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South-South cooperation can help re-balance global economy

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Geneva, 15 Apr (Kanaga Raja) -- A realistic South-South cooperation agenda can help re-balance the world economy, the United Nations Conference on Trade and Development (UNCTAD) has recommended in its policy brief titled "South-South integration is key to rebalancing the global economy."

The policy brief says that the world economy is seriously out of kilter on account of the fact that over the past 30 years, finance-led globalization has distorted developments in the real economy, triggered a series of boom-bust cycles and fuelled the most regressive distribution of income in the modern era.

"These trends culminated in a financial meltdown spreading out from the advanced countries in late 2008, and producing the most severe worldwide slowdown since 1945. Imbalances continue to haunt the recovery process, which has been slow and erratic especially in the most heavily financialised and indebted economies, and in the most vulnerable countries in the South, where the economic shocks have been compounded by food and energy insecurity and climate variability," UNCTAD said.

According to the policy brief, if history is any guide, the adjustment process in key advanced economies will be prolonged and there is a danger that, without a change in policy direction, slow growth, high unemployment and expanding pockets of deprivation will become a more permanent feature of these economies with damaging global implications, including the threat of protectionism.

"Fiscal pressures may also lead the major donor countries to further reduce their aid disbursements. If this comes to pass, the markets, resources and foreign exchange needed to support the growth of the South may not be found in the North," it adds.

On the brighter side, said UNCTAD, solid economic performance in Brazil, China and India, which were less impacted by the global crisis than most advanced economies, has fuelled speculation that the South can drive global growth, and that these economies can introduce a new global agenda around foreign trade, investment and aid.

China, for example, is emerging from the crisis as a leading actor in international financial markets: the country has become the largest holder of United States government securities, and it controls 29 per cent of global reserves.

[A news report in "The Hindu" dated 14 April said that the BRICS countries (comprising Brazil, Russia, India, China and new member South Africa), at their summit in Sanya, China, signed an agreement to use local currencies, and not the US Dollar, when granting credit among each other. The Hindu cited Indian Prime Minister Manmohan Singh as saying at a news conference on 14 April:

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"Our designated banks have signed a framework agreement on financial cooperation, which envisages grant of credit in local currencies and cooperation in capital markets and other financial services."

[The Hindu report said that the BRICS summit also highlighted the issue of an international reserve currency system (one that is not based on the US dollar), "but officials pointed out that the road was long and required extensive deliberations among all the major countries besides the BRICS grouping". On this issue, The Hindu report cited a BRICS summit joint declaration as saying: "Recognizing that the international financial crisis has exposed the inadequacies and deficiencies of the existing international monetary and financial system, we support the reform and improvement of the international monetary system, with a broad-based international reserve currency system providing stability and certainty."]

Faster growth and increasing economic sophistication in the South has shifted the axis on which the global economy turns, the UNCTAD paper notes, pointing out, for example, that the GDP of the seven largest developing economies, adjusted for purchasing power parities, has grown from 10.5 per cent of the GDP of the OECD (Organization for Economic Cooperation and Development) member countries in 1980 to 21 per cent in 2010.

"Between 1996 and 2009, South-South trade grew, on average, 12 per cent per year (50 per cent faster than North-South trade), and it now accounts for 20 per cent of global trade. South-South FDI has also become increasingly relevant; it has grown 20 per cent per annum between 1996 and 2009, albeit from a low base, and now accounts for 10 per cent of total FDI flows."

Unlike the period of convergence during the 1970s, which involved rapid but uncoordinated growth across several economies, the paper says that the ongoing restructuring of the global economy has been driven by the largest developing countries, and has been articulated across other economies in the South.

"The world economy has become irreversibly more complex and more integrated: we have moved beyond the 'early' neoliberal globalization, driven by the North, and entered a new phase of globalization in which the South plays a determining and dynamic role. The recent news that China is now the world's second largest economy, and may catch up with the US within a decade, is symbolic of the depth and significance of this shift."

UNCTAD however cautions that despite these fundamental changes, talk of a "switch-over" in global growth dynamics is premature. In per capita terms, even the largest Southern economies are likely to remain considerably poorer than the US, EU and Japan for decades, and few Southern economies have managed to escape from the global asymmetry which renders them vulnerable to fluctuations and shocks in the North.

It attributed this to their differential patterns of exports, capital flows and ownership of productive assets, commodity dependence, and the lack of industrial dynamic in many lower income countries.

Moreover, the paper asserts, it is likely that several economies may have fallen into a "middle income trap" which can seriously slow down their further advance. There is also a tendency for

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over-optimistic prognostications of the "rise of the South" to conflate the entire region with the dynamism, the trading patterns and the economic uniqueness of China.

"Hasty speculations about the ability of the South to drive the world economy could also shift attention away from the responsibility of the advanced countries for driving the recovery and rebalancing the global economy in a more inclusive and sustainable direction, preserving stability and securing a fair distribution of wealth between countries and across regions."

"There can be no dispute that the current crisis is due to a systemic, policy-driven environment of financialisation and speculation originating in the North, which was, often, foisted upon reluctant developing countries through misguided advice and aid conditionality. The crisis must be resolved primarily through intervention at those levels, rather than through stimuli generated in the South," the paper stresses.

Moreover, while faster growth in the South has helped to shift global wealth distribution, there has also been a significant variation of performance within the South. Most LDCs (Least Developed Countries) have grown more slowly than the leading economies, and these countries accounted for less than one per cent of world GDP in 2009.

Despite the recent growth of Brazil, Latin America's share of global output has remained unchanged since the 1970s. In addition, there has been a significant deterioration in the distribution of income in numerous countries, including in China.

In sum, the paper observes, although faster growth in the South points to global convergence at an aggregate level, this process includes a considerable diversity of experiences, and it has fostered heterogeneity and even disappointment in many countries.

"A realistic South-South cooperation agenda can help to rebalance the world economy at two levels. First, it can support multilateral arrangements channelling into productive use resources that are currently trapped in speculative financial circuits. Second, it can promote more even, dense and egalitarian global trading relations, which will help developing countries escape from poverty traps."

The emergence of this trading pattern, underpinned by deeper regional trade relationships, builds upon the achievements of the UNCTAD-sponsored GSTP (Global System of Trade Preferences Among Developing Countries) negotiations.

It can be enhanced by a global commitment to the development of employment, technology and skill-intensive productive capacities in the South, particularly in manufacturing, the paper suggests.

These are essential underpinnings for a "high road" of (converging) development based on increasing sophistication of production and South-South integration, supported by regional policy coordination, global trade and investment agreements and the expansion of regional infrastructure.

UNCTAD however said that these policy choices will place a heavy burden upon policy-makers in the South, especially in the most resource-constrained LDCs.

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"Confronting this task will require more than individual determination to succeed: it also depends upon bold leadership, focussed collective initiatives and a more stable and inclusive model of global interdependence."

This new stage of globalization, UNCTAD said, should transcend the current pattern of financial over-expansion and speculation, and foster a better regulated, more equal, and more resilient world economy.

The transition to a new model of interdependence, the paper emphasizes, must recognise the structural differences in South-South trade compared to North-South trade, as well as in South-South FDI (Foreign Direct Investment) compared to North-South FDI.

For example, North-South economic relations are usually narrowly market-driven, and the ensuing economic asymmetries are reproduced by the power asymmetries between these states. In contrast, South-South economic relations are, generally, not purely or primarily market-driven, and relations between Southern states and firms hold out the potential for more constructive integration.

"In order to resource this transition, it is centrally important that Southern balance of payments surpluses are recycled within the South. This can take place through regional and national development banks but more innovative mechanisms may also be needed."

The paper explains that recycling Southern surpluses within the South could help to stabilize the global economy, remove the financial and balance-of-payments constraints to growth in the poor countries, build productive capacities in line with national development priorities, support the expansion of domestic policy space, and reinforce the links between economies in the South.

"Strengthening South-South economic and political relations can give a significant contribution towards global convergence within a development-led process of globalization. It can also foster a less financialised, better regulated and more resilient world economy."

Despite the appeal of this alternative model of globalization, UNCTAD cautioned that there are no guarantees that a more balanced global growth pattern will secure the elimination of poverty, decent labour standards or the incremental equalisation of the distribution of income and assets within countries. In this respect, there is the greatest scope for internal variation, and the greatest need for policy direction.

"Development-led globalization depends centrally on the flourishing of national development paths across all the countries of the South, and, in order to implement the required macroeconomic, financial, trade and industrial policies, developing country governments need additional policy space," the paper says, noting that policy space is constructed domestically, and it responds to internal imperatives.

In order to support the exchange of experiences especially around issues where the international community has fallen short, such as industrial policy, UNCTAD said that it is proposing to establish a network of policy-makers across the South.

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According to the paper, the agenda of development-led globalization is evocative of firmly-rounded UNCTAD themes around global re-balancing, economic diversification, inclusiveness, and the need for policy space.

If South-South trade and financial relations can help to dislocate the most severe constraints to growth in the poorest economies, the ongoing re-balancing of the world economy can leverage the construction of a more sustainable and socially legitimate pattern of development.

"This new modality of inclusive, cooperative and South-centred global development is sorely needed by a world distorted by a regressive model of growth launched over three decades ago, and currently mired in a crisis which victimises disproportionately the poor, and the poorest countries," the paper concludes.