

## **Chapter 3: The political economy in the post-Cold War era and the introduction of the ‘new’ economy**

Since the end of the Cold War, numerous political and economic factors in the equation have changed. These have had a substantial influence on the behaviour of developing economies and on the feasibility of southern alliances.

As described in the preceding chapter, the global political economy between 1945–1989 was characterised by isolationist, inward-looking, dependency-inspired policies among the developing countries. Issue-based strategies such as the NIEO, the UNCTAD and the G-77 focused on political gains, but, integration and economic co-operation were policy options and not prerequisites for development.

Strategies initiated after the post-Cold War, however, stemmed not from a background of national import substitution promotion, but from a drive towards liberalisation and international trade competition. The 1990s introduced an era in which economies around the world became economically interdependent and in large part opened up their markets to the rest of the world. Various factors contributed: the liberalisation agendas of the WTO and other international organisations, the end of the Cold War, and the emergence of a global economy that was knowledge-orientated, technologically-driven and private-sector led. During this time, southern alliances took on a different form, and made substantial headway towards reversing the dependency-inspired initiatives of the previous era. The Southern trade coalitions examined in this chapter are the Group of 20 (G-20+), the most recent UNCTAD Conference in June 2004, and various co-operative arrangements that are still in the pipeline, such as the India–Brazil–South Africa (IBSA) dialogue forum.

### **3.1 Historical description of the post-Cold War era**

“Since NIEO, there has been a substantial shift in the developing countries’ perception and awareness of the gains to be had from economic relations with the developed countries under the existing rules of the game” (Madeley, 2003). At the same time, the developing countries considered their economic and hence political

power vis-à-vis that of the developed countries to be sufficiently substantial to warrant a strategy of effective trade unionism. Their aim was to change the rules of the game to wrest a greater share of the world's wealth and income from the North for the South. The posture of the developing states changed, largely owing to a straightforward political desire to participate more effectively in decision-making on international economic matters. Their motive was not merely to ensure that the interests of developing nations were safeguarded, but to assert their rights as members of an international community. Recognition of those rights would create a more just international order (Looney, 1999).

As argued by Sally and Draper (2004: 45), the formation of UNCTAD/ G-77-type alliances was logical in a world of import-substitution policies and old-style Special and Differential treatment, but irrelevant and archaic now. Besides, "such formations are too diverse and unwieldy, cobbling together promising new-globalising countries, basket cases run by gangsters with flags, and (all) shades in between". (Sally and Draper, 2004:45). The authors describe UNCTAD gatherings as serving little purpose other than to complain about the inequities in a system that gives unfair advantage to the North.

The most influential causes of the changes in the contemporary political economic context have been the impact of globalisation and the emergence of a market-orientated, knowledge-based, technologically-driven economy.<sup>27</sup> In recent years there have been dramatic advances in information and communications technology, which have been combined to suggest a radically different agenda for international development co-operation. Markets for money, finance and technology are becoming increasingly integrated globally, fuelled by an increasingly liberalised macroeconomic policy framework. According to the 2000 World Bank report, use of the Internet has boosted efficiency and enhanced market integration both domestically and

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<sup>27</sup> In this particular context, the *state* is considered as a collective political institution of the modern nation-state, a geographic region with a relatively coherent system of government that extends over the region. The *market*, on the other hand, is an individual economic institution of modern capitalism. The parallel existence of states and markets creates a fundamental tension that characterises political economy. This interaction is dynamic and always in a state of transition. Cycles of change are transposed upon evolutionary paths (Balaam and Veseth, 1996:9). This description emphasises the changes in political economy and the resultant alteration in co-operative alliances among nations of the South.

internationally, particularly in developing countries that were previously disadvantaged by poor access to information. Within the global markets, transnational corporations predominate, and thus their decisions thus have a pronounced impact on economic activities across the world. Ohiorhenuan and Rath (2000) contend that these changes accentuate the continued relevance of South-South co-operation, which supplies a framework which developing countries can use to participate more effectively in the newly emerging economic order. Another advantage of co-operation is that developing countries are realising the potential of trade and investment amongst other Southern countries. Reliance on the North has become much less attractive.

Due to economic developments over the past two decades, the South's shares in global trade and financial flows have grown dramatically. The new geography of trade that has emerged represents a South that is moving steadily away from the periphery of the world economy and trade. This in turn is reflected in changes in the traditional pattern of the international division of labour (UNCTAD, June 2004). In principle this augurs well for the South, because trade should be able to propel sustained economic growth, diversification, employment generation and poverty reduction in developing countries. Further support for this argument is given by Abdul Minty, who advocates integration and the promotion of effective participation in the emerging global economic system (1994:123) as the means to development. Minty describes South-South co-operation as having taken on a new meaning in the post-Cold War world. Previously, the motive behind South-South co-operation was the need to widen markets on a sub-regional or regional basis, and to provide a framework for import substitution industrialisation that reflected economies of scale. "Yet the arrival of globalisation and increased liberalisation has shifted the emphasis from self-contained growth within regional or sub-regional parameters to one of enhancing the capacity of developing countries to participate in the global economy" (Minty, 1994:124). This again substantiates the argument that recent developments in the global economy have improved the feasibility of development strategies.

### **3.2 The emergence of the 'new geography of trade' or 'new' Political Economy**

As already noted, during the 1970s South-South economic co-operation grew considerably faster than both world trade and trade among developed nations (UNCTAD, TDR2005:129). This growth was the result of a rise in commodity prices, particularly of petroleum, as well as growth in intra-regional trade in manufactures, particularly in East Asia and Latin America. The South's export share has almost doubled since 1970, and has stood at more than 30% over the past few years. Its import share has risen slightly less rapidly, reaching 29% during the same period (UNCTAD, TDR/2004:132). Growth in South-South trade dissipated following the price declines of the 1980s and the economic and financial crises in much of the developing world at that time. However, after a downturn in the early 1980s, trade among countries of the South increased substantially in the years that followed, raising the South's contribution to world trade. Indeed, according to UNCTAD's Trade and Development Reports of 2004 and 2005, trade statistics since the mid-1980s reflect that developing countries made substantial headway in opening up their markets (including for imports from other developing countries); in adopting more outward-orientated development strategies; in introducing trade reforms; and in initiating numerous regional trade agreements. These structural changes have promoted economic co-operation among countries of the developing world. See appendix A.

It must be noted that trade liberalisation and the economic policies that brought it about benefited various economies more than others. This will be discussed at a later stage of the dissertation.

The emergence of a number of 'middle powers' to form a new growth axis in the world economy renewed hopes that South-South trade could provide additional momentum for development. The most important factor contributing to improved trade among the southern countries is that output growth in some developing economies (particularly Asian ones) has occurred more rapidly than in the developed countries. The high growth performance of these emerging economies has been closely linked both with increasing intra-regional specialisation and production-

sharing, and with shifts in the level and composition of their external trade.<sup>28</sup> A rise in South-South exports of primary commodities to the rapidly growing Asian developing countries is likely to evolve into an important feature of the contemporary political economy.

UNCTAD's 2005 report, compiled to address issues of South-South co-operation debated at the Doha High-Level Forum in December 2004, makes reference to the “*emerging new trade geography and international economic relations*” (UNCTAD, *DITC/TNCD/2005/6*). Table 1 of the report (inserted below) provides an illustration of the evolution of these features of increasing South-South economic co-operation over nearly 40 years (from 1965–2003) (UNCTAD, TDR/2005:131). This table clearly illustrates that, as a share of the total exports of developing countries, those among Southern economies increased from 25% in 1965 to 43% in 2003. During the same period there was a decline in the share of their exports to developed countries (from 69% in 1965 to 54% in 2003). This was also accompanied by an increase in the share of South-South imports of first-tier newly industrialised economies (NIEs) and China (from 46% in 1965 to 62% in 2003). Over this period imports rose from about one-fifth to almost two-thirds. The share of developing country exports (mainly in manufactured products).to developed countries rose from 8% in 1965 to approximately 50% in 2003.

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| <p><b>Table 1: Matrix of World Merchandise trade by major product category, 1965, 1985 and 2003</b></p> |
| <p><b>Importers</b></p>   |

<sup>28</sup> The UNCTAD 2005 Trade and Development Report explains that “a substantial portion of the increase in South-South trade in manufactures is due to double-counting linked with intraregional production-sharing in East Asia for products eventually destined for export to the North”. The increase is also due to double-counting associated with the function of Hong Kong and Singapore as transshipment ports or regional hub ports. The important role of triangular trade in the measured rise of South-South trade in manufactures implies that the bulk of such trade has not reduced the dependence of developing countries’ manufactured exports on aggregate demand in developed-country markets. As long as the final demand from developed countries remains high for products for which production-sharing within East Asia plays an important role, triangular trade, and thus South-South trade will remain strong. On the other hand, the economic rebound in Latin America has improved the prospects for South-South trade in manufactures that is not related to triangular trade (UNCTAD, TDR/2005).

| Exporters   | Developed Countries | Developing Countries |
|---|---------------------|----------------------|
|   | Share (per cent)    | Share (per cent)     |
| <b>1965</b>   |                     |                      |
| Developed countries<br>All merchandise                    | 67.2                | 22.6                 |
| Developing countries<br>All merchandise                   | 68.9                | 25.1                 |
| Of which:<br>First tier NIEs and China<br>All merchandise | 53.7                | 47.1                 |
| <b>1985</b>   |                     |                      |
| Developed countries<br>All merchandise                    | 67.5                | 22.1                 |
| Developing countries<br>All merchandise                   | 60.3                | 26.9                 |
| Of which:<br>First tier NIEs and China<br>All merchandise | 54.7                | 42.0                 |
| <b>2003</b>   |                     |                      |
| Developed countries<br>All merchandise                    | 74.7                | 21.7                 |
| Developing countries<br>All merchandise                   | 53.8                | 43.4                 |
| Of which:<br>First tier NIEs and China<br>All merchandise | 47.5                | 51.0                 |

*Source: United Nations Conference on Trade and Development. Trade and Development Report, 2005. New York and Geneva, 2005. TDR/2005:131.*

### **3.3 Growth in South-South trade: uneven and geographically concentrated**

Although it is obvious that developing countries have been playing a greater role in world trade, the improvement has been neither a continuous process nor uniformly spread across the various developing regions. In the 1970s the growth in exports among Southern economies was largely caused by the temporary shift upwards in international oil prices. In consequence, the main contributors to the rise in exports thus the major oil-exporting countries (many of which were located in West Africa). The subsequent sharp fall in oil prices, combined with the effects of the debt crisis of the early 1980s and the slow or negative growth of these countries, led to a shrinking of the share of developing countries in world trade during this period. This was particularly noticeable in the reduction of imports.)<sup>29</sup> As a result, in subsequent years the shares of many developing countries, particularly in Africa and Latin America and the Caribbean, were lower than they had been in 1970. Despite the attempted rebound during the 1990s, the average shares in world trade of these two regions have not recovered to the levels reached in 1980 (UNCTAD, TDR/1993).

Contrary to the experience of Africa and Latin America, East Asia's share in world trade has grown at a consistently rapid rate since the 1960s (see Table 1), except for a temporary decline which occurred in the aftermath of the Asian economic and financial crisis in 1997–1998. The share of the first-tier NIEs has grown fourfold since 1970, and China's share alone has risen more than five fold since 1980 (UNCTAD, TDR/2005:132). It is thus apparent that for the past three decades, the NIEs and China have been responsible for the substantial rise in the share of world exports of Southern economies taken as a group.

It is thus obvious that rapid economic growth and industrialisation in East Asia have been accompanied by a marked trend in the region towards greater integration and specialisation, which has led to a rapid expansion of trade within production networks. As discussed in some detail in UNCTAD's TDR/2002, lower transport and communication costs, and reduced trade and regulatory barriers have facilitated production-sharing on a global basis. Production-sharing is generally concentrated in labour-intensive products; but it can also involve the location at different sites of

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<sup>29</sup> UNCTAD's 2005 Trade and Development Report states that "the economic and financial crisis was caused by the collapse of commodity prices, the rising cost of servicing soaring external debts and the ensuing sharp contraction of the supply of commercial credit that reduced their capacity to import" (UNCTAD, TDR/2005:135).

labour-intensive segments of otherwise technologically complex production processes. It allows firms to exploit the comparative advantage of different locations that are specific to the production of particular components, including economies of scale, and differences in labour costs across countries. Firms operating in East Asia have been particularly successful in spreading production activities in clothing, footwear and electronics across the sub-region to take advantage of labour-cost differentials (UNCTAD, TDR/2005:137). This new pattern of international trade with international production networks has resulted in the Asian economies accounting for about two-thirds of total South-South trade (as compared with 21% in 1970). Trade between East Asia and other developing countries accounted for about another 14%.

### **3.4 Select beneficiaries of South-South trade**

According to the UNCTAD's *2005 Trade and Development Report*, the greater volume of trade among nations of the South is concentrated in a few individual economies. In 2003, the 10 largest economies in South-South trade jointly accounted for about 84% of total South-South exports and for about 78% of total South-South imports. Brazil and Mexico are the only non-Asian countries that feature among these top 10 economies. The leading two economies, China and Hong Kong, taken together, are responsible for more than one-third of South-South trade. See table 2 below for a list of economies ranked according to their export and import performance.

| <b>Top 10 economies in South-South trade (2003), according to<br/>UNCTAD's TDR/2005<br/>(Percentage shares of total South-South trade)</b> |
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| <b>Total merchandise of leading exporting economies</b>  |
| 1. China (19.7)  |
| 2. Hong Kong (14.2)  |
| 3. Republic of Korea (11.1)  |
| 4. Singapore (9.4)   |
| 5. Taiwan (9.3)  |
| 6. Malaysia (6.0)  |
| 7. Thailand (4.1)  |

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| 8. India (3.4)   |
| 9. Brazil (3.3)  |
| 10. Indonesia (3.1)                                      |
| <i>Total of top 10 Southern economies = 83.5</i>         |
| <b>Total merchandise for leading importing economies</b> |
| 1. China (21.0)  |
| 2. Hong Kong (17.7)                                      |
| 3. Republic of Korea (8.9)                               |
| 4. Singapore (7.7)                                       |
| 5. Taiwan (5.9)  |
| 6. Malaysia (4.6)  |
| 7. Thailand (4.0)  |
| 8. Mexico (3.5)  |
| 9. India (2.5)   |
| 10. Brazil (2.2)   |
| <i>Total of top 10 Southern economies = 77.8</i>         |

### **3.5 Mayer's explanation of variations in economic growth**

According to Mayer (2004),<sup>30</sup> there has been a strong rise in exports from both developed and developing countries in sectors where production stages are easily separable, where components are less labour-intensive than final goods, and where demand for finished goods is small in a low-wage developing country. Statistics indicate that the volume of manufactured exports has grown more rapidly in developing nations than in developed nations. However, although there are declines in manufacturing value added products in developed countries and rises in the same industries in developing economies, the bulk of manufacturing value added remains in the North. Manufactured exports in developing countries grow much more rapidly than manufacturing value added goods.

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<sup>30</sup> Mayer, J.: *Industrialisation in developing countries: some evidence from a new economic geography perspectives* in United Nations Conference on Trade and Development. Discussion Paper. No. 174. August 2004.

The spread of industrialisation from developed to developing countries affects neither all developing countries nor all industrial sectors at the same time or to the same extent. Put differently, the dispersion of industry from the North to the South does not lead to steady industrial development in all low-wage economies. It is only the developing countries that have substantial industrial bases that will attract firms relocating from the North. “The pertinent dimensions of difference are those which determine the profitability of the first firms to relocate, so include labour market forces, internal infrastructure, as well as institutional characteristics of individual countries” (Mayer, 2004:6).

From these findings it is obvious that the current process of globalisation has spurred industrialisation in some developing countries. The findings support the predictions that the decline in trade barriers brought about by liberalisation in the 1990s has weakened the importance of industrial linkages in developed countries. It has also favoured the expansion of industrial activity from developed to geographically proximate developing countries in sectors that are intensive in immobile primary factors and not too heavily dependent on linkages with other firms. These sectors include traditional labour-intensive sectors such as the manufacture of footwear and leather products. There has also been a significant outward extension of industrial sectors that rely on forward and backward linkages in developing countries. This is illustrated best by the electrical and non-electrical machinery sectors, which continue to be among those in which agglomeration is strongest. Hence the international production fragmentation in these sectors has not been associated with a strengthening of either forward or backward linkages (Mayer, 2004:21) in developing countries.

The findings also point to important differences in the extent to which the spread of industrial activity benefits the industrialisation process in the South, and suggest that this difference depends on their existing level of industrial development (Mayer, 2004: 22). Developing countries in the early stage of industrialisation that attract relocating industrial activity mainly on the basis of factor-price differences, such as South Africa and Mexico, experience a change in the structure of their manufactured exports. However, there is little change in their manufacturing value added. In

contrast, developing countries with well-established industrial bases such as China and India enjoy linkage-related effects. They experience a change in the structure of manufacturing value added without necessarily undergoing an extensive change in their manufactured exports. A continuation of the observed spread of industry is likely to reinforce existing differences in industrial development between developing countries (Mayer, 2004:22).

It follows that a major challenge facing developing countries is how to extract from their increasing integration into the international economy the elements that will promote industrialisation. The experiences of successful emerging economies suggest that this means combining the opportunities offered by the new trade geography with a growth strategy that mobilises the capabilities of domestic institutions and investors. The accumulation of both human and physical capital and the provision of appropriate infrastructure with a view to raising productivity remain crucial factors. These are not well represented in Africa, which explains why there has been minimal economic progress made in the majority of African states.

Technological transfer and advances have clearly influenced growth in the countries of the developing world.

**Table: The New economic geography is not benefiting all of the developing world** (*UNCTAD/DITC/TNCD/2005/6*)

- A recent report by the WTO Secretariat to the WTO's Committee on Trade and Development notes that behind the aggregate figures, the performance of developing regions and economies varies widely. Out of 148 developing countries, less than half (61 countries) had export growth rates that exceeded the global average.
- Even among LCDs, which UNCTAD's data show to have experienced, as a group, solid growth of 4.9% between 2000–2002, GDP stagnated or declined in 24 countries (half of all LDCs).
- The World Bank has noted: “notwithstanding robust aggregate performance, many countries have been less successful in reaping the benefits of the last few years of strong economic conditions. More than 50 developing countries have current account deficits that exceed 5% of GDP. If trade growth were to slow more than currently predicted, or if terms of trade were to deteriorate more, the required adjustment could be severe”.

### **3.6 The impact of elements of the new political economy on developing world alliances such as UNCTAD and the G-20+**

Taking into account the transformation of the political economy and the resultant industrialisation of a number of Southern countries, it seems relevant to investigate the effect that characteristics of the new economy had on the formation of economic co-operation alliances between developing countries. Two initiatives will be looked at in detail: the United Nations Conference for Trade and Development (UNCTAD) and the Group of 20 (G20+).

#### **3.6.1 Developments in United Nations Conference for Trade and Development (UNCTAD)**

Since the end of the Cold War and the emergence of liberal economic policies and institutions, countries of the South have developed common values and aims to strengthen their bargaining position. The corner stones of their shared goals are open markets, a reduction in protectionism, minimal state influence, interdependence, and the inviolability of private property ownership. The solidarity that a group of developing countries displayed at UNCTAD IX and X, held in South Africa in 1996 and in Thailand in 2000 respectively, indicate that the developing states are working towards building closer alliances so as to represent their interests more strongly in global economic forums.

The UNCTAD XI Conference held in Sao Paulo in June 2004 illustrates not only the increasingly collaborative efforts of countries of the South but potential benefits (Khor, 2004). UNCTAD XI provided an opportunity, for leaders of the South, especially President Lula of Brazil, to call on the leaders of the developing countries to build a 'new geography of trade' which stresses the role of South-South trade and co-operation in a globalising world (Marcondes, 2004: 1 and Kowsmann, 2004:1). Speaking at both the inaugural ceremony of UNCTAD XI and the plenary session immediately afterwards, Lula directly invited the attendees to join him in building a

new world order capable of producing prosperity and social justice. “Western states will not merely make trade concessions because the South demands them - what is needed is a political force that can change the face of international relations”, said Lula (Osava, 2004: 1 and UNCTAD XI, TD 404/2004). The Brazilian president cited Brazil’s formal case in the WTO against US subsidies for cotton growers (Lavagna, 2004:1) as an instance of Southern solidarity. Lula explained that the successful outcome of this lawsuit would not only assist Brazil, but also those African countries in which cotton is the main export.

It is also becoming increasingly apparent that the developing nations in the WTO are beginning to set their own agendas, which focus on opening markets to their exports and rebalancing past trade accords. The least-developed member countries are becoming more vocal and determined both to become more active and to avoid repeating earlier mistakes (Mattoo and Subramanian, 2004). Although it is evident that the developing countries emerged as a ‘formidable force at the bargaining table’ at the Doha meeting, critics believe that the South is unsure of how to use its newly-acquired negotiating muscle (Williams and de Jonquieres, 2001). However, a breakthrough in negotiations regarding agricultural subsidies in the WTO took place on 2 August 2004 after much deliberation among the most powerful developed countries. These nations, which included the US, the EU, Brazil and Japan, eventually agreed on a framework to eliminate export subsidies at a date to be set; to limit other subsidies; and to lower tariff barriers (BBC News, 2004:2). Even though the framework was short on detail and failed to provide a clear road map on the most contentious issues that precipitated the Cancun disagreement, it was hailed as useful in helping to forge a broad consensus on which to progress (Ndirangu, 2004:1). The recognition of the need to allow developing countries to adopt measures, based on the criteria of food security and rural development, to protect key crops was seen as a major victory for many of the developing countries. The framework also addressed some of the development priorities of developing countries by reviewing existing WTO agreements, many of which were seen as widely favouring industrialised countries (Ndirangu, 2004:1).

The most recent WTO round took place in Hong Kong between 13–18 December 2005. Although it is too early to predict outcomes, the G-20 group seized the

opportunity to stress its role as a united and 'indispensable' interlocutor in the negotiations. India emphasised the role of Special Products and the Special Safeguard Mechanism<sup>31</sup> as some of the most immediate priorities for the developing countries to raise in the negotiations (BRIDGES, 2005).

The ability of the South to shift thinking in the WTO to incorporate the interests of the developing countries rests on its ability to muster a united and enduring political front. The history of South-South economic co-operation is marked by failures to bring this about. However, the political and economic context within the WTO, as well as the broader international economic system is dynamic, and many factors in the calculations have changed considerably. The vital question that now remains is: How can these South-South co-operative schemes help the South to act in solidarity to further its collective interests in multilateral forums (UNCTAD, 2003)? Will contemporary political and economic factors hinder or promote such Southern strategies?

The political economy of the post-Cold War period has been characterised by the emergence of more issue-based coalitions, such as the Group of 20 (G-20+)<sup>32</sup> and the Group of 90 (G-90)<sup>33</sup> to engage in the multilateral trade negotiations of the Doha work programmes. Some countries of the South have also established inter-regional consultative arrangements such as IBSA (IBSA Trilateral Commission, 2004) and the BRIC (Brazil, Russia, India and China) alliance.

### **3.6.2 The emergence of the Group of 20 (the G-20+)**

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<sup>31</sup> These goals were put forward as to cushion the impact of a surge in agricultural products.

<sup>32</sup> It is important to clarify that the G-20 + referred to in this instance refers to a group of 20 developing countries. This must not be confused with what Stremlau (2005), and Martin (2005) refer to as the G20, a leadership forum comprising finance ministers and central-bank governors from a group of highly industrialized countries (the G-7) and other emerging economies, with a view to promoting international financial and economic stability. This forum was established in the wake of the financial crisis in emerging markets in the late 1990s.

<sup>33</sup> For the purpose of this discussion, the G-90 will not be mentioned. It is, however, a tripartite alliance of the African Union (AU), the African, Caribbean and Pacific Group (ACP) and Least Developed Countries (LDCs) which called for the Singapore Issues to be dropped from the WTO agenda.

The G-20+ is a group of developing countries that was established on 20 August 2003, during the final stages of the preparations for the Fifth Ministerial Conference of the WTO, held in Cancun in September 2003 (Narlikar and Tussie, 2004:948).

Sources such as the *South Asia Monitor* claim that the origins of this coalition can be traced back to the Brasilia Declaration, which was signed between Brazil, India and South Africa in June 2003. But the coalition at Cancun, according to Narlikar and Tussie, was formed as an immediate response to the EU–US text on agriculture, which was highly dismissive of Third World concerns (Narlikar and Tussie, 2004:951). Explaining the rationale behind the coalition, the Brazilian Foreign Minister, Celso Amorim, who was the co-ordinator for the G-20+ at the time, wrote:

“The real dilemma that many of us had to face was whether it was sensible to accept an agreement that would essentially consolidate the policies of the two subsidising superpowers – with very modest gains and even some steps backward – and then have to wait for another 15 or 18 years to launch a new round, after having spent precious bargaining chips” (*Wall Street Journal*, 25 September 2003).

Brazil and India drafted the first text together, and then collaborated with other countries, who also became members of the group. The framework proposal put forward was signed by 20 countries, the most important of which are Brazil, China, India and South Africa. They also include members of the Cairns Group from Latin America and East Asia, plus Pakistan, Egypt and Nigeria.<sup>34</sup> The parties to the alliance combined some of the largest and most powerful members with some of the smallest and least developed states of the South. The Group of 20 thus consists of a wide and geographically balanced representation of developing countries. It has legitimacy due to the importance of its contribution to agricultural production and trade, as it represents 70% of world’s rural population and producers 26% of the world’s agricultural exports. The group’s appearance was also historic, because it was the first coalition in which China had played a leading and committed role since it became a

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<sup>34</sup> The number of member states making up the G-20 increased with the addition of Egypt and Kenya. Thus the number has increased from 20 participating states to 22, and is referred to in other instances as the G22.

member of the WTO in December 2001 (Narlikar and Tussie, 2004:953). The G-20+ presented a credible threat from the South to block consensus among the Northern economies. The Group was strengthened by the moral weight earned by representing the interests of over half of the world's population.

This coalition of Southern countries was established as a means to avoid a predetermined result at Cancun, and to open up a space for more meaningful negotiations concerning agriculture. The Group's main objective was thus to secure an outcome in the agricultural negotiations that would reflect the interests of the Third World. Accordingly, the Group adopted put forward a proposition that was circulated as an official document of the WTO, prior to and during Cancun, and remains the central platform of the Group's position. Among other elements, the document proposed radical cuts in the domestic support measures used by the developed countries in the Green Box; a blended formula under which each element would contribute to substantial improvement in market access for all products; and the elimination of export subsidies for products of particular interest to developing countries. The G-20+ framework also requires the developed countries to commit to significantly higher levels of liberalisation than that in the envisaged EU-US proposal (Narlikar and Tussie, 2004: 952). Draper and Sally (2004: 12) refer to the G-20+ position as one of "extreme offence and extreme defence: pressing for significantly greater developed country liberalisation, but rejecting meaningful liberalisation of own markets".

After the failure of the Cancun meeting to produce concrete results, the G-20+ embarked on technical and political consultations amongst themselves with a view to injecting momentum in the negotiations. The Group held two ministerial meetings, in Brasilia in December 2003 and in Sao Paulo in June 2004, and met frequently at the level of heads of delegations and senior officials in Geneva. Representatives also met at a technical level to discuss specific proposals for the WTO agriculture negotiations, and to prepare technical papers in support of the coalition's framework proposals.

There are numerous authors who argue that the nature of the global political economy provides substantive reasons for guaranteeing the cohesion and durability of coalitions between developing countries. However, Narlikar and Tussie (2004: 960) argue that

the reason why the G-20+ managed to preserve its cohesion when other coalitions had failed lay not with the prevailing political and economic factors of the time, but rather with their structure and with the strategies that the member states deployed. Narlikar and Tussie refer to like-mindedness among the leaders of the most important members of the group (namely Brazil, China, India and South Africa). They also claim that, unlike the alliances developed during the Uruguay Round, but akin to some of the issue-based coalitions of the 1980s and blocs at Doha, the G-20+ did not simply aim at presenting a “laundry list of demands”. It was not simply “a blocking coalition, but in fact a pro-active agenda-moving one” (Narlikar and Tussie, 2004: 962).

Pascal Lamy disagrees with this opinion and holds to the view that the success of the developing countries of the G-20 is principally driven by the changing political economy of the time. The former EU Trade Commissioner and recently-appointed President of the WTO, Lamy, addressed the South African Institute of International Affairs on 10 May 2005. He described the changing trade landscape of the present decade, and referred to the leading roles now being played by various countries belonging to the South.<sup>35</sup> He emphasised the importance of globalisation and the manner in which liberalisation has promoted economic interdependence, and thus fostered co-operation among the economies of the South in the 21<sup>st</sup> century. According to Lamy, South-South co-operation strategies are essential mechanisms to allow the Southern voice to be heard and to provide support for such issues as securing a permanent seat for a Southern country on the United Nations Security Council (UNSC) and reducing agricultural subsidies in favour of the poorer countries.

A view similar to Lamy’s was expressed by Cintia Quiliconi from FLASCO, Argentina, at a conference on 15 February 2005 at the Rosebank hotel. In the paper she presented, she stated that developing countries changing their trade negotiation strategies. The notion of natural trade partners is no longer a priority, and inter continental trade is no longer dependent on regionalism. A new trade geography has developed that reduces dependency and creates the possibility of new strategic

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<sup>35</sup> He did, however, emphasise that it was not the South as a unified bloc that was progressing as a result of these changes, but a small number of states such as India, Brazil and China, which were benefiting from the political economy of today (10 May 2005, Conference held at SAIIA, Johannesburg).

alliances among countries of the South that are more compatible with the political and economic environment in this century.

Analysts offer differing opinions regarding the potential successes and consequences of the G-20+. Nalikar and Tussie believe that although “potentially an economically powerful and morally valuable alliance”, the G-20+ has so far recorded relatively few successes. They provide a number of reasons for this assessment. First, the G-20 combines a vast mix of developing countries, including small countries whose susceptibility to demands from the US and EU was high, while the inability to hold out against such pressure was low. Second, even while focusing on the area of agriculture, the coalition brings together countries with divergent positions on the issue of agricultural liberalisation vis-à-vis protectionism, let alone differing priorities on other issues. Third, the Group uses a strict distributive strategy: it demanded concessions from the Quad<sup>36</sup> and offered very little in return (Nalikar and Tussie, 2004).

Sally and Draper (2004) have, however, an alternative view. “Despite large internal differences, such as Brazil’s export interests and India’s protectionist interests, the G-20+ has held together and become a major influence in the WTO”. They describe some of the breakthroughs that the G-20+ has managed to achieve as being attributable to the Group’s ability to put extra pressure on OECD agricultural policies, particularly on trade-distorting farm subsidies. They also mention the crucial role the G-20+ played in putting together the July 2004 negotiating framework (Sally and Draper, 2004:12).

Following on from the G-20+, and still with reference to South-South co-operation strategies that were initiated after the Cold War, it now becomes relevant to analyse the latest trilateral dialogue forum between India, Brazil and South Africa (more conveniently dubbed IBSA). Although it is still in the initial stages of formation, this Southern forum aims to alter the track record of South-South co-operation alliances in the past. IBSA is discussed in greater more detail in chapter 6 as an example of the shift in Southern economic strategies and the emergence of the semi-periphery.

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<sup>36</sup> In this context the Quad refers to the US, the EU, Japan and Canada.

For the purpose of this chapter, however, it must be noted that IBSA represents a new pattern of economic co-operation that has emerged between the southern economies as a result of the changing political economy of this era. With the increase in the number of development economies adopting a liberalisation agenda and the promotion of a knowledge-based economy (among numerous other factors), new South-South alliances have been formed. In the following chapter the researcher focuses on this new pattern of co-operation and on the emergence of certain Southern economies that have benefited exceptionally from the recent changes in the global trading system. It is also important to recognize that although the introduction by Puga and Venables was relevant to analysis of economic performance in the Cold War era, many of the indices on which this model was formed are irrelevant in today's terms.