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### FORUM ON INDUSTRIAL DEVELOPMENT ISSUES

#### Industrial development, trade and poverty alleviation through South-South cooperation

Issue paper submitted by the Secretariat

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## I. INTRODUCTION

1. In resolution GC.10/Res.4 the Conference recommended to make industrial development, trade and poverty alleviation through South-South cooperation a theme of the Industrial Development Forum during the eleventh session of the General Conference. The present issue paper raises a number of issues for an informed discussion. Keynote speakers will attempt to provide answers to critical questions put forward in the present document.

2. The origin of South-South cooperation can be traced to the creation of the Group of 77 (G-77) in 1964 to promote economic and technical cooperation among developing countries. In 1974, the United Nations Development Programme (UNDP) created a Special Unit for Technical Cooperation among Developing Countries (SU/TCDC). The historic Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries, adopted in September 1978 (A/RES/33/134) and endorsing TCDC, further strengthened the aspirations of developing countries in promoting economic cooperation among themselves as a complement to North-South cooperation, forging a global South. A High-Level Conference on Economic Cooperation among Developing Countries (ECDC) held at Caracas in 1981 urged negotiations on a Global System of Trade Preferences (GSTP) among developing countries to promote joint initiatives in marketing and technology transfer. In 2003, the United Nations General Assembly formally opted to use the term South-South instead of ECDC/TCDC in describing cooperation among developing countries (A/RES/58/220). The same resolution declared 19 December as the United Nations Day for South-South Cooperation, an annual event to review achievements, challenges and opportunities.

### *Broad areas of South-South cooperation*

3. Given the current context of globalization and trade liberalization creating competitive pressures for efficiency gains and the global development agenda for achieving the Millennium Development Goals (MDGs), South-South cooperation can be seen as encompassing, among other things, four broad areas: (a) industrial trade, investment and technology flows among developing countries; (b) common positions to address discriminatory elements of global trade norms; (c) a joint response to poverty reduction; and (d) a strategic exchange of experience and know-how.

4. Regional groupings among developing countries are endeavouring to achieve the above objectives within the framework of preferential trade agreements. But a wider spectrum of initiatives among developing countries is needed to address jointly a number of issues related to South-South cooperation.

## II. KEY ISSUES

5. A number of questions related to pertinent issues are grouped under the four broad areas of South-South cooperation mentioned in chapter I.

### **A. Industrial trade, technology and investment flows**

(a) Is increased global integration a prerequisite for enhancing South-South trade, technology and investment flows?

(b) Will South-South industrial trade, technology and investment flows reshape the pattern of industrialization based on comparative advantages?

(c) What are the determinants of successful South-South cooperation in industrial development for poverty reduction?

(d) How can the tradeability and adaptability of South technology be facilitated?

(e) Will the rise of a few developing countries as economic superpowers influence South-South trade, technology and investment flows?

(f) What are the most promising sources of funding for South-South trade, technology and investment flows?

### **B. Common position in global trade talks and negotiations**

(a) How do global trade negotiations affect South-South cooperation?

(b) Can the lead (pivotal) countries of the South play an effective role in addressing the unresolved elements of trade negotiations?

(c) Can trade liberalization lead to effective poverty reduction?

### **C. A joint response to poverty reduction**

(a) Can South-South cooperation generate income and employment opportunities for the rural and urban poor?

(b) How can primary producers' livelihoods be protected/improved through South-South cooperation?

(c) How can grass-roots innovations be promoted through South-South cooperation in reducing extreme poverty?

(d) What should be the role of multilateral assistance in making South-South cooperation work better for the poor?

#### **D. Exchange of experience and know-how**

(a) Can South-South networking between research institutions commercialize existing research findings?

(b) Is free trade in consultancy and technology-related services among developing countries feasible?

(c) How can information and communication technologies be used as an effective means to exchange experience and know-how?

### **III. INDUSTRIAL TRADE, TECHNOLOGY AND INVESTMENT FLOWS**

6. Wealth creation through productivity enhancement can lead to significant poverty reduction. Productivity growth stems from enhanced adaptive capabilities to use modern technology and commercialize new knowledge. Trade, investment and technology flows play a crucial role in productivity catch-up. Critical issues of wealth creation within the framework of South-South cooperation will need to be addressed to spread the benefits of growth. Failing this, there will be growth without development.

#### **A. North-South and South-South trade: Possible marginalization within the South**

7. South-South cooperation cannot take place in isolation of the integration of developing countries into the global economy. It would therefore be wrong to assume that South-South cooperation in industrialization and trade is a complete substitute for North-South trade. It would equally be wrong to assume that North-South trade is sufficient to guarantee building the necessary capacity for addressing the issues of poverty reduction in the South. The fastest growing export items in South-South trade are products which benefit significantly from global connectivity and the global production network (GPN) (Lall, Sanjaya and Albaladejo, Manuel, 2005).

8. While global integration is critical for keeping developing countries abreast of the new industrial realities, there seem to be inconclusive research findings on the sources of global integration creating dramatic improvements in domestic capability-building in developing countries (Rasiah, Raja, 2004).

9. Another issue that needs to be raised is that of industrial and trade marginalization within the developing world rather than between North and South due to the outstanding performance of a few developing

countries. In North-South trade unskilled workers have benefited in the South, but the gains have been concentrated on those with skills in the North (Wood, Adrian, 1995). Will the same situation emerge with industrially more advanced countries in the South attracting skill-based activities and skills? Will least developed countries (LDCs) be further marginalized?

#### **B. South-South cooperation reshaping the pattern of industrial development**

10. Preferential trade liberalization in the Mercado Común del Cono Sur (MERCOSUR) seems to have favoured a reshaping of manufacturing production according to regional comparative advantage (Sanguinetti, Pablo, et al., 2004). Comparative advantages are derived from resource endowments, and competitiveness stems from firm-centred initiatives. The challenge is thus to convert comparative advantages into competitiveness.

11. Today industrialization is not driven by resource endowments alone, but by technology, knowledge, skills, information, innovation, research and development, and networking. How can South-South cooperation create an enabling environment for developing countries to benefit from new knowledge being created by Southern universities, exploited by Southern institutions and laboratories and commercialized by Southern firms within the framework of cohesive networking?

#### **C. Determinants of the degree of South-South cooperation in industrial development and trade**

12. Trade in similar but differentiated products seems critical for strengthening South-South cooperation in the sphere of industrial development. Given the varying degrees of industrialization and levels of income across developing countries, the scope for producing similar but differentiated products seems limited. Identification of labour-intensive products that can participate in intra-industry trade is critical, and analyses of value chain potentials are equally important.

13. There is solid evidence that the benefits of intra-industry trade vary depending upon the nature of the industry and the intensity of the fragmentation. Although domestic capabilities matter, a number of factors affect intra-industry trade patterns in the developing world. For success among developing countries with similar factor endowments, intra-industry transactions should evolve (Shigeru, Otsubo, 1998). The more fragmented an industry, the more likely that several countries are able to participate in the production process through global production networks (Lall, Sanjaya and Albaladejo, Manuel, 2005). The issue is related to enhanced adaptive capabilities to participate in fragmented production spread across countries.

#### **D. Tradeability and adaptability of South technology and intellectual property rights**

14. To ensure the tradeability of technology, it is imperative that the technology be appropriate and adaptable. Technologies that are sourced from both South and North call for a proper needs assessment of technology requirements in a country-specific context.

15. It seems clear that strong intellectual property rights (IPRs) protection can hinder rather than facilitate technology transfer and indigenous learning in the early stages of industrialization. Only after countries have accumulated sufficient indigenous capabilities with extensive science and technology infrastructure to undertake creative imitation does IPR protection become an important element in technology transfer and industrial activities. Therefore, if adequate protection and enforcement of IPRs is genuinely intended to enhance development, differentiation in terms of the level of economic development is needed.

#### **E. The rising economic powers in the South**

16. As a few countries emerge as major economic superpowers and important trade partners, such as China and India, the impact across developing countries may be uneven. In this context, the findings of a recent study (Department for International Development (DFID) of the United Kingdom, 2005) on the effect of China's and India's growth and trade liberalization on poverty in Africa merit attention.

17. The emergence of China and India presents both opportunities and challenges in terms of complementarity and competitive effects. Cheap imports from China and India may increase the real income of the urban poor. But those imports may also erase a number of manufacturing activities, with negative impact on employment opportunities. Will the export profile of African countries exporting to China and India have a significant positive impact on the poor in Africa?

#### **F. Financing South-South trade, technology and investment flows**

18. In the absence of efficient sources of financing, the transaction costs of South-South trade, technology and investment flows will be increased. A range of financial services is needed to address the issue and to support South-South trade. A network of export credit agencies, efficient payment and credit guarantee arrangements, and local banks supporting trade capacity-building institutions are a few options that may be considered.

19. If a high import intensity of export orientation evolves among developing countries, a possible vulnerability may stem from the import intensity of export orientation being financed by short-term lenders as evidenced by the East Asian financial crisis.

20. Is the creation of a special fund and financial services for South-South trade, technology and investment flows a viable option? Can public-private partnership address effectively finance-related matters within the framework of South-South cooperation?

### **IV. A COMMON POSITION IN GLOBAL TRADE NEGOTIATIONS**

#### **A. Implications of trade negotiations**

21. Developing country delegations in multilateral trade negotiations have become active in forming bargaining coalitions. The basic principles of the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) system are sound: treat all nations outside one's national frontiers as being equal; and treat all commodities that have entered one's territory on parity. The main bottleneck in the WTO negotiations is related to the agriculture sector, which is the principle source of livelihood for the poor in developing countries. Two other contentious issues are related to the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the system for settlement of disputes in the WTO. The negotiations of the two issues have presented several difficulties for developing countries.

22. Though trade negotiations fell short of expectations in Doha and Cancun, unity among the countries of the South did emerge, with the formation of Group 21, including the largest (Brazil, China and India) to fight for concerns which were not adequately addressed. Does it necessarily entail greater cooperation among developing countries in the spheres of industrialization and trade?

#### **B. The role of lead (pivotal) countries**

23. Lead or pivotal countries can be defined as developing countries which, by virtue of their capacities and experience are positioned to play a "lead" role in the promotion and application of technical cooperation activities through South-South cooperation. These activities are in particular those that are capable of withstanding competitive pressures for efficiency gains and surviving the new industrial and trade realities.

24. What are the contours and tenets of an enabling environment that can facilitate the role of the pivotal countries?

### **C. Trade liberalization and poverty reduction**

25. In developing countries tariff revenue accounts for 10-20 per cent of government revenue. Will the loss of revenue due to tariff reductions be duly compensated for by productivity and employment gains in a liberalized trading environment?

26. Will developing countries lose or gain from trade liberalization in important sectors, the development of which contributes to poverty reduction? Does the sequencing of trade liberalization matter?

### **V. A JOINT RESPONSE TO POVERTY REDUCTION**

27. The formidable challenge of developing countries is to create sustainable sources of livelihoods in an internationally competitive environment and thereby contribute to the achievement of the MDGs. Can it be done more effectively by a cohesive South-South response?

#### **A. Income and employment creation**

28. The emerging pattern of production may demand free mobility of labour with enhanced skills, knowledge and adaptive capabilities. But free movement of labour across manufacturing activities hinges on a number of factors. Knowledge and skill flows are facilitated by worker mobility to industries that are similar to their industry of origin (Saxenian, AnnaLee, 1994).

29. It is generally believed that in a high employment and high growth environment workers with accumulated knowledge and skills can usefully be deployed from declining industries to rising industries, leading to the optimal allocation of labour. In contrast, in high unemployment and slow growth environment, even if workers have accumulated knowledge and skills, there may be limited labour mobility and employment.

30. A distinction needs to be drawn between growth industries and livelihood industries. Growth industries are those, which benefit from new sources of dynamic industrial growth. Livelihood industries are those, which assure sustainable sources of livelihoods for the rural poor. Can South-South cooperation provide a strong strategic and programmatic focus on the effective development of both dynamic industries and livelihood industries?

#### **B. Protecting/improving the livelihoods of primary producers**

31. Producers of primary commodities often suffer from the low prices paid to them. Can South-South trade in semi-processed goods for further processing, and in partially processed goods for processing into final

agro-industry related products, be translated into enhanced income to primary producers? Will intra-South value chain development contribute significantly to poverty reduction? On what basis can promising products for intra-South value chains be identified?

### **C. Grass-roots innovations and rural livelihoods**

32. Better quality of rural life entails enhancing agricultural productive capacities, promoting agro-processing for income creation and employment generation, reducing post harvest losses, and using local sources of renewable energy as potential livelihood growth impulses. Can all these be triggered by South-South networks for grass-roots innovations, which have proved to be effective in rekindling rural sources of growth across a number of developing countries?

### **D. The role of multilateral assistance**

33. Can South-South cooperation in industrial development and trade be more meaningful and practical if new knowledge is generated by universities, exploited by laboratories and institutions, and commercialized by dynamic firms in an interactive manner, with a practical accent on poverty reduction? To this end, can multilateral assistance play a catalytic role in creating industrial innovation systems in the South?

### **VI. EXCHANGE OF EXPERIENCE AND KNOW-HOW**

34. Developing countries stand to gain from exchanging experience and know-how, which encompass new sources of dynamic growth.

#### **A. Commercializing existing research findings**

35. Commercializing existing research findings is a formidable task for many developing countries. For example, a number of research institutions across developing countries have discovered the medicinal uses of aromatic and medicinal plants, but are unable to commercialize those findings. The commercialization of both product and process innovations could make a major breakthrough. Can South-South cooperation facilitate the process?

#### **B. Free trade in consultancy and technology-related services**

36. While it is relatively easy to acquire modern technologies by paying appropriate fees and costs, it is very difficult to maintain them without related service providers. It is essential that consultancy and technology-related service providers be allowed to move freely, with limited restrictions, across developing countries.

37. How can technical manpower and technology-related service providers be attracted? Should all barriers to skill mobility be eliminated? What have been the lessons learned from the experience of the industrialized countries on these issues?

### C. The use of IT for exchange of experience and know-how

38. Viable approaches for the use of information and communication technology to produce a variety of downstream products with significant improvements in processing, design and marketing will need to be explored within the framework of South-South cooperation. Can latecomers in the sphere of industrialization leapfrog and edge into a higher degree of industrialization through the use of IT?

39. Efficient production systems and innovation encompass, among other things, new product development time, production lead time, flexibility in responding to changes in demand volume and variety, quality, price, responsiveness to customer delivery requirements, and use of state-of-the-art materials, processes and technologies. In every case, the ability of firms to respond to these factors depends critically on the efficient production systems and innovation. How can information and communication technologies enable firms in developing countries to learn best practice in production systems from each other within the framework of South-South cooperation?

## VII. SUMMARY

40. Growth is an important poverty-reducing force, and trade is the engine of growth. Accelerating the pace of South-South cooperation-led industrialization and trade for poverty reduction hinges largely on determined efforts to address the above issues within the framework of a common agenda to use manufacturing, value chain and trade as dynamic forces of poverty reduction.

41. An agenda for action could deal with all generic issues related to enhancing productive capacities in trade, technology and investment flows and exchange of experience. A joint response to poverty reduction should have a priority focus on:

- (a) Livelihood industry development;
- (b) Use of renewable sources of energy as rural growth impulses;
- (c) Transfer of technology for low-cost housing and basic infrastructure;
- (d) Commercialization of research findings; and

(e) Linking value chain development with dynamic small and medium enterprises that serve as potential sources of income creation and employment generation.

42. South-South cooperation cannot take place in isolation, and global connectivity is a prerequisite. In making South-South cooperation complementary to North-South cooperation, how can multilateral assistance contribute effectively to bridge the missing links?

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