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State of South-South cooperation

Report of the Secretary-General*

Summary

The present report is submitted pursuant to General Assembly resolution 54/226 of 22 December 1999. It contains a review of the state of South-South cooperation during the period 1998-2000, especially in the areas of trade, investment, and monetary and financial arrangements, in the context of increasing regional and subregional cooperation in the South. An analysis of main trends is followed by a synopsis of key issues that deserve special consideration in advancing South-South cooperation.

* The footnote requested by the General Assembly in resolution 54/248 was not included in the submission.

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Contents

I. Introduction

1. The present report is submitted in accordance with General Assembly resolution 54/226 of 22 December 1999 in which the General Assembly requested the Secretary-General to present to the fifty-sixth session a report on the current state of South-South cooperation. The state of South-South technical cooperation was extensively discussed at the twelfth session of the High-level Committee on the Review of Technical Cooperation among Developing Countries that was held from 29 May to 1 June 2001. The deliberations and decisions of that Committee are contained in document A/56/39, which is being submitted to the General Assembly at its current session.

2. While this report focuses more on South-South economic cooperation in the period 1998-2000, it also highlights a number of evolving trends and issues in both economic and technical cooperation among developing countries, with special emphasis on regional and subregional cooperation as the most salient forms of South-South cooperation. The report which draws heavily on an earlier paper and studies prepared by the United Nations Conference on Trade and Development (UNCTAD), is divided into four sections. Following the introduction, chapter one focuses on the current state of South-South cooperation in the areas of trade, investment and monetary and financial arrangements. Key evolving trends in South-South economic and technical cooperation and issues that deserve special consideration to advance such cooperation are the subjects of chapter two while chapter three contains concluding remarks.

II. State of South-South cooperation

A. South-South cooperation in trade

3. Trade among developing countries has been growing in recent years. In 1998 and 1999, about 40 per cent of developing countries' exports were destined to other developing countries, representing a steady expansion over the levels in 1980 (26.5 per cent) and 1990 (34 per cent).[1] As regards trade in services, world trade in commercial services, which accounts for about 20 per cent of world trade in goods and services, is estimated to have grown by 5 per cent in 2000, slightly less than the average growth rate of 6 per cent between 1990-2000.[2] In 1998, developing countries accounted for 22 per cent of world exports of commercial services, standing at $979 billion, while three quarters of world trade in such services, amounting to $1,323 billion, originated in developed countries.[3]

4. Overall, the South's share of world trade in services, which stood at 24.3 per cent in 2000, had progressed modestly since 1990, when its share was 18.8 per cent. About three quarters of those commercial services originated in the developing economies in Asia, and their share in the South had increased steadily from 64.6 per cent in 1990 to 72 per cent in 1998 and 73 per cent in 2000. According to the World Trade Organization (WTO), five Asian economies, namely, Indonesia, Republic of Korea, Malaysia, Philippines and Thailand, expanded their exports of commercial services at an annual rate of 10 per cent during the 1990s compared to 8 per cent in Latin America and 5 per cent in Africa. Latin America and the Caribbean

represented 17.4 per cent of developing countries' exports of commercial services while Africa has the smallest share of the South's exports (9.2 per cent).

5. Intra-regional trade fluctuated in all developing regions during the period under review. This trend was very noticeable in the developing economies in Asia, where countries trading and investing more with each other than with countries outside the region suffered the effects of a serious financial crisis. The share of intra-regional trade in total trade for developing Asia grew from 33.5 per cent in 1990 to a record high of 41 per cent in 1997, subsequently declining to 39.3 per cent in 1998 and 37.6 per cent in 1999 owing to the Asian financial crisis.[4] A similar trend is observed in the Latin America and the Caribbean region. Trade among the countries within the region had increased significantly to 21.5 per cent of total trade in 1998 as compared to 15.1 per cent in 1990 but it dropped to 17 per cent in 1999. Sub-Saharan Africa remains highly dependent on foreign trade and export-led growth, and the region's participation in international trade is seriously affected by various supply-side constraints. Intra-African trade that accounted for only 6.4 per cent of the region's total trade with the world in 1998 rose slightly to 7.3 per cent in 1999. Nevertheless, this trend in intra-regional trade has been undergoing a revival and the share of this trade has more than doubled since 1980, growing at a steady, albeit modest pace of 4 per cent annually.

6. Irregularity in intra-regional trade among developing countries can, to some extent, be attributed to turbulence in the global economy. In Latin America, intra-MERCOSUR trade, as a share of total exports, grew significantly from 20.3 per cent in 1995 to 25.1 per cent in 1998, but dropped to 20.6 per cent in 1999, rising only slightly to 20.8 per cent in 2000. The intra-group trade of the Andean Community had doubled since its creation in 1990, amounting to about 12 per cent in 1998, but it declined to about 9 per cent in 1999 and 2000. In the Caribbean Community (CARICOM), the share of intra-Community trade in total exports expanded to reach 18.6 per cent in 1998 from less than 10 per cent in previous years, subsequently, however, it declined to 16.4 per cent in 1999 and 15 per cent in 2000. In the Asia and the Pacific region, the regionalization of trade is pronounced only with respect to the Association of South-East Asian Nations (ASEAN), where the share of intra-ASEAN trade accounted for a high of 24 per cent in 1997 before experiencing a sharp drop in 1998 to a low of 20.6 per cent. It rose again to reach 21.3 per cent in 1999 and 22.7 per cent in 2000. The other groupings such as the South Asian Association for Regional Cooperation (SAARC), the Gulf Cooperation Council (GCC) and the Bangkok Agreement tended to show limited trade among members, owing in large part to the limited scope of the trade agreements. Intra-regional trade was more important in West Africa and in Southern Africa than in other parts of the region. In West Africa, the intra-group trade for each of two major groupings, the Economic Community of West African States (ECOWAS) and the West Africa Economic and Monetary Union (UEMOA), represented about 12 per cent of the grouping's total trade between 1998 and 2000. In Eastern and Southern Africa and the Indian Ocean, intra-group trade stood at 7.2 per cent for the Common Market for Eastern and Southern Africa (COMESA) in 1998 and at 7.4 per cent in 1999 but dropped to 6.6 percent in 2000. Intra-group trade in the Southern African Development Community (SADC) was at 10.2 per cent in 1998 and at 9.3 per cent in 1999 but decreased to 8.7 per cent in 2000.

7. In Africa, regional integration efforts have tended to aim at the formation of customs unions and common markets, with the eventual goal of reaching the single

continental common market and economic community as provided in the Abuja Treaty on the African Economic Community. The treaty creating the African Union recently signed and ratified by the Heads of State and Government of the Organization of African Unity (OAU) is superseding the treaty establishing the latter organization. Most of the existing groupings are engaged in major revisions and restructuring of integration schemes. The revised ECOWAS Treaty calls for the establishment of an economic and monetary union by 2005. UEMOA created a customs union in 2000 and aims to form a single common market and monetary and financial zone. In Central Africa, a new group, the Economic Community of Central African States (ECCAS) was created in March 1994 with a view to forming of a common market among its Member States. ECCAS has as its stated objective the creation of a customs union, but its operations have been undermined and disrupted by conflicts within several of its Member States. In Eastern and Southern Africa and the Indian Ocean, COMESA, the largest grouping in the subregion, aims at the formation of a single common market and free trade among its members through an agreement that entered into force in October 2000. Agreement has also been reached on implementing a common external tariff (CET) by the year 2004. Kenya, Uganda and Tanzania had by July 2000 ratified a treaty establishing the East African Community (EAC) that had collapsed back in 1977. The EAC aims, among other things, to bring about policy harmonization on intra-regional trade, investment and the movement of people in the three member countries. SADC Member States adopted a trade protocol in February 2000, after tough negotiations since 1996, which provides for the establishment of a free trade area by 2008. In North Africa, the members of Arab Maghreb Union adopted a trade integration programme aiming at the formation of a customs union. The formation of an Arab Free Trade Area is being discussed under the auspices of the League of Arab States.

8. The focus on free trade agreements is prevalent in Asia and the Pacific. In West Asia, for example, the GCC, on the basis of a Unified Economic Agreement, has abolished tariffs on their intra-GCC trade in agricultural and animal products and natural resources and industrial products. In Central Asia, the Economic Cooperation Organization (ECO) Protocol on Preferential Tariffs launched in 1991 provides for a 10 per cent reduction in tariffs on selected goods. In South Asia, SAARC countries have negotiated the South Asian Free Trade Agreement for several years and have not yet concluded deliberations. ASEAN has accelerated the implementation of its free trade area in goods, aiming at liberalizing 90 per cent of intra-ASEAN trade by 2007. The Bangkok Agreement has been attempting to enhance its liberalization programme by extending its membership to cover a greater number of countries. In the Pacific, the only reciprocal trade agreement among the island countries is operated by the members of the Melanesian Spearhead Group covering trade in a limited number of goods since September 1994 while the Pacific Forum countries have agreed to negotiate and create a Pacific regional trade agreement.

9. In Latin America and the Caribbean, MERCOSUR and the Andean Community have moved rapidly ahead with the implementation of their programmes to liberalize mutual trade and establish custom unions. On 1 January 1995, MERCOSUR countries completely eliminated tariff barriers on intra-trade in most goods and adopted a common external tariff, forming a customs union. The Andean Community also introduced a common external tariff which applied to 95 per cent of items subjected to customs duties and which has five tariff brackets with a ceiling of

20 per cent. The CET is implemented by three members (Colombia, Ecuador and Venezuela); the other two members (Bolivia and Peru) apply their own national tariffs. In Central America, a customs union came into operation between El Salvador, Guatemala, Honduras and Nicaragua (Group of Four) in mid-1993. The CARICOM countries have experienced fast growth in intra-group trade upon the elimination of tariffs and non-tariff barriers to the large part of reciprocal trade (accomplished by mid-1995). In addition, a revised CET is applicable in nearly all CARICOM countries with levels between 5 and 20 per cent for industrial products and 40 per cent for agricultural products. In 1998, the CET rates were further reduced to a maximum of 20 per cent.

10. The revival of regional alliances increased even as the Uruguay Round of Multilateral Trade Negotiations was concluded and continues unabated following the creation of the WTO and the implementation of the Uruguay Round Agreements. All countries today are members of one or more regional trade-cum-economic-integration agreements. It appears that developed and developing countries consider that regional trade agreements (RTAs) are still a means to overcoming barriers to trade beyond what could be achieved at the multilateral level. This is evident in those RTAs that aim at liberalization beyond the multilateral level in sectors such as services in general, telecommunications, air transport, government procurement, harmonization or mutual recognition of standards and, to a lesser extent, in agriculture, textile and clothing — important export sectors for developing countries. Also, today's RTAs have been robust in sustaining the implementation of their intra-regional liberalization programmes. Many of them are also expanding their membership. The widening of regional integration among developing countries, for instance, can be witnessed in the expansion of membership from six to nine countries in ASEAN, from 10 to 14 countries in SADC and from three to 10 countries in ECO.

B. South-South cooperation in investment[5]

11. Progress in regional integration appears to have contributed to growth in foreign direct investment (FDI) inflows, as market-seeking transnational corporations in manufacture and services (as distinct from the extraction of natural resources) tend to locate in those countries that have strong ties with a large regional market for exports. Accordingly, efforts aimed at regional integration to create sizeable markets assume ever greater relevance with respect to policy in increasing the attractiveness of FDI for small developing countries. In 1999, global inflows increased by 27 per cent over those of the previous year to reach $865 billion, of which $208 billion, or 24 per cent, were destined to developing countries, representing an increase of 16 per cent from the previous year.[6] Given the rise in inflows to developed countries, however, the developing-country share continued to decline from 39 per cent recorded in 1997 to 19 per cent in 2000.[7]

12. Developing countries in Asia attract the largest share ($106 billion, or 51 per cent) of FDI inflows in the South, followed by Latin America and the Caribbean, which registered a record high level of $90 billion in 1999 (43 per cent). Within those regions, Brazil and China alone account for $31 billion and $40 billion, respectively. The African countries' share in FDI inflows to the South remains marginal, accounting only for 5 per cent of the total. Based on outflows from China, Hong Kong SAR,[8] Malaysia, Pakistan, Philippines, Republic of Korea, Singapore,

Taiwan Province of China and Thailand, an increasing share of the total outward FDI from South, Southeast and East Asia is invested within the same region — 59 per cent in 1987 and 84 per cent in 1997. In the case of Singapore, 95 per cent of outward FDI takes place in South, Southeast and South Asia; for Malaysia, the Republic of Korea and Thailand, the intra-region investment was between 40 and 50 per cent in 1997.

13. FDI among the member countries of ASEAN is significant: 28 per cent of total outflows from Malaysia, 38 per cent from Thailand, and 72 per cent of Singapore's outflows were invested in other ASEAN Member States in 1997. During the period 1992-2000, over 60 per cent of FDI flows into China originated from Hong Kong SAR, Singapore and Taiwan Province of China. Transnational corporations from the Republic of Korea and Taiwan Province of China have considerable outward FDI. The Republic of Korea FDI in developing countries is concentrated mainly in South, East and South-East Asia. More than half of FDI flows into Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam are from other developing Asian countries.

14. In the Latin America and the Caribbean region, intra-regional investment accounts for more than 90 per cent of Latin America's inward FDI originating from other developing countries. About half of the FDI outflows from the major Latin American countries — Argentina, Brazil, Chile, Colombia and Venezuela — are directed to other developing countries. With respect to the MERCOSUR countries, two-way flows between Argentina and Brazil have increased since the mid-1990s. Cumulative registered FDI projects between the two countries amounted to $23 billion in 1997. In Paraguay, over a quarter of the stock of FDI originated from other members of MERCOSUR. Chilean FDI outflows ($4.9 billion in 1999) are also directed mostly to other Latin American countries, notably Venezuela and Peru. It must be noted, however, that most of this FDI originates from the Chilean affiliates of European or North American companies. In the CARICOM region,[9] most outflows are to countries of the Organization of Caribbean States. Antigua and Barbuda, Barbados, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago are the region's main outward investors. Most FDI tends to be in the areas of light manufacturing, retail and banking.[10]

15. Interregionally, investment from South, East and Southeast Asia to Latin America and the Caribbean is on the rise. Incentives for export-oriented investment as well as privileged access to the United States market have played a role in attracting Asian investment in garments and other labour-intensive industries in Central American and Caribbean countries. Taiwan Province of China is the largest Asian economy investing in Latin America and the Caribbean, with a large part of its investment going to Panama and the Virgin Islands. Latin America and the Caribbean are slowly emerging as hosts for FDI from the Republic of Korea. Brazilian firms have some investments in Macao SAR and Singapore; otherwise, Latin America and the Caribbean investment in Asia is negligible.

16. FDI flow from developing countries in Asia to Africa is growing although still very small in absolute terms. The Republic of Korea is the largest investor in Africa, while China, India, Malaysia and Taiwan Province of China also have FDI stock in Africa. These investments have, however, been confined to a limited number of countries, such as Egypt, Ghana, Mauritius, Uganda, the Republic of Tanzania, Zimbabwe and South Africa. Telecom Malaysia acquired a 30 per cent stake in

Ghana Telecom. In addition, agreements were signed in 1996 between Malaysian and Ghanaian firms in different industries, including hotels, banking and palm-oil development, all aimed at attracting joint-ventures or foreign investments in wholly foreign-owned projects in Ghana.

17. It seems that market proximity, similarity in products and processes, and business culture affinities are the main factors that cause developing country investors to channel their FDI to other developing countries, and often to neighbouring countries or countries of the same region. However, outflows of direct investment from developing-country firms in one region to other developing countries in other regions is growing as firms seek to internationalize their business in order to increase economies of scale and scope. In this connection, the emergence of small- and medium-sized enterprises as foreign investors is of interest.

C. South-South monetary and financial cooperation

18. Since the emergence of the Asian crisis, interest in South-South monetary and financial cooperation, especially at the regional and subregional levels, has gained new momentum. For example, at the 1997 annual meetings of the International Monetary Fund (IMF) and the World Bank soon after the outbreak of the East Asian crisis, a proposal was made to establish an Asian monetary fund. This subsequently led to the Chiang Mai Initiative on 6 May 2000 to establish a regional financial arrangement to supplement existing international facilities. Similar arrangements are emerging in other parts of the developing world.

19. In the Rand Monetary Area, Lesotho and Swaziland, both closely integrated economically with South Africa, peg their currencies to the South African rand without formally engaging in coordination of monetary policy.

20. The creation of the *Communauté financière africaine* (CFA) dates back to 1948, but the agreements governing the current operation of the CFA zone were signed in 1973. There are two regional groups, each with its own central bank: the West Africa Economic and Monetary Union and the Central African Economic and Monetary Community.[11] The 14 participating countries have a common currency, the CFA franc, which is not traded on the foreign exchange markets but is convertible with the French franc at a fixed parity. There is free capital mobility within the CFA zone, and between these countries and France, and the foreign exchange reserves of its members are pooled. It is too early to predict what impact the introduction of the euro and the disappearance of the franc could have on the CFA zone. However, monetary officials have made reassuring statements that the impending changes would not adversely affect CFA arrangements.[12]

21. Monetary and financial cooperation among developing Asian countries was intensified by the 1997 financial crisis. In a joint statement on East Asian cooperation issued at the summit of ASEAN+3 (the 10 members of ASEAN plus China, Japan and the Republic of Korea) in November 1999, an agreement was reached to strengthen policy dialogue, coordination and collaboration on the financial, monetary and fiscal issues of common interest. Against this background, the region's Finance Ministers launched the Chiang Mai Initiative in May 2000, aimed at building networks for multifaceted financial cooperation to match the growing economic interdependence of Asian countries and therefore the greater risk that financial shocks could lead to regional contagion. The Initiative envisages the

use of the ASEAN+3 framework to improve exchanges of information on capital flows and to launch moves towards the establishment of a regional economic and financial monitoring system. The core of the Initiative is a financing arrangement among the 13 countries that would strengthen the mechanism of interregional support against currency runs. This arrangement, building on the previous ASEAN Swap Arrangement, is intended to supplement existing mechanisms for international financial cooperation. It is also expected to contribute to the stability of exchange rates within the region. The previous ASEAN Swap Arrangement, which dates back to 1977, comprised only five countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand). Total funds committed under the arrangement amounted to $200 million — a negligible amount compared to the combined loss of $17 billion in foreign exchange reserves between June and August 1997.

22. The new ASEAN Swap Arrangement envisaged under the Chiang Mai Initiative includes Brunei Darussalam and allows for the gradual accession of the four remaining ASEAN countries (Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam). However, its most important element is the inclusion of bilateral swap and repurchase arrangements between the ASEAN countries and China, Japan, and the Republic of Korea. Funds available under the new ASA total $1 billion, but the commitments of the three non-ASEAN countries to the bilateral swap arrangements are likely to be substantially greater. They will be determined by the level of their foreign currency reserves and the amounts that were involved in earlier agreements between Japan and the Republic of Korea ($5 billion) and Japan and Malaysia ($2.5 billion). The conditions for drawing on the facilities and a number of technicalities remain to be agreed in negotiations among the countries concerned, but it appears that assistance under the bilateral swap arrangements will, in principle, be linked to IMF support.

23. In the case of Latin America, interest has also been expressed in establishing regional currencies as opposed to dollarization. The Andean Reserve Fund was established in 1976 by the members of the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) and has a subscribed capital of $2 billion. The Fund provides financial support to its members in the form of loans or guarantees for balance-of-payments support, short-term liquidity emergency loans, loans to support public external-debt restructuring and export credits. The conditionality for drawing on these facilities is softer than that of IMF. The Fund also aims at contributing to the harmonization of the exchange rate, monetary and financial policies of member countries. Thus it is intended to promote economic and financial stability in the region and to further the integration process in Latin America.[13]

24. The Eastern Caribbean Currency Union is an arrangement for a common currency among the members of the Organization of Eastern Caribbean States.[14] The currency is pegged to the dollar, but in contrast to France with respect to the CFA, the United States does not play an active role in the pegging arrangement.

25. The Arab Monetary Fund, established in 1976 with a structure similar to that of IMF, comprises all members of the League of Arab States except the Comoros. It has a subscribed capital of 326,500 Arab accounting dinars, equivalent to about $1.3 billion. The Fund aims to promote exchange-rate stability among Arab currencies and render them mutually convertible, and provides financial support for members that encounter balance-of-payments problems. It is also intended to serve as an instrument to enhance cooperation on monetary policy among members, to

coordinate their policies in dealing with international financial and economic problems and to promote the establishment of a common currency.

III. Evolving trends and issues of South-South cooperation

26. South-South cooperation is gaining importance in accelerating the pace of development by promoting the participation of developing countries in the international economic system. It diversifies and expands development partnerships and economic links and generates new momentum towards more equitable forms of global interdependence. This section reviews some of the more significant trends and issues in South-South cooperation.

A. Consolidating South-South cooperation platforms

27. Developing countries have put forward numerous policy decisions, declarations and plans of action covering a variety of specific domains of South-South cooperation. The first effort by the member countries of the Group of 77 to bring economic cooperation among developing countries into a single intergovernmental framework dates back to 1981 when they adopted the Caracas Programme of Action on economic cooperation among developing countries. This effort was intensified when they met in San José, Costa Rica in 1997 and adopted the San José Plan of Action,[15] which gave priority to the expansion of South-South trade, investment, and monetary and financial cooperation among its member countries and with other developing countries. To deepen South-South cooperation further, they met again in Bali, Indonesia in 1998, where they adopted the Bali Declaration on Regional and Subregional Economic Cooperation of the Developing Countries,[16] underscoring the critical role regional and subregional economic groupings could play in deepening South-South economic cooperation. The first Group of 77 South Summit, held in Havana, Cuba in April 2000, represents a new milestone in the South's collective effort to put South-South cooperation in the new global context. The Programme of Action[17] adopted by the Summit accorded South-South cooperation high priority in order for the South to meet new development challenges, both collectively and individually, and at the national, regional and global levels.

28. While the basic principles and objectives embodied in these documents remain valid, a realistic, objective assessment of these frameworks and the status of their implementation calls for their consolidation into an updated platform. In this regard, it is noteworthy that the Tehran Consensus adopted by the Group of 77 and China in the Tenth Meeting of the Intergovernmental Follow-up and Coordination Committee on Economic Cooperation among Developing Countries held from 18 to 22 August 2001 in Tehran, Islamic Republic of Iran, resolved to move forcefully and urgently towards five strategic objectives: (a) consolidating the South-South platform; (b) building stronger Southern institutions at the global level; (c) bridging the knowledge and information gap; (d) building broad-based partnerships; and (e) mobilizing global support for advancing South-South cooperation.[18] For effective and meaningful support, the Tehran Consensus urged the international community, including the United Nations system and other major international institutions as well as the donor community, to re-examine their development cooperation policies

and practices and to provide vigorous catalytic support, including the requisite financial resources, to all forms of South-South cooperation. It also proposed launching an International Decade on South-South Cooperation and a United Nations Day for South-South Cooperation.

B. Diversifying regional and subregional arrangements

29. Regional economic groups formed earlier are now being energized and new groups with diverse objectives such as free trade, investment cooperation, transport integration, harmonized social action or integrated resource use are being formed. The World Bank estimated that the number of such cooperation arrangements had increased dramatically from 39 in 1970 to 82 by 1997.[19] One third of global trade today is taking place among regional trade groups. The United Nations regional commissions in the regions of Africa, Asia and the Pacific, Europe, Latin America and the Caribbean and Western Asia are experiencing a renewed emphasis on arrangements for regional cooperation.

30. In Latin America and the Caribbean, for example, MERCOSUR and the Andean Community are moving towards the formation of a combined free trade area. The GCC in the Western Asia region is considering forming a monetary union. As noted earlier, membership in ASEAN and in SADC has increased and COMESA has a large membership of 20. The ECO in Central Asia and Europe is trying to develop into a multi-purpose cooperation group dealing with trade, transport, environment, drug control, population planning and science and technology. The initiatives already launched for environmental security in the Caspian and the Aral Seas are certain to have a positive influence on the cooperation activities of this Organization. Recently the 53 member States of the OAU took Africa’s integration a step further by agreeing to replace the OAU with the African Union, modelled after the European Union.

31. The formation of growth triangles or cooperative subregions is continuing vigorously. For example, China, Mongolia and the Russian Federation are cooperating in a Euro-Asia Continental Land Bridge Programme focused on trade growth and transport integration. The Malawi-Zambia-Mozambique growth triangle is engaged in the exploitation of regional-factor endowments for the promotion of trade and investment. Activities of the Black Sea Economic Cooperation group of 11 members picked up speed with the signing of the Treaty in 1998. In 1999, countries of the Economic and Social Commission of Western Asia region started the integrated transport system in the Arab Mashreq, focusing not only on transport networking but also on a uniform information system and common policy framework for transport management and development. The Eurasian Economic Community (Belarus, Kazakhstan, Kyrgyzstan, the Russian Federation and Tajikistan) came into existence only in October 2000 following negotiations initiated in 1994. It goes far beyond free trade and a customs union and seeks harmonization in many social activities and legislation.

32. Preferential trade agreements have also increased in number and significance. The United Nations Department of Economic and Social Affairs estimates that, in 2000 alone, 20 new agreements were added to the 214 agreements already in existence.[20] Three fourths of global trade is now governed by such agreements. The most notable among the new agreements is the United States Trade and

Development Act of 2000, which grants concessional terms to imports from 48 African and 25 Caribbean countries. Another significant development is the conclusion, in 2000, of the Cotonou Convention as successor to the earlier Lomé Convention between the European Union and 71 African, Caribbean and Pacific (ACP) States. The free trade agreement between Chile and Mexico concluded in 1999 and the free trade agreement between Jordan and the United States concluded in 2000 are important landmarks in the globalization process.

33. Regional groups are diversifying their activities. For example, SADC is moving well beyond economic cooperation, working on the elimination of the production and importation of small arms and light weapons on the one hand and on the harmonization of the census operations of the region on the other. Regional cooperation is, in fact, helping the member countries in a variety of ways. MERCOSUR claims that its commodity market, in the wake of the East Asian crisis, could withstand a decline with a vibrant intra-regional market in manufactures. It also suggests that the increase in the flow of FDI has been spurred by the integration efforts. The Andean Community believes that by bringing about uniform reforms in intellectual property rights, it is preparing the ground for meeting multilateral obligations in the near future.

34. Traditionally, regional agreements have focused on trade, but recently, there has been an increase in treaties and agreements that encompass investment measures and that also cover competition policy and trade in services. The latter is observed, for instance, in the ASEAN Free Trade Agreement, MERCOSUR and SADC. Moreover, bilateral investment treaties are becoming more frequent. At the end of 2000, more than 500 such treaties between developing countries had been concluded, according to the United Nations Conference on Trade and Development (UNCTAD). Agreements among developing countries, combining trade and investment modalities, can have a mutually reinforcing effect by inducing trade-related investment and generating additional trade flows.

35. Another significant feature in today’s regional integration efforts is the orientation towards geographically and economically greater regional cooperation schemes, often involving one or more developed countries and formed on an interregional or continental scale. New intercontinental integration projects that involve developing countries and that could have potentially significant impact on global trade and investment have been created and expanded. These include existing arrangements such as the North American Free Trade Agreement and Asia Pacific Economic Cooperation, and agreements between the European Union and countries of Central and Eastern Europe, between the European Union and Mediterranean countries, and between the European Union and South Africa. They also include agreements that provide for the formation of mixed regional trade agreements, such as the planned ACP-European Union economic partnership agreements under the Cotonou Partnership Agreement, and the plan within the African Growth and Opportunity Act for the United States to conclude free trade agreements with eligible sub-Saharan countries.

36. The issue of the level of economic development of the countries involved often predominates, arising from the fact that any regional integration arrangement will include members at different levels of development, with some being more economically advanced and industrialized than others. While this variation in level of development provides a rationale for regional integration in that the advanced

economies can serve as the engine of growth for the region, the capacity of small member economies to access the markets of the bigger member economies and also benefit from their membership needs to be addressed. Concerns about economic imbalances between countries can be manifested in trade imbalances and can destabilize the integration process and lead to disputes over access to the markets of larger economies.

37. Some useful lessons could be drawn from recent regional integration efforts where the concerns of the smaller and economically weaker members have been addressed. Such negotiations have been prevalent, for example, in the case of the countries of Botswana, Lesotho, Namibia and Swaziland vis-à-vis South Africa in Southern African Customs Union re-negotiations; the small Caribbean economies vis-à-vis other larger countries in the Free Trade Area of the Americas process; and New Zealand vis-à-vis Australia in the Australia-New Zealand Closer Economic Relations Trade Agreement.

C. Pooling capacities and partnering for strategic initiatives

38. While bilateral cooperation, especially in regard to technical cooperation, remains a prevalent form of South-South cooperation, conscious efforts are being made by developing countries to pool their resources and capacities — institutional, intellectual, technical and financial — to address issues of common concern or specific development problems that affect a large number of people and countries. In many instances, such efforts by the South received enthusiastic support from donor countries and Northern institutions.

39. One such effort relates to the pooling of Southern research and analytical capacities. The South Centre, an intergovernmental entity, and the Third World Network, for example, have been actively involved in research and analysis on the implications of globalization and the work of WTO from the perspective of the developing countries. Some of these activities received support from United Nations organizations such as the United Nations Development Programme and UNCTAD. Financial and/or substantive support has also been provided by the Department for International Development of the United Kingdom, the Institute for Agriculture and Trade Policy of the United States, the Rockefeller Foundation and the Swedish International Development Cooperation Agency.

40. Another such effort was made by a group of developing countries through the Partners in Population and Development programme supported by the United Nations Population Fund. With its secretariat in Dhaka, the partnership now covers 18 countries accounting for half the population of the world. The programmed started by using the resources of five centres of excellence located in China, Indonesia, Mexico, Thailand and Tunisia. Now its fellowship programme focused on promoting reproductive health is conducted in 51 institutions in 16 countries. This is entirely a South-South initiative, which is funded largely by the members, supplemented by financial assistance from development partners and donations raised from the private sector.

41. A third example involves the pooling of the scientific, research and development capacities in the South and the North to develop and produce high-yielding upland rice varieties referred to as “new rice for Africa” or NERICA. In addition to its higher yields, NERICA varieties mature 30 to 50 days earlier, are

substantially richer in protein and far more resistant to disease, drought, insect pests and can out compete weeds. The initiative involved a network of 17 national institutions under the aegis of the West Africa Rice Development Association (WARDA). An important factor contributing to the success in this initiative was the fact that it took advantage of the best knowledge and expertise in similar research activities undertaken in other developing countries such as China, Colombia, Nigeria and the Philippines, with the financial and technical support of Northern institutions in France, Japan and the United States. What is significant in this case is the way in which the centres of excellence in the South pooled their scientific, research and development capacities to address a particular development problem.

42. Successful South-South partnering is also exemplified by the Africa-Asia Business Forum, launched by United Nations Development Programme and funded primarily by the Government of Japan as a follow-up to the second Tokyo International Conference on African Development. The initiative aimed to advance trade and investment cooperation between African and Asian firms. The first Forum, which took place in Kuala Lumpur in October 1999, was attended by 230 private companies from 25 African and six Asian countries and resulted in deals worth approximately $25 million. The second Forum, which took place in Durban, South Africa, in July 2001, was attended by representatives of 168 firms from 16 African and six Asian countries. A total of 104 memoranda of understanding were concluded on site, 22 of which were intra-African deals. The value of 24 deals made at the Forum amounted to $120 million. The initiative has not only generated concrete business and investment deals among the participating countries and firms but it has also helped to develop an effective mechanism for strengthened collaboration between the public and private sectors in creating new job opportunities that would contribute to poverty alleviation.

43. These experiences suggest that South-South initiatives that are anchored in established Southern institutions or centres of excellence and that aim to address issues of common concern or major development challenges are likely to attract broad-based support, including that of donor countries and institutions in the North.

IV. Concluding remarks

44. In a world of global financial instability, any regional arrangement designed to achieve exchange-rate stability in order to prevent crises, and manage crises better if they occur, should also incorporate a number of other mechanisms, with the aim of ensuring enhanced regional surveillance, information-sharing and early warning. Domestic reforms would still be needed in many of the areas discussed in the previous chapter in order to provide a sound basis for regional cooperation. Just as domestic policy actions without appropriate global arrangements would not be sufficient to ensure greater financial stability, regional arrangements could fail in the absence of sound domestic institutions and policies.

45. While countries of the South have, over the past two decades, resolved to work together to advance economic and technical cooperation among themselves at many intergovernmental forums and through the adoption of various declarations and action programmes, such as the Buenos Aires Plan of Action on Technical Cooperation among Developing Countries, the San José Declaration and Plan of Action adopted by the South-South Conference on Trade, Investment and Finance, and the Havana Programme of Action adopted by the South Summit, a more

systematic and objective assessment of these frameworks and relevant regional and subregional cooperation arrangements and their implementation is needed.

46. In this regard, the Teheran Consensus is particularly relevant in calling for intensified global support for South-South cooperation. It is incumbent upon the international community, including the United Nations system, other major international institutions and the donor community, to re-examine their development cooperation policies and practices in order to provide the necessary catalytic support, including requisite financial resources, to all forms of South-South cooperation.

Notes

[1] UNCTAD, *Handbook of Statistics 2000* (CD-ROM version: E/F.00.II.D.1).

[2] WTO, *Annual Report 2001*.

[3] UNCTAD, *Handbook on Statistics 2000*.

[4] UNCTAD, *Trade and Development Report 2000* (Sales No. E.00.II.D.19).

[5] Unless otherwise stated, the following is based on UNCTAD, 2000, UNCTAD, 1999, and UNCTAD, 1998.

[6] UNCTAD, *World Investment Report 2000* (Sales No. E.00.II.D.20).

[7] UNCTAD *World Investment Report 2001*, p. 291.

[8] On 1 July 1997, Hong Kong became a Special Administrative Region of China.

[9] The Caribbean Community (CARICOM) comprises Antigua and Barbuda, Barbados, the Bahamas, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

[10] CARICOM Secretariat 2000, pp. 231 ff.

[11] The West Africa Economic and Monetary Union comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo; the Central African Economic and Monetary Community comprises Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon. The two groups maintain separate currencies, but since both have the same parity with the French franc, they are subject to the same regulatory framework. Also, because there is free capital mobility between each of the two regions, the CFA franc zone can be considered as a single currency area. The Comoros has a similar arrangement but maintains its own central bank.

[12] Interview with the governor of the West African Central Bank, Radio France International, 22 September 2001.

[13] For more detailed information, see FLAR (2000).

[14] The Member States are Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members.

[15] A/C.2/52/8, annex.

[16] A/53/739, annexes I and II.

[17] Havana Programme of Action adopted by the South Summit of the Group of 77, April 2000.

[18] The Intergovernmental Follow-up and the Coordination Committee on Economic Cooperation among Developing Countries (ECDC) is a mechanism established by the Group of 77 to oversee implementation of the Caracas Plan of Action on ECDC.

[19] World Bank, *World Development Report 1999*.

[20] United Nations, World Economic Situation and Prospects 2001.