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**New Geography of International Trade:
South-South Cooperation in an Increasingly Interdependent World**

High-level segment

Introduction

1. A quiet transformation is reshaping the global economic and trade landscape. The centuries-old international trade geography, where the South served as hinterlands of resources and captive markets for finished goods of the North, is changing. The shares of the South in global trade and financial flows have grown dramatically during the last two decades. Not all the countries in South have been able to take part in this journey, yet even amongst some of the poorest ones there are indications of improved performance, which gives reasons for optimism.
2. The old geography of international trade has been defined much by colonialism. The Industrial Revolution helped the colonial powers to attain decisive technological superiority in both the civil and military spheres, and enabled them to occupy the central position in international economic relations vis-à-vis developing countries – an asymmetric pattern that continued into the post-colonial era.
3. Dr. Raúl Prebisch, the dominant figure in the establishment of UNCTAD, gave expression to the development *problematique* of the developing countries through his analysis of the centre-periphery relationships, the commodity issues and the terms-of-trade problems of developing countries, which focused the spotlight on the inherent defects of the international economy and of the trading system. His advocacy of converging actions by both developed and developing countries to narrow the gap between them continues to be a central mission of UNCTAD. The final act of its very first session in 1964 (UNCTAD I) stated:

"An essential element of such action is that international policies in the field of trade and development should result in a modified international division of labour, which is more rational and equitable and is accompanied by the necessary adjustments in world production and trade. The resultant increase in productivity and purchasing power of the developing countries will contribute to the economic growth of the industrialized countries as well, and thus become a means to worldwide prosperity."

Growing importance of the South in international trade

4. Today, forty years since the founding of UNCTAD, it is easy to see that a new geography of trade is emerging, in which the South is moving steadily away from the periphery of the world economy and trade, reflecting changes in the traditional pattern of the international division of labour. This augurs well for trade to be able to play the role of a genuine locomotive for sustained economic growth, diversification, employment generation and poverty reduction in developing countries.

5. It is also clear that UNCTAD I was right in stressing that what is good for the South is also good for the North. This is especially so since future domestic demand growth potential in some of the developed countries is likely to level off, reflecting their long-term demographic trends and the high degree of consumption saturation. Developing countries, which constitute a vast reservoir of untapped demand, could provide a steady boost to the growth of international trade and expansion of the world economy, with beneficial effects for the welfare of developed country economies, consumers, shareholders and businesses.

6. An important manifestation of the emerging new geography is the growth in the South's share in world trade, which now stands at 30 per cent, compared with 20 per cent in the mid-1980s. The share of manufactures in developing countries' exports grew from 20 per cent of their exports (\$115 billion) in 1980 to nearly 70 per cent (\$1,300 billion) in 2000. In 2003, for the first time ever, the United States imported more goods from developing countries than from developed countries, while the share of its exports to developing countries increased to over 40 per cent. The South is the destination for nearly half of Japan's exports and one third of these of the EU (excluding intra-EU trade).

7. The South thus accounts for an increasing share of global demand. Some developing countries have emerged as growth nodes for both international and regional trade. Some of them have the potential to become powerhouses of economic activity the way Europe, the United States and later Japan did during the 20th century. China is a prime example, but it is by no means the only developing country with increasing importance in regional and international trade. Other countries, such as the Republic of Korea and Singapore, have considerably narrowed the income gap with the developed countries. An increasing number of developing countries are entering or consolidating their position in a range of dynamic sectors in world trade.

8. Strategic policies and actions by more successful developing countries and their firms, TNC strategies and the globalization of production systems, mobility of factors of production and business, changes in demand patterns and market access conditions, shifts in factor intensity of tradables, cost competitiveness and technological changes (including ICTs) are among the factors that contribute to the performance of the South.

9. Today, developing countries are better able to leverage these changes and the resulting shifts in the international division of labour. The outsourcing of manufacturing since the 1980s and, more recently that of services (especially IT-enabled services), reflect this trend. Shifting global

demographic balance and income growth in the developing countries suggest that the importance of the South as the source of global demand will only grow. For example, while the population of developing countries will grow between now and 2010 from 4.8 billion to 5.6 billion, that of developed countries will stagnate at 1.2 billion during that period.

Continued pre-eminence of the North

10. The primacy of the North in international economic relations, however, will remain. It will continue to decisively influence developments in the world economy and trade. The asymmetries between the economies of developing and developed countries are just too stark, and a meaningful convergence between the two will need a very long period of time. Such divergences are expressed in a number of ways, such as income levels, share in world trade, including in value added in trade, size of economic operators, pattern of specialization, and other structural and institutional factors.

11. These differences need to be kept in perspective in any discussion of the trading prospects of the South. For example, the average GDP per capita of developed countries stands at nearly \$27,000, which is 20 times higher than that of developing countries. Fewer than five Members of the WTO with developing country status are within \$10,000 of developed country per capita income.

12. In terms of size, scope and outreach, the economic operators of developed and developing countries are worlds apart. In value-added terms, the large developed country TNCs are larger than the size of the economies of most developing countries: for example, the value added of Exxon Mobil is larger than the size of the economies of Pakistan or of Chile, and its total foreign assets are nearly equal to the total foreign assets of the top 50 developing country TNCs taken together. The foreign sales of Daimler-Chrysler AG are 40 per cent higher than the total exports of Africa as a whole, while those of Honda Motor Corporation are greater than the total value of India's exports.

13. These facts illustrate the extent of the catching-up problem of developing countries. Structural and institutional factors further reinforce the concern that closing the existing gaps between developed and developing countries in any meaningful way will not be easy.

14. Thus, South-South trade must not be seen as a substitute for North-South trade. The North will remain a major destination of the South's exports and a main source of imports. Access and entry to Northern markets will continue to hold the key to trade successes of developing countries. At the same time, creating and deepening complementarities between South-South and North-South trade can enhance growth and prosperity for developing and developed countries alike.

South-South trade

15. Trade among countries of the South, by offering manifold opportunities to developing countries to increase their profile in international trade, can have a decisive influence in shaping the new trade geography. Today, South-South trade accounts for just over one tenth of total world trade, but it is growing significantly. Importantly, over 40 per cent of developing country exports are to other developing countries, and trade among them is increasing at the rate of 11 per cent per year. South-South trade in services is also on the rise and has substantial possibilities. This silent transformation is further underlined by investment, transfer of technology and enterprise-level interaction at the intraregional as well as interregional level.

16. Market access barriers in the North, coupled with the difficulties and high cost of market entry and anti-competitive market structures and practices, increase the attractiveness of the South as an export destination for developing countries. Several of these countries have successfully used other countries of the South for product launching and creating brand equity. South-South investment and business cooperation are also becoming a common practice in many cases. This is changing the size, scope and scale of enterprises in the South, another emerging feature of the new trade geography. Large enterprises of developing countries often act as beachheads for their smaller companies.

17. Regional economic and trade cooperation, including through bilateral and regional trade agreements (RTAs), is a central mechanism employed by an increasing number of developing countries to expand mutual trade and investment. Regional arrangements offer important possibilities to enlarge economic space, attract FDI to the region on better terms, and pool economic, human, institutional, technological and infrastructural resources and networks of participating countries. The regional arrangements were slow to take off in the beginning, which is still the case with many. However, as complementarities among economies emerged, confidence in opening up to one another also developed. More recently, developing countries have joined their developed partners under new varieties of regional arrangements, such as North-South RTAs and North-South-South RTAs, reflecting growing North-South interdependence.

18. Some of these arrangements, such as MERCOSUR, have had a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between these countries and the rest of the world. Regional trade cooperation has enabled several countries to take advantage of the dynamically changing regional division of labour, known as the “flying geese” model, whereby less advanced countries entered simpler manufacturing stages as the more advanced economies successfully shifted to increasingly sophisticated manufacturing and services activities.

19. Interregional trade, another avenue for increasing South-South trade, has also been growing, but its potential remains underutilized. For example, 27 per cent and 12 per cent, respectively, of intra-South trade in agriculture and manufacturing are conducted on an interregional basis. This is particularly relevant when regional arrangements are too narrow to offer significant complementarities. Increasing agricultural exports from Argentina and Brazil to China and Chinese manufacturing exports to these countries, and the launching by India, Brazil and South Africa of a process towards interregional cooperation are among recent indications of significant developments in interregional trade in the years to come.

20. South-South trade through the GSTP provides a potential complementary avenue for developing countries to increase and expand their interregional market access opportunities. Ways need to be found to reinvigorate the GSTP. A decision to launch a third round of negotiations by the GSTP Committee of Participants in the context of UNCTAD XI will have a salutary effect in ensuring that GSTP and interregional trade achieve their full potentials.

21. An important area where South-South interdependence is likely to deepen relates to commodities, both fuel and non-fuel, which constitute 46 per cent of intra-South trade. The South will increasingly need the South's resources. The South will also need the South's markets. A major challenge will be to balance the interests of commodity exporters and importers within the South in order to promote smooth, sustained and sustainable growth and development of the economies of the South.

22. Another critical challenge will be to ensure that the LDCs, African countries and the small economies are not left on the margins of the emerging trade geography. These countries are handicapped by severe structural, economic and social constraints, and are least equipped to take

advantage of existing and emerging opportunities. The poor and the women within the South must also be empowered to claim their place in the new trade landscape, which will be a major contribution to the realization of the objectives of the Millennium Declaration.

New forms of South-South consultations and cooperation

23. Ever since the establishment of the Group of 77, one of the important collective objectives of the countries of the South has been to have their voices heard in global economic decision-making. A recent development in this regard is the emergence of issue-based coalitions in the context of the ongoing multilateral trade negotiations on the Doha Work Programme, such as the Group of 20 and the Group of 90. Some countries of the South have also established interregional consultative arrangements such as the IBSA (India, Brazil and South Africa) Dialogue Forum. These coalitions can help the South to act in solidarity to effectively further its collective interests in multilateral forums, and make a significant contribution to the evolution of a genuinely balanced and development-friendly global agenda for trade and development.

The road ahead and the role of UNCTAD

24. The emergence of a new trade geography, with the South coming ever closer to the centre of international economic relations, is increasingly apparent. This implies further broadening and deepening of South-South and North-South interdependence. While the North will continue to retain its pre-eminence, South-South trade will have an increasingly important role to play in shaping this process of transformation. It is important that all countries – North and South – work together to ensure that this process is smooth, rapid and beneficial for all countries and peoples. A global vision, based on trade and development solidarity, is needed to ensure that:

- It is a collaborative process where both North and South work on a converging agenda underpinned by shared responsibility and genuine partnership.
- It is an inclusive process, so that countries such as LDCs and small economies are not left behind.
- It is a process with a human face, so that people, communities and regions that are at a disadvantage, particularly the poor and women, can participate fully.
- It is a sustainable process that pays due attention to the needs of future generations.
- It is a trade-plus process, so that development financing, FDI, debt relief, adjustment support, technology transfer and capacity building all contribute in a coherent manner. International trading, financial and monetary systems will need to play their full part.

25. As the focal point in the UN system for the integrated treatment of trade and development, UNCTAD can make an important contribution to the realization of the new vision on trade policy for development through its three pillars of work, namely intergovernmental deliberations and consensus building, policy research and analysis, and technical assistance and capacity building.

26. UNCTAD can help developing countries to elaborate trade policies and strategies in the interlinked areas of national development policies and intraregional and interregional integration. It can assist them in deepening their South-South trade cooperation and integration, and improving the effectiveness of and gains from these arrangements. It can elucidate what is required in terms of trade rules at multilateral and regional levels, and complementary international policies and measures to accommodate the specificities of development needs of developing countries at different levels of development.

27. In a rapidly changing landscape of international trade, UNCTAD can monitor the evolution and performance of South-South cooperation and integration arrangements and the impact thereon of the policies of the North, and present various scenarios to ensure that their implications for development are holistically understood and addressed in the context of global economic governance. Equally importantly, UNCTAD can help build, sustain and promote dialogue and confidence among different stakeholders on key issues and processes.
