

Chapter 5: Analysis and Conclusion

Over the past decade, the countries of the developing world have made considerable progress towards economic co-operation with other economies of similar levels of development. Trade between developing countries has grown substantially over the past decade, with 40% of exports from these countries going to other developing economies. This growth is the result of many structural economic and political changes that have taken place in the post-Cold War period.

The fundamental questions that this research sought to address are:

- 1) What structural economic and political factors changed in the post-Cold War era to facilitate economic co-operation between states, particularly between those in developing world?
- 2) Have these political and economic changes resulted in the emergence of new patterns of South-South economic co-operation in the post-Cold War international system? and
- 3) What is the causal link between the patterns of South-South co-operation and the 'new' knowledge economy?

Before and during the Cold War the political economy of developing countries was characterised by isolationist, inward-looking, dependency-inspired policies. This era was predominantly focused on political agendas. Regional integration and economic co-operation not a prerequisite for development, but rather a policy option pursued by a few countries. These factors that changed substantially after the end of the Cold War. From the 1990s onwards, economies around the world opened up, assisted by the liberalisation agendas of international organisations such as the WTO, and the emergence of a knowledge-orientated, technology-driven and private sector-led global economy. Globalisation, the new economy and the resultant growth of technology, especially in communications, helped to accelerate the pace of economic development and has led to an unprecedented growth in services, organisational innovation and specialisation. A new development context has thus arisen, one in which integration is more feasible than isolation and in which knowledge is a factor of production. As

suggested throughout the research, these structural changes have caused a variety of linkages to be set between countries, particularly those of the developing world.

In addition to the growth in trade, capital markets and foreign investments, advances in technology have had enormous implications for the nature of international production and trade. The ICT revolution has created in communication technologies which allow for instantaneous communication across the globe. This, coupled with advances in transport and logistics, means that complex production systems can be split up across different locations, often in different countries (and increasingly within the countries of the South). The improved ability of transnational corporations to locate different paths of their value chains in distinct geographical locations has increased international competitiveness. As the Puga and Venables model indicates, firms are increasingly establishing manufacturing plants in Southern markets.

Cost advantages can be found in locations where, for example, labour rates are low and sufficient skills are available. Firms such as those in the automotive industry are increasingly opening industrial operations in the South for production and assembly purposes. More advanced activities such as research and development can take place in other, more advanced countries, where the prevailing economies of agglomeration support more specialised requirements. These separations of different aspects of production chains are the result of contemporary pressure on firms to concentrate on their 'core competencies' and outsource 'non-core' activities. Another recent phenomenon has been an increase in mergers and acquisitions, as corporations have been forced to consolidate in order to become significant global players in their area of specialisation.

It is obvious from the findings of this research that the process of globalisation and the impact of the knowledge economy have had a dramatic effect on the geographical location of industrial activities. The lowering of trade barriers has reduced linkages conducive to the agglomeration of firms in developed economies, and has strengthened forces related to relative endowments of immobile factors that indicate the benefits of a less concentrated distribution of industrial activities in geographic space. Globalisation tends to change the balance between the forces of dispersion and

agglomeration, and favours the spread of industrial activities from developed to developing countries.

This point is emphasized by UNCTAD. Input markets and infrastructure systems have a direct causal link to the expansion of South-South trade. In many cases the lack of specialised inputs, capital markets, communication and transporting systems and support services have imposed limitations on South-South trade. Improved market access on a South-South basis, not only for commodities but also for inputs, is being pursued by regional trade agreements and could be addressed in the GSTP as well. Technological advances in communications (like television, mobile phones and the Internet), logistics (such as cold storage trucking), and large distribution systems (for example supermarkets and superstore marketing) and storage facilities (as in refrigeration and controlled-atmosphere storage) have a generally positive correlation with the expansion of trade flow. The role of technological advances, therefore, should be given consideration by developing countries when they develop strategies to promote South-South trade (UNCTAD/DITC/TNCD/2005/6:31).

The transformation of the political economy, the increase of liberalisation and the growth of the knowledge economy have initiated a new development context, in which integration is more feasible and where knowledge is a factor of production. As already suggested, these changes have caused variations in the linkages between countries, making the Puga and Venables model outmoded and limited in certain respects (UNIDO, 2001: 2). These changes have resulted in the emergence of new patterns of economic co-operation among the economies of the South. Alliances that are no longer dependency-orientated are setting the agenda for the South, and give the Southern bloc the weight to push for issues of common concern among Third World advocates in international forums like the WTO.

As a result of these changes, South-South co-operation initiatives are no longer bound within the national or regional context, but are increasingly taking place on an extra-regional basis. Economic co-operation is no longer hindered by physical and national boundaries.

Initiatives such as IBSA have been born out of this new economic and trading context. Such alliances, coupled with the emergence of the G20+ at Cancun and the prospects of further collaboration between Southern economies, have improved the chance for developing countries to make their mark (Alden and Vieria, 2004: 20). From the information presented above, it seems clear that amongst the leading countries of the South the notion of autonomous development has been replaced by market orientation, though the promotion of South-South co-operation persists. In this light, South Africa, Brazil and India have acknowledged their middle power capabilities and interests, and have united to achieve common gains in multilateral forums of negotiations. The next few decades will undoubtedly see the emergence of a select group of semi-peripheral states, yet again reinforcing the 'new trade geography' of our times. Due to the uneven distribution of trade and development among countries of the Third World, it is imperative that these emerging semi-peripheral Southern economies use their weight to act as the 'locomotives of the South'. However, at no stage can Northern markets be underestimated or ignored.

APPENDIX A

The changing trade landscape: the increasing importance of South-South economic co-operation in the global economy

- According to *Co-operation South*, a leading United Nations journal which looks specifically at South-South economic co-operation, in 1990 South-South trade represented US\$186.7 billion out of \$740 billion world wide (*Co-operation South*, 1995:10). This document states that sub-regional and regional integration arrangements and, to a lesser extent, interregional co-operation arrangements, contributed to a significant expansion in the volume of South-South trade during the 1970s. Moreover, in spite of a decline in such trade during the early 1980s, as a result of a slow-down of economic activities in the developed countries (which forced the developing countries to make significant internal economic adjustments), trade among the developing countries has continued to expand since the latter part of the 1980s (*Co-operation South*, 1996: 2).
- The Australia Commission (2004: 1) reiterates this point, declaring that developing country trade patterns are changing. Developing countries now account for around one-third of global trade. Intra-developing country or 'South-South' merchandise trade has grown twice as fast as world trade over the past decade, and now represents over 12% of global trade. In other words, South-South trade now accounts for around two-fifths of all developing country trade, compared with less than one-third a decade earlier.
- An important development has been a major shift to trade in manufactures between developing countries, with these countries becoming more enmeshed in global production chains as they lower their trade barriers (Commonwealth of Australia, 2004). Trade in manufactured goods has the advantage of making the Third World less vulnerable to commodity price movements and terms of trade variations.
- Developing countries have set about liberalising their trade over recent years, which has underpinned strong trade growth. The average applied tariffs of developing countries stood at around 12% in 2000, about one-third of their levels in 1983, but still well above rates in developed countries. Despite improvements, developing countries still maintain high tariff barriers on average, compared with those of developed countries. Average applied ad valorem tariffs are more than three times the level of those in industrial countries. Around 70% of the tariffs faced by developing country exporters are applied by other developing countries.
- In the last few decades, Africa has seen its share of world trade fall from 6% in 1980 to less than 2% in 2002 (*Trade and Industry Monitor*, March 2005)
- The share of developing economies in world exports of manufactures increased substantially from 10.6% in 1980 to 26.5% in 1997.

APPENDIX B**Direction and growth of merchandise trade (% of world trade) 2001**

| High-income importers | | | | | | | |
|--|--------------------------------|----------------------------------|--------------------------------------|-------------------------|---------------------------|------------------------------------|------------------------|
| | EU | Japan | US | Other industrial | All industrial | Other high income | All high income |
| Source of exports | | | | | | | |
| High-income | 30.1 | 3.2 | 11.8 | 6.1 | 51.2 | 7.0 | 58.2 |
| Low & middle income | 6.3 | 2.0 | 6.2 | 0.7 | 15.2 | 3.4 | 18.6 |
| Low-and middle-income importers | | | | | | | |
| Source of exports | | | | | | | |
| | East Asia & Pacific | Europe & Central Asia | Latin America & Caribbean | South Asia | Sub-Saharan Africa | All low & middle income | World |
| High-income | 5.8 | 3.2 | 4.1 | 0.7 | 0.9 | 17.1 | 75.3 |
| Low & middle income | 1.5 | 1.6 | 1.2 | 0.4 | 0.4 | 6.1 | 24.7 |
| <i>Data from 2003 World Development indicators</i> | | | | | | | |

APPENDIX C:

According to the *World Development Indicators*, 2003, low- and middle-income countries have cut their average tariffs in half over the past two decades (from 15% to 7%). Although this is important progress, it cannot compare to the average tariff levels in high-income countries, which are substantially lower. The weighted mean tariffs in Japan and the United States are around 2%. In some developing states the levels are much higher. In 2001 China's tariff averaged 15% and India's 31%. Regional averages are also high: 20% for South Asia and 13% for Latin America. High average rates in the developing world mean that developing countries face tariffs twice as high on average as those faced by high-income countries. These high tariffs have a dampening effect on trade between developing countries. The practice of raising tariffs – for example imposing higher tariffs on processed goods - constrains the development of manufacturing and industry, and reduced many Sub-Saharan African countries to exporting unprocessed goods such as cocoa, coffee and cotton. It also discourages the development of the labour-intensive manufacturing sector that has been a key vehicle for growth in several developing countries (*World Development Indicators*, 2003).