

Chapter 4: Puga and Venables model in the context of emerging South-South economic co-operation: the case of IBSA

The previous two chapters have established that factors in the political economy have changed substantially in the aftermath of the Cold War. These changes have had a considerable impact on southern markets, easing their integration into the global economy and making extra-regional economic coalitions among the developing countries more feasible. Although the author made some mention of the new economy in chapter 4, it is in this chapter it is discussed in relation to the liberalisation agendas of the South and the impact the knowledge economy has had on development. Through these changes, new patterns of co-operation have emerged within the South, the most prominent being trade on an extra-regional and inter-continental basis. To illustrate this point, the researcher looks specifically at the India–Brazil– South Africa forum. Another theme raised in this chapter is that growth in trade among the developing countries has occurred at an uneven pace, benefiting a select group of emerging economies and not all.

4.1 The relevance of the Puga and Venables model in the contemporary political economy

From the argument presented on the Puga and Venables model in the preceding chapters of this dissertation it is evident that the current process of globalisation has had a marked effect on the location of industrial activities. The lowering of trade barriers has reduced linkages conducive to the agglomeration of firms in Southern economies, and has strengthened forces related to the relative endowments of immobile factors that tend towards a less concentrated distribution of industrial activities in geographic space (Puga and Venables, 1996:2). Thus globalisation tends to change the balance between the forces of dispersion and agglomeration, tending to favour the expansion of industrial activities from the North to the South.

Outsourcing has had an enormous effect on the economies of developing countries. The decline in communication and transport costs in the post-Cold War era has made it economically viable for enterprises to break up production processes and distribute

different elements of production. to different countries. Mayer explains that this possibility has encouraged downstream production activities, such as assembly, to be moved from the developed countries to the developing countries. Upstream activities, such as product design and process technology, tend to remain in the developed states. The reason for this is that increased globalisation has resulted in a drop in trade costs, which makes low factor prices and cheap labour more attractive to Northern firms. It is thus feasible for international production fragmentation to occur. General Motors, an American automotive company, locates many of its production processes in emerging markets such as South Africa and Mexico. Volkswagen, a German company, also has substantial assembly and production plants in places like South Africa, where there is a large pool of cheap labour.

This point is also emphasised by Nimrod Zalk from the South African Department of Trade and Industry. Zalk explains that TNCs, in an attempt to increase their international competitiveness, increasingly situate different paths of their value chains in separate geographical locations. Cost advantages can be found in locations where, for example, labour rates are low and sufficient skills are available. More advanced activities such as research and development can be located in other areas, where the prevailing economies of agglomeration (for example, the presence of universities and a supply of post-graduate researchers) support them. This encourages firms to concentrate on their core competencies and outsource/ subcontract non-core activities. Reasoning along these lines has also motivated mergers and acquisitions, as corporations have been forced to consolidate in order to become significant global players in their areas of specialisation (Zalk, 2004:18). This is exemplified in a number of South African companies such as Anglo/De Beers, which locate their R & D functions abroad.

Puga and Venables make specific mention of this market and product market competition that encourage firms to locate where labour is cheap and where there is adequate demand. These factors hold true today and encourage development in the South.

The other points mentioned by Puga and Venables are cost and demand linkages. These make it unprofitable for a firm to relocate to a developing country, as in doing

so companies forgo the benefits of proximity to suppliers and their industrial consumers. Although in principle these points still apply, the knowledge economy has made it possible to relocate a number of production activities to the developing countries because of an increase in liberalisation and in technological capabilities available in these countries.

In *Trading Arrangements and Industrial Development*, Puga and Venables concentrate exclusively on the trade flows generated by these agglomeration forces. They assume that countries have no underlying differences in technology or relative factor endowments. This is clearly an unrealistic position, especially as applied to the knowledge economy that provides differing dynamics in the global economy. As mentioned previously, it is important to note that the changing political economy has had major implications for trade and integration strategies. Since the opening up of the world economy through increased liberalisation and advancement in technological capabilities, the limited trade arrangements referred to by Puga and Venables (unilateral liberalisation and North-South trade) are no longer the only economic alternatives.

In this framework, the knowledge economy and the current process of globalisation - in particular the lowering of trade barriers and the growing role of intermediate inputs in world trade - have had a dramatic effect on the geographical location of industrial activities. The former has reduced linkages that favour the agglomeration of firms in developed economies and has strengthened those forces related to relative endowments of immobile factors which make a less concentrated distribution of industrial activities in geographic space attractive. Thus, globalisation tends to change the balance between dispersion and agglomeration forces, and tends to favour the spread of industrial activities from developed countries to developing countries, or from the North to the South.

4.2 Select Southern economies

It is important to note that the expansion of industrialisation to developing countries is not an even process, and does not affect all developing economies or industrial sectors

at the same time or to the same extent. As already mentioned in the previous chapter, Jörg Mayer (2004) explains that “developing countries, with an already established industrial base, achieve industrialisation to a greater extent than the less-developed economies”. This was evident particularly in the Asian economies in the 1990s, but is also to be found in the increasing growth and influence of a new sub-group of Southern economies—Brazil, India, China and South Africa.³⁷

This group of ‘select’ Southern economies is referred to by authors in numerous ways. Harris (2005:7), Alden and Vieira (2004:3) speak of ‘middle powers’, ‘semi-peripheral states’ and ‘emerging economies’. UNCTAD’s 2005 *Trade and Development Report* describes these states as having experienced significant growth over the past two decades, outpacing the majority of countries in the Third World. In some instances the Report refers to them as “locomotives among the South” (UNCTAD/DITC/TNCD/2005). Sally and Draper describe them as “developing country majors” (Sally and Draper, 2005:19) as well as “20-25 first-division developing countries with increasing trade capacity” (Sally and Draper, 2004:15). According to their definition, this group of economies is predominantly made up of Latin American and East Asian states, but also includes South Africa and two low-income but fast-rising powers from Asia: India and China. These ‘new globalisers’ are becoming increasingly integrated into world trade and production networks. They have accumulated considerable trade-negotiating experience, which began with the Uruguay Round.³⁸ They have high-profile permanent representatives in the WTO, and well-staffed Geneva missions, they are active in WTO committee work, negotiations and dispute settlement. In short, they are reasonably well-integrated into the WTO, and can hold their own in current and future trade negotiations (Sally and Draper, 2004: 15). Other authors have also made reference to the advancement of the select or ‘semi-peripheral’ states and their increased interaction in the global economy. Authors include the likes of Davies (2004), Field (2004) and Singh (2004).

³⁷ For the purpose of this research, China will not be included in the discussion. It must be acknowledged, however, that China is one of the fastest-growing economies of this century, and has achieved considerable growth owing to advances in its political economy. According to the 2004 UNCTAD Trade and Development Report, China in 2003 and 2004 was a major engine of growth for most countries in the region. A large proportion of its imports, which have been growing even faster than its exports, are coming from the rest of Asia.

³⁸ The Uruguay Round started in 1986 and only finished in 1994.

But these successful economies represent a small proportion of the countries of the South. Nimrod Zalk of the Department of Trade and Industry, wrote in June 2004 that “gains made in world trade by developing countries as a group have been very unevenly distributed”. Zalk explains that of the top 20 countries that experienced gains in world market share over the period 1985–2000, 15 were developing economies. However, the regional distribution of these economies is highly concentrated. Nine of them are East Asian: China, Korea, Malaysia, Thailand, Taiwan, Singapore, Philippines and Vietnam. Apart from Vietnam, these economies are all amongst the top 10. By regional grouping, the next-largest set is made up of east European transitional economies: Hungary, Poland and Czech Republic. This is followed by Mexico and Chile, with the former demonstrating the third-largest gain. Other developing economies in the top 20 are India and Turkey (Zalk, 2004: 14). This analysis substantiates the claim that the gains in world market share are heavily concentrated amongst developing countries, but that countries such as China, Mexico and the first- and second-tier East Asian NIEs have experienced the highest level of improvement. In other regions, a relatively small number of countries and only two in Africa, have registered gains.

Sunil Kukreja also discusses the inequality to be found between the economies of the South, saying that although most of the focus is directed towards the growing gap between rich and poor nations, the increasing gap in levels of development of the LDCs should not be ignored (Kukreja, 1996: 313). In the 1950s and 1960s, LDCs shared many similarities, which included their colonial history and their need for development. By 1990s many of these nations had started to realise economic success. The leading East and Southeast Asian economies were some of the fastest-growing in the world. In contrast many others, especially in the Sub-Saharan African region, seemed unable to break the cycle of widespread poverty and standards of living. These discrepancies between regions are further complicated by severe disparities within regions and even within nations (Kukreja, 1996:313). Much of the contemporary literature regarding the states of the semi-periphery discusses their participation in multilateral institutions or in Southern co-operative strategies, for example the writings of Grubber (2000:4) and Krasner (1985). According to Grubber, a few or even a pair of states which have economic potential and a common interest in setting a regime can take an independent stance, attempting to change the rules of the

game and thereby restricting the alternatives for states that stay outside this co-operative effort. As he says, “the losers comply because they realise that the winners are in a position to proceed without them” (Grubber, 2000:4). States that do not have an initial interest in the regime often join in and then use their participation to reshape the institution from the inside. They can do this by forming coalitions with other states, seeking maximum advantage from co-operation with them.

Krasner explains that “relations between industrialised and developing areas are bound to be conflictual because most Southern countries cannot cope with their international vulnerability except by challenging (the) principles, norms, and rules preferred by industrialised countries” (Krasner, 1985:145). The only way to challenge them is to become part of the multilateral institutions first. Krasner implies that for middle power states, participation means influence (Alden and Vieira, 2004: 2). Therefore, states such as those that make up IBSA originally join multilateral institutions such as the WTO to develop shared interests, preferences, and motivations that are shaped by inter-subjective processes within this institution. This in turn triggers further co-ordination, since they are subjected to the same kind of institutional constraints and opportunities.

In the following section the researcher examines of a particular extra-regional co-operation strategy that has been pursued by three emerging Southern economies, India, Brazil and South Africa – the IBSA forum. This represents a new type of Southern strategy that extends beyond traditional regionalism to incorporate states on a inter-continental and extra-regional basis. Brazil, India and South Africa are examples of emerging Southern economies that represent the semi-periphery.

4.3 The India–Brazil–South Africa forum (IBSA)

The Declaration of Brasilia, which created the IBSA³⁹ Dialogue Forum, was signed on June 2003 by the foreign ministers of India, Brazil and South Africa. The presidents of all three countries officially presented IBSA to the international

³⁹ IBSA is also often referred to as the Group of 3 or the G3.

community at the 58th session of the United Nations General Assembly in New York in September 2003 (Le Pere and White, 2005).

The first official meeting of the Trilateral Commission took place in New Delhi in March 2004 where the foreign ministers of the three countries emphasised that “IBSA aspires to make a significant contribution to the framework of South-South co-operation and be a positive factor to advance human development by promoting potential synergies among the members” (White, 2004:1). The governments held a second meeting of ministers in Pretoria, South Africa, in March 2005.

Like many other Southern co-operation strategies, IBSA is based on the need to “promote social equity and inclusion” in global development. It is pushing for reform in a number of global fora, like the WTO and the UNSC. All three states hope that IBSA will result in a credible coalition of like-minded powers that can provide a means to counter the economic and political dominance of the countries of the North. As described by Mills (2004:4) puts it, “the three states wish to change or at least improve the economic geography of the planet”. Alden and Viera also describe the significance of IBSA as a ‘stepping stone’ towards broader economic co-operation among the developing countries (Alden and Viera, 2004:19).

Speeches made by various academics at an IBSA Conference held at the Rosebank Hotel in Johannesburg on 15 February 2005 endorsed this characterisation of IBSA’s fundamental purpose. Pranav Kumar, a representative of the Centre of International Trade (CUTS), India, expressed the need for political, economic and social coherence among the advocates of the South, especially in light of the unsuccessful initiatives of the past. The consolidation of Southern demands would help to compensate for the democratic deficit in the WTO, because the developing world represents two-thirds of the membership. Kumar described the improvement in the economic benefits of trade and investment for the developing states after the Cancun round. In 1990, total trade among the developing world comprised of 20%. In 2004, the percentage increased to 32% of the global total. Of this, 44% was made up of intra-developing world trade between the developing countries (in other words, 14.08%).

Kumar also emphasized the importance of collaboration between certain sectors of the three IBSA economies, each economy having competitive advantages in specific fields. India, for example, has a competitive advantage in the pharmaceutical industry, in information technology and in software and services. South Africa's mining technology and automotive industries are well developed and efficient, while Brazil has competitive advantages in the aerospace industry and automotive sector, in the agricultural sector, and in producing energy alternatives.

Lyal White of the South African Institute of International Affairs (SAIIA) represented the South African contingent. White described IBSA as "South-South coalition-building with a difference", and as a logical and practical development among three robust economies of the South. He also reviewed the role of the member states to date - South Africa having played a facilitating role, India a constructive and pragmatic role, and Brazil a diplomatic and public awareness role. Although the political ambitions behind the initiative are important, White considered the trade and investment component the major focus, saying that "in order for IBSA to evolve from a politically-driven talk-shop to a swap-shop of tangible results, it is essential to move away from South-South rhetoric and deliver results" (White, 2005: IBSA Conference).

Skeptics argue that IBSA is yet another rhetorical powerful but ineffective South-South initiative, lacking 'teeth' in its broad and overly ambitious agenda. However, IBSA's members are still establishing the policies and programmes that will define their partnership. The three governments appear determined to avoid the pitfalls that defeated earlier past initiatives.

Some contention has arisen regarding the exclusionary nature of IBSA's membership. More specifically, questions have been asked as to whether South Africa, Brazil and India can be regarded as credible representatives of the South. The exclusion of Influential countries such as China could undermine the initial purpose of promoting solidarity among the countries of the developing world. African countries have long questioned South Africa's power and priorities. (President Mbeki's presence at the inauguration of the new Brazilian president, Lula de Silva, instead of that of President Mwai Kibaki of Kenya, did not go unnoticed). However, Mills describes the exclusive

membership of IBSA as a “means for avoiding the pitfalls of other representative organizations of the developing world such as the Non-Aligned Movement (NAM), G77 and the G20+, which have in the past been too large and diverse in membership to deliver any effective results” (*The Citizen*, 9 February 2004).

Concern has also been expressed that opposing objectives in the three member states may confuse IBSA’s original mandate, resulting in conflicts of interest, as occurred in the G-77. However, the three countries have many common aims. For example, IBSA members agree on the need to reform the UNSC, as they all believe that they are natural candidates for the allocation of a permanent seat on the body. They also concur in opposing the agricultural subsidies in Northern countries which make their own products uncompetitive. Yet Brazil and South Africa differ on the liberalisation of their markets, and India has expressed a desire to protect its small farmers. India and South Africa also have profoundly incompatible views on disarmament, particularly with regard to weapons of mass destruction. South Africa, as the first country to disarm its nuclear capability voluntarily, believes that other countries should follow its lead.

If IBSA can adopt a concrete plan of action, its implementation should offer enormous advantages to South Africa, not least among them preferential access to two rapidly expanding markets. The principles behind IBSA are well aligned with South Africa’s foreign policy, because they include developing the ‘butterfly’ strategy is to place SA at the centre of South-South trade between Latin America and Asia.

The IBSA countries represent an enormous total population of 1.2 billion people, with combined GDP of \$1.1 trillion. They also contribute over 3% of total global economic output. Besides advancing multilateral trade, IBSA is likely to strengthen the already considerable bilateral ties that exist between its members. South Africa’s trade with India and Brazil has grown over the past decade by 1, 334% and 268% respectively, while India–Brazil trade stands at about \$937 million, having grown by 450% during the same period (Draper, Mills and White, 2005).

The success of IBSA will depend largely on the amount of political will and commitment to bridge their differences and maximise their strengths demonstrated by

the member countries. The leaders of the IBSA countries have been seen as visionaries who are also capable of lifting the long-stagnant South Agenda onto a higher and more politicised plane. However, quick and tangible results, such as the development of a clear list of priorities, the signing of hard and fast agreements and addressing the barriers to trade, will be the real determinant of success for this trilateral agreement.

Economic indicators from the semi-periphery (2003)			
	Brazil	India	South Africa
Population	176.6 million	1.1 billion	45.8 million
GDP (current \$)	492.3 billion	600.6 billion	159.9 billion
GDP growth (annual %)	-0.2	8.6	1.9
Exports of goods and services (% of GDP)	16.9	14.5	28.2
Imports of goods and services (% of GDP)	13.1	16.0	26.4
Trade in goods as a share of GDP (%)	25.1	21.1	48.5
Fixed lines and mobile telephones, (per 1,000 people)	486.5	71.0	410.5 (2002)
Personal computers, 2002 (per 1,000 people)	74.8	7.2	72.6
Internet users in 2002 (per 1,000 people)	82.2	17.5	68.2
<i>Information gathered from the World Bank Group (www.devdata.worldbank.org)</i>			

4.4 Brazil, India and South Africa: three emerging semi-peripheral states

Why should Brazil, India and South Africa enter a coalition? IBSA countries have numerous similarities. All three states are considered vibrant democracies; all three

states are economic leaders in their respective regions (within the framework of SACU, SAFTA and Mercosur); and all three are emerging powers that have become more assertive in both transnational institutions like the WTO and in Southern coalitions. As mentioned previously, this was evident in the Cancun and Doha Rounds of the WTO, where they played an important role within the G20+, helping to negotiate concessions in trade, agriculture and subsidies from the US and the EU.

Although Brazil, India and South Africa have been prioritising participation with other developing states, all three are still heavily dependent on Northern markets. Brazil's main trading partner, for example, is the US, while South Africa's is the EU. These states therefore remain reliant on the markets of the developed world. An interesting statistic from UNCTAD's *2005 Trade and Development Report* supports the above statement: "South-South exports as a percentage of developing country exports to developed country markets (North-South trade) has more than doubled, reaching a level of about 74% on average during the period 2000-2003 (and exceeding 80% in 2003)" (UNCTAD, TDR/2005:132). This means that any project that excludes Northern markets will come under harsh internal scrutiny from powerful interest groups in the IBSA countries, and could be easily undermined if it threatens their pragmatic, domestic interests. Even the large emerging markets do not seem willing to invest in relations with states based only on potential ideological affinities: they require strong prospects of economic gains. A recent bilateral dispute occurred between China and Brazil concerning the blocking of a huge shipment of Brazilian soya to Beijing just after a high profile visit of Lula to China. This demonstrates, that, despite the importance given by the current administration of Brazil to narrowing economic and political relations with emerging countries, pragmatism and short-term advantages are still paramount (Alden and Viera, 2004:15).

4.4.1 The case of Brazil

"No where is the 'IBSA-fever' more evident than in Brazil. Under the leadership of President 'Lula' da Silva, IBSA has become a priority and forms the core of Brazil's South-focused foreign policy" (White, 2005:1).

From World War II, Brazil's economic development was based on import substituting industrialisation (ISI), which was supported by the huge domestic market. For 35 years the economy expanded rapidly, and a large and diversified industrial sector developed (Economist Intelligence Unit, 2005).

In the late 1970s ISI began to show signs of exhaustion, but trade liberalisation did not begin in earnest until 1990, under the government of Fernando Collor de Melo. Almost all non-tariff barriers were removed and import tariffs were slashed. Lower import tariffs reduced the cost of inputs and machinery, promoting production and investment in the consumer goods sector. According to *The Economist*, this improved Brazil's comparative advantage in agricultural, livestock, wood, mineral and metal products. It also stimulated the expansion of the domestic durable goods sector and services such as telecommunications, commerce, transport and public utilities. Import penetration, particularly of capital goods, increased across all sectors, and the share of imports of goods and services rose from under 7% of GDP in 1992 to 13% in 2003. Brazil's export performance was poor during the 1990s, but its GDP/export ratio rose to 13.2% in 2001 as the trade balance swung back into surplus for the first time since 1993. It rose further in 2003, to 17.2%, following consecutive years of record export earnings in 2002–2003 (Economist Intelligence Unit, Country Data, 2004).

Mario Marconini from the Brazilian Institute for International Trade Negotiations (ICONE), gave a presentation at the IBSA conference in Johannesburg in 2005 in which he described positive developments in the Brazilian economy over the previous decade. He explained that Brazil had seen impressive growth rates, along with improvement in its current account and diversification of trade. He also acknowledged the small percentage (1% of the world's total trade according to Alden and Vieira, 2004:15) that Brazil contributes, and expressed the hope that with the establishment of the IBSA forum and alliances with other emerging developing countries, development would regain priority in Brazil's foreign policy. Mariconini did make it clear, however, that this would not be done at the expense of relations with its big trading partners, the EU and US.

Brazil at a glance : tracking economic growth from 1983–2003				
	1983	1993	2002	2003
GDP (US\$billion)	203.3	438.3	460.8	492.3
Exports of goods and services	11.4	10.5	15.5	16.9
Agriculture as % of GDP	10.9	7.6	5.8	5.8
Manufacturing as % of GDP	33.2	25.0	12.4	11.4
Services as % of GDP	45.1	50.8	73.5	75.1
Total exports (US\$million) fob	-	38,563	60,362	73,084
Total imports (US\$million) fob	-	25,256	47,237	48,260
<i>Data from the World Bank Group, 12 April 2005</i>				

The election of Luis Inacio ‘Lula’ da Silva to the presidency in 2003 heralded a change in the tone and substance of Brazilian foreign policy. Lula’s strategy (which was made evident in his stance at the UNCTAD session in Sao Paulo in 2004) focuses on increasing the bargaining power of developing countries so that they may become stronger and perhaps equal partners with the industrialised North. As Brazil gains greater leverage within the transnationalised economy, the hope is that a downward distribution of economic benefits will improve the life of the country’s working class and poor people.

Since assuming the presidency, Lula has been the Third World leader most active in attempting to develop a power bloc of developing nations to lessen the harmful effects of globalisation on LDCs. The G20+ is an example of this. Taking on the controversial issue of agricultural subsidies, Brazil challenged the US in a WTO case over cotton growers. The US hands out \$US 3 billion to approximately 25,000 cotton farmers annually, depressing world prices by 12–25%. This harms not only Brazil, but also some of the poorest countries in Africa. The WTO gave Brazil the victory by

ruling that US subsidies caused ‘serious prejudice’ to producers. Another Brazilian triumph followed when the WTO ruled against EU sugar subsidies (Harris, 2005: 21). The EU and the US therefore conceded ground on agricultural subsidies during the Doha round of the WTO talks. Brazil’s foreign minister, Celso Amorim, described the breakthrough as a victory for multipolarity. As he put it, “the Doha mandate provided developing countries with a platform for associating trade liberalisation with social justice. The banner of free and fair trade was now being waved by the poor”. He added that no longer could “pre-cooked deals between the two leading trading partners be accepted as the only possible basis for agreement” and noted that the politics of trade “were undergoing transformation” (Harris, 2005: 22).

Another distinct characteristic of Brazilian foreign policy under the Lula regime is the country’s investment in co-operative arrangements between middle-power states from distinctive regional contexts. An example of this, as mentioned previously, is the trilateral arrangement (IBSA) in which three regional hegemony pull together their material and principled assets to achieve clear national interests in multilateral forums on negotiations.

4.4.2 The case of South Africa

“In addition to vital political and strategic considerations, the evolution of democratic South Africa’s trade policy has acknowledged the importance - even necessity - of building economic relations with other countries of the South. It is within this strategic framework that South Africa has begun to examine the possibilities for promoting South-South trade relations with Brazil, India and China” (Draper and Le Pere, 2005:1).

The political transformation which took place in South Africa in 1994 opened the way for many new relationships between South Africa and countries or groups in the international community. South Africa’s economy was historically dominated by mining and agriculture, but in the current dispensation manufacturing and financial services contribute the larger share of GDP. Manufacturing accounts for around one-fifth of total GDP, but has faced significant challenges since the economy was opened to global competition. Services ranging from an advanced financial sector to a

developing tourism industry are the most important contributor to GDP. The inequality in income between the rich and the poor is extreme within the country, but South Africa is also on an unequal economic footing with other countries in Southern Africa. In 2002 South Africa's GDP per head was \$2,322, while in Zimbabwe, a neighbouring state, it was \$351, and in Namibia \$1,481 (Economist Intelligence Unit, *Country Data*, 2004).

Besides the problem represented by economic inequality, the South African government is faced with a high unemployment rate, poor service delivery, a surge in HIV/Aids infections, and increases in corruption and crime.

South Africa at a glance: tracking economic growth from 1983–2003				
	1983	1993	2002	2003
GDP (US\$billion)	84.7	130.4	106.3	159.9
Exports of goods and services/ GDP	24.4	21.5	33.3	27.6
Agriculture as % of GDP	4.4	4.2	4.1	3.8
Manufacturing as % of GDP	23.4	21.1	19.4	18.9
Services as % of GDP	51.1	60.3	63.7	65.2
<i>Data from the World Bank Group, 12 April 2005</i>				

Alden and Vieira (2004:8) describe the African National Congress (ANC), the ruling political party in South African since 1994, as having shifted its economic policy upon taking office to embrace a neo-liberal approach. This emphasised the opening of markets, robust trade and foreign investment as a source of capital accumulation. According to the *Trade and Industry Monitor* published by the Department of Trade and Industry (DTI) in March 2005, part of South Africa's strategy to reintegrate itself into the international economy was to reduce tariff protection. In manufacturing, average tariff protection fell from over 20% in 1990 to around 10% in 2002. The export orientation within manufacturing also rose from 12% in 1990 to 23% in 2000.

Imports as a share of domestic expenditure on manufactures rose from 17% to 28% during this period.

South Africa also sought to establish and deepen relations with developing countries, South-South political and economic co-operation being key foreign policy initiatives of President Mbeki, and part of the DTI's 'butterfly' strategy. For example, South Africa supported the position taken by the ACP countries against the EU in the negotiations at the Cotonou Convention in 2000 (Wheeler, 2004:90). The country has also made important contributions to various negotiating sessions of the Doha round of trade negotiations held by the WTO.

South Africa also sought to position itself within the institutional and ideational framework of Southern international organisations such as the NAM, the Organisation for African Unity (OAU) and UNCTAD. Its multilateral diplomacy increasingly involved leadership roles in key South organisations, which provided South Africa with an opportunity of negotiating the agenda of the Southern countries in international forums. Mbeki himself declared his ambition to create a "G7 of the South" and by 2001 this had been integrated into the policy-making of the DTI: "In relation to possible future rounds of the WTO, our policy will be to seek to bring developing countries around a common agenda - the so-called G-South. It is evident that only a co-ordinated response from the South will be able to secure sufficient concessions from the powerful industrialised countries" (Department of Trade and Industry, 2001:15).

While South Africa's vision is clear, reality tells a different story. It is clear from the table below that South Africa's trade with the developing South represents only a minute proportion of its trade with markets such as the EU and East Asia. Economic co-operation is taking place with neighbouring states in SADC and with states in South America and the rest of Africa, but only to a minimal degree. The importance of Northern markets cannot be forgotten.

South Africa's trade by region, 2004, in (R billion)

	Exports	Imports
EU	24.35	32.62
East Asia	14.74	17.08
NAFTA	8.52	7.79
SADC	7.08	2.10
Middle East	2.52	7.19
South-East Asia	2.22	3.57
South America	0.69	3.1
Rest of Africa	6.39	1.31
Rest of the World	12.21	9.86

Information obtained from the Trade and Industrial Policy Strategies, 2004

4.4.3 The case of India

According to a report by Goldman Sachs, India has the potential to show fast growth over the next 30–50 years (Wilson, 2003:4). Statistics published by the World Bank indicate that India's GDP growth was 6.9% in 2004, while its GDP was approximately \$691.9 billion (World Development Indicators database, 2005).

Services have proved India's most dynamic sector in recent years, with telecommunications and information technology (IT) registering particularly rapid growth. The services and public sectors accounted for 49.4% of India's GDP in 2001/2002.

In terms of purchasing power parity, India has the fourth-largest economy in the world, a middle class two times larger than Japan's (300 million), and the world's largest pool of scientists and engineers after the US (Naya and Paul, 2003:9). At the same time, India's complex socio-political heterogeneity and its uneven economic development have acted as a constraint on "developing and consolidating a national identity appropriate for a major power"s (Naya and Paul, 2003:2).

According to Alden and Viera (2004:17) India's commitment to an open market economy is more limited than that of Brazil and South Africa. Draper and Sally refer to India as "the most protectionist of the developing country majors in the WTO"

(Draper and Sally, 2005:19). Enduring interests primarily within the smaller countries have resulted in few trade concessions thus far. However, since 1991, India has began to liberalise its economy, in a belated effort to achieve the growth and investment registered in China. However, according to the World Development Indicators in 2001 India's tariffs still averaged 31% (World Development Indicators, 2003:308).

India at a glance : tracking economic growth from 1983–2003				
	1983	1993	2002	2003
GDP (US\$billion)	212.3	273.9	509.0	600.6
Exports of goods and services/GDP	19.7	21.3	22.7	23.0
Agriculture as % of GDP	36.6	31.0	22.5	22.8
Manufacturing as % of GDP	16.3	16.1	15.6	15.6
Services as % of GDP	37.6	42.8	50.7	50.7
<i>Data from the World Bank Group, 12 April 2005</i>				

For many decades, India has played an active role in the Non-Aligned Movement and the Commonwealth, and its foreign policy has focused on making it an effective voice to convey the collective aspirations and interests of the developing countries on such issues as development, peace and stability. India is currently pursuing a number of new FTA initiatives with developing countries, and is proactive in its South Asian back yard, where it is establishing a South Asian FTA (SAFTA).

Along with Brazil, India has been a 'developing country major' in the WTO rounds. India took a leading role in the recent Hong Kong Ministerial negotiations in December 2005, highlighting the role of Special Products and the Special Safeguard Mechanism. India represented the Group of 20, pushing concessions to benefit the countries of the South against larger agricultural countries such as the US, the EU and Australia.

4.5 China – advocate of the South?

Although China has in certain instances forged links with other developing economies and claims to be an advocate of the South, for the purpose of this research it is regarded as a separate entity and not as a typical example of a developing southern economy pursuing economic alliances with other developing states.

China has a unique political and economic structure, which displays characteristics of both First and Third World countries. At its current state of economic growth and development it is virtually incomparable to other smaller economies, having a population of 1.1 billion people and an economy worth \$1.6 trillion. Its extraordinary performance in recent years has been based on expanding those industries that use labour-intensive means of manufacturing. China's industrial production and trade growth have been fuelled by massive inflows of foreign direct investment; with embedded managerial, technology, and global distribution network advantages; investment in infrastructure; a strong base of cheap, skilled and highly productive labour; and a growing domestic consumer market (Draper and Le Pere, 2005: 14).

In *World Trade Developments in 2004 and Prospects for 2005* produced by the WTO in 2005, a notable feature of world trade in 2004 was the continuing emergence of China as a major market for, and supplier of, goods and services. The sustained and dynamic growth of China's exports and imports over recent years placed it third among the trading nations in 2004. China has become the largest importer of primary commodities, and the largest supplier in the world of a number of manufactured goods (WTO report, 2005:1). For these reasons and others, China is in a league of its own. It would therefore be unscholarly to exclude a state of such importance from an analysis of the transformation of the contemporary political economy.

The *Trade and Development Report 2005*⁴⁰ offers the following assessment: "China's ascent to the global economy has been accompanied by new features of global interdependence, such as a brighter outlook for exporters of primary commodities,

⁴⁰ *Trade and Development Report, 2005*. Report by the secretariat of the United Nations Conference on Trade and Development. Geneva.

rising trade among developing countries, increasing exports of capital from the developing to the developed countries, but also intensified competition on the global markets for certain types of manufactures” (Trade and Development Report, 2005:1). As a result of China’s vigorous expansion and its strong demand for raw materials, many other developing countries have benefited, earning windfall revenues from rising commodity prices and a surging demand for intermediate products. Even Africa’s growth increased to 4.5% in 2004. It is expecting to expand that close to 5% in 2005.

However, China’s demand for resources has affected many developing states negatively, particularly their clothing and textile industries. African states lack the capacity to manage their resource wealth effectively. These states are quickly becoming Chinese enclaves. China’s record on democracy and governance issues are questionable. For example, it embraced undemocratic states that do not follow strict humanitarian principles.

China’s engagement in Africa is motivated by numerous factors, among them its need to secure essential raw materials and its energy supplies. It also requires allies to help defend it against trade actions (such as anti-dumping changes in the WTO). China also desires to reduce the influence of Taiwan on the African continent, most notably in Swaziland and the Southern African Customs Union (SACU) (Draper and Le Pere, 2005:21).

South Africa and its partners in the SACU are considering negotiating a free trade agreement with China. Given that country’s growing economic weight, this initiative would have far-reaching implications for Africa. South Africa (and other, smaller African states) would face extreme difficulties in sustaining job-creating manufacturing industries, particularly in textiles and footwear, in the face of intense competition from China,

4.6 Summary

Puga and Venables explain that in response to numerous factors in the political economy today, firms have located where it is most profitable to do so. These choices are not necessarily dictated by geography and access to markets. Alternatives to regionalism in its traditional sense have led to an increase in extra-regional and inter-continental economic alliances. IBSA is a recent example of a new strategy of South-South co-operation in the contemporary political economy.