



**United Nations
Conference
on Trade and
Development**

Distr.
GENERAL

TD/B/51/6
17 September 2004

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD

Fifty-first session

Geneva, 4-15 October 2004

Item 2 of the provisional agenda

**FOLLOW-UP TO UNCTAD XI: NEW DEVELOPMENTS IN INTERNATIONAL
ECONOMIC RELATIONS**

The new geography of international economic relations

Note by the UNCTAD secretariat¹

Executive summary

A new geography of trade is emerging and reshaping the global economic landscape, and the South is gradually moving from the periphery of global trade to the centre. A similar pattern is emerging in international investment flows, suggesting the possible emergence of a new geography of international investment relations. A South-South cooperation strategy focused on a number of key thrust areas could consolidate and expand the transformation that is taking place in South-South trade, investment and economic cooperation. This would enable the South to play the role of a genuine locomotive for sustained economic growth, diversification, employment and poverty reduction in the South itself and in the rest of the world. There is much that the international community can do to assist the South in this endeavour. Developed countries can be instrumental in facilitating South-South trade through appropriate trade, aid, financial, monetary, technology transfer and development policies and actions. Development assistance in creating the trade-supporting infrastructure and facilities for South-South trade is particularly critical. UNCTAD can be an important partner of developing countries in the revitalization of South-South cooperation. It is in a unique position to assist developing countries and their regional groupings in trade and investment promotion and trade negotiations through research and analysis, intergovernmental consensus building and technical cooperation

¹ This document was submitted on the date indicated above because it had to be prepared in the light of the outcome of UNCTAD XI.

THE NEW GEOGRAPHY OF INTERNATIONAL ECONOMIC RELATIONS

A. Key features of the new trade geography

1. As noted by President Lula of Brazil, a new geography of trade is emerging and reshaping the global economic landscape. Within this new trade geography, the South is gradually moving from the periphery of global trade to the centre, providing new opportunities for assuring development gains from international trade and trade negotiations for developing countries.² This transformation is a concrete expression of the original vision of UNCTAD. Two fundamental features of this transformation are readily apparent.

2. One relates to the growing importance of the South as a producer, trader and consumer in global markets. As such, the South represents a future engine of growth and dynamism for the global economy. The South's share in global trade has grown dramatically in the last two decades; it now stands at 30 per cent, compared with 20 per cent in the mid-1980s. The South is also becoming an important destination for the exports of developed countries. The growing interdependence between the South and the North also underscores the need for increased development solidarity from the North in support of the South for their mutual benefit. It also means that developed countries should nurture and sustain this newfound dynamism, in which the South is propelling itself more fully into the international trading system so as to reap development gains in terms of accelerated economic growth, development and poverty reduction. The North needs to evolve and strengthen policies and strategies in support of the South as a valuable partner in development.

3. The second feature of the new trade geography relates to the new dynamism and momentum in South-South trade in commodities, manufactures, and services. Over 40 per cent of developing country goods exports, including basic commodities and manufactures, are destined for other developing countries, and such trade is increasing at an annual rate of 11 per cent (nearly twice the growth rate of total world exports). South-South trade in services is also on the rise, offering substantial possibilities for developing countries to diversify their goods-dominated export structure. This silent revolution is further underlined by increased South-South investment, transfer of technology and enterprise-level interactions at the intraregional and regional levels. Factors contributing to this revival include increasing complementarities in production and trade among developing countries; a growing number of supporting bilateral, regional and interregional trade, investment and economic cooperation agreements; and the difficulties and high cost of entry in Northern markets.

4. At UNCTAD XI, several Heads of State and Government examined this phenomenon during the High-level Segment on the New Geography of Trade. They drew attention, *inter alia*, to the following: (a) the new trade geography not only brings commercial gains, but also enhances solidarity and equity among countries; (b) there is increased potential for beneficial cooperation among developing countries, based on fair rules and solidarity, including special treatment for the weaker among them; and (c) increased South-South trade is a complement to rather than a substitute for North-South trade.

² For details, refer to UNCTAD's report to UNCTAD XI on "New geography of international trade: South-South cooperation in an increasingly interdependent world" (TD/404).

5. The growing importance of the South in the global economy is not confined to trade relations alone. Similar patterns are also emerging in international investment flows, suggesting the possible emergence of a new geography of international investment relations. Annual foreign direct investment (FDI) outflows from developing countries have grown faster over the past 15 years than those from developed countries. Negligible until the beginning of the 1990s (table 1), their outward FDI accounted for over one-tenth of the world stock and some 6 per cent of world flows in 2003 (\$0.9 trillion and \$36 billion, respectively). More importantly, in the 1990s, many developing countries emerged as significant sources of FDI in other developing countries.

Table 1. FDI outflows from developing countries, by region, 1980–2003
(Billions of dollars)

Region/economy	FDI outflows (Annual average)				FDI outward stock				
	1980-1989	1990-1994	1995-1999	2000-2003	1980	1990	1995	2000	2003
Developing countries	5.7	28.1	64.9	59.6	60.2	128.6	308.6	793.3	858.7
Africa	0.5	1.8	2.6	0.0	6.9	20.9	32.9	45.6	39.5
South Africa	0.2	0.7	1.9	- 0.6	5.7	15.0	23.3	32.3	24.2
Latin America and the Caribbean	0.9	4.7	18.0	10.6	46.9	58.8	86.3	155.5	183.8
Brazil	0.2	0.6	1.3	0.7	38.5	41.0	44.5	51.9	54.6
Chile	0.0	0.4	1.5	1.8	0.0	0.2	2.4	11.2	13.8
Mexico	0.1	0.4	0.7	1.9	0.0	1.1	2.6	7.5	13.8
Asia and the Pacific	4.3	21.6	44.3	49.0	6.5	48.9	189.5	592.3	635.4
South, East and South-East Asia	3.7	21.6	43.6	45.8	4.5	41.0	181.8	577.8	607.5
China	0.4	2.4	2.2	3.0	0.0	2.5	15.8	25.8	37.0
Hong Kong, China	1.2	10.5	22.5	23.0	0.1	11.9	78.8	388.4	336.1
India	0.0	0.0	0.1	1.0	0.0	0.0	0.3	1.9	5.1
Korea, Republic of	0.4	1.5	4.3	3.4	0.1	2.3	10.2	26.8	34.5
Malaysia	0.2	0.8	2.2	1.4	0.2	2.7	11.0	21.3	29.7
<i>Memorandum</i>									
World	93.3	234.8	603.1	779.3	559.6	1 758.2	2 897.6	5 983.3	8 196.9

Source: UNCTAD (www.unctad.org/fdistatistics).

6. However, in terms of the origin of the top 100 TNCs in the world, the North remains dominant. Almost 90 per cent of the top 100 TNCs are headquartered in the Triad, with the United States, the European Union (EU) and Japan as the principal poles. EU-based firms account for more than half of the top 100, the United States accounts for slightly more than a quarter, while Japan's share has decreased over the years to less than 10. The number of TNCs from non-Triad countries has risen to more than 10 over the years. Altogether, 19 countries are now represented in the list. Although non-Triad TNCs, including a number from developing economies, account for a relatively small proportion of the top 100 TNCs, their average Transnationality Index is higher.³

7. Some firms from developing economies (e.g. Malaysia, Republic of Korea, Singapore) already have an established track record as outward investors. Others – for example firms from Chile, Mexico and South Africa – have become players more recently. And yet others – from Brazil, China and India – are at the take-off stage. Some developing economies are now

³ UNCTAD's Transnationality Index is based on the average of three ratios related to the size of TNCs' operations: foreign sales to total sales, foreign assets to total assets, and foreign employment to total employment

large investors by global standards. In 2003, for instance, Hong Kong (China) had a larger outward FDI stock than Italy or Spain, while Singapore ranked ahead of Denmark or Norway. Their TNCs figure prominently among the leading TNCs from the developing world, along with those from Brazil, the Republic of Korea, Mexico and, more recently, South Africa. An increasing amount of the outward investment from developing countries is going to other developing countries, and the rate of South-South international investment is growing faster than investment from developed to developing countries.

8. The rise in South-South FDI flows has been motivated by push and pull factors and structural, cyclical and policy factors similar to those seen in the surge in North-South FDI flows. Some of the push factors include increased competition or limited growth opportunities in domestic markets (e.g. South African retailing companies in Africa), efficiency seeking (e.g. Malaysian manufacturing companies in Indonesia and Viet Nam) and procurement of raw materials (e.g. China's investments in iron ore and steel mills in Peru, as well as in oil in Angola and the Sudan). In addition to low labour costs and market-access opportunities, the most important pull factors for South-South FDI flows appear to be geographic proximity and ethnic and cultural ties. Since the cost of acquiring reliable information about foreign markets can be high for relatively small companies from the South, they tend to invest in neighbouring countries, where they have established a certain familiarity through trade or ethnic and cultural ties.

9. The rise in South-South FDI flows is also facilitated by an increasing number of international investment agreements ranging from treaties for the promotion and protection of foreign investment (BITs) to bilateral agreements for the avoidance of double taxation on income and capital (DTTs). Such agreements have proliferated in the past decade or so.⁴ Between 1989 and 2003, the total number of BITs and DTTs grew from 383 to 2,265 and from 1,143 to 2,316 respectively. Whereas BITs and DTTs were traditionally concluded between developed and developing countries, developing and transition economies have accounted for most of the growth. Their share of treaty-conclusion activity, especially among developing countries and between developing and CEE countries, has increased greatly. The share of all BITs that had two developing economies as parties grew from 10 per cent to 28 per cent between 1989 and 2003, and in the case of DTTs from 8 per cent to 14 per cent. By July 2004, the number of South-South BITs had reached 627. The share of all BITs between developing economies and CEE countries rose from 6 per cent to 13 per cent, while the corresponding development in the area of DTTs was from 4 per cent to 9 per cent. Conversely, the share accounted for by BITs and DTTs between developing and developed countries fell sharply.

⁴ Within the developing world there are considerable differences in the extent of involvement in BIT and DTT practices. Countries in the Asia-Pacific region have been the most active. China has signed the largest number of BITs and in the case of DTTs, India and China report the highest number of treaties, followed by Thailand. The share in BITs and DTTs with only Asia-Pacific countries involved increased from 5% to 11% and from 4% to 7% respectively between 1989 and 2003. Among the Central and Eastern European countries, Romania and Poland have signed the most agreements. By contrast, the number of agreements within Africa and to a lesser extent within the Latin American and Caribbean countries remains low. Moreover, no DTT has yet been signed between an African and a Latin American country.

10. The growth of the ICT-producing sector in the South and the increasing application of ICTs in trade transactions are additional factors contributing to the emergence of the new geography. Countries of the South (in particular South-East Asia) have developed into IT manufacturing centres and created new regional trade relationships. Trade in ICT products grew tremendously over the last decade and was worth over US\$ 900 billion in 2000. In particular, exports of ICT products from developing countries grew at a compound annual growth rate (CAGR) of 23.5 per cent over the last decade, while exports from developed countries grew at a CAGR of 10.8 per cent.⁵ As a consequence, the share of developing countries and economies in transition in ICT exports grew from 15.6 per cent of exports in 1990 to 35.5 per cent in 2000. This phenomenon was largely a result of transnational corporations' strategies for locating hardware production in emerging markets, as well as developing countries' efforts to develop local ICT production capacities, which resulted in important outsourcing of ICT production to those countries.

11. Since the late 1990s, ICT-related services have been the most dynamic export services in developing countries, growing annually at 45 per cent. A comparison between developing and developed countries' growth rates for different types of services exports reveals that the growth rates in developing countries were higher than the world average in all of the dynamic services, and particularly high in three services: computer and information services (58 per cent); personal, cultural and recreational services (53 per cent); and financial services (41 per cent).

B. A strategic approach to South-South trade and economic cooperation in the context of the new geography of economic relations

12. A South-South cooperation strategy focused on a number of key thrust areas could be considered in order to consolidate and expand the transformation that is taking place in South-South trade, investment and economic cooperation. This would enable the South to play the role of a genuine locomotive for sustained economic growth, diversification, employment and poverty reduction in the South itself and in the rest of the world. Such a cooperation strategy would also pay special attention to the particular needs and situations of least developed countries, small island States, and landlocked and transit developing countries, and address these in the context of bilateral, regional and interregional South-South and North-South agreements.

13. The responsibility for enhancing South-South trade and economic cooperation lies with developing countries themselves. Developing country Governments, their regional trade and integration groupings, and their economic operators need to consult, coordinate and cooperate closely and actively on South-South trade, investment and economic cooperation initiatives and activities to devise strategies and actions to advance mutual trade, investment and cooperation. Such cooperation needs to be conducted on the basis of mutuality of advantage for all parties and to maximize the development gains therefrom. Approaches that engage

⁵ By comparison, total world exports grew by 6.6 per cent over the same period.

countries and their economic operators in mutually advantageous relationships, in which all participating countries gain, have higher chances of being sustained and strengthened.

14. In addition, there is much that the international community can do to assist the South in this endeavour. Developed countries can be instrumental in facilitating South-South trade through appropriate trade, aid, financial, monetary, technology transfer and development policies and actions. Development assistance in creating the trade-supporting infrastructure and facilities for South-South trade is particularly critical.

15. Some specific elements and new initiatives based on a positive agenda for South-South cooperation are identified below. UNCTAD, for its part, has and will continue to play a key role in assisting developing countries in deepening their South-South trade cooperation and integration, and improving the effectiveness of and gains from these arrangements. Its accumulated expertise and its mandates from Bangkok, along with the renewed mandate from UNCTAD XI, place it in a unique position to assist developing countries and their regional groupings in trade and investment promotion and trade negotiations through research and analysis, intergovernmental consensus building and technical cooperation.

C. Key elements of a positive agenda

1. More deliberate focus on South-South cooperation

16. South-South trade, investment and economic cooperation are becoming increasingly important to developing countries' trade and development strategies. Enhanced South-South trade will enable developing countries to continue to expand their trade in commodities, manufactures and services; diversify their export base and develop new complementarities; develop and test new tradable products and services; and build productive capacities and competitiveness. The expansion of mutual trade and investment among developing countries, in turn, acts as a springboard for their fuller entry into the global market. Accordingly, the South (Governments and economic operators) needs to place more deliberate focus and build on this newfound momentum. 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 interregional level, which remains the weaker link in South-South trade. It also requires the full engagement of the economic operators of the South and that they integrate South-South business opportunities into their business plans.

2. More effective use of south-south complementarities

17. With increasingly outward-oriented development strategies, developing countries have discovered the significant complementarities that exist among them, and confidence in opening up to one another has developed. Complementarities favouring trade arise naturally whenever the basket of goods and services for which one country has comparative advantages differs significantly from those of its trading partners. These complementarities

allow individual developing countries to identify and exploit niche comparative advantages in the production of certain goods and supply of specific services in regional and interregional Southern markets. Much of this activity is associated with intra- and inter-industry trade, which has increased with the recent development of Southern supply chains that feed into regional production hubs of composite manufactures and processed commodities exported to both Southern and Northern markets. Importantly, these regional supply chains are dynamic, enabling developing countries to integrate into a “flying geese” model of trade and development, wherein countries with less advanced product structures assume simpler manufacturing and services activities that feed into the supply chains of more advanced regional partners as the latter shift their focus to more sophisticated manufacturing and services over time. For example, MERCOSUR and ASEAN have had a substantial impact on the expansion of trade in specific sectors among member States, and subsequently between them and the rest of the world.

18. New complementarities can be exploited to assist developing countries to 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.⁶ 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 learnt; and partnerships and twining of economic operators.

19. UNCTAD will convene sectoral reviews on new and dynamic products in world trade for which Southern supply chains can be efficiently developed by linking supply partners in regional and interregional ‘maps’ of sector-relevant revealed comparative advantages (RCAs). Such sectoral trade reviews will promote policy dialogue and form new production and trade partnerships between interested parties. Initial work along these lines is already under way at UNCTAD in respect of minerals, agricultural commodities, textiles and clothing, electronics, ICT, and environmental goods and services, including bio-trade products.

3. *Strengthened regional cooperation and integration*

20. Growing South-South trade has been accompanied by increased regional trade and investment, facilitated through bilateral and regional trade agreements. By eliminating tariffs and non-tariff barriers to trade in goods, regional 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 of these arrangements have had a

⁶ For details, see UNCTAD report to UNCTAD XI on "Strengthening participation of developing countries in dynamic and new sectors of world trade: trends, issues and policies" (TD/396).

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. Recently, developing countries have reinvigorated their regional liberalization programmes and entered into initiatives aimed at a deep integration agenda including trade in services. Consolidating and strengthening these processes of regional trade and economic integration among developing countries so as to maximize their full potential is a major challenge.

21. Developing countries – both individually and collectively under their regional arrangements – have entered into negotiations with their developed country partners on a variety of regional trade arrangements of a North-South nature (such as the Free Trade Area of the Americas) or North-South-South agreements (such as the EU-ACP negotiations on economic partnership agreements). These initiatives pose further challenges to developing countries, not only to derive a good deal from these negotiations with development-enhancing results, but also to ensure that they complement and supplement developing countries' regional trade and economic integration processes while remaining consistent with WTO obligations. In this context, developing countries need to consult, cooperate and coordinate approaches and actions.

4. *Exploiting the full potential of South-South interregional trade*

22. Although it has been growing, interregional trade among developing countries is the weak link in South-South trade and investment relations. For example, only 27 per cent and 12 per cent respectively of South-South trade in agriculture and manufacturing is conducted on an interregional basis. To a large degree, interregional trade liberalization among developing countries has not fared well owing, *inter alia*, to lack of information and hence confidence on trade and investment opportunities; perceived lack of complementarities and hence lack of trading opportunities; hesitation in entering into trade liberalization negotiations on account of production and export of similar products; preoccupation with regional and subregional trade liberalization; and inability to find effective modalities to pursue interregional trade liberalization.

23. However, in recent years there has been growing confidence in South-South trade and investment flows based on actual experiences of dramatically increased intraregional trade among groups of developing countries. Also, the accumulated regional and subregional experiences in the liberalization of trade and investment policies can provide a guide to effective interregional liberalization. So the time now appears ripe for a paradigm shift to promote South-South interregional trade and investment flows, including through trade liberalization.

24. The Global System of Trade Preferences among Developing Countries (GSTP) provides a promising avenue for developing countries to increase and expand their interregional trade. A strengthening of the GSTP through the expansion of trade preferences and its membership, as well as improvements in the methodology of negotiations to provide equitable benefits and mutuality of advantage among participants, would make the GSTP a viable instrument for South-South cooperation and enhance its positive impact on trade, investment promotion and development. In this regard, during UNCTAD XI, developing country ministers met and

reached a milestone decision to launch the third round of GSTP negotiations, which are planned to commence in November 2004. Coming at an opportune juncture in the light of the emerging new geography of trade, this initiative, if followed up effectively and with enthusiasm and commitment by developing countries, could produce results that would substantially boost South-South interregional trade and investment. The involvement of the private sector of the South, for example chambers of commerce and industry, is key to operationalizing the opportunities being created by the GSTP; the private sector will have to be consulted to ensure negotiations lead to commercially attractive results and improved utilization of the system. UNCTAD, which services the GSTP Committee of Participants and provides it with technical and administrative support, will be backstopping the forthcoming GSTP negotiations.

25. Other South-South bilateral and plurilateral trade initiatives and agreements have also been launched on an interregional basis that, if followed up with concrete trade and investment activities, would strengthen interregional trade in the years to come. UNCTAD has been involved in supporting some such initiatives such as the Indo-MERCOSUR closer trade and economic cooperation initiative.

5. *Converting the commodity problematique into a resource boon*

26. A “window of opportunity” for developing countries to increase their earnings from commodity exports may be opening as a result of trade liberalization and increases in commodity demand in the South, particularly in the large and fast-growing economies. Already nearly 50 per cent of non-fuel commodity exports from developing countries flow to other developing countries, and for fuels the figure is 40 per cent. This provides an opportunity for developing countries to use South-South cooperation to convert the commodity problematique into a resource boon. Further increasing South-South commodity trade and investment requires effective partnerships among relevant stakeholders aiming at viable solutions and sustainable approaches to commodity issues, trade and diversification. It also requires a change in the traditional approach of examining the commodity problematique from a prism in which developing countries are only viewed as producers.

27. Today, developing countries are emerging as major importers and consumers of commodities produced by other developing countries. This is due to economic and population growth and consequently to rising demand in many countries of the South. In some of the fast growing economies, major investments in infrastructure are leading to rising demand for construction materials and other industrial raw materials, including fuel and minerals. At the same time, life style changes, including changes in dietary patterns, brought on by rising income and urbanization, will change the composition of demand for food products. The growing purchasing power of populations in the South is widening the consumer base for commodities and consumer products derived therefrom. For example, imports by the South of products such as coffee and cocoa are increasing, creating opportunities for South-South trade that could have a positive impact on prices and returns to producers in developing countries.

28. With growing South-South trade in commodities, cooperation among commodity producers becomes important to meet consumption needs in the South in respect of basic commodities including food and fuel and to ensure 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 on commodities 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.

29. Attention needs to be given to enhancing cooperation in, and ensuring sustainable supply of, strategic commodities such as oil, gas and water, as well as minerals like iron ore and copper, which are essential inputs for production and trade and for sustained economic development. As developing countries themselves together account for the major portion of global supply for many of these resources, and because natural endowments vary widely among them, South-South cooperation on strategic resources has been and could be particularly effective, including as a catalyst for economic cooperation in other related areas.

30. UNCTAD's work in commodities has valuable inputs to provide in strengthening South-South cooperation in commodities. In a new initiative, UNCTAD is establishing an International Task Force on Commodities (ITFC), announced at UNCTAD XI, to provide a comprehensive and systematic consultative framework on commodities. Partners will include member States, international organizations, commodity-specific bodies, the private sector, non-governmental organizations and the academic community. IFTC partnerships could be evolved to monitor South-South cooperation in commodities and develop specific initiatives in this area.

6. *Making services a thrust area of South-South cooperation*

31. 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 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 interregional levels in services sectors with high growth potential and that can also impact positively on 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*

32. 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, they 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 each other's markets. Several practical South-South initiatives could be implemented to address these concerns, such as subregional early warning systems, regional cooperation in standards development and conformity assessment, and the integration of processes to advance harmonization and recognition of equivalency within South-South regional and interregional trade arrangements in order to facilitate related South-South trade.

33. Such South-South cooperation could be effective under the umbrella of the Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries, launched by UNCTAD during the Rio Trade Week.⁷ The CTF represents a practical and timely initiative launched by UNCTAD in addressing environmental measures affecting exports of developing countries. The CTF will assist developing countries in analysing key trends in environmental and health requirements in export markets, and in exchanging national experiences on proactive approaches to meeting such requirements.

34. Under the Doha Work Programme,⁸ negotiations are taking place on the liberalization of trade in environmental goods and services (EGS). In this regard, special efforts are needed by the South to identify EGS of actual and potential interest to developing countries, to ensure that trade liberalization in EGS promotes the transfer of environmental technology and associated know-how, and to explore opportunities for enhanced South-South trade for which there is a good potential. Developing countries need support in: (a) examining the implications of EGS liberalization for their sustainable development; (b) identifying EGS of actual and potential export interest at the national and South-South levels, such as renewable energy technologies (for example wind and solar), bio-trade products, and products derived from organic and natural fibres; and (c) exploring ways of promoting special and differential treatment and transfer of technology in EGS negotiations. UNCTAD has been assisting developing countries in all these areas and will continue to do so.

35. Another important area of South-South cooperation relates to the development of a *sui generis* intellectual property system for the preservation, protection and promotion of traditional knowledge at the national, regional and international levels.

8. *Dealing with market entry issues*

36. South-South exports, as is the case with 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.

⁷ See "Report on the Rio Trade Week preparatory to UNCTAD XI" (TD/L.395).

⁸ Paragraph 31(iii) of the WTO Doha Ministerial Declaration

Cooperation within the South in dealing with such market entry issues, including restrictive rules of origin, will be important in facilitating market access openings derived from mutual tariff liberalization.

9. *Working together on competition law and policy*

37. 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, 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. Specific areas of South-South cooperation could include: (a) consultations on guidelines for the control of economic concentration that may adversely affect South-South trade and investment; (b) consultations on the merits of dispute avoidance and resolution for cross-border anti-competitive practices; (c) exchange of expertise and information on the enforcement of competition laws; and (d) regional networking on capacity building.

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

38. Much of the trade that would naturally take place between developing countries fails to materialize due 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 and 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 more competitive and attractive to consumers in the South as much as the North.

(a) *Transport and related facilities*

39. High trade volumes and transport efficiency are mutually beneficial. Lower transport costs obviously promote trade, and at the same time more trade also leads to lower transport costs. The possibility of using larger ships and the existence of high fixed costs in port operations are among the factors making economies of scale possible in transport costs. Transport costs for South-South trade, both regionally and interregionally, remain extremely high owing to lack of direct shipping, road, rail, and air networks, as existing networks favour

South-North trade. Also, existing networks and facilities (such as ports, warehouses etc.) are limited in quality, coverage and number, often necessitating the use of transportation routes passing through developed countries and thus adding significantly to the costs of South-South trade.

40. There are, however, exceptions. For example, several developing countries have today become centres of international transport networks. Hong Kong (China), Singapore and Panama have established themselves as transshipment ports and logistics centres, and this generates direct income through the provision of port and logistics services. It also helps to improve the competitiveness of national and regional exports through the availability of additional international transport services.

41. South-South trade, too, is benefiting from new routes and transshipment centres in the South. South America, Southern Africa, South Asia and South-East Asia are linked through several direct liner shipping services that call at the main ports in the regions. From there, cargo is transhipped from and to secondary regional ports. Other regions, such as Western Africa and the west coast of South America, are still mostly linked to other continents through indirect services, mostly implying transshipment in ports in the Northern Hemisphere.

42. Unlike the new logistics centres or countries near the main maritime routes, many landlocked developing countries continue to be among the world's least developed. In fact, there exists ample empirical evidence to show that being landlocked is a significant factor in explaining low levels of income, growth and foreign direct investment. Being landlocked, i.e. depending on transit transport for overseas trade, should not be confused with remoteness or distance from the sea. Many large countries have regions or cities that are further away from the sea than most capitals of landlocked countries, yet their transport costs are lower. This means that the higher transport costs of transit trade cannot be explained by the distance to the sea, but are due rather to uncertainty, delays and inadequate trade and transport facilitation measures.⁹

43. Thus there is a need to continue to invest in, upgrade and extend transportation and related facilities in and between developing countries to support further expansion of South-South trade.

(b) Trade facilitation

44. In trading with each other and also 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

⁹ Nuno Limão and Anthony J. Venables: "Infrastructure, Geographical Disadvantage, Transport Costs and Trade", London and New York, 2000. <http://econ.lse.ac.uk/staff/ajv/nltv.pdf>.

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 of procedures for business visas. UNCTAD, through its various trade-efficiency-related activities, has been contributing to improving trade facilitation capacities of developing countries.

(c) *Trade finance*

45. 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 the expansion of 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. In the last few years, it has become apparent that increasing South-South trade is being driven, *inter alia*, by South-South investment, so South-South trade expansion cannot be fully sustained without a parallel expansion in intra-South investment. In this regard, UNCTAD has been promoting the creation of a network of export-import (ExIm) banks to foster cooperation in the provision of trade financing. In the preparatory process for UNCTAD XI, a number of ExIm banks met and agreed on launching an ExIm bank network. This initiative deserves further consideration and support by developing countries.

(d) *Trade information and the role of ICTs*

46. Advances in information technologies for the collection of trade-related information and in the Internet for its global dissemination remain to be utilized effectively by developing country producers and traders. Adequate information is key to identifying and exploiting trade and investment opportunities effectively. It is equally critical for trade negotiations at different levels.

47. Promoting access to, and effective use of, ICTs in developing countries can foster trade, including South-South trade. ICTs are expanding the possibilities of developing economies to participate in international markets. The Internet is changing the way goods and services are produced, delivered, sold and purchased. It leads to an ever-growing number of people and businesses connected digitally, ready to participate in and contribute to the knowledge economy.

48. Trade in goods and services is expanding thanks to new technologies. Empirical research on the impact of the Internet on international trade has shown a positive, increasing and statistically significant impact of the Internet on the global pattern of trade flows.¹⁰

¹⁰ Freund C and Weinhold D (2000). "The effect of the Internet on international trade". *Journal of International Economics* 62 (2004) 171–189.

Furthermore, research results suggest that the impact may be higher on poorer countries, leading to a higher increase in exports compared to developed countries.¹¹

49. In addition, ICTs enable trade in other sectors by enhancing market access and broadening the customer base, facilitating customs, transport and logistics. Most importantly, ICTs play an economic role by changing production processes within firms.

50. Globalization, combined with the growing role of ICT in all business processes, has led to a sharp increase in outsourcing of services. Those business tasks that do not necessarily have to be carried out in-house (for example because they do not require an ongoing knowledge of core activities) are increasingly being outsourced to companies that can provide the same quality of service more cost effectively. Increased global competition is forcing companies to produce more cost effectively in order to maintain their profit margins.

51. Today, ICT is playing a major role in the growing outsourcing business in sectors such as finance and insurance, health care, human resources, customer care, and sales and marketing. The global outsourcing market is expected to be worth over US\$ 500 billion in 2005. Developing countries are growing providers of outsourced services, including India (currently the leading provider), Brazil, China, the Philippines, Thailand and Viet Nam. IT-enabled outsourcing is creating new employment opportunities in developing countries and contributing to a growth in services exports.

11. Stepping-up trade promotion and marketing

52. Trade promotion and marketing activities among developing countries, both regionally and interregionally, can be used effectively to raise awareness of business opportunities and promote trade and investment activities. In this direction, trade fairs, buyer/seller meets, market surveys and specific sectoral initiatives/expositions could be actively used by developing countries and their regional organizations.

53. Creating direct, cost-efficient marketing and distribution links, channels and networks between Southern traders could give a significant boost to South-South trade. Such an approach would address the current situation in which a large fraction of South-South trade is indirect – refracted through Northern marketing channels – with the result that transaction costs for imports of Southern goods and services remain comparatively high for Southern importers. Improved information flows should accelerate progress in developing more direct marketing channels, including by stimulating entrepreneurial efforts to capture new trade opportunities.

D. Conclusion

54. Developing countries face a considerable challenge in sustaining the new dynamism in South-South trade and economic cooperation and in maximizing and exploiting the opportunities emerging in the context of the new trade geography. The challenge is to

¹¹ Clarke G and Wallsten S (2004). “Has the Internet Increased Trade? Evidence from Industrial and Developing Countries”, World Bank Policy Research Working Paper 3215, February 2004.

develop and implement a strategic approach and positive agenda that provide support at the national, regional and interregional levels for developing countries to enhance mutual trade, investment and economic cooperation. UNCTAD can be an important partner of developing countries in this revitalization of South-South cooperation. In order to have a better multiplier effect, UNCTAD will actively link up with existing and emerging TCDC (technical cooperation among developing countries) initiatives that promote South-South trade and economic cooperation. UNCTAD will also cooperate with other organizations in the formation and delivery of technical and capacity building assistance for South-South cooperation.