United Nations

A/52/402

General Assembly

Distr.: General
29 September 1997

Original: English

Fifty-second session
Agenda item 99 (b)
Operational activities for development: economic and technical cooperation among developing countries

State of South-South cooperation

Report of the Secretary-General

I. Introduction

1. In its resolution 50/119 of 20 December 1995, entitled "Economic and technical cooperation among developing countries and a United Nations conference on South-South cooperation", the General Assembly requested the Secretary-General to present to it on a biennial basis a report entitled "State of South-South cooperation" containing a comprehensive overview and analysis of South-South economic and technical cooperation worldwide and international support in that regard, including quantitative data and indicators on all aspects of South-South cooperation. The Assembly invited the United Nations Conference on Trade and Development (UNCTAD), together with the regional commissions and all other organs, organizations and agencies of the United Nations system, to provide analytical and empirical material for the preparation of the report. Accordingly, the Secretary-General has prepared the present report for the consideration of the General Assembly at its fifty-second regular session.

2. The current international scene is witnessing a marked upsurge in cooperation among developing countries. In the past four years alone, more than 100 actions can be recorded involving a variety of actions to establish, revise, reinvigorate and launch initiatives in economic cooperation among developing countries (ECDC) and technical cooperation among developing countries, as well as in other modes of developing country cooperation. This is happening at the same time as the world is witnessing an increased globalization of its economies, accompanied by a progressive liberalization. There is globalization in trade, production and finance, all of which are closely connected, yet quite distinct. The globalization trend in trade, especially intra-industry trade, is connected with the globalization trend in production, whereby different stages of manufactures production are being split up and located in different geographical regions. The globalization of production is connected with — although not synonymous with — the globalization of firms; hence there are no more exclusively regional or global markets. Related to this is the increased competition among enterprises. Large and small firms have responded to this by regionalizing, specializing via product differentiation and often by forging business alliances on the supply, marketing and production fronts.

3. To some extent, the globalization of finance is part and parcel of the globalization of trade and production. While trade cannot take place without finance and the production process involves investment, which is closely connected with it, finance as such has been globalized at a pace and a scale surpassing trade and poses questions distinct and different from trade globalization. The most important factors in financial globalization have been the progressive deregulation and liberalization of controls of financial movements and the revolution in communications.

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4. Interacting with this trend towards globalization is the process of general liberalization of economies through autonomous, subregional/regional and international arrangements. The adoption of wide-ranging economic reforms, especially free market reforms, and liberal policies vis-à-vis the rest of the world has become prevalent in developing countries. This has fostered growing convergence of the main macroeconomic policies of countries and enhanced the scope for developing and strengthening inter-State economic linkages and political relations. In addition to the autonomous reforms, the process of international trade liberalization has been further strengthened by the conclusion of the Uruguay Round of Multilateral Trade Negotiations, signalled by the signing of the Final Act and the Agreement establishing the World Trade Organization (WTO) in April 1994 and the entry into force of these legal texts on 1 January 1995.

5. The liberalization of international trade, financial transactions and, to some degree, foreign direct investment intensifies competition among economies (and their enterprises) and necessitates secure and large domestic economic spaces as bases from which firms can launch successfully into the international trading system. Accordingly, expanded subregional, regional and, recently, interregional economic spaces emerged in Europe and North America, among developing countries and between developed and developing and transition economies. For developing countries, the primary motivation is the formation and consolidation of viable economic spaces that would create dynamic trade and investment growth, develop viable, integrated and competitive productive systems to serve regional and international markets, strengthen macroeconomic policy coordination and enhance infrastructural linkages. Most developing countries were also concerned about their possible marginalization from the expanded markets in Europe and North America, and this concern fortified their resolve to accelerate their own trade, investment and financial integration processes.

II. Institutional state of South-South cooperation

A. Cooperation at the subregional, regional and global levels

6. The approaches employed in achieving the common objective of consolidated economic spaces for trade, investment and financial growth vary among the different regions. In Africa, countries have adopted new treaties or revised existing ones which are directed at establishing classic common markets and economic unions. Measures include the formation of the African Economic Community, encompassing the entire African continent; the dissolution of the West African Economic Community, followed by the transformation of the West African Monetary Union into the West African Economic and Monetary Union; the transformation of the Preferential Trade Area for Eastern and Southern African States (PTA) into the Common Market for Eastern and Southern Africa (COMESA), and of the Southern African Development Coordination Conference (SADCC) into the Southern African Development Community (SADC); the formation of the Economic and Monetary Community of Central African States to replace the Central African Customs and Economic Union; the adoption of a new treaty revising the cooperation framework under the Economic Community of West African States (ECOWAS); and ongoing negotiations to revise the Southern African Customs Union.

7. In West Asia, the process of subregional economic integration basically stagnated, but it is receiving new attention in the wake of wider interregional initiatives. In Central, South and East Asia and the Pacific, legally binding preferential or free trade agreements have been adopted, in contrast to the past practice of avoiding such commitments. This significant policy change is visible in the formation of the Association of South-East Asian Nations (ASEAN) Free Trade Area, the Protocol on Preferential Trade of the Economic Cooperation Organization (ECO), South Asian Association for Regional Cooperation (SAARC), the South Asian Preferential Trading Arrangement and the Melanesia Spearhead Group free trade area. In addition, in South-East Asia in particular, economic "growth poles" involving two or more countries or territories sharing a border are being formed to develop trade and investment potentials. These include the southern China growth triangle (China, Hong Kong and Taiwan Province of China), which has evolved through the enterprise community taking advantage of the Chinese open-door policy and has little government involvement and the ASEAN southern growth triangle (Indonesia, Malaysia and Singapore), established with strong government involvement. The success of these two growth triangles is encouraging the formation of trade and investment zones in other parts of South and South-East Asia. Additionally, ASEAN membership has been increased to include the Lao People's Democratic Republic, Myanmar and Viet Nam.

8. In Latin America and the Caribbean, there has been wide acceptance of the notion of "open regionalism", denoting a process of regional integration that is consistent with the liberal economic reforms and outward-oriented policies

embraced by countries in the region. This notion is being embedded into the single-market programmes being pursued at various levels but concentrated mainly on free trade agreements. One level involves selective bilateral/trilateral free trade and integration agreements between interested countries outside the framework of existing subregional/regional integration groupings, mirroring the "economic growth zone" phenomenon in South-East Asia. A notable example of these agreements is the Argentine-Brazilian integration process, which subsequently evolved into the Southern Cone Common Market (MERCOSUR). The Group of Three (Mexico, Colombia, Venezuela), which aims to achieve free trade by the year 2005, is another example.

9. Another level of trade, investment and financial integration involves the strengthening of single-market programmes within established subregional/regional groupings to attain customs union and common market status by or around the year 2005. Decisions and instruments to this effect have been formulated, agreed and launched within the Latin American Integration Association (LAIA), the Andean Group, MERCOSUR, the Caribbean Community (CARICOM), the Central American Common Market and the Group of Three. The integration process in Central America has been particularly vibrant, with continuing efforts to strengthen the Central American Common Market, the formation of the Central American Integration System, the formation of the Northern Trade Triangle, which subsequently became the Central American Group of Four, and the creation of association agreements between Central American countries and individual members of the Group of Three. A new organization — the Association of Caribbean States — was formed to promote cooperation among countries washed by the Caribbean Sea in developing trade, investment and tourism. Finally, CARICOM membership increased to include Haiti.

10. Yet another level of trade, investment and financial integration in Latin America and the Caribbean involves the proposed formation of a hemispheric single market, namely a free trade area of the Americas. The proposal flows from the North American Free Trade Agreement (NAFTA), which started as the Canada-United States Free Trade Agreement, and the Enterprises for the Americas Initiative of the United States Government announced in June 1990. Work has started on preparation for active negotiations among interested countries on the framework of the free trade area of the Americas, which would be established by the year 2005.

11. At the interregional level, several cooperation initiatives have emerged. At the beginning of 1997, the developing countries held the South-South Conference on Trade, Investment, Finance and Industrialization sponsored by the Group of 77 and China at San José from 13 to 15 January 1997, to evaluate their cooperation and review the recommendations of the Caracas Programme of Action on Economic Cooperation in Developing Countries of 1981 (see A/36/33), in the light of the changed realities of the international economy, their changed national policies and their changed approach to cooperation. This resulted in the San José Declaration and Plan of Action, which contained recommendations in various sectors, with special emphasis on trade, finance, debt and investment cooperation in the context of the new dominant realities of the international economy. The second round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP) is another example. The Movement of Non-Aligned Countries and the Summit Level Group for South-South Consultations and Cooperation (Group of Fifteen) have been meeting regularly at the level of heads of State to review and take actions for the implementation of practical South-South economic cooperation projects. At its first summit meeting, the Group of Fifteen adopted 15 South-South projects, which it has since been endeavouring to implement.

12. Mixed-country groupings have proposed ambitious programmes for liberalizing trade and investment. These include the Asia-Pacific Economic Cooperation process, whose member economies have agreed to create a free trade and investment area by the year 2020, the previously mentioned free trade area of the Americas, an Indian Ocean rim cooperation grouping, a Middle East and North African community (of which a third conference was held at Cairo in November 1996) and a Euro-Mediterranean association of Middle East and North African countries bordering the Mediterranean Sea and States members of the European Union (EU). The latter two groupings are giving new stimulus to discussion by Governments and within private and academic circles on possibilities for reviving and strengthening economic integration initiatives among West-Asian countries. The Indian Ocean Rim Association for Regional Cooperation was formally set up on 6 March 1997 with the signing of its Charter by Australia, India, Indonesia, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, the United Republic of Tanzania and Yemen. Finally, EU is also forging ahead in the creation of free trade agreements with various countries, including the establishment of the so-called Europe Agreements involving free trade agreements with Estonia, Latvia and Lithuania and interim agreements leading to full free trade with Romania and Poland. In addition, EU has formed a free trade agreement with Turkey and proposed free trade agreements with MERCOSUR and South Africa (and indirectly the Southern African Customs Union, which shares

a single common external tariff and import regime). The tasks facing countries with newly constituted subregional, regional and interregional integration initiatives variously entail the completion of negotiations on draft proposals, the ratification of adopted programmes and the implementation of these programmes in a sustained and consistent fashion.

B. Relationship between developing country cooperation and the new global disciplines

13. It will be necessary to review the implications of the new international trading framework resulting from the Uruguay Round agreements for the use of existing policy instruments for promoting mutual trade cooperation among developing countries at national, bilateral, subregional and interregional levels. Similar reconsideration is also due for new policy instruments. The new international trading framework gives rise to many issues. Perhaps the most critical are the following:

(a) Strengthened disciplines regarding free trade areas and customs unions contained in the understanding regarding article XXIV of the General Agreement on Tariffs and Trade (setting, in general, a 10-year time limit for their achievement; tightening provisions for common external tariffs, applying the dispute settlement mechanism to such agreements, etc.), while the special provisions in favour of developing countries under part IV of the Agreement Establishing the World Trade Organization (WTO), as well as past decisions of the General Agreement on Tariffs and Trade (GATT) regarding preferences, such as the enabling clause, remain in force;

(b) Extension of the multilateral trading framework to services within the General Agreement on Trade in Services, which contains in article V provisions regarding integration groupings similar to those in article XXIV of the General Agreement on Tariffs and Trade;

(c) Creation of a new WTO Committee on Regional Trade Agreements to improve WTO procedures regarding the examination of agreements regarding their conformity with WTO agreements to consider periodic reports of regional trade agreements, and to consider the systemic implications of such agreements and regional initiatives for the multilateral trading system;

(d) A number of specific provisions limiting the possibilities of Governments to apply promotional instruments for expanding foreign trade, investments and services;

(e) Substantially tightened provisions regarding the duration of GATT waivers.

14. It can be observed that the Uruguay Round and the intensification of multilateral disciplines have in some cases resulted in multilateral disciplines overtaking the subregional, regional and interregional agreements. In some areas, the multilateral disciplines might be more stringent than the relevant disciplines in cooperation groups. In other cases, the disciplines that have been accepted at the subregional, regional and interregional levels have become multilateralized and extended to all members of WTO. The implication of this is that, in the future, subregional, regional and interregional trade, investment and financial agreements will in many cases build on the WTO disciplines, with the result that “WTO plus regionalism” would mean that those disciplines that are included in WTO could be refined, technically perfected and intensified at the subregional, regional and interregional levels. And a number of issues which are considered “new” on the multilateral agenda will have already been incorporated into the regional agreements.

15. On the other hand, there may be a danger that the participants in regional agreements will negotiate disciplines in new areas among themselves and adopt approaches in the regional context that may be inconsistent with an eventual multilateral agreement on such issues, as well as with what is done in other regions. The challenge facing developing countries is to organize their cooperation in a way that, while furthering the benefits of cooperation per se, contributes to the proper functioning of the international trading and financing systems. Regionalism which interacts with international disciplines is a new phenomenon, which calls for a revision of received notions of economics. The contents of the new modes of cooperation, and indeed of all ECDC under the prevailing conditions of the globalizing world economy, have two critical features: they are compatible with globalization, and are interactive with it. The practical and theoretical consequences of these features are elaborated below.

1. Compatibility of economic cooperation among developing countries with globalization and liberalization

16. The compatibility between the international system and cooperation arises in the first place from the process of removal of barriers to trade, investment and finance explicit in cooperation. This can be underpinned, as has been done, by implementing policy reforms that increase allocative efficiency and liberalize access in general. If such policies are accompanied by a flexible attitude towards membership, cooperation arrangements become stepping stones towards

larger spheres of cooperation. This has been associated with the rising practice of "open regionalism" or "open and flexible ECDC", concepts developed by the Economic Commission for Latin America and the Caribbean and UNCTAD respectively. Indeed, this is echoed explicitly in the San José Plan of Action, which places ECDC in the context of the globalizing economy.

17. Another aspect of open and flexible ECDC has been the homogenization of norms and standards with their international counterparts. It is evident that intergovernmental developing country cooperation in particular would require rules and standards in various domains, for example rules of origin for goods, rules on dispute settlement, rules on product standards, rules on financial regulations, rules on cross-border banking and so on. The closer these are to negotiated international norms and standards, as set in the multilateral trade or finance system, the more they enhance the international system and make it possible to participate in it at minimum cost. When such norms are not yet set, it is obvious that cooperative groups' rules become models for larger cooperation.

2. Interaction with the global system

18. The emerging trends of cooperation emphasize multisectoral cooperation with deeper cooperation content than mere free trade areas or customs unions. Indeed, in recent years a preference has been revealed for developing regional/subregional production systems, for investment-technology cooperation and for regional financial cooperation, as well as for furthering the interconnections among these various sectors. Moreover, unlike in the case of the early forms of cooperation involving border arrangements only, the trends indicate cooperation within the borders of the countries involved. Examples are to be found in harmonization of regulations, mutual recognition of standards and, as in MERCOSUR and EU, policy coordination. While this is in the first place necessary for developing the underlying production capacity for trade and for opening up the necessary space for viable investment and for mobilizing regional financial resources in an efficient manner, it changes the configuration of the relationship between the two systems. The deeper content and multisectoral cooperation now in evidence enhances the participatory capacities of developing countries in the global markets. Specific examples of this include facilitating the creation and operation of business firms with a cross-border vocation through suitable regulations and incentives and pooled investment in human resources open to all firms; granting full mobility of human resources; and granting the right of establishment, perhaps by accepting each other's national standards, for firms and businesses. In the context of the liberal trading policies advocated, this ought to promote product differentiation and bring standards to international levels. It will also create opportunities for forging business alliances and testing them on the regional level. Hence, such cooperation would develop the competitive capacities necessary for success in the international market place and also affords some learning by doing.

19. Successful examples of South-South cooperation create competitive alternatives to the multilateral system if this system does not advance in the interest of all its members. This serves both as an insurance against negative externalities of the multilateral system and as a powerful force to advance and increase the efficiency of the larger system. It is in this sense that a beneficial interaction between, say, "WTO plus cooperation" and the international system is to be understood. Finally, building up a political constituency for international cooperation through regional/subregional cooperation, which is easier for public opinion to relate to, is a major contribution to the international system in any democratic society.

3. Consequences of the new mode of South-South cooperation

20. The first and obvious consequence of this new mode of South-South cooperation is the modification of the setting in which traditional static economic theory has judged the benefits of custom unions. The traditional theory considered only the trade aspects, assuming everything else to be constant. Under this multisectoral and deep form of integration, the dynamic consequences of growth and complementarity are critical, as they inevitably produce higher efficiencies and reduce the internal cost of enterprises, thereby resulting in lower product prices. This improvement in consumer welfare renders inappropriate the traditional conclusion of economists that the global system is a *fortiori* superior to subglobal cooperation. A practical consequence of this type of cooperation is to eliminate the manifestation of power asymmetries in international agreements. This results from the smaller structural differences among regional partners and closer proximity of their underlying capacities in all domains. Thus, the higher degree of convergence likely to characterize regional and other ECDC agreements reduces conflicts in the global process and narrows down the extent of compromise necessary to reach agreement. In effect, "WTO plus cooperation" leads to interaction with the international system which renders international negotiations at the global level less difficult by virtue of the prior existence of outcomes agreed to by the developing countries. It also forges political platforms and alliances more evenly matched, thereby

reducing the asymmetries of underlying economic and political power in global negotiations.

21. Finally, multisectoral cooperation that reinforces the interconnections between trade, investment and finance on a viable scale avoids the major shortcomings of past South-South cooperation. In the past simple sectoral cooperation ran up against a lack of complementarity, asymmetrical distribution of benefits among participants and, often, the non-existence of sufficiently developed production structures capable of trade complementarity.

III. Operational state of South-South cooperation

A. Trade cooperation

1. Recent trends

22. After the problems encountered by developing countries in the mid-1980s, their foreign trade entered a period of rapid expansion. Over the period 1990-1995, the value of exports from developing countries as a group expanded at an annual average rate of 11.6 per cent, much faster than world trade as a whole (7.4 per cent per annum).

23. During that same period, mutual trade among developing countries rose from $800 billion to $1,400 billion, or by 15.4 per cent annually. The dynamism of mutual trade gave a significant boost to the expansion of total exports of developing countries as a group, since it contributed half of the increase in their world exports. As a result, the share of intra-trade rose significantly, reaching 40 per cent of total world exports. Since 1981, mutual trade among developing countries has by and large doubled its share in total world trade, reaching 11 per cent in 1995.

24. Most of the dynamism of mutual trade was to be found within the major geographical regions, where trade has expanded on average by 17 per cent annually over the past five years. Intraregional trade accounts now for 30 per cent of developing countries' trade and 8.6 per cent of total world trade.

25. The growth of interregional trade among developing countries has been substantial, but with 9.8 per cent growth, it remains at 57 per cent of the intraregional average. Its share in mutual trade among developing countries fell to 23 per cent, while its share in total world trade rose to a still modest 2.5 per cent. During this period, the patterns and type of interregional trade have changed profoundly — from a dominance of petroleum exports from the countries of the Middle East and other oil-exporting countries to a much more diversified product pattern, in which manufactures now play the leading role.

26. The rapid growth performance was, however, concentrated in a small group of dynamic countries, which have by now achieved a high degree of international competitiveness in industrial exports. In particular, South and South-East Asian countries, which at 15.4 per cent per annum achieved impressive export growth worldwide, increased their trade with developing countries at a rate of 19 per cent annually. As a result, this group of countries contributed almost half of interregional exports among developing countries, mainly manufactures. The group of Latin American and Caribbean countries achieved 7.9 per cent annual growth in their total trade, and 12.3 in their intra-trade. By contrast, African and Middle Eastern exports were sluggish both internationally and in terms of intraregional trade. African exports worldwide increased only by an annual 8 per cent (value terms), and exports to other developing countries by 3.4 per cent.

27. African countries' trade with other developing countries accounts for only 16 per cent of their total trade. The pattern of this trade is predominantly oriented towards other African countries. In the context of the rapid expansion of South and South-East Asian markets, African exports have made very little headway: they grew only by 6.4 per cent annually, compared with an annual growth in imports from South and South-East Asia of 16.5 per cent, i.e.,60 per cent below the overall rate of imports. There is also a marked imbalance in Africa's trade balance with this region, with imports growing at about two and a half times the rate of exports. On the whole, Africa's share in intra-developing country trade decreased during the period 1991-1995 from 3.9 to 2.3 per cent.

28. The situation of the Middle East reflects fundamental weaknesses resulting from dependence on oil and gas trade and a very small intraregional trade exchange. Total Middle Eastern exports increased by a modest 4 per cent over the five-year period, and exports to other developing countries increased at roughly the same rate. This slow growth masks, however, a better volume performance as a result of the decline in oil prices. Trade with South and South-East Asia constituted the Middle East's most dynamic component, with an annual growth of 7.2 per cent. Middle Eastern countries' trade within the region still accounts for less than 8 per cent of their total trade and if oil is excluded for less than 4 per cent, a very small share indeed.

29. These trends point to an imbalance between the potential for interregional trade and the actual performance

of the trade of developing countries. They also point to a trend towards new imbalances amongst regions and countries, which would require the use of South-South instruments to promote more balanced mutual trade expansion among developing countries. The shift from petroleum as a major commodity in interregional trade to manufactures should further facilitate the use of GSTP for expansion of interregional trade among developing countries, together with more trade resulting from strengthened investment, technology and enterprise cooperation.

30. Finally, the expansion of trade in goods has been accompanied by a substantial increase in developing countries' capacities in services. Certain developing countries have now also developed greater capacities to compete in other areas, such as government procurement. Several of them have become important investors and technology partners in other developing countries.

2. Strengthening the trade framework among developing countries

31. The "autonomous" liberalization implemented by developing countries has been a major stimulus to trade among them over recent years. In addition, some integration groupings of developing countries have taken off and spurred mutual trade and economic integration, and attracted investment from various sources, as outlined above. Various country initiatives for bilateral trade arrangements intensified the networks of such arrangements, particularly in Latin America. In many cases, such integration and preferential arrangements now exceed by far the traditional range of tariff preferences for industrial products and extend to services, government procurement and investment. They involve the harmonization of various domestic policies, standards and measures that have effects on foreign trade.

B. Trade promotion instruments

1. Global System of Trade Preferences among Developing Countries

32. GSTP is the most comprehensive instrument for trade promotion among developing countries. It came into being after a long process of negotiations that started at the Ministerial Meetings of the Group of 77 in Mexico City in 1976, and continued in Arusha, United Republic of Tanzania, in 1977 and Caracas in 1981. The first round of GSTP negotiations was concluded in April 1988 in Belgrade, and the GSTP agreement was signed by 48 countries members of the Group of 77, which exchanged trade concessions in the course of the round. The agreement entered into force on 19 April 1989.

33. The second round of GSTP negotiations was launched in Tehran in November 1991, with the aim of facilitating the process of accession to GSTP, expanding product coverage and carrying forward the exchange of trade concessions. The Negotiating Committee for the second round, set up under the Tehran Declaration, adopted its plan for the second round and established four negotiating groups on respective facilitation of accession, product-by-product negotiations, across-the-border tariff negotiations, direct trade measures and non-tariff and sectoral agreements.

34. The GSTP Committee of Participants, the Negotiating Committee and the Negotiating Group on Facilitation of Accession extended an invitation for participation by other members of the Group of 77 in the GSTP Agreement. The GSTP Committee decided at its eighth session, in May-June 1996, to accept the accession of four applicants — Colombia, Morocco, Myanmar and Venezuela — on the basis of offers submitted by them. The first application for accession to GSTP by a subregional grouping of developing countries has come from MERCOSUR, which submitted its offer list to the GSTP participants with a view to initiating negotiations with interested participants and concluding its accession to the GSTP Agreement.

35. Product-by-product negotiations have been intensive. Participating countries have submitted their request lists relating to tariff, para-tariff and non-tariff concessions to the countries to which requests were addressed. After a number of bilateral consultations, participating countries moved to the negotiation phase and held five sessions of bilateral negotiations. Discussions proceeded in the area of across-the-board tariff negotiations, but with few practical results. Negotiations are also taking place on direct trade measures, external and non-tariff agreements, and long- and medium-term contracts. Negotiations in these areas have progressed only slightly in view of the complexity of the issues involved.

36. At the present stage, there should be renewed efforts on the part of GSTP member countries to finalize the second round of negotiations and to conclude them at the level of plenipotentiaries in Geneva in 1997; the precise date will be decided by the GSTP Committee of Participants. It might be appropriate to reserve the GSTP round at the ministerial level for the launching of the third round of negotiations. For this round to achieve the objective of creating a framework to significantly increase trade among member countries of the Group of 77 and China, it may be of interest to the negotiating parties to have negotiations on the basis of linear reductions, with a minimum of exceptions; and to pursue product-by-

product negotiations in order: (a) to improve preferential margins agreed in the linear reductions; and (b) to draw up a list of exceptions. It would be helpful to set the margin of preference agreed either in the linear reductions or in product-by-product negotiations at a sufficiently high level in order to have a real commercial impact on trade flows. In addition, the active encouragement of other member countries of the Group of 77 and China to join GSTP would guarantee its inclusiveness. As the San José documents recommend, there is a need to explore the feasibility of providing special preferences to least developed countries in order to enhance competitiveness and market access. In that context, the San José Plan of Action stated that the implementation of GSTP and the conduct of the second round of negotiations needed the continuous support of developing countries. Intensified efforts were needed to expand the scope of GSTP in terms of membership coverage, product coverage and depth of trade concessions. GSTP was already a major achievement. The successful completion of the second round would serve as a catalyst for growing preferential trade among its developing country members and impact favourably on world trade as a whole.

2. A complementary scheme of autonomous preferences in favour of least developed countries

37. Developing countries in a position to do so might take the initiative and examine the feasibility of complementing the present GSTP scheme with an autonomous scheme of preferences in favour of least developed countries. This would extend beyond GSTP measures, which are of a contractual nature. Such a scheme would nonetheless correspond to basic GSTP objectives. Such an initiative within the Group of 77 context would also respond to the recent initiative proposed in the WTO Action Plan for Least Developed Countries. This proposal provides that developed country members of WTO and developing country members, on an autonomous basis, would explore the possibilities of granting preferential duty-free access for the exports of least developed countries. In both cases, exceptions could be provided for.

38. In spite of various measures taken in favour of least developed countries, their foreign trade record is far from dynamic. This is also the case for their trade with other developing countries, including at the interregional level: their trade shares frequently tend to decrease, while their trade balances tend to deteriorate. A least developed country scheme by developing countries in a position to do so should aim at providing effective advantages to least developed countries to improve their competitiveness, and could be coupled with trade cooperation measures for effective use of such concessions.

3. Trade information and trade efficiency

39. Cooperation among developing countries in trade is hampered by the lack of adequate trade information and the inefficiency of links in trade infrastructure, as well as by the rather underdeveloped state of such infrastructure. The development of these facilities is needed in order to create trading opportunities, encourage private sector participation in trade promotion and improve competitiveness. The San José Plan of Action urged developing countries to pursue the optimal utilization of UNCTAD's trade information system and trade efficiency to improve South-South trade and in developing a appropriate on-line system in order to identify trading opportunities, as well as to provide other trade-related information relevant to the countries in the South.

4. Facilitating cooperation in government procurement

40. Developing countries may further examine the interest and possible scope of measures to facilitate cooperation in government procurement. This is a sector of considerable importance in international trade, as experience shows in South-East Asian countries and Latin America. The plurilateral Agreement on Government Procurement annexed to the WTO agreements applies essentially to developed countries (with few exceptions). Thus, this Agreement is more similar in character to an interregional preferential arrangement than to a worldwide agreement such as the WTO Agreement.

5. Cooperation in commodities and raw materials

41. Action and actual implementation of proposals in this area have related primarily to the establishment of the Common Fund in 1986 and the putting into operation of its "second account". In other areas of international commodity cooperation, such as buffer-stock schemes, consumer-producer meetings on specific commodities, and stabilization funds, a large number of consultations and negotiations have taken place over the past 15 years without, however, achieving a tangible breakthrough. Producer associations continue to play an important role for certain commodities, but have not spread substantially into new areas.

42. Some progress in the direction of mutual assistance in developing, exploiting and processing developing countries' raw material resources is now beginning to be made through the second window of the Common Fund, which is pursuing various projects of that nature. Commodity diversification and

processing are as important now to developing countries as they were 20 years ago. Likewise, many international commodity agreements now include special measures to promote the consumption of products of developing countries.

43. The San José Plan of Action recommended the enhancement of direct commodity trade flows between Southern countries and enterprises; and the processing value-added benefit of agricultural and mineral commodities in Southern countries.

IV. Monetary and financial cooperation

A. Cooperation in trade financing

1. The problem of trade finance at the national level

44. Developing countries face major bottlenecks in trade finance on account of both the inadequate level of resources available and the inappropriate institutional setting for delivering services related to export financing. Compared with exporters from developed countries, who can have easy access to specialized trade-finance facilities, exporters from developing countries, particularly exporters of non-traditional goods, are disadvantaged as they usually cannot offer long-term credits to overseas buyers or obtain at an affordable cost insurance coverage against the commercial and political risks involved for such exports. While the shortcoming in trade finance involves all trade, exports to other developing countries are particularly affected, since the importers have the same financial problems and developing country financial institutions typically do not deal with or know each other.

45. Shortcomings in the area of trade financing are usually related to:

(a) The limited and insufficient resources that individual developing countries can devote to export financing, especially foreign exchange resources;

(b) The relative weakness of developing country commercial banks, which makes their letters of credit less than fully credible;

(c) Manufacturers and other exporters have difficulties in obtaining export finance from national and foreign sources. At the domestic level, commercial banks usually do not give high priority to export finance assets, especially for non-traditional exports, as the degree of risk is high and risk-pooling inadequate. When institutions do extend credits, the latter are heavily tied to collaterals and usually finance only a small percentage of exports;

(d) International banks, which have in the past financed traditional exports, have shown little interest in granting pre-shipment credits to developing countries for non-traditional trade. When they agree to finance/refinance short-term export credits, the cost of such transactions can be extremely high, reflecting the greater risk in lending to developing countries. Furthermore, creditworthiness usually superimposes country risk over credit risk, and sets the charges and the availability of credit accordingly;

(e) Insurance and guarantees in support of trade financing are in short supply or do not exist in some countries. In addition, when granted by developed country agencies, they follow standard regulations that apply to export credit operations of developed countries (namely, the Consensus of the Organisation for Economic Cooperation and Development governing official export credit lending).

46. Institutional problems and financial shortages regarding trade financing have a particular impact on small and medium-size exporters of non-traditional goods. Most of these exporters have access only to informal local credit sources.

2. Existing regional trade-financing schemes

47. Given that trade financing at the national level is not always adequate, regional cooperation in the area of export finance, insurance and guarantees can help to overcome the difficulties, provide linkages between national institutions and encourage the exchange of information within regions. Moreover, regional institutions can in principle have better access to international financial markets.

48. Regional schemes are found in the Arab region and in the African and Latin American regions. Their number is small and their volume of operations is quite modest.

49. In the Arab countries, regional institutions providing trade financing and guarantees are the Arab Trade Financing Programme and the Inter-Arab Investment Guarantee Corporation (established in 1974), which also supports investment promotion. In the large domain which covers all the member States of the Organization of the Islamic Conference, the Islamic Development Bank is potentially a major source of trade financing for the region.

50. In the African region, efforts to foster institution-building gave rise to a number of facilities. In COMESA, the PTA Bank has started to offer various export-financing facilities. The PTA Reinsurance Company is engaged in transacting reinsurance business and insurance business related to international trade, as well as in training of insurance personnel. In addition, the Bank of Central African States offers trade finance to member countries. The newly

created African Export Import Bank aims at promoting and expanding intra- and extra-African trade by means of a number of programmes designed mainly to encourage exports from African countries by financing, at a reasonable cost, the export of goods and services produced in Africa or containing significant value-added from the continent.

51. In Latin America, trade financing at the regional level has been carried out by the Latin American Export Bank, the Central American Bank for Economic Integration, the Andean Development Corporation, the Latin American Reserve Fund, the Inter-American Development Bank and the Eastern Caribbean Central Bank. The Latin American Export Bank specializes only in trade financing. The total credit portfolio ($4.5 billion as of 30 June 1995) is concentrated (74 per cent) in the three major Latin American economies (Brazil, Mexico and Argentina, which account for 70 per cent of the regional gross domestic product). This credit portfolio covers approximately 2 per cent of regional exports. The Andean Development Corporation provides pre-shipment and post-shipment financing, and both supplier and buyer credit, all of them denominated in United States dollars and for a period of up to 180 days. In addition, the Andean Development Corporation is active in indirect financing for the banking (intra- and extra-subregional) sector.

52. The Inter-American Development Bank provides export-financing support to Latin American countries on a national and regional basis. It finances exports through programmes using its own resources (ordinary capital) and resources from the Venezuelan Trust Fund. Co-financing activities of the Bank comprise the following: the use of funds under its administration as additional sources of finance; guaranteeing in whole or in part loans made by private lenders; and joint financing with a co-lender for the financing of the same components of a project and parallel financing in which the Bank and a co-lender make separate loans for the same programme or project, but each loan finances goods and services of a different component of the project or programme.

53. Perhaps because existing national schemes in general do provide support to exporters, the Asian region does not have a regional facility for export credit, guarantees and insurance. The Economic and Social Commission for Asia and the Pacific has proposed an export credit guarantee facility at the regional level with a view to linking national institutions of member countries and reinforcing them.

3. Furthering cooperation in trade finance

54. Cooperation in trade finance presupposes, to some extent, a viable national trade-financing capacity in developing countries. This is not always the case in the majority of developing countries.[1] However, some developing countries in all three regions have very well developed trade finance structures.

55. There is great merit to coordination of policies and practices by export-financing programmes in developing countries. They might seek some form of standardization, for example standardization of papers, rules of operation, credit-rating procedures, and insurance and guarantee treatment. In the area of regulatory policies, the following might be considered: the optional use of documentary credits for export transactions (still mandatory in some developing countries) and simpler procedures for non-bank providers of export finance, such as factors and invoice discounters. In addition, exporters could be allowed to use a portion of foreign exchange earnings to purchase modern financial products (e.g., credit insurance) that may not be available in their own markets.

56. Cooperation among regional financial institutions may include two types of activities: the co-financing of export credit operations, and cooperation aimed at fostering institution-building for trade-financing institutions. The former could be the task of regional development banks.

57. An innovative form of cooperation could be a triangular one, in which developing countries share their own expertise and developed countries provide financial and other assistance for this exchange of experience.

58. The San José Plan of Action contains trade-finance recommendations which go in the same direction. Specifically, it calls for expanding the risk-taking capacity of Southern banking systems so as to provide both normal and structural trade-finance for South-South trade transactions with multilaterally-agreed guarantee cover for credit enhancement and country risk. To that end, there was a need to exchange experience on exports financing through the dissemination of information among credit insurance institutions in the South. Furthermore, the UNCTAD prototype model of trade-financing for regional cooperation and for developing national capacities could be utilized to establish or enhance the institutional framework for trade-financing in the South.

B. Cooperation in capital market development

59. It is widely recognized that stock markets can be valuable and efficient sources of financing for enterprises. More and more developing countries are establishing stock

markets. Cooperation among developing countries on capital market development may represent an option for countries that face obstacles in establishing efficient national stock markets. Regional capital markets enlarge the financing options for domestic firms by mobilizing both domestic and regional financial resources and offering risk-pooling opportunities for investors. They also enhance the allocative efficiency of capital. Regional capital markets present advantages for market actors. For both intra- and extraregional investors, they would provide opportunities for the diversification of portfolio risks, as well as access to more standardized and widespread information on listed securities and a more reliable pricing of available equities. For intraregional enterprises, they would provide access to an extended pool of financial resources.

60. The establishment of regional capital markets would require more intensive coordination of private and public agents at the national and regional level. At the national level, there are three major types of private actors involved in capital market operations: security exchanges (the parallel and the over-the-counter markets); domestic custody, settlement and clearing institutions; and listed companies and brokers. All these actors should be considered in setting up cooperative schemes. Such schemes would require telecommunication services and acceptable communication links among markets and market actors.

1. Institutional developments: regional private arrangements

61. The most important regional private arrangements and organizations are the schemes created by the securities markets themselves. Examples of private cooperation are the Caribbean Stock Exchange and the Ibero-American Electronic Stock Exchange project. The Caribbean Stock Exchange, operational since 1991, is a cooperation mechanism among the existing stock exchanges of the Caribbean Community integration group. It involves cross-border trading through correspondent-broker relationships and potential cross-border listing.

62. The Ibero-American Electronic Stock Exchange project was created in 1990 by members of the Ibero-American Stock Exchanges Federation, which includes all the major Latin American stock exchanges, as well as those of Portugal and Spain. The final aim of Ibero-American Electronic Stock Exchange is to provide an electronic process for trading of securities issued by major regional enterprises. Intraregional trading will be facilitated by settlements through Central Banks. It involves several phases of development. In Central America, the Association of Central American Stock Exchanges is preparing for large intra-grouping projects.

63. The Union of Arab Stock Exchanges, the East Asian and Oceanic Stock Exchanges Federation (established in 1982, and including Japan) and the African Stock Exchanges Association (established in April 1993 and including South Africa) also have as their objective the harmonization of and cooperation in securities trading in their respective regions.

2. Capital market cooperation at the official level

64. Governments provide the appropriate economic framework for securities trading, both domestic and cross-border. Also, they can directly promote regional capital markets through the placement of bonds in other countries of the region. They may give preferential treatment to intra-grouping investors. A typical example of government measures favouring intra-grouping securities investment is the non-reciprocal preferential scheme extended by Bahrain to investors from the member countries of the Gulf Cooperation Council for operations on the Bahrain Stock Exchange. Since 1986, citizens of other Gulf States have been allowed to own and trade shares of local companies in Bahrain.

65. In the MERCOSUR area, intra-grouping preferences are offered by member Governments on a mutual basis. Although there are certain restrictions (limitation to the spot market, trading in listed stocks and intra-MERCOSUR

settlement) and certain tax limits, intra-grouping securities trading is free.

66. Central monetary authorities usually effect settlement for cross-border transactions. However, in the case of MERCOSUR and the Gulf Cooperation Council, intra-grouping transactions are permitted, leading to a de facto regional capital account convertibility area. In the Ibero-American Electronic Stock Exchange scheme, central monetary authorities are viewed as agents of transaction settlements that link domestic securities clearing and settlement schemes.

3. Possible cooperation measures

67. Harmonization is best carried out in a way which respects the autonomy of domestic markets and their regulators. Perhaps it is best approached as a necessary minimum which eliminates incompatibilities among markets. An inventory of possible measures to facilitate cooperation may include[2] at the private sector level the establishment of regular channels of exchange of information among securities markets; the harmonization of technology in use, with the final aim of creating an interconnected regional electronic trading and settlement system; the creation of links for cross-border security trading in different countries; the establishment of a communication network; and the creation of regional instruments, i.e., warrants, depositary receipts, "regional funds", etc. At the public sector level, action may include the regional harmonization of taxation; the regional harmonization of regulation, supervision and financial disclosures, preferably based on international standards; and monetary and fiscal harmonization. In particular, setting up settlement systems and institutions, as well as establishing convertibility zones, might be in order.

68. The San José Plan of Action called for the pursuance of intraregional and interregional protocols to encourage integration of Southern financial markets. It also called for the expansion and diversification of South-South financial transactions.

C. Payments and monetary cooperation[3]

1. Regional convertibility schemes

69. In the developing world, the efforts towards regional convertibility in the framework of multilateral payments and clearing arrangements have had mixed results.

70. The Asian Clearing Union has been functioning smoothly. It has been able to avoid the accumulation of arrears throughout its existence. Also, it has promoted the use of participants' currencies in current transactions, including the compulsory routing of all intra-grouping trade (except between India and Nepal), which has led to significant savings in fees paid for internationally traded currencies. In 1989, the Asian Clearing Union launched its Swap Arrangement Facility, a mechanism for avoiding shortages of currencies in regional trade-deficit countries and the consequent bilateralization of multilateral clearing relations. The regional convertibility of national currencies is improving the functioning of the clearing house, and the percentage of transactions settled in member currencies has fluctuated in the last three years at around 70 per cent of the cleared trade. The uncompromising stance of the Asian Clearing Union on arrears has enabled it to launch new initiatives, such as making traveller's cheques eligible for channelling through the clearing house and eventually extending current membership.

71. In Africa, monetary cooperation is facilitated by three clearing and payments arrangements, namely the West Africa Clearing House for ECOWAS countries, the Clearing House for the Economic Community of Central African States (ECCAS) and the Clearing House for COMESA. The clearing houses expedite monetary transfers between African concerns by using the national currencies of the subregion involved; each signatory Central Bank agrees to grant to the other a total credit line in its own currency. The signatory Central Banks guarantee to the banking systems of the other signatory Central Banks the convertibility of intraregional transactions eligible for clearing. In addition, some of the clearing arrangements are considered as interim steps towards the formation of single monetary zones, for example the West Africa Clearing House and COMESA clearing.

72. In Latin America, the Reciprocal Payments and Credit Agreement of LAIA was set up in 1965. The clearing mechanism was modified in 1991 with a two-tier Automatic Payments Programme for the transitory financing of balances before multilateral compensation. One element of the amended agreement offers Central Banks automatic access to the credit or debit positions of other Central Banks; another element is a short-term credit facility which extends the settlement period for Central Banks with difficult liquidity positions. The most important modification was the authorization in 1992 to channel through the mechanism payments originated in triangular trade. It is notable that for most member States the channelling of payments for intraregional trade through the clearing mechanism is conducted on a voluntary basis. In 1994, a total of $11.72 billion was channelled through the LAIA mechanism; this was 11 per cent less than the total transactions channelled in 1993

($13.18 billion). The degree of multilateral compensation was reduced from 71 per cent in 1993 to 67 per cent in 1994.

73. The CARICOM Multilateral Clearing Facility suspended its activities in 1983, after six years of operation, as a result of the accumulation of arrears by one country. The region has re-examined the possibility of reactivating the Facility. A report, presented in 1991, concluded that the prospects for a resumed Facility were not propitious at that time.

74. As far as the Central American Clearing House is concerned, the crisis in 1987-1990 resulted from imbalances and a decline in intra-grouping trade which led to the accumulation of intra-Central American debt. In 1990, the Central American Clearing House was transformed into the Central American Payments System. However, operations continued to decline and were finally suspended in 1992. Despite the setback, the Central American Monetary Council has made efforts towards the harmonization and convergence of credit, monetary and exchange rate policies. In addition, it has adopted several measures aimed at fostering integration of capital markets and promoting the intraregional mobility of financial resources.

2. Clearance and payments arrangements in the context of the move towards global convertibility

75. The recent move made by certain developing countries towards global convertibility may make regional limited convertibility arrangements irrelevant. However, regional schemes may still provide some advantages. While global convertibility is a means of integration into the world economy, limited convertibility is a means of intraregional monetary and financial coordination. Payments and clearing arrangements can provide the following advantages: first, because of deferment of payments to the end of the settlement period, payments and clearing arrangements may remain attractive for countries planning to adopt full convertibility; second, if coupled with credit lines and swap arrangements, clearing arrangements can provide credit to finance intraregional trade; third, since monetary harmonization is essential for the success of limited convertibility arrangements, it is clearly a transitory step towards global convertibility; and fourth, the arrangements provide valuable monetary cooperation forums, as demonstrated by the Asian Clearing Union.

3. Monetary integration

76. It is only in Africa that monetary zones have been established (in the cases of the Communauté financière africaine (CFA) franc zone and the rand zone in southern Africa) or are being planned (as in the cases of ECOWAS and COMESA).

77. Monetary cooperation in the CFA franc zone is undergoing revision following the franc's devaluation in 1994, as is cooperation among members of the rand zone following the political change in South Africa and the ongoing negotiations on a revision of the Southern African Customs Union. It should be pointed out that the objective of setting up a single monetary zone in West Africa with a single currency and Central Bank might have to be considered in conjunction with the rather inconsistent objectives of the CFA franc zone. The countries of that zone, with their single currency and subregional central banks, have already attained this objective and thus are unlikely to consider an alternative mechanism. Indeed, the formation of the West African Economic and Monetary Union after the dissolution of the West African Economic Community, which involved only the CFA franc zone countries, is aimed at strengthening the monetary cooperation achieved in the CFA franc zone framework and at establishing a customs union and a common market.

V. South-South cooperation in the area of investment, innovation and enterprise development

A. Intra-South investment

78. Intra-South investment has emerged in recent years as a significant tool for industrial cooperation among developing countries. This phenomenon has developed most rapidly among the Asian countries, where outflows totalled around $41 billion out of total developing country outflows of $47 billion in 1995, but is also a fast-growing phenomenon among the Latin American countries and is emerging in Africa.

1. Intra-Asian investment

79. China has been the largest recipient of foreign investment in Asia as well as among all developing countries during the 1990s. Interestingly, the largest two investors in China were Hong Kong and Taiwan Province of China rather than developed countries. The Republic of Korea and Singapore have also been important sources of foreign capital for a large number of Asian countries in North-East Asia, South-East Asia and South Asia (including the Indian subcontinent).

80. The expected benefits of cumulatively easier trade and investment relations under regionalism, as in the case of the

ASEAN Free Trade Area, are also acting as an important stimulus to South-South cooperation. While intra-ASEAN investments account for only a small share of ASEAN's total foreign direct investment inflows, the absolute figures are very impressive. Intra-ASEAN investment accounted for 10.2 per cent of ASEAN's total inward foreign direct investment stock in 1980, and although this share had fallen to 6.3 per cent by 1992, the value of such investments grew from $2.4 billion to $8.6 billion. However, on the world scale, intra-ASEAN investments are relatively small. This reflects the development level of ASEAN economies and their external orientation, since the major sources of capital (and markets) are outside the ASEAN region. While Singapore is a net capital exporter, the other ASEAN countries are still dependent on foreign capital inflows to cover the savings-investment gap.[4] The bulk of intra-ASEAN investments is represented by Singaporean investments in Malaysia, Indonesia and Thailand, and by Malaysian investments in Singapore.

81. Intra-ASEAN investments accounted for a much higher share of ASEAN's outward foreign direct investment stock, representing 59.1 per cent in 1980 and declining to 33.3 per cent in 1992. ASEAN outward investment flow has grown rapidly, rising from $1.6 billion in 1980 to $16.9 billion by 1992. ASEAN destinations declined in relative importance from 64.2 per cent (of $784 million) in 1980 to only 27.1 per cent (of $10.8 billion) in 1992. ASEAN investments are increasingly diversified to Hong Kong, China as well as North America, EU, Australia and New Zealand. For Asia as a whole, there is a noticeable upward trend in recent years for intra-investment. The intra-investments of the nine leading Asian countries as a share of inward investment increased to approximately 37 per cent in 1993.

2. Intra-Latin American investment

82. The role of developing countries as sources of inward foreign direct investment in the region has increased since the 1970s. In the mid-1970s, 10 host countries in the region had 20 per cent or less of their inward foreign direct investment stock accounted for by developing countries (with six countries having less than 10 per cent). Only four countries (Bolivia, El Salvador, Guatemala and Paraguay) derived more than 20 per cent of their inward foreign direct investment stock from developing countries. By the 1990s, the number of host countries that had developing country participation of more than 20 per cent had increased to seven (Chile, Ecuador, El Salvador, Guatemala, Peru, Paraguay and Uruguay); in Guatemala and Paraguay, in fact, developing countries accounted for more than one third of total inward foreign direct investment stock. Most of this third world foreign direct investment originates from elsewhere in Latin America, facilitated by integration initiatives, geographical proximity and complementary economies. In all host countries other than perhaps the Dominican Republic, intraregional foreign direct investment accounted for over 70 per cent of the inward foreign direct investment stock from developing countries in 1990; and in Colombia, Ecuador, El Salvador, Honduras, Panama and Peru, intraregional foreign direct investment accounted for 100 per cent or close to 100 per cent of all inward foreign direct investment stock from developing countries. Between 1981 and 1991, investment outflows from the region totalled $4.1 billion. With the formation of MERCOSUR in 1992, average annual intra-Latin American flows are estimated to have risen to around $3.8 billion.

3. Intra-African investment

83. Intra-African investment in 1995 is estimated to have been around $553 million. While this is a very small amount compared with intra-developing country flows in other regions, it represents a significant increase over previous years, since the average flow during 1990-1994 was only $160 million. Nigeria accounted for over 70 per cent of intra-African investment in 1995. However, with the consolidation of stability in the new South Africa, that country is expected to resume its role as a significant investor in the SADC subregion and eventually in the entire African region. Furthermore, greater political stability in the North African region should result in significant intra-Maghreb investment flows.

4. Cross-regional investment

84. While most South-South investment so far has been cross-border and intraregional, a process of cross-regional investment is likely to emerge slowly, with the most dynamic countries and firms leading the way. Foreign investors from the Asian region are already investing in Latin America and the Caribbean. For example, in the late 1980s to early 1990s, almost 100 textile companies from the Republic of Korea invested about $100 million in Central America and the Caribbean to take advantage of low labour costs, geographical proximity and unused quotas of those countries in the United States market involved in the Caribbean Basin Initiative. Moreover, in mid-1996, Daewoo of the Republic of Korea launched a major investor mission to South America and is already making plans to set up a $240 million video plant in Baja, California to gain access to NAFTA. Hyundai is planning to set up a manufacturing plant in Brazil to increase production capacity in that country, and Samsung is planning a $581 million investment in the next four years in an

industrial complex in Mexico to gain market access to NAFTA and establish local supplier networks to reduce imports. Taiwan Province of China has also set up shop in the industrial parks bordering the Panama Canal. Investors from the Republic of Korea and India are reportedly weighing up the possibility of investing in southern Africa.

B. Enterprise-level cooperation

85. Within the last decade or so, a number of South-based enterprises have increased in importance, on the basis of the level of their assets, sales and employment. Some of these enterprises have become genuine transnational corporations. There is considerable scope for cooperation among these enterprises, both within regions and across regions.

1. Supplier network arrangements

86. Supplier network arrangements among countries of the South can be forged by either non-South-based transnational corporations or third world transnational corporations. There is no reason why South-based transnational corporations cannot also develop such efficiency-enhancing network arrangements, which make full use of skill specialization and economies of scale. However, there would probably be a need for special programmes and various government stimuli to encourage this process, since indigenous firms may have a tendency or preference to source inputs from developed country transnational corporations, even when price and quality are basically the same.

2. Joint ventures and strategic alliances

87. The idea of pooling resources among producer enterprises is not a new one. However, whereas State-owned enterprises never gave very effective expression to the idea, the emphasis on private sector enterprise and initiative has given it a new lease of life. Equity joint ventures can help to minimize constraints stemming from lack of financial resources and production know-how. However, neither greenfield joint ventures nor mergers and acquisitions are a frequent cross-border activity in the South, and this is probably related to the weakness of the emerging capital markets and the continuing strong hold of family commercial traditions. Encouragement could perhaps be given to multinational enterprises through various incentives.

88. Strategic alliances or non-incorporated joint ventures could be useful for pooling resources with respect to design efforts and expenditures on research and development. Given the very rapid technological change and short product life cycles associated with the global competitive environment, this joint technological development activity can be encouraged by incentives, government subsidies and general public support.

89. While individual enterprises in the South have mainly formed technology partnership arrangements with counterparts in the developed world, towards the end of the 1980s dynamic innovative firms in the South also began to engage in a variety of new forms of partnering activity with other firms and research institutions in the South. In contrast to earlier assumptions concerning the importance of firm size for research and development, critical mass can be conceived quite differently today, notably in terms of the size of the "system" needed to acquire knowledge rather than the size of the firm alone. Research and development partnerships have been created between firms and local universities in the food processing, biotechnology and electronics industries in, among other countries, China, Mexico, Thailand and Chile. Inter-firm research and development partnerships also exist in the South; for example, in Latin America, a research and development partnership was formed between the national mining companies of Peru and Bolivia to develop metal biotechnology, and in Africa between South African and Kenyan firms for the transfer and development of technology in the forestry industry.

3. Cluster development strategies and cooperation

(a) Growth poles

90. Close investment and trade relations with other Asian countries have been said to be a major factor in the take-off of the Asian region. This process of take-off has been likened to Akamatsu-Ozawa's "flying geese". The "flying geese" metaphor is used to describe the inverted "V" formation and hierarchical structure of Asian regional economic development in which, for example, Japan is the "lead" economy, the newly industrializing economies form the first tier, the ASEAN Four (Indonesia, Malaysia, Philippines and Thailand) are the second tier, and the third tier may include, among others, China, India and Pakistan.

91. All economies pursue an export-oriented strategy and the lead economy is a major provider of technology, complementary inputs and, in the early stages, markets; but part of this process is in turn fuelled and magnified by rapid learning and imitating, and subsequently competing (given shortening product life cycles). The division of industrial labour is a dynamic one, with shifting comparative advantage. This shift might be more aptly described as "relaying comparative advantage".

(b) Growth triangles

92. Complementing a regional or continent-wide growth cooperation strategy, there are policies of stimulating growth in certain subregions encompassing two or more countries. This is the concept of growth triangles, in which economies of scale can be achieved with respect to the use of skills, resources, finance, physical infrastructure and economic space. One outstanding example is the Indonesia-Malaysia-Singapore growth triangle, which was launched in 1990 and encompasses the Indonesian Riau islands, the Malaysian state of Johor, and Singapore. An interesting proposal is the Tumen River Triangle, encompassing border areas of the Democratic People's Republic of Korea, China and the Russian Federation.

C. Useful measures to promote investment cooperation

93. With investment in the last decade having risen faster than both trade and gross domestic product, and with continued impetus from expected further liberalization of portfolio and long-term capital flows in the future, the promotion of South-South cooperation desired by developing countries may include greater emphasis on the role of investment within the context of an integrated intra-South production framework. Indeed, the San José Plan of Action emphasized both the strengthening of national investment capacities and promotion of South-South investment. Specifically, it stated that: intra-South investment was an important element of economic cooperation among developing countries. It must be developed and strengthened in a spirit of partnership among the different actors involved in the economic process in our countries, in which the role of the private entrepreneurial sector was fundamental. For that purpose, the member countries of the Group of 77 and China should:

(a) Adopt concrete measures to encourage investment among developing countries in manufacturing as well as service sectors, such as the pooling of resources among the enterprises in the South through strategic alliances or non-incorporated joint ventures to minimize constraints stemming from the lack of financial resources and product know-how;

(b) Encourage direct investments through bilateral or multilateral agreements in accordance with improvement of financial and technical capabilities among developing countries;

(c) Introduce new markets among developing countries, including the free economic trade zones.

94. To encourage such cross-investments, the San José Plan of Action stated that Southern investment banks and development finance companies needed:

(a) To develop effective cross-border operating capacities and skills;

(b) To promote investments from other Southern countries through appropriate instruments;

(c) To know more about opportunities for investment in other Southern environs.

95. It added that the current nascent capacity of Southern financial institutions to mobilize resources in external capital markets could be expanded through strategic alliances among financial institutions, followed eventually by joint ventures.

96. In addition, the San José Plan of Action recommended that agreements for the protection of investments among developing countries should be pursued as a concrete measure to further South-South investments.

Notes

[1] For details of national trade-financing problems and infrastructure. See UNCTAD/ECDC/254 of 26 March 1996 entitled "Review of progress in trade-finance facilities of developing countries at the interregional, regional and subregional levels". The review was based on an UNCTAD survey of more than 100 institutions in all regions, two thirds of which responded.

[2] For a detailed analysis of the contents of these proposals, see UNCTAD/ECDC/246, 31 August 1994, entitled "The role of regional capital markets in enhancing resource mobilization and in promoting their efficient use".

[3] For a detailed review of all aspects of monetary cooperation, see UNCTAD/ECDC/238 of 4 February 1994, entitled "Clearing and payments arrangements among developing countries: Recent developments, long-term policy considerations".

[4] The dependence of Asian countries on foreign investment to cover the savings-investment gap should not mask the very impressive saving ratios they have achieved over the last decade.