Economic Rationale and Modalities of South-South Cooperation

By

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Economic Rationale & Modalities of South-South Cooperation
Objective

S-S trade
as a
Means to Industrialization & Development
Not
Trade for the sake of trade
The Questions

If So, should:

- Development lead to S-S trade?
- Or: S-S trade is to stimulate development?

Why? How? What?
Why? Economic Rationale for S-S Trade

Controversy: 1

Neo-lib.: Based on Static CA Cost theory
- Universal free trade;
- Against discriminatory S-S trade
  - Diversion to high cost producers
  - Recommend unilateral lib.!!
  - RTAs between S-N, more advantageous
  - N-S trade involves, more gains
  - S-S trade among small countries lacks scale economies
Economic Rationale for S-S Trade
Controversy: 2

But: WRONG Assumptions: Mainly:
- Full employment; thus concern with allocative efficiency-not growth and development
- constant return to scale;
- Lack of external economies
- independence of present and future costs;
- The lack of risks
- The lack of influence of power in trade
Economic Rationale for S-S Trade
Controversy: 3

Argument in favour: (Mostly defensive)
- Term of trade
- Risk reduction
- Disappointment with trading system/DOHA
- Limitation of policy space by N-S agreements

Experience:
S-S regionalism has not helped LDCs much

WHY?
Economic Rationale

Alternative Framework

Approach:

1. S-S trade as a vehicle for Industrialization and dev.
2. Dynamic comparative advantage; pro-active (List, Prebisch); role of governments
3. Specialization should lead to trade; rather than trade to specialization: Supply creation: the key
   HOW?
Alternative approach: 2

Elements of the argument:

- “Vent for surplus” theory
  - Role of N and TNCs?
- Scarcity of resources
- Division of labour for supply creation:
  - Industrial collaboration; production sharing;
  - exchange of products
- Advantage
  - Overcoming both scarcity & effective demand deficiencies
  - Cost reduction over time: size of market
  - Selectivity in the use of scarce resources
Alternative approach: 3

Requirements:

Cooperation for:

- back-up services
- Training
- Infrastructure for regional trade
- Clear and dynamic industrial policy

& Political will !!
Thank you very much for Listening

Your comments are valuable