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**INTERNATIONAL TRADE NEGOTIATIONS, REGIONAL INTEGRATION AND  
SOUTH-SOUTH TRADE, ESPECIALLY IN COMMODITIES**

Background Note

UNCTAD/DITC/TNCD/MISC/2004/3

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## Introduction

1. Enhanced economic cooperation has been a key development strategy of developing countries over the last 40 years. The creation of the Group of 77 together with the establishment of UNCTAD in 1964 set the stage for institutionalization of cooperation among developing countries. Membership in the Group of 77 has grown from 77 countries to over 130. Central to the formation of the Group was the need for cooperation and solidarity among developing countries in bringing about changes in international trade, finance and monetary systems, as well as in international development cooperation, to better address the needs and interests of developing countries, including the least developed and those with special needs.

2. The Group of 77 has provided the umbrella under which various other forms of economic and trade cooperation among developing countries have evolved over the years. At UNCTAD XI in São Paulo (June 2004), Ministers of the Group of 77 and China met and adopted a “Ministerial Declaration on the Occasion of the Fortieth Anniversary of the Group of 77” in which they reaffirm the central concerns and interests that bind them together, including (a) maintaining a common platform to voice their concerns and advance their economic interests; (b) striving for equity and justice in international economic relations; and (c) establishing an equitable international trade regime.<sup>1</sup> The vision and goals of the Group of 77 have found expression in the Millennium Declaration and the Millennium Development Goals, giving further impetus to their follow-up and achievement.

3. Section I of this note discusses the importance of capacity building for developing countries’ effective negotiation of multilateral and regional trade agreements. Section II examines South-South trade and the ever-expanding number of regional integration groupings of developing countries with the perspective of facilitating networking among such initiatives to enhance their contribution to the trade and development of their members, and to realize positive coherence, *inter alia*, among these agreements, the multilateral trading system, and regional trade agreements concluded with developed countries. Section III discusses key issues in South-South trade in the important area of commodities.

### I. Capacity building for international trade negotiations

#### A. Growing demands from multilateral trade negotiations

4. The broadened scope, growing complexity and extended time frame of today’s multilateral trade negotiations continue to place increasing demands on the negotiating capacities of developing countries. The scope of international trade negotiations already expanded significantly during the Uruguay Round, and with the launch of the Doha Round in 2001, it has widened even further. Today, trade negotiations include much more than border issues such as reducing tariffs and non-tariff barriers; now they also encompass agreements in *behind-the-border* regulatory areas such as trade in services, intellectual property rights,

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<sup>1</sup> TD/405.

investment and trade facilitation measures, and environmental issues. Reflecting the extended and complex nature of negotiations, the Doha Work Programme could not itself be concluded by its original January 2005 deadline. The 1 August 2004 Decision of the WTO General Council postpones the end date of negotiations until the Sixth WTO Ministerial Conference, set for December 2005.<sup>2</sup> According to most Geneva-based officials closely involved in the negotiations, it is now clear that the original three-year time frame for negotiations will extend to at least five years, concluding sometime in 2006 or even later.

### ***B. Growing demands from regional trade negotiations***

5. In addition to WTO negotiations, efforts to negotiate regional trade agreements have accelerated in recent years (see the discussion in Section II). Developing countries have been negotiating and concluding agreements with both developed and developing countries. Emerging from such negotiations is a widening array of regional trade agreements, some 300 of them, with a significant bearing on the development prospects of developing countries and on the multilateral trading system. Some 40 per cent of world trade takes place within the regional trade agreements that are in force today, and this share is projected to grow.

6. Recent *new-generation* regional trade agreements cover not only trade in goods, but also *behind-the-border* regulatory areas. Some regional trade agreements cover more of these areas than the WTO and extend more deeply into them. Often referred to as “WTO-plus” agreements, they extend beyond multilateral disciplines and liberalization commitments in areas such as services, investment, competition policy, intellectual property rights and environment. Negotiations have been launched for large-scale, plurilateral agreements that would transform economic relationships based on pre-existing unilateral preferences into relationships based on strict reciprocity, as with the Free Trade Area of the Americas (FTAA) and ACP-EU negotiations for economic partnership agreements. These negotiations will have implications for multilateral trade negotiations, as negotiations of North-South regional trade agreements tend to involve deeper market access and higher regulatory standards than negotiations at the multilateral level. In this situation, developing country trade negotiators need to foresee and assess the extent of the policy and systemic impacts of a growing number of regional trade agreements on their countries’ trade and development prospects.

### ***C. Enhancing the quality of negotiating capacity***

7. In view of the continuous, expanding and complex nature of trade negotiations, the importance of capacity building for effectively negotiating bilateral, regional and multilateral trade agreements cannot be overstated. In the area of international trade policy making, the challenge for developing countries is to build national negotiating capacity through improved access to trade-related information; trade and trade policy analyses; national and regional

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<sup>2</sup> UNCTAD member States discussed the implications of the July package on 8 October 2004 at the Fifty-First session of the Trade and Development Board, based on the UNCTAD secretariat’s report “Review of Developments and Issues in the Post-Doha Work Programme of Particular Concern to Developing Countries: A Post-UNCTAD XI Perspective” (TD/B/51/4). A summary of these deliberations was provided by the President of the Board (see UNCTAD document TD/B/51/L.8).

consultations; and both human and institutional development. The payback is double because, once successfully implemented, trade negotiation capacity-building efforts allow developing countries not only to participate more effectively in trade negotiations and related standard-setting processes but also to design national trade policies that can better capture gains deriving from emerging international trade opportunities.

8. So that developing countries can effectively negotiate a range of issues as wide as those comprising the Doha round, the quality of their negotiating capacity must be significantly enhanced. Capacity building must, therefore, include increased understanding of a broadening range of trade-related issues and provision of assistance to help developing-country negotiators make better use of their access to trade- and investment-related information and to perform and interpret related analyses and scenario building so that they can fully assess the implications of proposed trade agreements. Improved networking between developing countries and their national and regional stakeholders from both the private and public sectors is also critical for determining which policies will be implementable in a manner that promotes the growth of national and regional economies (see Section II).

9. Capacity building must be tailored and targeted to the expressed needs of countries and specific negotiating contexts. International trade negotiations can be characterized as involving three sometimes connected phases: a pre-negotiation phase, an actual negotiation phase, and a post-negotiation phase.<sup>3</sup>

10. In the *pre-negotiation phase*, it is important to set very clear negotiation goals reflecting national/regional trade interests, as well as clear and realistic strategies for reaching those goals. This depends to a large extent on the quality of preparations, on the amount of information, and on available research and analyses. UNCTAD is developing computer-based software and tools to help developing countries use trade data to assess the implications of various proposals made in multilateral and regional trade negotiations. Such tools include the Agricultural Trade Policy Simulation Model (ATPSM) and the Trade Analysis and Information System (TRAINS).<sup>4</sup> Additionally, to address developing countries' concern about the actual gains they realize from the multilateral trading system, UNCTAD is launching a new initiative to develop trade and development benchmarks designed to help assess the contribution of trade and trade negotiations to development.

11. In the *actual negotiation phase*, effective participation depends heavily on highly specialized skills and capacities of negotiators and their command of the rules, facts and intellectual arguments in specific negotiating areas. It is difficult for many Geneva-based negotiators from developing countries to acquire and utilize the needed expertise, as they must

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<sup>3</sup> Such a characterization was elaborated on by Rubens Ricupero, former Secretary-General of UNCTAD.

<sup>4</sup> ATPSM is a comprehensive database and simulation-modelling software for use by agricultural trade policy makers who may not have knowledge of economics, modelling or programming. TRAINS is an information system intended to increase transparency in international trading conditions. For example, it provides information on the Generalized System of Preferences. In addition, with the new software jointly developed with the World Bank (World Integrated Trade Solution – WITS), users can access the entire time series of the database through the Internet.

cover all WTO negotiations at a general level and, in addition to trade negotiations, must cover the work of many other international organizations in Geneva. Moreover, it is not just the scope and complexity of WTO negotiations that demand increased negotiating capacity and extended timelines for successful outcomes; it is also the changing character of the negotiations themselves. The structure and process of Doha negotiations are fundamentally different from earlier rounds of multilateral trade negotiations.

12. The *Geneva Process* is less formal and structured than the negotiating forums of the past. Negotiations now comprise a constellation of seemingly independent yet strategically linked parallel consultations between Chairs of *Negotiating Groups* and selected Members. Many developing countries have been emphasizing the need to ensure that this process is transparent and fully participatory, including broader participation by developing countries across the full range of parallel consultations of the various negotiating groups. Moreover, intergovernmental deliberations of UNCTAD XI and the Trade and Development Board point to three process-related objectives that can facilitate negotiations. One is that the procedures and processes for negotiations should be transparent, inclusive, participative, and consultative, even if this means that negotiations takes longer and requires extra effort. Second, in terms of decision making, negotiations should take on board, to the extent feasible, “responsive concerns” of the two thirds of WTO members that are developing countries, so that they have ownership of the results. Third, there is a need to rationalize, streamline, prioritize and manage the time frame and agenda of negotiations so that they remain manageable and do not overload the limited negotiating resources of developing countries.

13. If the current negotiation process is to carry forward the July Package, developing-country negotiators need to assess the content of the package and its implications. They also need to more effectively mobilize information and assess possible specific elements of negotiating modalities in the July package. UNCTAD can contribute in this regard by making available to developing countries its analyses on key trade and development issues and assisting them in building negotiation capacity. Upon request, UNCTAD provides technical advice to developing countries on the development aspects of trade liberalization in agriculture, non-agricultural products and services. Particular emphasis is given to meeting the needs of LDCs and countries with special needs. UNCTAD also provides a forum for intergovernmental dialogue between developing and developed countries, with a view to facilitating consensus building on trade issues. Its Trade and Development Board and its Commission on Trade in Goods and Services and Commodities identify critical development issues for discussion and consensus building among developing and developed countries. At the fifty-first session of the Board on 8 October 2004, for example, many countries, both developing and developed, agreed that the preparatory process for UNCTAD XI had contributed to facilitating positive progress in concluding the July Package.<sup>5</sup>

14. The *national process* is equally important in backing up negotiators in the negotiations. This involves effective communication and interaction at the national level between, *inter alia*, national ministries, the business sector and civil society. An effective multi-stakeholder

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<sup>5</sup> See summary by the President of the Board in UNCTAD document TD/B/51/L.8.

process at the national level plays an essential role in the identification of national interests in negotiations. It is also important in facilitating national acceptance and implementation of the results of negotiations. Many developing countries have created national WTO committees, or inter-institutional trade committees, to galvanize stakeholders' active contributions to trade negotiations. Such structures are important for all three negotiation phases – pre-negotiation, negotiation and post-negotiation. UNCTAD is assisting developing countries, especially LDCs and African countries, in setting up inter-institutional trade committees. Some countries have, in addition, embraced regional negotiating approaches such as the Caribbean Regional Negotiating Machinery.

15. Coalition building is another important element in the actual negotiations to build economic clout to negotiate and advance issues of common interests. The important role played by the G-20 and G-33 on agriculture negotiations, the G-90 on development issues, and other coalitions such as that of four West African countries on the cotton initiative have helped focus attention on addressing some of the negotiating issues of key interest to developing countries. UNCTAD has given support to the meetings of groups, including through pre-WTO Ministerial Conference meetings of LDCs, African countries, Arab States, ACP countries, Caribbean States and others. The promotion of enhanced solidarity and networking among developing countries helps ensure that knowledge about negotiations is shared and common positions are identified and utilized in negotiations.

16. In the *post-negotiation phase*, the challenge at the national level is to implement trade agreements and develop policies and measures to take advantage of the new trading opportunities. This includes putting into place necessary legislative measures to enact the WTO agreements as well as adjustment measures to develop productive and competitive capacities to take advantage of the new trading opportunities opened up by multilateral trade liberalization. This, it has been recognized, can be an elaborate exercise that often exceeds the financial and implementation capacities of developing countries. Effective international financial and technical assistance is therefore required to empower developing countries to develop the necessary trade-related infrastructure, not only to comply with a trade agreement's obligations, but also to make use of its rights and opportunities. While it may not be possible for developed countries to make binding commitments to provide a given level trade-related technical assistance from the outset when they sign off on trade agreements, it is expected that, within a needs-based, demand-driven and coherent trade and development technical assistance strategy, the international community can define ways to mobilize the required technical, financial and development assistance for developing countries.

17. It must be emphasized that the negotiating process does not end with the adoption of a trade agreement, but rather continues in a post-negotiation phase. At the international level, continued participation in negotiations is needed to propose modifications or improvements to the rules whenever implementation of agreements demonstrates serious deficiencies or difficulties. Moreover, effective use of the dispute settlement mechanism is a key aspect in this phase; countries must often resort to its use in cases where their WTO rights are affected by other Members.

***D. Capacity building must extend beyond quality; quantity is important, too***

18. Given the realities of continuous and complex trade negotiations, capacity building must involve not only improving the quality of developing-country negotiators but also their quantity. Strictly from a logistical standpoint, more negotiators are essential to facilitate participation in the large number of parallel consultations and formal meetings comprising the Geneva Process, while at the same time ensuring that regional trade negotiations are adequately managed. That is precisely why developed countries have such large delegations in Geneva, and it is why developing countries are trying to increase their Geneva-based staffing. Several small countries are considering joint representation – for example, via the Delegation of the Pacific Islands Forum to the WTO and the ACP Group Geneva Office. A number of mechanisms are being developed to assist countries that do not have permanent representations in Geneva.<sup>6</sup> However, non-residents may need a ‘friend of the non-residents’ to promote their interests in the Geneva Process and to provide them with regular information on the status of consultations.

19. Having more Geneva-based negotiators would allow developing countries to better communicate WTO developments to national policy makers and to interact with them. It would also permit interaction with regional trade negotiators in capitals on a regular basis in order to encourage the latter to carefully assess and strategically respond to the tide of demands for regional trade agreements, and thus ensure cross-agreement coherence in their trade obligations with their developed-country trading partners. Improved coordination and information flow must thus be part and parcel of any negotiation capacity-building effort.

***E. UNCTAD’s role in trade negotiations capacity building***

20. By virtue of its accumulated expertise and its mandates from Bangkok (UNCTAD X) and São Paulo (UNCTAD XI), UNCTAD continues to be in a unique position to assist developing countries and their regional groupings in trade and trade negotiations through research and analysis, intergovernmental consensus building and technical cooperation. Given the extended scope, complexity, structure and process of Doha Round negotiations, UNCTAD’s capacity-building activities could be increased to meet the needs of the Geneva process and the national process, as well as intergovernmental consensus building more generally. In addition, as negotiations on the July Package accelerate, it may be necessary to design a set of informal seminars for Geneva-based negotiators on specific Doha Round negotiating issues, as well as on effective negotiating strategies and networking options. Such seminars would also allow for informal exchange and improved networking among developing-country negotiators and thus their sharing of information on the outcomes of various consultations associated with the Geneva Process.

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<sup>6</sup> These include services by AITIC and the Geneva Week Series of the WTO.

## II. South-South trade and regional integration

21. A new trade geography is emerging in international trade, with three interlinked determinants – the increasing role and importance of developing countries to drive trade and growth, South-South trade and economic cooperation, and the changing context of North-South interdependence.<sup>7</sup> This emerging new trade geography, however, needs to be treated with caution in order to avoid unrealistic expectations in terms of its scope and impact, particularly given that many countries, including African countries, LDCs and SIDS, do not appear to participate significantly in this trend. Developing countries face a considerable challenge in sustaining, maximizing and exploiting the opportunities emerging in the new trade geography, and in particular in mainstreaming into this dynamism the participation of those developing countries that remain marginalized from international trade.

22. Developing-country Governments, their regional integration groupings, and their economic operators need to consult, coordinate and cooperate closely and actively on South-South trade, investment and economic cooperation initiatives to devise strategies and actions to advance mutual trade and investment. Such cooperation needs to be conducted on the basis of mutuality of advantage for all parties to maximize the development gains. Approaches that engage countries and their economic operators in mutually advantageous relationships, in which all participants gain, have higher chances of being sustained and strengthened. The challenge is to develop and implement a strategic approach and positive agenda for South-South trade and economic cooperation. The annex to this note provides an 11-point positive agenda for South-South economic and trade cooperation that was discussed by UNCTAD's Trade and Development Board at its fifty-first session.<sup>8</sup>

### *A. Drivers of South-South trade*

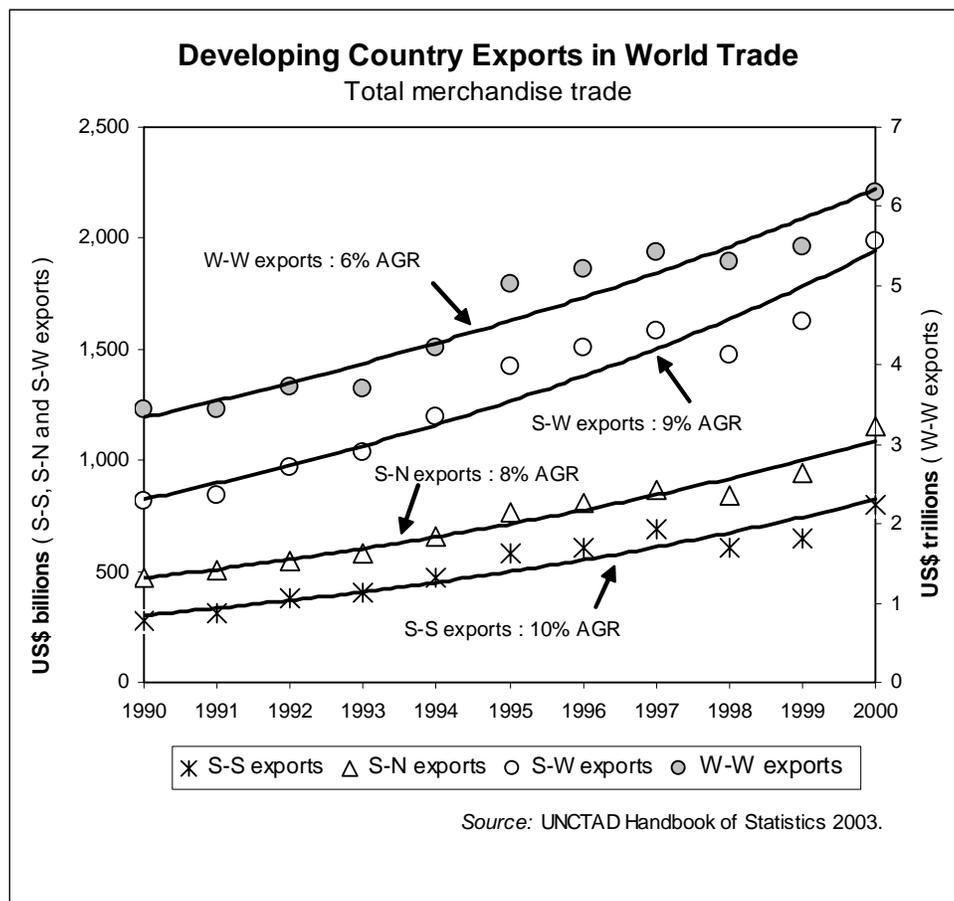
23. Facilitated by major trade and trade-related economic reforms and growing complementarities, growth in South-South exports has generally exceeded that of world trade over the past 10 years. From 1990 to 2000, South-South trade grew at an estimated average annual rate of about 10 per cent, compared to 6 per cent for world trade (see Figure 1). With its strong growth, the share of South-South trade in total world trade climbed from 8 per cent to more than 12 per cent over the same period (see Figure 2). About 40 per cent of the South's exports are now to other developing countries. This is true for both agricultural and manufactured goods, while the rest is accounted for by the South's trade with developed countries (over 57%) and with transition economies (below 3%). Intra-Asian trade accounts

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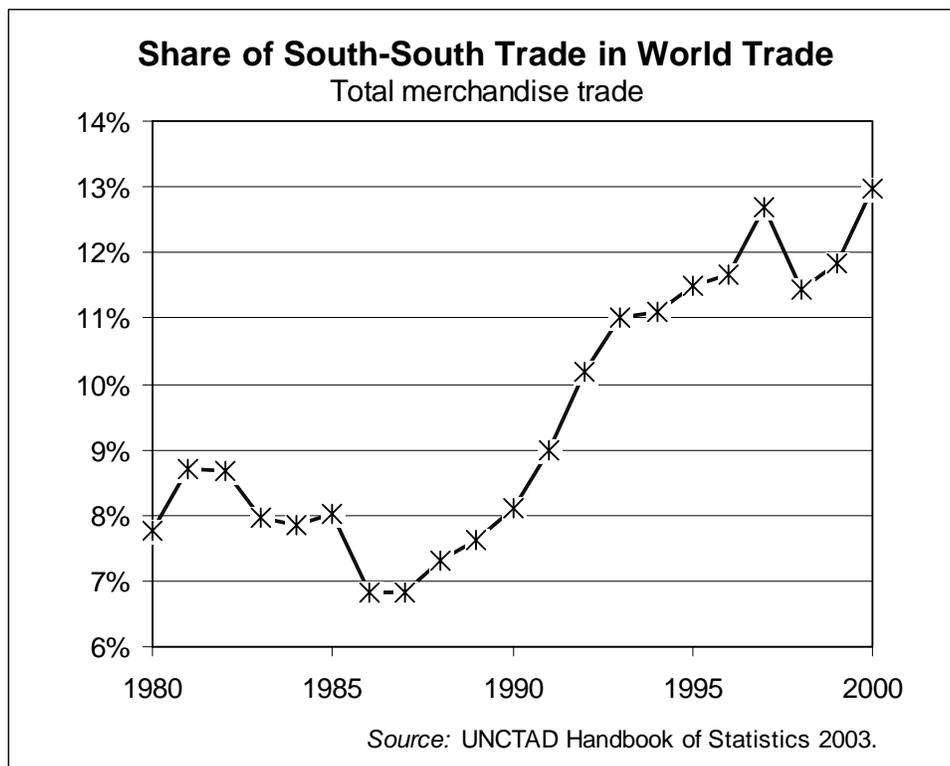
<sup>7</sup> Since the early 1990s, many developing-country economies have grown more rapidly than those of developed countries – a trend that is expected to continue in the coming years as their domestic markets expand and their global export competitiveness increases. The South's share in global trade has grown dramatically, from about 20 per cent in the mid-1980s to about 30 per cent today. The South is also becoming an important destination for the exports of developed countries. The growing importance of the South as a producer, trader and consumer in global markets makes it a potential future engine of growth and dynamism for the global economy. For details, see UNCTAD secretariat reports "New Geography of International Trade: South-South Cooperation in an Increasingly Interdependent World" (TD/404) and "Follow-Up to UNCTAD XI: New Developments in International Economic Relations – The New Geography of International Economic Relations" (TD/B/51/6).

<sup>8</sup> TD/B/51/6.

for about four-fifths of South-South trade, but the latter is becoming more broadly based. Strong growth in intra-regional trade in Africa and Latin America, albeit from smaller bases, demonstrates that growing South-South trade is not merely an Asian phenomenon. Inter-regional trade, although relatively small, is also showing signs of growth.



**Figure 1.** Exports from the South to the South (S-S), to the North (S-N) and to the world (S-W) are plotted from 1990 to 2000 (left scale), and annual growth rates (AGR) of these export flows are calculated. Over this period, S-S exports rose from US\$275 billion to \$800 billion, growing at a 10 per cent annual rate, while total world exports (W-W: right scale) rose from US\$3.4 trillion to \$6.2 trillion, growing at an annual rate of 6 per cent.



**Figure 2.** After a downturn during the mid-1980s, the share of South-South trade in total world trade rose significantly, from less than 7 per cent in 1986 to nearly 13 per cent in 2000.

24. Growing South-South trade has been accompanied by increased regional trade and investment facilitated through regional trade agreements (see Box 1).<sup>9</sup> By eliminating tariffs and non-tariff barriers to trade in goods, these regional economic integration arrangements offer important possibilities to build economies of scale; attract FDI at higher levels and on better terms; pool economic, human, institutional, technological and infrastructure resources; and build production and marketing networks between participating countries. Some arrangements may have had a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between them and the rest of the world, while many others have yet to fully attain the free trade goals and realize expected gains (see Table 1). ASEAN and MERCOSUR, for example, have maintained and reached a relatively high degree of regional trade, with CACM, UEMOA, CARICOM and SADC following closely. Intra-trade among some groupings in Asia and sub-Saharan Africa, however, is still relatively low. Recently, developing countries have reinvigorated their regional liberalization programmes and entered into initiatives aimed at a deep integration agenda including trade in services. These changes, if implemented, may further boost intra-group trade and growth.

<sup>9</sup> For a recent discussion on the expansion and reinvigoration of regional trade agreements, see the UNCTAD secretariat note “Multilateralism and Regionalism: The New Interface” prepared for the pre-UNCTAD XI “Forum on Multilateralism and Regionalism: The New Interface” (8 June 2004, Rio de Janeiro, Brazil); and “Bilateralism and Regionalism in the Aftermath of Cancún: Re-Establishing the Primacy of Multilateralism”, a note prepared by ECA, ECE, ECLAC, ESCAP and ESCWA for the Round Table of Executive Secretaries of the United Nations: Regional Commissions at UNCTAD XI, São Paulo, 15 June 2004.

### **Box 1. Regional trading arrangements of developing countries**

In Africa, some 14 regional trade agreements are in force, including the Arab Maghreb Union (UMA) in North Africa and the following in sub-Saharan Africa: the Central African Economic and Monetary Community (CEMAC), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Indian Ocean Commission (IOC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (UEMOA), the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). These sub-regional groupings are expected to constitute a continent-wide African Common Market under the auspices of the African Union by 2028. In the Asia-Pacific region, some 10 groupings are in force, including the Association of South-East Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC) and the Economic Cooperation Organization (ECO) in continental Asia, the Melanesian Spearhead Group (MSG) and the Pacific Island Countries Trade Agreement (PICTA/PACER) in the Pacific, and the Bangkok Agreement. In the Americas, the Southern Common Market (MERCOSUR), the Andean Community, the Caribbean Community (CARICOM) and the Central American Common Market (CACM) operate alongside several plurilateral economic cooperation agreements. In the Middle East, the Gulf Cooperation Council (GCC) plans to establish an economic union by 2010. Negotiations for the Greater Arab Free Trade Area (GAFTA) were launched with a target date of 2008. Four Mediterranean Basin countries (Egypt, Jordan, Morocco and Tunisia) have signed the Agadir Agreement as a stepping-stone towards a Euro-Mediterranean Free Trade Agreement to be established by 2010.

25. In contrast, while inter-regional trade, another avenue for increasing South-South trade, has also been growing, its potential remains underutilized. For example, only 27 per cent and 12 per cent, respectively, of South-South trade in agriculture and manufacturing are conducted on an inter-regional basis. The Global System of Trade Preferences among Developing Countries (GSTP) provides a potential complementary avenue for developing countries to increase and expand their inter-regional market access opportunities. Ways need to be found to reinvigorate the GSTP, and in this respect, the GSTP Committee of Participants, in the context of UNCTAD XI, decided to launch a third round of negotiations. If effectively followed through, the GSTP negotiations will have a beneficial effect in energizing the GSTP and advancing inter-regional trade.

26. In parallel with efforts to boost South-South trade, developing countries – both individually and collectively under their regional arrangements – have entered into negotiations with developed-country partners on a variety of North-South free trade arrangements, such as the Free Trade Area of the Americas, or North-South-South agreements, such as the EU-ACP negotiations on economic partnership agreements, including on free trade. These North-South initiatives present developing countries with further challenges – not only to derive from these negotiations good deals with net development gains, but also to ensure that they complement and supplement developing countries' regional trade and economic integration processes while ensuring positive and development coherence with their integration into the multilateral trading system. At the same time, membership in multiple regional trade agreements places a tremendous burden on the administrative capacity of developing countries in managing their participation in these arrangements.

**Table 1: Trade Performance of Southern Regional Integration Agreements  
(1990–2002, millions of US dollars and percentages)**

<i>Total trade</i>	1990	1995	1998	1999	2000	2001	2002
ANCOM	1 312	4 812	5 408	3 929	5 136	5 444	5 673
CACM	667	1 594	2 010	2 175	2 418	2 394	2 598
CARICOM	448	867	1 020	1 136	1 050	1 176	1 276
MERCOSUR	4 127	14 199	20352	15 313	17 910	15 244	16 544
COMESA	890	1 027	1 146	1 122	1 272	1 388	1 497
ECCAS	163	163	198	179	200	219	238
ECOWAS	1 532	1 875	2 290	2 285	2 885	2 802	2 987
SADC	1 058	4 124	3 865	4 224	4 380	3 652	3 954
CEMAC	139	120	152	126	102	119	130
UEMOA	621	560	752	805	744	761	826
ASEAN	27365	79544	69 809	77 892	98 059	87 902	94 760
ECO	1 243	4 746	4 031	3 903	4 495	4 425	4 758
GCC	6 906	6 832	7 358	7 306	9 234	9 137	8 861
SAARC	863	2 024	2 466	2 180	2 614	2 827	2 697
<i>Share (%) of total</i>							
ANCOM	4.1	12.0	12.8	8.8	8.4	10.9	10.6
CACM	15.2	21.8	15.8	13.6	14.8	15.5	11.5
CARICOM	8.1	12.1	17.3	16.9	14.6	13.3	13.5
MERCOSUR	8.9	20.3	25.0	20.6	20.9	17.3	17.7
COMESA	6.3	6.0	6.8	6.3	4.9	6.1	5.6
ECCAS	1.4	1.5	1.8	1.4	1.1	1.3	1.3
ECOWAS	8.0	9.0	10.6	10.3	9.7	9.9	11.1
SADC	3.1	10.6	10.4	11.9	11.7	10.3	8.8
CEMAC	2.3	2.1	2.3	1.7	1.0	1.2	1.3
UEMOA	13.0	10.3	11.0	13.1	13.1	13.9	12.6
ASEAN	19.0	24.6	21.2	21.7	23.0	22.4	22.8
ECO	3.2	7.9	6.8	5.7	5.5	5.4	5.5
GCC	8.0	6.8	8.0	6.7	5.6	5.9	5.8
SAARC	3.2	4.4	4.8	4.0	4.1	4.3	3.9

*Source:* UNCTAD secretariat note “Multilateralism and Regionalism: The New Interface” prepared for the pre-UNCTAD XI “Forum on Multilateralism and Regionalism: The New Interface” (Table 6, based on *UNCTAD Handbook of Statistics 2003*).

### ***B. The need for networking: A facilitating role by UNCTAD***

27. UNCTAD plays an important role in helping developing countries and their regional groupings to enhance their internal integration processes, to deal with the interface between regionalism and multilateralism, and to address the interplay among regional trade agreements. For example, as part of the preparations for São Paulo, UNCTAD convened two

forums: a forum to mobilize developing countries to consult and cooperate on and coordinate their approaches and actions to address the development interface between regionalism and multilateralism,<sup>10</sup> and an India-Mercosur Forum.<sup>11</sup> UNCTAD's mandate in this area has been strengthened by UNCTAD XI.<sup>12</sup>

28. Given its experience and expertise in international trade and trade negotiations at the multilateral and regional levels, UNCTAD can constitute a platform for the exchange of experiences among developing countries' regional integration groupings. This platform would (a) facilitate exchange of experiences, best practices and lessons learned among policy makers and the private sector and civil society; (b) promote networking and information sharing among regional trade agreements; (c) advance consensus building and international cooperation in addressing the development dimension of regional trade agreements and the interface with the multilateral trading system; (d) assess the development impact of regional trade agreements; and (e) support the development of trade and technical cooperation projects.

### **III. Increasing South-South cooperation in commodities**

29. The Millennium Development Goals cannot be reached if the international community does not focus more attention on commodity production and trade and related problems. This is increasingly recognized, but it is necessary to pass from declarations and exhortations to concrete policies and actions.

30. As was noted above, South-South trade has been growing at a brisk rate. Commodities (including semi-processed commodities such as steel and chemicals) account for almost half of South-South trade, and South-South commodities trade grew at 8 per cent a year from 1990 to 2003. Much of this resulted from rapid economic growth in developing Asian countries. China and India saw an annual 14 per cent increase in their imports from developing countries. This was one of the major dynamic elements for international commodity markets in recent years. The share of Asian developing countries' commodity exports to other developing countries (including Asian countries) in their total commodity exports rose from 43 to 62 per cent.

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<sup>10</sup> See "Report on the Rio Trade Week Preparatory to UNCTAD XI", Rio de Janeiro, 7–12 June 2004 – Summary prepared by the UNCTAD secretariat (TD/L.395).

<sup>11</sup> See "Forum on Regionalism and South-South Cooperation: The Case of India and Mercosur" (TD/L.370), and UNCTAD Secretariat note on Regionalism and South-South Cooperation: The Case of Mercosur and India (UNCTAD XI), (TD/(XI)/BP/11).

<sup>12</sup> The São Paulo Consensus (TD/412), paragraph 96, states that "UNCTAD should also examine and monitor the interface between the multilateral trading system and regional trade agreements, including in respect of S&DT, and support regional integration and the promotion of South-South trade. In particular, UNCTAD, in cooperation with other development partners, should help developing countries support and strengthen their trade policy capacity at the regional level, including aspects such as investment, regional institution building, standard setting and business regulation, and provide support to regional integration efforts."

31. Trends in other developing regions are similar, although somewhat less marked. South-South trade in commodities has increased faster than South-North trade for almost all commodity groups and all regions. It is also significant that South-South FDI, particularly Asian FDI into other regions, is on the increase and is stimulated by the rise of some Asian companies, particularly in metals, to the ranks of world leaders. Together with improved export opportunities that could result from changes in the international trading system, including from the Doha round of negotiations, increased demand for commodities in developing countries, particularly Asia, could considerably boost world demand both for raw materials and food products. A “window of opportunity” could thus open up over the next few years, allowing developing countries to substantially improve export earnings from commodities, including from South-South trade in commodities. This would counter some of the recent downward pressure on the prices of many commodities.

32. Neither increasing demand nor improved market access, singly or in combination, can guarantee that developing countries will make major progress in increasing commodity exports or reducing poverty. Efforts are required on the part of these countries themselves (alone and in cooperation), and assistance from the international community will be necessary, for fulfilment of the potential. There is much that developing countries can share with each other and learn from each other, including experience with organizing the commodity sector and commodity trade and establishing the necessary physical and institutional infrastructure, technical know-how, and innovative tools for providing the support that the sector needs. Exchange of experiences among developing-country actors, including both governments and civil society, can help build strong, competitive commodity sectors and strengthen the role of these sectors in economic development. The range of issues that could be raised is very wide and could include such areas as meeting new market requirements, compliance with standards, creation of stronger domestic markets, diffusion of market information and increasing participation in the value chain by developing-country producers.

33. UNCTAD is establishing an International Task Force on Commodities (ITFC) to provide for a comprehensive and systematic consultative framework on commodities, including the areas mentioned above. The ITFC will function informally and flexibly, in a spirit of cooperative endeavour. Partners will include member States (commodity developing countries and interested development partners, especially donors), international organizations, commodity-specific bodies, the private sector, NGOs and the academic community. Concerted efforts by the various parties will make possible new approaches to problems that have defied attempts at solution. South-South cooperation should, of course, play a prominent role in the work of the Task Force. One particular aspect that deserves increased attention is the need for strengthened financial services for South-South trade.<sup>13</sup>

34. Lack of efficient financing not only increases transaction costs for South-South trade but may also act as an effective barrier to trade if neither of the two parties is able to carry the

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<sup>13</sup> This issue is raised, for example, in the San José Declaration and Plan of Action on South-South Trade, Investment and Finance, San José, Costa Rica, 13–15 January 1997, para. 16. Little has been done to operationalize the proposals in this area, except for intra-Asian trade.

financing burden. A commodity producer would normally prefer to be paid even before selling a product, in order to partially cover production costs, while a buyer would prefer to pay one or two months after taking delivery of the commodities and having time to process and sell them. In North-South trade, a range of financial services has sprung up to fill this timing gap. For example, a developing-country seller who has a contract with a developed-country buyer can obtain financing on the basis of the contract, or even discount his future revenue and thus receive immediate payment. Or a developed-country seller can sell on credit to a developing-country buyer because the seller's credit risks are covered by his or her country's export credit agency. Loans in these scenarios are relatively cheap, at rates close to international lending rates.

35. In contrast, there are very few similar services for South-South trade. While developed countries' export credit agencies are able to provide credits and credit insurance for exports to most developing countries, there are few such agencies in developing countries, and those that exist are often able to cover exports only to developed countries. There are generally no direct links between local banks in developing countries, and one or more developed-country banks have to intermediate, adding at least 1 per cent to the costs of trade. The buyer and seller are likely to have to carry a greater part of the trade financing burden themselves, an unattractive prospect given the high domestic interest rates in many developing countries.

36. There are several steps that developing countries can take to combat the weakness of supporting trade finance infrastructure for South-South trade. One is to set up a network of export credit agencies to create a strong umbrella for South-South trade; UNCTAD is trying to act as a catalyst for such a network. Another is to explore various other ways for governments to promote South-South trade through more efficient payment and credit arrangements (for example, through bilateral payment agreements). Yet another is to improve the capacity of local banking networks and of trade-supporting institutions to support South-South trade – for example, by using structured finance arrangements. Such actions can do much to reduce transaction costs and eliminate barriers to South-South trade, and they may merit further discussion at the 2005 South Summit.

## ANNEX

### A Positive Agenda for South-South Trade\*

#### ***1. Increasing focus on South-South cooperation***

Governments and economic operators in the South need to more deliberately focus and build on the new dynamism in South-South trade and economic cooperation. Developing countries are already assimilating and actively integrating South-South trade, investment and economic cooperation strategies into their development policies and plans. Success stories need to be replicated more widely and across different regions. These efforts need to be continued and strengthened, particularly with respect to cooperation at the inter-regional level, which remains the weaker link in South-South trade. It also requires full engagement by economic operators of the South and integration by them of South-South business opportunities into their business plans.

#### ***2. Boosting trade in new and dynamic sectors***

New complementarities can be exploited to help developing countries enter into and build export capacities in dynamic and new sectors in commodities, manufactures and services. Developing countries have become major players in international markets for some of these sectors; they account for 30 per cent of world exports of the 20 most dynamic product groups. Additional work is needed to support South-South economic cooperation to identify opportunities for new – and further develop existing – Southern supply chains in new and dynamic sectors. This will require, *inter alia*, the identification of specific sectors and products, and their actual and potential markets; policy options and practical actions for translating opportunities into actual export activities and higher domestic value added; sharing of experiences and lessons learned; and partnerships and twinning of economic operators.

#### ***3. Strengthening regional cooperation and integration***

Consolidating and strengthening the South's processes of regional trade and economic integration among developing countries so as to maximize their full potential is a major challenge. The potential for such cooperation has yet to be fully exploited.

#### ***4. Expanding the potential for inter-regional trade***

Against the backdrop of increasing South-South trade, the time appears ripe for a paradigm shift to promote South-South interregional trade and investment flows, including through trade liberalization. The Global System of Trade Preferences among Developing Countries (GSTP) is a promising avenue for enabling developing countries to increase and expand their interregional trade.

#### ***5. Cooperating in commodities trade***

With growing South-South trade in commodities, cooperation among commodity producers becomes important in meeting consumption needs in the South in respect of basic commodities, including food and fuel, and ensuring sufficient supplies of production inputs in related Southern supply chains. By enabling Southern commodity producers to achieve sustainable management of their commodity production and trade and increase their participation in supply and value chains, including on a regional basis, South-South cooperation could substantially increase returns to producers. In addition to the well-known coordination that has been achieved by oil-producing developing countries, recent enhanced cooperation between a number of developing countries producing, for example, rice and rubber has also resulted in better prices and returns for their producers.

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\* This agenda is outlined in the UNCTAD document “Follow-Up to UNCTAD XI: New Developments in International Economic Relations – The New Geography of International Economic Relations” (TD/B/51/6).

## ***6. Expanding trade in services***

Exploiting complementarities in South-South services trade can offer important trade and investment opportunities. Services have gained prominence in the economies of developing countries and now account for about 50 per cent of their aggregate GDP and 15 per cent of their total exports. Efficient services are also important for economic competitiveness and for advancing human and social welfare. South-South trade in services in all four modes of GATS is on the rise and has substantial possibilities. Most of this trade is currently conducted at the regional level; increasingly, it is being facilitated by the incorporation of disciplines to liberalize services trade within regional trade agreements. Further building up South-South trade in services requires closer cooperation at the bilateral, regional and inter-regional levels in services sectors with high growth potential and that can also positively affect social welfare. These include education services, health services, professional services, construction services, computer and related services, tourism services and energy services.

## ***7. Cooperating on trade and environment***

Environmental measures – especially in Northern markets but also in Southern markets – affecting exports of developing countries have become increasingly stringent, frequent and complex. As a result, these may undermine gains from tariff liberalization by acting as disguised barriers to trade and inhibiting effective market entry. Addressing such barriers becomes important in facilitating trade and assuring market entry for exports of developing countries into other developing countries' markets. Several practical South-South initiatives could be implemented to address these concerns, such as sub-regional early warning systems, regional cooperation in standards development and conformity assessment, and integration of processes to advance harmonization and recognition of equivalency within South-South regional and inter-regional trade arrangements in order to facilitate related South-South trade. An important contribution in this process will be made by the creation, in UNCTAD following UNCTAD XI, of the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries (See UNCTAD document UNCTAD/DITC/TED/2004/7).

## ***8. Ensuring market entry***

South-South exports, like South-North trade, must respond to requirements such as technical regulations and sanitary and phytosanitary measures. These will need to be addressed, including through sharing of information, setting up of mutual recognition agreements, and coordination and harmonization within regional integration arrangements. Cooperation within the South in dealing with such market entry issues, including restrictive rules of origin, will be important in facilitating market access derived from mutual tariff liberalization.

## ***9. Cooperating on competition law and policy***

Cooperation in competition law and policy can complement national development strategies and ensure that the gains from trade liberalization expand South-South trade, growth and development. In agriculture, industry, and the services and technology sectors, developing countries need to calibrate competition policy to help build supply capacity and competitiveness and ensure both efficiency gains for the economy and welfare gains for the population. Several regional groupings of developing countries have adopted common regional competition policies, as well as establishing regional consultation forums on the control of cross-border anti-competitive practices.

## ***10. Enhancing trade-related infrastructure and reducing transaction costs***

*Trade-related infrastructure:* Much of the trade that would naturally take place between developing countries fails to materialize owing to insufficient trade-related infrastructure. Historically, significant progress has been made in building trade-related infrastructure for North-South and South-North trade, but relatively little effort or investment has been focused on the development of such infrastructure for South-South trade. Resolving these deficiencies is a fundamental requirement for sustained growth in South-South trade and investment. Resources are needed to build infrastructure and create a virtuous circle whereby the existence of good-quality

infrastructure encourages trade and, in turn, increased trade encourages further generation, upgrading and development of trade-supporting infrastructure. Such a virtuous circle will facilitate trade, expand trade support infrastructure, and reduce transaction costs for the products (and services) of developing countries that are particularly competitive and attractive to consumers in the South as much as the North.

*Facilitating trade:* In trading with each other and with the rest of the world, developing countries confront major problems of trade facilitation relating to excessive trade documentation, insignificant use of information technology, lack of transparency and of clear import/export requirements, inadequate procedures, and lack of modernized institutions relating to customs clearance. In addition, difficulties in obtaining visas, especially business visas, to facilitate South-South business contacts significantly hinder the development of South-South trade and investment. Thus, addressing trade facilitation issues can contribute significantly to reducing inefficiencies in such areas as customs, including through simplification, rationalization and harmonization of procedures, greater transparency, and the elimination or minimization of avoidable administrative and procedural delays and costs incurred in international goods and services transactions, including streamlining and easing procedures for business visas.

*Financing trade:* One of the crucial bottlenecks in South-South cooperation relates to the lack of adequate and organized finance for South-South trade and investment. Building the required trade and financial institutions and channels should be given high priority, including through enhanced cooperation among the South's trade finance institutions. More support could be given to expanding the capacity of Southern banking systems, especially export-import banks, to provide normal, structured and concessional trade finance for South-South trade. Creating an enabling environment for accessing trade finance for South-South trade would in turn facilitate greater South-South investment in productive activities.

*Enabling information flows:* Promoting access to, and effective use of, information and communication technologies (ICT) in developing countries can foster trade, including South-South trade. ICT are expanding the ability of developing economies to participate in international markets. In addition, ICT enable trade in other sectors by enhancing market access and broadening the customer base, facilitating customs, transport and logistics. Most importantly, ICT play a critical role in facilitating networking between economic actors in the South.

### ***11. Increasing awareness of opportunities for South-South trade***

Trade promotion and marketing activities among developing countries, both regionally and inter-regionally, can be used effectively to increase awareness of business opportunities and promote trade and investment activities. Trade fairs, buyer/seller meets, market surveys and specific sectoral initiatives/expositions could be used to this end by developing countries and their regional organizations. Creating direct, cost-efficient marketing and distribution links, channels and networks between South traders could give a significant boost to South-South trade. Improved information flows should accelerate progress in developing more direct marketing channels, including by stimulating entrepreneurial efforts to capture new trade opportunities.