quality control, packaging and corporate social responsibility (CSR) standards.[37]

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[36] Kuwayama 2005.

[37] For instance, the 179 European Union GSP-plus beneficiary countries need to demonstrate that their economies are "dependent and vulnerable" and that they have ratified and are effectively implementing 27 international conventions related to labour rights, the environment and governance, including the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the International Convention on the Elimination of all Forms of Racial Discrimination, the Convention on the Elimination of all Forms of Discrimination Against Women, the Convention on the Prevention and Punishment of the Crime of Genocide, the Convention Against Torture and Other Cruel, Inhumane or Degrading Treatment or Punishment, the Conventions on the Rights of the Child, the Minimum Age for Admission to Employment (ILO 138), the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (ILO 182), the Abolition of Forced Labour Convention (ILO 105), the Forced Compulsory Labour Convention (ILO 29), the Discrimination with Respect to Employment and Occupation Convention (ILO 111), the Freedom of Association and Protection of the Right to Organize Convention (ILO 87), the Application of the Principles of the Right to Organize and Bargain Collectively Convention (ILO 98), the International Convention on the Suppression and Punishment of the Crime of Apartheid, the Montréal Protocol on Substances that Deplete the Ozone Layer, the Basel Convention on the Control of Trans-Boundary Movements of Hazardous Waste and their Disposal, the Stockholm Convention on Persistent Organic Pollutants, the Convention on International Trade in Endangered Species, the Convention on Biological Diversity, the Cartagena Protocol on Bio-Safety, the Kyoto Protocol to the UN Framework Convention on Climate Change, the UN Single Convention on Narcotic Drugs (1961), the UN Convention on Psychotropic Substances (1971), the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) and the UN Convention Against Corruption (2003). http://europa.eu.int/comm/trade/issues/global/gsp/legis/index_en.htm

EuropeAid external assistance programmes

The European Commission has implemented a sound tool for developing country traders and investors through its EuropeAid external assistance programmes since 1993. Aimed at the promotion of international long-term cooperation between SMEs from the European Union and latin America (AL-INVEST), Asia (Asia-INVEST), Africa, the Caribbean and the Pacific (EU-ACP); southeast Europe (CARDS); eastern Europe and central Asia (TACIS); the southern Mediterranean, Near and Middle East (MEDA), it promotes the organization of small-scale, sector-oriented business meetings. They run parallel to Pro€Invest, a EU-ACP partnership programme that is financed by the European Development Fund. Nothing impairs the triangulation of initiatives and the development of South-South networks as a consequence, with trade facilitation as the most proximate target.

What pro-poor, South-South trade development programmes work and what is the secret behind their success?

There is no simple answer to this query. Each case will depend on the direction of the trade flows (inter-regional, regional, sub regional, bilateral), the sectors targeted, the sophistication of the national private sectors, the reach and aptitude of the government agencies involved, the value added in the process and the distribution of benefits along the value chains, the available incentives and deterrents, the specific pro-poor policies targeted (growth, education, health, human rights, personal security), etc. No one-size-fits-all nostrum here. It also raises a philosophical question—whether the business community is willing and able to apply its market clout to build up local spending power, a skilled workforce and other elements necessary for sustainable business growth. Businesses can improve their financial performance by re-investing in the communities where they thrive. A North-South, public-private cooperation initiative in Ethiopia with South-South spill over effects for the rest of the continent can serve as an example.

Multi-stakeholder cooperation to combat poverty

Dometic AB of Sweden is the world's leading alcohol appliance manufacturer. In 1995 it joined the Project Gaia Ethiopia, which aims at revolutionizing the household energy economy of Ethiopia. Currently, Ethiopia imports all of its petroleum fuels, with sizeable impact on its balance of trade. At the same time, Ethiopia has a sugar industry that can produce 8,000,000 litres of ethanol per year from sugar cane waste. Dometic redesigned its renowned non-pressure alcohol stove for production at an affordable price in Ethiopia without sacrificing quality or performance.

This project has profound economic and environmental significance for Africa as a whole, where about 60 percent of the continent depends on traditional biomass fuels. Besides, as most African countries are dependent on petroleum imports, domestically-produced alcohol fuels can save valuable foreign exchange. The success of the project is not an isolated effort by one corporation that owns advanced stove production technology but rather a multi-stakeholder, long-run initiative that involves governments, foreign investors and African businesses.

Given that a South-South focus may not address fundamental competitiveness issues, could a pre-occupation with South-South trade represent, in the longer term, a "development trap", which will have serious implications for the poor, as well as for the national export development effort?

This is a question that reflects a prejudice of the past—that know how and technological advancement are in the exclusive domain of a handful of developed countries. Although this is true of many knowledge-intensive industries, the expanding global presence of trade behemoths like China, India, Korea or Brazil winning, for example, international tenders to modernize nuclear facilities in Australia or operate the Panama Canal ports and free trade zone, the second largest in the world, show that the goods and services offered by the value chains of the South are not only abundant but

increasingly sophisticated. Likewise, the convenience of a South-South collaboration over a North-South one needs to be analyzed on its merits and in light of the national interests involved so that the 'baubles-for-commodities' schemes that characterized colonial rule in the XIX century are not replicated under the guise of South-South cooperation.

In sum, it is safe to predict that South-South trade, investment and technology sharing will continue to play an important role in developing country trade, especially in Asia Pacific. However, discipline within its ranks will be hard to maintain as major developing countries undergo mounting pressures to assume fuller systemic commitments, not only in the case of middle-income countries but also including the graduation of borderline LDCs. Moreover, the most important development would ultimately be the change of status of China and India, away from the developing country lot and assuming the benefits and leadership responsibilities of the core, like joining the Group of Eight (G-8), the Organisation for Economic Co-operation and Development (OECD) and having a bigger role in the International Monetary Fund (IMF). This means that any long-term strategy counting on concessions from China and India, especially in the case of middle-income countries, may not go very far.

Only a multi-stakeholder composite, aiming for overall efficiency, will allow for the public sector-private sector interaction needed at this juncture for the development of the South, when international wars and terrorism are a condition of the world economy, the system of production continues to undergo fundamental transformations, and new actors ascertain their spheres of influence. All developing countries and their SMEs face options they cannot postpone and that require the interaction of an aggressive private sector, willing to take chances; the intervention of governments providing not only the right macroeconomic environment but also effective, proactive assistance to international private efforts; the deepening of cross-border regional integration with the aim of creating economies of scale for a more efficient allocation of resources and convergence with the world economy (which may mean, joining one international supply chain over another); and the enlightened support of those regional and international organizations that can help level the playing field of international trade, investment, technology transfer and the free movement of workers.

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