SOUTH-SOUTH ECONOMIC COOPERATION: MOTIVES, PROBLEMS AND POSSIBILITIES

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December 2013

Over the last fifty years or so, and especially in the last decade or so, calls for increases in South-South economic cooperation and interaction have intensified with a view to promoting Southern development. This paper examines the main motives behind this call and the analytical approaches underlying them, discusses whether recent trends in South-South interaction have fulfilled the expectations of its advocates, and explores the possibilities that exist for increasing such cooperation and interaction for Southern development.

Prepared for presentation at an URPE session on South-South economic integration and development at the ASSA meetings in Philadelphia, January 4, 2014.

1. Introduction

Calls for greater South-South economic cooperation leading to more economic interaction between less-developed countries (which are collectively called the South) in trade, capital movements, technology transfers, and other spheres, have a fairly long history. Ever since the independence of many Southern countries, and the growing recognition that trade with more-developed countries, the North, South-South trade was advocated by many scholars and policymakers focused on Southern development. Recently there have been renewed calls for greater South-South cooperation and interaction, especially through the promotion of South-South trade and capital flows (see, for instance, Asian Development Bank, 2011, Thrasher and Najam, 2012).

A great deal of effort has been expended by Southern countries to increase South-South interaction, with Southern governments playing an important role in promoting regional integration within the South. South-South interaction has also grown significantly. Consider South trade, for instance. The share of Southern exports to the South increased from 38 per cent to 56 per cent from 1990-91 and 2010-11, while that to the North fell from 82 per cent to 42 per cent over the same period. However, South-South trade remains a small portion of world trade. In 2005, UNCTAD data shows that South-South trade as a percentage of global trade was 15 per cent, compared to over 50 per cent for North-North trade and 35 per cent for North-South trade, with much of the South-South trade being within the more emerging nations of the South. By 2009 South-South trade had increased to only 16.9 per cent. South-South capital flows, including foreign direct investment, while small relative to global totals, has also increased at rapid rates in recent years.

This paper takes some steps towards examining whether the increase in South-South cooperation been able to increase interaction in a way that has been conducive to overall Southern development. To address this question it is useful to examine the main motives behind the calls for increasing South-South cooperation and integration and to examine the pattern of South-South integration. After examining these

two issues in sections 2 and 3, section 4 will discuss the problems and prospects of fostering Southern development through South-South cooperation.

2. Motivations, analytical approaches and policies

The calls for increasing South-South interaction are based on a number of different, though not completely unrelated motivations. This section will distinguish between five different motivations, examine their analytical foundations and explore their policy implications.

2.1 Motivations

Although different motivations have been emphasized at different points in time, we will confine ourselves to a brief discussion of the five motivations rather than examining their historical evolution.

1. One motivation arises from the claim that North-South interaction through trade, capital flows and other channels often results in problems for the South, and that South-South interactions can avoid some of these problems. These problems can arise in a number of spheres of interaction (see, for instance, Prebisch, 1950, Singer, 1950). Regarding trade, the North-South trade often involves the North exports goods that are technologically sophisticated and/or with high income elasticities of demand, while the South exports technologically less sophisticated goods and even primary goods requiring very little or no processing, and goods with low income elasticities of demand. The difference in technological sophistication is likely to speed up technological change due to learning by doing in the North, and slow it down in the South, resulting in uneven development, and possibly a slowdown in economic growth in the South (see Dutt, 1990). The difference in income elasticities in demand implies either a deterioration of the Southern terms trade, uneven development, or an expansion of Southern indebtedness (see Dutt, 2003). Moreover, a pattern of trade in which the North exports manufactured goods and imports primary products from the South – what has sometimes been called the colonial pattern of trade – has adverse terms of trade effects for the South in terms of declining trends and volatility and environmental effects, in addition to low technological spinoff effects. The expectation is that South-South trade would involve

more "similar" products both in the sense of technological sophistication in production and hence as generators of learning by doing and technological change and in the sense of similar income elasticities of demand. Regarding foreign direct investment, flows from the North to countries of the South may bring in inappropriate technology, or not result in significant technology transfers because of the large difference in the technology of the North and the ability of the South to absorb it, given its technological capability. South-South foreign direct investment is likely to bring in more appropriate technology and technology that is more easily adopted and diffused. Moreover, for many Southern countries that are unable to attract Northern FDI, the South could be an important source for such investment. More generally, South-South technology transfers would be more effective and more easily absorbed by Southern countries for which Northern technology may be inaccessible or inappropriate.

These arguments, of course, have their critics who argue that Southern development is best served by exporting according to comparative advantage rather than in seeking to export technologically sophisticated goods and goods with high income elasticities of demand, and that the South will gain most from technology transfers from the North, since the North offers "cutting edge" technology. There is, however, a fair amount of empirical work which suggests that the concerned raised by the critics of North-South interactions do have a point. For instance, Hausmann, Hwang and Rodrik (2007) calculate an index of a country's "productivity" level of exports by measuring how weighted its exports are towards goods which are exported by high-income countries. They show that countries with a higher productivity level of exports by this measure – presumably representing a more high-skilled and high-tech set of goods – grow faster. Dutt (2003) provides some evidence that exports from the North to the South have a higher income elasticity of demand than do exports from the South to the North, and spells out its implications for uneven development due to North-South trade.

2. A second motivation, which has been emphasized especially in period in which the North is experiencing slow growth, is that the slowing down of Northern engine of global growth requires the South to find growth engines itself, which requires the promotion of South-South interaction to link other Southern economies with the Southern engines. Lewis (1980) raised the issue more than thirty years ago when, as now, the growth rate of the North was low and the prospects of a strong recovery seemed dim. Lewis argued that it was possible for parts of the South which could sustain Southern growth –he mentioned India as a possibility even though at the time India's growth rate was low, but did not refer to China, since China's growth had just started to accelerate after the reforms were underway – even if the North did not recover its growth. Compared to the late 1970s and early 1980s growth did, however, pick up in the North, although, despite the strong performance of China and some other countries like India, which have a high weight in the South on account of their size, there has been much talk of North-South divergence (see, for instance, Milanovic, 2005). However, they are relevant again, because of the current Northern slowdown which is more severe than when Lewis was writing and because there are some Southern countries, especially China and India, that are experiencing high rates of growth.

It should be recognized that the engine of growth argument has had its share of critics. Reidel (1984) criticized Lewis, arguing that Lewis's argument required an engine of growth for the South, whereas, especially because many Southern countries had diversified out of primary production, individual Southern countries were not constrained in terms of their growth by overall Northern growth, since they could gain market shares in the North without requiring the North to grow (significantly). So, one can ask whether, even if these Southern countries do not serve as engines of growth, can more countries of the South lift themselves up with suitable policies of their own, because some seem to have done so? Reidel, in fact, blamed low growth in the South to failed import substitution policies and failure to adopt outward oriented policies,

rather than to some mechanical dependence on an engine of growth. Reidel's argument, however, is problematic for a number of reasons, some of which have a direct bearing on whether an external engine can promote growth in the South. Although he is right to argue that some countries of the South, such as the East Asian NICs, have followed suitable policies that have helped them to grow and industrialize. However, his identification of what precisely these policies is inaccurate, since the countries that did successfully promote export growth were those that successfully engaged in successful import substitution in those sectors that subsequently experienced export growth. He is also right to argue that there is no mechanical relationship between growth in the North and that in the South. However, it is difficult to argue that more robust growth in external markets does not create greater opportunities for growth in the South as a whole. Nor is it the case that the success of the NICs was entirely due to domestic policies, since there is much evidence to suggest that, because of geopolitical reasons, especially South Korea's and Taiwan's close proximity to the Soviet Union, North Korea and China, the US provided many economic benefits to them, especially in terms of market access, foreign aid, toleration of their import barriers, and state support for US firms seeking to invest in them (see Wade, 1992, p. 312). Of course, other countries have also been provided with benefits, but they have been unable to take advantage of them in the way the East Asian NICs did; domestic policy and its underlying political economy are of course of much importance.

If one accepts the Lewis argument, the question arises whether some fast-growing Southern countries collectively replace the North as an engine of growth and development for the rest of the South? Can they grow in a self-sustained manner even without significant Northern growth, and can their growth bring about convergent growth in the world economy?

3. A third motivation is one of reducing trade barriers between countries globally and seeks to reduce trade barriers between Southern economies as a part of this process. There are two different variants of this approach. The first takes into account the political hurdles involving the process of global trade liberalization and seeks to reduce trade barriers between particular trading areas, such as countries within the South, which may face fewer hurdles. The second takes the view that trade restrictions on South-South trade are typically higher than those on North-South trade or North-North trade, which makes it particularly important to reduce barriers to South-South trade, both to reduce global trade barriers and to encourage South-South trade in particular. For instance, average tariffs faced by the South when exporting to the North were 2.5 per cent compared to 6.1 when exporting to the South, in 2004 (ADB, 2011, 50).

This motivation is based on a number of assumptions, the first of which is that trade liberalization is a good thing for all parties. To the extent that this is not necessarily the case, especially for less-developed countries that are specialized in goods with low levels of technological sophistication in production and with low income elasticities of demand (see Viner, 1950), this assumption is unjustified. Moreover, it is possible that the creation of free trade areas or zones of trade liberalization can reduce "welfare" if the gains from trade theorems hold, because it diverts trade from low cost to higher cost area rather than creating trade by expanding trade in the gains from trade due to differences in comparative costs is high. Presumably this criticism does not apply to trade liberalization between Southern economies for which trade restrictions are higher than the restrictions on North-South and North-North trade. There is also the political economy argument which examines whether making preferential trade agreements is likely to result in greater political support for free trade, paving way for greater multilateral trade liberalization, or whether it divides the world into trading blocs in a haphazard and contradictory way, weakening the chances of globalized free trade. While some take the former view, the second view has been forcefully argued by Bhagwati (2008) who views preferential trade agreements as termites in the global trading system. Such agreements are argued to create a spaghetti-bowl pattern of trading

arrangements that create a great deal of confusion for countries' trading regimes and tend to obstruct trade. Bhagwati is especially critical of the fact that preferential trading agreements involving countries of the north, such as the US, make Southern countries accept conditions such as those involving labor and environment conditions that can be seen as being protectionist from the point of view of the North. One should, of course, distinguish between preferential trade agreements that involve the North and those that involve countries of the South and may, in fact, reduce the power of the North.

4. A fourth motivation is to increase cooperation to increase mutual gains because different Southern countries can benefit from the existence of certain things to which several Southern countries can contribute. Typical spheres of such mutual gains emphasized in the literature on South-South cooperation include the construction of infrastructure, the growth of knowledge, and the use of international means of payments to overcome dependence on currencies like the dollar for trade and investment purposes and to reduce the need for holding high levels of reserves of such currencies. The idea can be related to neoclassical economists' notion of the public good, which refers to goods in which there is non-rivalry in use (in the sense that use by one user does not detract from the ability to use for some other user) and non-excludability (according to which users cannot be excluded by the supplier). Sandler (2013) examines different types of public goods, that is, national public goods (where benefits accrue within a country), regional public goods (where benefits accrue beyond a country, to a region in which a country belongs), trans-regional public goods (where benefits accrue to countries in two or more regions), and global public goods (where benefits accrue to all countries and people). For South-South interactions regional and trans-regional public goods are particularly relevant. Obvious examples, which Sandler discusses, are social overhead capital or infrastructure, in the case of which benefits accrue not only within a country (that is, as national public goods), but also regionally, promoting trade and other flows between countries in a region, and knowledge on how to deal with, for instance, infectious diseases, which can be a trans-regional public good for countries in which such diseases occur in different countries (because of low levels of per capita income) in different parts of the world.

Sandler's discussion takes us beyond vacuous discussions of public goods that do not take into account the fact that benefits do not accrue to all people and countries, and that do not examine differences in what he calls aggregation technology (that is, where individual provisions are aggregated to determine the amount of the public good, for instance, as simple totals, or in terms of weak links), but does not address a number of issues. First, what happens in one country in the South can affect other countries in the South, especially ones in the same region, in ways that do not invoke the normal idea of public goods or even externalities? For instance, countries that undergo a financial crisis or a civil war can harm neighboring countries through contagion effects or due to trade and factor movements, and economic growth in one country can affect neighbors by increasing the demand for their products or by reducing the demand for certain products due to competition, given their greater propensity to trade with each other due to proximity. Since links of these kinds are ubiquitous, we may exclude other links that work through trade, capital flows, and technology transfers, which we have already discussed, and include all other links in this category. Second, public goods can offer benefits in general, but the precise way in which they are provided can have different consequences, including negative ones. At the national or regional level, infrastructure can be provided in ways that benefit the national economy of a particular country, but can, in some cases, result in patterns of movements of goods and services that are inimical to growth (for instance, if transport links favor the movement of goods from raw-material producing areas to ports as was the case in the colonial period in colonies such as India, rather than between areas that increase the domestic demand for goods), and at the global level a global hegemon can increase global trade by helping to provide a coordinated global trading system and an international currency or payments system, but the way in which it does so can lead to the imposition of free trade on countries for which it has a negative effect and to balance of payments problems for deficit countries. In such cases, regional agreements can overcome these problems by establishing regional trading rules and international payments mechanisms. Third, countries of the South can cooperate and obtain mutual benefit by engaging in cross-issue cooperation. For instance, one country can provide resources to build infrastructure to another, in return for which it the latter can provide raw materials to the former.

5. A final motivation is to increase cohesion and solidarity within the South to alter the balance of power between the North and the South. As has been emphasized very many analysts, the North has had been able to use its power to disproportionately affect the outcome of their interactions, for instance, in trade and factor movements between them, as well as to affect the rules of the game in the global economic system, for instance in the activities of the International Monetary Fund, the World Bank and the World Trade Organizations. This power is based on: production and financial factors that have been used to provide economic carrots and sticks by providing foreign aid and market access; knowledge power, due to their technological and cultural/educational leadership; the relatively small number of countries of the North, the leadership provided by the US, European Union and Japan, and organizations such as the OECD; and, above all the military power of the US and its allies. In contrast, the countries of the South only have strength in numbers, but that strength proves to be a liability in one considers the problem of the difficulty of collective action in overcoming free-rider problems in large groups as emphasized by Olson (1965), and by the diversity of interests of heterogeneous Southern countries, with their differences in levels of technological and economic development, size, natural resource endowments and in terms of history and culture. In this context it can be argued that closer relations within the South can pave the way towards increasing cohesion and solidarity, directly by engaging with each other more and indirectly by deepening economic and other interactions between them which, to the extent that these interactions make their share common interests in benefiting from them. Of course, like liberal peace theory, this presupposes that the interactions are actually perceived to be mutually beneficial.

2.2 Analytical approaches and policies

These different motivations are linked to different analytical approaches concerned with international economic relations. It is useful to distinguish some of these major approaches.

1. Traditional neoclassical trade theory assumes that the structures of all economies is similar in that constant returns to scale and perfect competition prevail in all sectors and with complete price flexibility, all factors are fully utilized. The Heckscher-Ohlin-Samuelson and

other related approaches which assume that factors are immobile internationally typically emphasize the gains from trade between countries due to specialization according to comparative advantage, that is, with rich countries specializing in capital-intensive or skill-intensive goods and poor countries in labor-intensive or less skill-intensive good, given the abundance of capital and skilled labor in the North and that of labor, especially low-skilled labor in the South. While these models typically emphasize the gains from trade and benefits of trade liberalization, with some additional assumptions they are not inconsistent with some of the results we have emphasized in the preceding discussion. First, with a higher income elasticity of the good exported by the North than the one exported by the South, the approach implies a deterioration of the Southern terms of trade and with this affecting the patterns of factor accumulation with divergent growth patterns (Findlay, 1981). Second, if it is assumed that returns to factors affect their rates of accumulation, trade liberalization can lead to divergent growth patterns: for instance, if it increases the rental rate on capital in the North and reduces it in the South, or raises the skill-premium in the North and reduces it in the South, it will speed up physical and human capital accumulation in the North and reduce it in the South (see, for instance, Stokey, 1991). Third, if the models introduce a variety of "distortions" into them, even the gains from trade are not guaranteed. Thus, if positive production externalities are present in sectors in which the North specializes but are absent in the sectors in which the South specializes, the North can gain from trade while the South may lose.[1] The results are similar to those in which there is uneven development due to induced technological change in the Northern good. Thus, despite the strong assumptions made in mainstream trade theory of perfect competition and full employment, many of the results of other models in terms of uneven development patterns can be reproduced in them.

2. New trade theories which emerged in the late 1970s and 1980s focused on intra-industry trade, in which trading partners traded products from the same industry with each other (see, for instance, Krugman, 1979, Lancaster, 1980). The assumptions of mainstream trade theory of constant returns to scale, a homogeneous product in each industry and perfect competition were changed to allow for increasing returns to scale, product differentiation and various forms of imperfect competition. These differences explain trade between countries which are very similar in terms of factor endowments and technology, and provide some new arguments for trade liberalization, that is, the gains from benefiting from production at a larger scale and gains due to increasing product variety for consumers and for producers (in the case of intermediate goods). This approach was initially applied to understand North-North trade, while traditional mainstream trade theory was considered to be relevant for most of North-South trade; nevertheless, the South could benefit from greater intra-industry North-North trade by having access to cheaper Northern goods produced with lower costs and from the availability of a greater variety of consumer goods. With the graduation of many Southern economies to the production of manufactured goods, intra-industry trade has become relevant for the South as well. If we use new trade theory models to analyze at some North-South trade, these models can imply that the South can benefit due to specialization and increasing returns, but this is if they are able to compete with Northern producers. If they cannot, these theories imply that they can from trade restrictions, by imposing trading restrictions to reduce imports, reap the advantages of scale economies by increasing production, and then exporting the same goods (see Krugman, 1984). The result is similar to the models of more than one sector discussed earlier in which trade can slow down technological change in the South by making it reduce the production of skill-intensive goods.

3. Dependency and structuralist approaches (see Palma, 2008a, 2008b), which did not normally use formal models, emphasize the implications of the expansion of trade and other kinds of interaction between the North and South given the asymmetric structures of the North and South and the nature of North-South relations. Two aspects of the approach can be distinguished. The first relates to the relationship between the North and the South. They argued that due to a variety of mechanisms the South was condemned to remain in its underdeveloped status. The mechanisms include Southern specialization in primary products and simple manufactured goods which prevent it from experiencing technological improvements, low income elasticities of demand, and surplus transfers by transnational corporations in the form of profits without compensating benefits to the South in the form of linkages due to the enclave nature of foreign-owned sectors. Although some structuralist and other analysts saw import-substituting industrialization under state supervision as a way out of this dependent underdeveloped status, many others argued that such an escape was not possible, and even saw the rise of the NICs as a case of dependent and unsustainable development. While our account is quite consistent with the development of the NICs, the analytical structure we have outlined earlier takes into account many of the problems that have been emphasized by the dependency and structuralist writers – in fact many of the North-South models were developed to formalize some of these mechanisms to point out the difficulties of breaking out of uneven development patterns.[2] The second aspect of the approach is that internal structures of particular countries are likely to be different, and such differences will affect the development patterns of these countries, both because of their internal dynamics and also because of the effects of these structures on their external economic interactions. In contrast with the view of mainstream economics (for instance, as assumed in the Heckscher-Ohlin-Samuelson approach to trade

theory) that resources, including labor, were fully utilized, the structuralist approach took into account the existence of unemployment or surplus labor along Marxian lines, the lack of aggregate demand along Keynes-Kalecki lines, and foreign exchange shortages (see Taylor, 1983. Dutt, 1990).

4. The flying geese approach to development, was developed by the Japanese economist Akamatsu (1961) to explain the growth of late developers like Japan and which spread to other neighboring the NICs, and then to other countries.[3] According to this approach, the Japanese economy is seen as first importing simple Northern consumer goods, then building the capacity to produce these goods domestically with government support, then learning to produce these better and exporting them, then switching to a similar sequence for more technologically sophisticated capital goods. After Japan developed in this manner, its wage increased, and Japanese firms found it profitable to shift production of simpler goods to neighboring Southern economies with lower wages, bringing in capital and technology. As the technological capability of these countries improved these countries also graduated to other more sophisticated goods, then spreading production to a third tier of Southern countries, and so on, while the earlier developers switched production to increasingly more technologically-sophisticated goods. Akamatsu's ideas were derived from examining data on imports, production, and exports of different goods in Japan and other countries, finding that the time pattern of each followed an inverse V-shape, one following the other which is one reason why the approach is called the flying geese approach (the other reason being that different countries are seen as flying in the geese formation, with Japan as the lead goose). Akamatsu discussed the sequence from consumer goods to capital goods, as well as the sequence involving goods involving higher levels of technological sophistication. Kojima (2000) discusses how he and others adopted

Akamatsu's approach and built on it. Kojima, for instance, emphasized the role of foreign direct investment, in which transnational corporations from the lead goose invested in the next tier of countries in a pro-trade oriented way, that is, which encouraged the exports of technologically simpler goods from the follower countries to the lead country and the exports of technologically more sophisticated goods from the lead country to the follower countries, contrasting this pattern to the US pattern that was tariff jumping and anti-trade oriented. Kojima also developed the idea of agreed specialization, according to which different Southern countries agreed to specialize in the production of different manufactured goods to take advantage of scale economies. He argues that this approach would be helpful in reducing trade conflicts and promoting integration when the different Southern countries became more alike in terms of resources and technology.

The flying geese approach has some similarities with the product-life-cycle approach (see Vernon, 1966) which, however, focuses more on products rather than the spread of development to countries, and emphasizes the role of standardization of products which allows the South to produce older goods at low wages which is not possible during the period of the pioneering stage of production development. Some Japanese scholars have used the flying geese approach as a paradigm for North-South interaction as a whole, thinking of different Northern countries as the leading goose, which can bring along a larger flock provided they follow the Japanese pattern of foreign investment which promotes trade (see Kojima, 2000). This approach provides some support to the view that development can spread from newly-emerging Southern countries to other countries of the South mentioned earlier. Some contributors to the approach also argued that it was possible for there to be a boomerang effect in which more recent developers could export advanced goods to the early developers, which could explain the dynamics of the rise and fall of economic powers (Shinohara, 1996).

5. The next approach is the global or international production networks or the global value chains approach, in which trade occurs within firms or between networked producers, but in which components of final goods and services related to them are produced at a variety of locations, so that it is impossible to identify a good with a particular country or region. This approach involves the recognition of an important empirical feature of trade, rather than an analytical framework,[4] let alone a theoretical model. How taking into account production networks affects the implications of North-South trade and possibilities of Southern development is not very clear, however. It can be argued that the incorporation of Southern countries into production networks is beneficial for their development because it allows them to become more involved in the production of technologically sophisticated goods, increase their export capabilities by obtaining foreign markets for their components, and increasing employment. However, it can also be argued that they may deny Southern countries the benefits of skill acquisition because they are involved in the assembly of inputs rather than producing technologically more sophisticated products and because they are unable to gain mastery over the entire production process since they are involved with only a part of it, because they increase imports as well as exports and therefore do not have a significant effect on foreign exchange receipts, and because they result in few spillovers to other sectors since they are more tied to the outside world. Recognition of the importance of production networks has led to the criticism of aspects of the flying geese theory on the grounds that unlike some of the earlier tier NICs, later participants in the process failed to benefit from technological development because they were confined to low-technology intensive assembly of seemingly technology intensive products (see Bernard and Ravenhill, 1995).

6. While the approaches discussed so far focus on narrowly-defined economic issues, a broader political economy approach is useful for understanding power relations at the global level and also to

understand the dynamics of policy change and policy implementation at the domestic level. There are various approaches to political economy in the relevant literatures and it is beyond the scope of this paper to examine them here. We simply note that some of the motivations, especially the final one discussed earlier, require a broader political economy approach that emphasizes the role of power in national and global political economies.

In terms of policies that can be pursued to increase South-South interaction, much of neoclassical theory assumes that in the absence of government-imposed barriers to trade and factor movements, free markets will encourage market-based transactions. Thus, the main policy approach emphasized by mainstream economists is to encourage trade liberalization between Southern countries. However, other approaches take into account other barriers to the expansion of economic interactions, which make possible more active government policy to promote interaction, by providing credit, quality guarantees, by increasing access to information about markets, among other things. Consider the case of financing trade, for instance. Demir and Dahi (2011) find that financial development in the South increases the share of total and technology-and-skill-intensive manufactured exports in GDP, while the same cannot be expected for South-North exports. This suggests either that South-South exports requires more financing than South-North exports (with the North apparently providing the necessary financing) or that the needs of finance are greater for South-South exports on account of their greater technology and skill intensity. Either way, there is scope for positive effects of South-South trade, both increasing it and increasing the skill-and technology intensity of exports for the South. Although it is not impossible for private firms to involve themselves in what we have called cross-issue interaction (that is, for instance, building infrastructure and setting up branches of transnational corporations to increase imports) or those involving externalities, state policy can be used to "internalize" these interactions when private firms are unable to achieve greater South-South integration.

3. Trends and patterns in South-South cooperation and interaction

To examine South-South cooperation we will discuss in turn the cases of Africa, Latin America and developing Asia.

Although Africa was a pioneer in regional economic cooperation as early as the early 20th century, soon after independence African leaders put a great deal of effort into regional economic integration, with the birth of the Organization for African Unity (OAU) in 1963, which later became the African Union (AU). It aimed to promote unity, solidarity, the long-term economic and political development of Africa especially through economic integration. The Lome Conventions, which established trade and aid agreements between the European Community and developing Africa, Caribbean and Pacific countries, grew in size but seemed not to fulfill its promises, especially due problems of implementation and aid conditionality. African leaders turned instead to a regional approach based on self-reliance, through sub-regional integration (establishing, for instance, agreements between West African states, Eastern and Southern African States, East African States and North African States) and their proposed eventual all-Africa consolidation. Through ups and downs, for instance the East African Community (EAC) established in 1967 collapsed in ten years before being resurrected in 2000, the sub-regional approach continues to provide the structure of African economic cooperation, with most countries belonging to more than one organization (Ogunleye, 2012). The organizations create, in different cases, preferential trading and free trade areas, areas with the free movement of capital, labor, goods and services and even some monetary unions. There are bilateral and multilateral agreements with other countries and regions, within Africa (for instance, bilateral investment treaties), with the North, such as the European Union, and with other Southern countries, for instance, in Asia. Africa's pattern has, as in the Latin American case, been described with the spaghetti bowl metaphor (Ogunleye, 2012).

In Latin America, although there were beginnings as early as the 1820s, three major phases in cooperation can be distinguished since the 1950s. First, in the 1950s and 1960s regional trade agreements,

including the Latin American Free Trade Association, the Andean Pact and the Caribbean Free Trade Association, were made in conjunction with the broad import substituting approach to industrialization. This early wave of regional agreements had limited results. A second wave in the late 1980s and 1990s four common markets, that is, the Southern Cone Common Market (MERCOSUR), the Andean Community of Nations (ANC), the Central American Common Market (CACM), and the Caribbean Common Market (CARICOM), and was seen as following the Washington Consensus approach of open and market oriented strategy (IDB, 2002). Negotiations for the Free Trade Area of the Americas (FTTA) also commenced. However, implementation and compliance problems, disillusionment with the neoliberal project, the deterioration of international economic conditions, and macroeconomic and political instability in several countries made this wave peter out, and the process of regional cooperation stagnated, ending the negotiations for the FTAA. In the 21st century Latin American economic cooperation pattern is difficult to identify with any particular approach, whether import substituting or market-oriented, and is the product of a number of disparate tendencies Gomez-Mera, 2012). First, there has been a growth in overlapping mostly bilateral preferential trade agreements involving countries, or groups of countries including, in many cases, the US. Also, there are countries (or groups of countries) in Latin America, including Chile, Mexico, and Peru, with countries in other regions of the world, including countries of the South such as China, India, Thailand and Southern Africa. These are preferential trade agreements that are associated with the spaghetti-bowl metaphor. Second, regional cooperation initiatives have emerged against neoliberal globalization, involving mostly countries with left-leaning governments, such as Brazil, Venezuela, Bolivia, Ecuador and Argentina, and attempting to advance the idea of the developmentalist state. These initiatives, which include the Bolivarian Alliance for the Americas (ALBA) and the Union of South American Nations (UNASUR), go well beyond the liberalization of trade and involve planned exchange of oil as against health and educational professionals, regional infrastructure, including energy, transport and telecommunications infrastructure and international monetary and financial affairs. The idea of the Bank of the South that seeks to reduce the dependence of member countries from the IMF and the World Bank, by being a regional lender of last resort and

providing a stabilization fund, but has progressed slowly in terms of implementation. Under Venezuela's leadership ALBA has established a monetary system that uses the SUCRE as a medium of exchange for commercial transactions between member currencies, reducing the dependence on other international currencies as a means of conducting international payments. Although in many instances these different strands are haphazard and reflect power asymmetries between countries, they also reflect the beginnings of successful cooperation between countries of the South.

Asian integration has gone furthest in terms of the amount of trade and capital flows. A key organization is the Association of Southeast Asian Nations (ASEAN), which was established in 1967, but experienced limited cooperation before the formation of the ASEAN Free Trade Area (AFTA in 1992). The South Asian Association for Regional Cooperation (SAARC) was established in 1985, and has been liberalizing trade within the region, with a free trade area expected by 2016. The East Asian financial crisis provided an impetus to regional economic cooperation, through the early adopting of AFTA, agreements with countries outside the region, including China, India, Japan and South Korea, and the Chiang Mai initiative for monetary cooperation with the ASEAN+3. Overall economic growth in India and especially China, the close links already in place in East and Southeast Asia involving trade and investment flows, and the new look-East policy for India, suggest South-South integration in the region will continue, through production networks and FDI flows within developing Asia (Kumar, 2012).

In 2009 developing Asia's share of all South-South trade was 74.4 per cent, and China's alone is 40 per cent (ADB, 2011). A major aspect of the increase in intra-Asia interaction is due to the growth of production networks, with firms in different countries producing at different stages of production, product parts crossing borders several times before the final product is assembled. This takes into account cost differentials and technological differences, as well as final goods markets. This is been primarily evident in Asia with China emerging as the major center of the final assembly of electronics and

related products from the mid-1990s. South-South trade therefore remains a small part of world trade, as noted in the introduction (less than 17 per cent of world trade in 2009) and heavily concentrated within Asia and heavily dominated by China. In contrast, Latin America's share has hovered around 15 per cent and Africa's is much smaller.

Concerning the pattern of trade within the South, manufacturing exports comprise a significant share of different product groups for all regions. However, while they comprise the majority of Asia's exports to the South, amounting to 83 per cent in 2006-07, the shares are much smaller for other regions, less than 50 per cent for Latin America and less than 40 per cent for Africa. For the Middle East and Africa fuel exports are dominant. Asia's imports of manufactures are mostly parts and components, while for other regions manufactured exports are mostly of final goods, reflecting the importance of production networks in Asia, especially East Asia.

Given the low level of intra-African interaction, it is worthwhile discussing the trends in Africa in some more detail. Longo and Sekkat (2004) find that for intra-African trade, infrastructure development, political instability and economic policy management have kept trade at low levels. The expansion of infrastructure, partly with foreign investment especially from the emerging South and partly with greater cooperation within the rest of the South, the reduced levels violence in many parts of Africa, and great policy help from other countries in the South, may allow greater growth in intra-African trade. The African economies may have lacked a regional engine of growth, a leading goose as in the flying geese theory. By linking with countries of emerging South outside the region, and with the possible help of South Africa and perhaps Nigeria, they can find some suitable leading geese. Indeed, there has been some increase in intra-African trade in the first decade of the 2st century, although it declined towards the end of the decade. East Africa seems to be most integrated in terms of trade, although this may be related in part to imports and re-exports with Kenya as a hub for landlocked countries. In

most cases trade flows are dominated by one country in a region, like South Africa and Nigeria, with these two accounting for a third of intra-African trade. Intra-African investment flows have been very small until recently, with the recent growth driven by outflows from South Africa and Nigeria. There has recently been a very large increase in African trade with Southern countries outside Africa, driven mostly by increased trade with Asian countries and Brazil, with China being the most important. China's imports from Africa have been largely, though not entirely, in primary products like oil, and exports to Africa have mostly been in manufacturing. FDI inflows from the South to Africa have also increased dramatically, with Korea investing in automobiles and electronics, and India and especially China in natural resources, including for offshore oil development in Angola and Nigeria by the latter. There is also reason to believe that the political and economic possibility of forming effective regional communities has increased in some cases. For instance, for the East African Community, early efforts in 1977 may have been hampered by the high economic inequality between countries and the lack of manufacturing sectors in some partners, a situation that has changed in recent years due to some degree of convergence between the countries (Kapstein, 2010). Collaboration on finance and monetary issues, and in development infrastructure, including transport and energy (hydroelectric power, oil and gas pipelines), including that with FDI from outside Africa, are important directions for future cooperation. There are also possibilities for adopting vertical specialization through production networks, given differences in resource endowments and technological capabilities (Ogunleye, 2012).

4. Problems and prospects

Having discussed the main motivations behind the calls for increased South-South interaction and the main trends in South-South cooperation and interaction, we may now turn the problems

and prospects for Southern development that have and can come from South-South interaction. In doing so we should recall that South-South trade is still a small proportion of world trade, and that much of it reflects the role of developing Asia and especially China. Moreover the South comprises of a very heterogeneous group of countries in terms of per capita income, size, technological capability, and growth rates. To take some of this heterogeneity into account, and in line with much of the recent discussion on South-South trade, we will distinguish between the Emerging South (ES), comprising of countries like China, India, Brazil and South Africa (although the precise list of these countries will not be examined or discussed), and the Rest of the South (RS) (see Dutt, 2012). Our discussion will be in terms of seven comments related to the five motivations discussed in section 2, although not in the same order.

1. Regarding the engine of growth motivation, the fact that some countries in the global South have recently experienced rapid economic growth may suggest that there is a global engine of growth within the South. It has been widely heralded that, in recent years, countries like China, India, Brazil and the Russian Federation – the BRICs as they have been called – have performed very well. Sometimes South Africa is added to the list and called the BRICS. While the real per capita income of the world as a whole has grown at an average annual rate of 1.47 per cent from 2000 to 2010 and members of OECD have grown at 1.02 per cent, China has grown over the same period at 9.64 per cent, India at 5.82 per cent, and the Russian Federation at 5.66 per cent. Brazil and South Africa has not done so well in terms of average growth rates, having grown at 2.49 per cent and 2.14 per cent, respectively, but even Brazil has grown at 6.55 per cent in 2010, and at an average rate of 5.27 per cent for the last four years if one leaves out 2009 when it experienced negative growth. To be sure, each of the countries mentioned here have underlying problems – for instance, China's overdependence on government investment,

India and China's rising inequality, issues that are beyond the scope of this paper to discuss – and the North need not be written of entirely as an engine, but the possible roles of these countries as possible engines seems clear, Indeed, the high growth of some Latin American and African countries has been attributed to the high rate of growth of the ES, especially China (see, for instance, Ros, 2013). Southern countries can do worse than increasing their links with other Southern countries, especially those in the ES and other large Southern countries or groups of countries. Even high-growing India's policy seems to be to look east towards the ASEAN+ region.

2. The pattern of South-South trade has been argued to favor an exchange of goods that require high skills and high levels of technology, and are therefore seen as conducive to technological change and capacity building than the standard pattern of North-South trade in which the South imports more technologically intensive products for less technology intensive products. South-South trade does involve a large amount of manufactures, including medium- and high skill and technology intensive products. From 1995 to 2011 the sector shares of South-South exports have been predominantly in manufactures. The share of agriculture and raw materials has held steady, as has the share of resource intensive manufactures like textiles and clothing, at fairly low levels at below 15 and 10 per cent of total exports, respectively. The share of manufactures with low skills and technology intensity have steadily fallen, while medium and high skill and technology intensity share has grown and together remain around 60 per cent of exports. However, the share of high skill and technology intensity, though fallen since 2006 when it peaked at over 35 per cent of exports (UNCTAD, 2013). There is also some evidence to suggest that exports from Southern countries in general to the South are more technology intensive than those to the North. Dahi and Demir (2008) find that for 28 countries of the South, defining 75 commodities that fall into the "medium" and "high" technology classification of exports according to UNIDO, for the period

1978 to 2005, the median share of manufactures and technology-and-skill-intensive manufactured goods to the South increased, and there was a higher skill content of manufactures in South-South exports than in South-North exports. However, the skill content of manufactures within the South has been increasing at a slower rate than that of South-North exports. Moreover, they show that up to the late 1990s South-South intra-industry trade in technology-and-skill-intensive manufactures, as measured by the Grubel-Lloyd index was higher than in South-North trade, and that South-South intra-industry trade was higher when China and Southeast Asia are excluded. They argue that this suggests that dynamic gains and technology transfers are increased due to South-South trade, and that since South-North intra-industry trade is catching up, and since technology-and-skill-intensive exports are rising in South-North exports, that there is technological upgrading occurring in the South. Moreover, since the sample of 28 countries contain the earlier NICs (South Korea, Hong Kong and Singapore, as well as a number of other Latin American and South-East and South Asian countries and a few Middle East and African countries), to the extent they focus on median share, these results apply to a broader range than a few countries. However, the sample is biased towards more-developed Southern countries. It would be of considerable interest to examine the extent of technology-and-skill-intensive for a broader range of countries in the South, distinguishing between not-only North and the South but also the emerging South and the rest of the South, and taking into account the characteristics of production activities for intermediate inputs and not just final goods.

Although in some cases Southern countries have been able to engage in inter-industry trade in manufactures, especially in goods involving higher levels of technology and skills, increases in such trade need not occur through standard free market forces as a result of trade

liberalization between Southern countries and can be further increased by agreements between countries. This is particularly the case because, as we will discuss in point 3 below, many Southern countries are heavily dependent on primary exports with low technological effects. As noted earlier, Kojima (1970), a proponent of the flying geese theory, argued that in the presence of scale economies countries could gain from agreed specialization even when they had similar technological levels and factor endowments. He developed a simple model in which two identical countries could produce two goods under conditions of perfect competition and identical external economies of scale. He showed that if both countries produced both goods welfare as denoted by community indifference curves would be less than if they specialized in one each of the two products, by agreeing on that pattern.[5] Kojima claimed, although he did not show formally, that without such agreement – which could take place at the level of the government of the two countries or within transnational corporations – this mutually beneficial trade would not occur because agglomeration effects would make increasing returns industries gravitate to one country. He also pointed out that differences in the technological characteristics of the two goods, among others, could make the incentives for mutually beneficial agreed specialization weaker, since one country could benefit more than the other due to specialization (by specializing in the good exhibiting stronger increasing returns). Although he noted these difficulties, Kojima arguably underestimated the difficulties involve in agreed specialization. Increasing returns are not experienced automatically, but are contingent on many circumstances, including the nature of cooperation between firms, industrial relations, and the education of the workforce, to name just a few. Moreover, as is emphasized in the flying geese approach and in the actual experience on the East Asian NICs, production for domestic markets and for the partner country is a stepping stone for exports to the rest of the world, where additional

contingencies arise in terms of the expansion of markets and the successes of competing producers from other countries. All these factors make it difficult to predict whether or not all countries in a preferential trade agreement area will gain more or less equally from specialization agreements, or if at all. Thus, although it is certainly sensible for Southern countries to specialize in different products where the small size of domestic markets does not allow taking advantage of sufficient scale economies, agreed specialization may be thwarted by uncertainty regarding whether all of the participants will gain. Redistributive agreements may be required according to which gainers will compensate other countries that do not gain enough or in fact lose. However, countries may renege on these redistributive agreements.

A more promising approach may be to have agreed specialization within different elements of a production network, with each country reaping scale economies with larger production runs, and with success in production and exports accruing to several countries involved in the production networks. Of course, it is still not guaranteed that every country participating in this agreed network will gain more or less equally, since there will be variations in the extent of learning by doing arising from different activities and in the extent of value added in different countries. However, a judicious mix of networks may allow for benefits to be widely shared by the different Southern countries involved in the preferential trade area.

3. Differences in income elasticities of demand between Southern goods can be expected to be lower than that between Northern and Southern goods to the extent that South-South trade involves exchanging manufactured goods for manufactured goods. First, the income and technology gap between ES and RS is not as large as the one between the North and the South. There is also a large diversity of goods produced by the ES given that there is a large spectrum of consumers with a large range of income for whom goods are produced in the ES and which can be exported to the RS. Second, at least part of the high income elasticity for Northern goods is due to the

existence of brand names, and the brands produced in ES are not as desirable as those produced say in the US, Italy, Germany or Japan. Third, to the extent that trade occurs in manufactured intermediate goods in international production networks, there is no particular reason to suppose that less will be demanded of a particular component as income and demand for final products grow, or that there will be technological change that reduces the need for specific components. This is unlike the case of final goods with low income elasticities and resource-based intermediate goods like cotton, jute and rubber. Moreover, once producers are a part of a production network they can switch within a range of intermediate goods if they can develop the technological capability to do so. However, if the RS exports mostly primary goods with low income elasticities of demand, rapid growth in China can for a while increase the rate of growth of the RS by improving its terms of trade, and eventually result in uneven development along the lines discussed in section 2 (see Ros, 2013).

4. To the extent that the ES exports manufactured goods to the RS and the latter exports primary resources to the former, the pattern of specialization can create the problems discussed for North-South trade. In particular, the RS can experience terms of trade volatility and environmental degradation due to increasing production for exports. It seems that some of the trade between the ES and RS takes this form. For instance, primary goods imports, especially fuels, comprise of a significant portion of the imports of developing Asia from the South. China imports mostly minerals and agricultural products from Africa, though it also imports some manufactured goods such as processed food and household consumer goods from there. In the 2000-2009 period, although the exports of the least developed countries (LDCs) to developing countries other than first tier NICs and the LDCs contributed most to the increases in exports for the LDCs, the increase was mostly due to increases in fuel exports and to other primary products, and to a much smaller extent

manufactured goods (see UNCTAD, 2011, 61), while the bulk of the increase in imports of LDCs from these countries was in manufactured goods. It appears that China's manufacturing exports competes with the domestic production of manufactured goods and their exports of other Southern countries, and with domestic production. This pattern of trade has often been seen as following the colonial patterns of trade. Lamido Sanusi, the Governor of the Central Bank of Nigeria states that "China takes from us primary goods and sells us manufactured ones. This was also the essence of colonialism. China is (…) an economic giant capable of the same forms of exploitation as the West. China is a major contributor to the de-industrialisation of Africa and thus African underdevelopment" (quoted in Wolf, 2013a).

However, while the colonial pattern in the colonial period was enforced by colonial governments and that in the neo-colonial period influenced by the power large transnational corporations, the situation in the South-South case is somewhat different. Exports of primary exporting countries to rapidly growing Southern countries like China may tend to perpetuate the colonial pattern of specialization, but it need not necessarily do so. The deindustrialization argument states that the increase in exports of primary products draws resources away from other sectors, including manufacturing sectors, resulting in the onset of the so-called Dutch disease. This argument is usually based on the assumption of the full employment of resources, which implies that as primary exports increase resources have to be drawn from somewhere else including from manufacturing industries, thereby resulting in a slowing-down of technological learning. However, if Southern economies have unemployed resources, for instance, due to having insufficient aggregate demand, a shortage of capital goods, or a shortage of foreign exchange which restricts the imports of necessary intermediate goods and capital goods, it is possible to increase the production of manufactured goods in the short run (given the total stock of capital) and in the long run (due to increases in the stock of capital) (see Wolf, 2013a, 2013b). If the higher growth of China and other Southern countries increases the demand for primary products, including oil, the rise in exports and the rise in price of exports will increase foreign exchange receipts for the primary exporting Southern

countries, which can make available foreign exchange that can increase the production of manufactured goods due to increases in investment and the increased availability of imported intermediate goods.

Of course, the full employment of all resources is not necessary for the Dutch disease to operate and for manufacturing output to decline. For instance, increases in primary exports can result in currency appreciation which can reduce the competitiveness of manufacturing exports and import-substituting industries, thereby reducing manufacturing output (see Gallagher, 2012). However, this effect can be counteracted with appropriate exchange rate management policies that prevent the exchange rate from appreciating. A shortage of infrastructure or other key non-traded inputs can also reduce the production of manufactured goods when the exports of primary goods increases: for instance, if the market price of these inputs varies to clear the market, an increase in primary exports, by increasing the price of these inputs, will reduce the profitability of manufacturing production and adversely affect its production and growth (see Taylor, 1983).

However, when one takes into account the fact that increases in primary exports are often accompanied by foreign investment in infrastructure, as in the case of Chinese investment in Africa, this investment is likely to counteract the scarcity of infrastructural inputs and also increase employment, income and aggregate demand, increasing the production of manufacturing goods as well. Wolf (2013b) presents econometric evidence which shows that increases in Chinese contracted projects in Africa tends to have a significant positive effect on manufacturing output per capita, although the effect of primary export increases on manufacturing production is negative (presumably due to the displacement of domestic manufactured goods production due to an increase in imports of Chinese manufactured goods).

5. Infrastructural investment provides only one example of the kinds of interaction that take place between Southern countries, which actually involve a whole range of issues in addition to increasing trade. As noted earlier, technology transfers within the South, given the smaller difference in technology between Southern countries in comparison to that between the North and the South, are likely to be more

appropriate and feasible. Instances of technology transfer agreements include that through the Organization of Islamic Cooperation, which established a forum in 2009 to facilitate local technology transfer in engineering, medicine and energy, among other sectors (Najam and Thrasher, 2012). A problem with such transfers it presents the South does not get access to "cutting" edge Northern technology, which will prevent it from being internationally competitive. While this may be true in the case of some sectors and product, it is not important to be internationally competitive in all sectors, including those requires for improving health conditions and for sectors in which technology is less sophisticated. In other cases, the South should try to facilitate technology transfers from the North; more South-South interaction in this area does not imply cutting off North-South relations. Regarding capital flows, countries of the South, especially those which have been unable to secure financing from other sources, have been able to obtain finance from surplus countries like China (Gallagher et al, 2012) and have been able to do so with fewer restrictive conditions, such as those requiring neoliberal reforms, than those imposed by lenders like the World Bank. Foreign direct investment is another area of interaction. Indeed, flows from Southern countries have increased significantly in recent years. In the past, Southern-based transnational corporations were more likely to accept joint ventures and share technology with their local partners, technology transfers were cheaper and restrictions on reverse technology transfers less stringent. However, in recent years Rangel 's (2012) examination of Brazil and India, two major Southern countries with outward foreign direct investment shows that these countries invest mainly in the North and in offshore financial centers rather than to other Southern countries. Despite Brazil's stated desire to pursue the goal of greater South-South investment, reacting in part to US hegemony in Latin America, , there has been little impact of this on Brazil's FDI outflows which are concentrated in a few larger emerging Southern nations and a few neighbors (Vaz, 2012). Moreover, Southern FDI is often in natural resource extracting industries, especially in Africa, which have been argued to reproduce the asymmetrical colonial pattern of North-South investment. However, there is some evidence that Indian transnational firms are more sensitive to the needs to employees and communities in host countries than firms based in the North. South-South FDI links are particularly strong among developing Asia

compared with other regions. In developing Asia stocks of outflow and inflow were double those of inflows from the North. In Africa the share of Southern, especially from developing Asia, FDI stocks increasing, although those from the North continue to dominate, almost 80 per cent in the first decade of the 21st century. In Latin America those from the North have dominated. There seems to be considerable scope for increasing FDI flows within the South. Finally, regarding financial agreements, there is much scope for them to reduce the importance of the dollar as a global currency of exchange, and to reduce the need for Southern countries to maintain large dollar reserves (especially through agreements between Southern countries from different regions of the world which are unlikely to be affected by crises at the same time due to contagion effects).

7. As discussed earlier, the relative power of the North in influencing global institutions and the global trading, investment, technology and labor movement rules they establish, is strong. It is only at some junctures that the South's relative position improved somewhat. It did so in the 1970s due to the rise of OPEC, but that proved to be short-lived, given oil conservation strategies in the North and the debt crisis of the South due to interest rate increases in the North to reduce inflation, which increased global interest rates. The global environment as a global public good was initially seen to shift power to the South with the increasing awareness of global climate change, but this has also proved to be illusory.

Recently, the fast-growing ES countries have emerged as more powerful members within international organizations such as the World Trade Organization (WTO) and to a lesser extent, in other fora like the G-20. They have been able to translate their rising importance in the world economy to an increase in power in the WTO (Narlikar, 2010). Brazil and India have had a major leadership role in forming and leading developing country coalitions for a while in the GATT and WTO, and after maintaining a low profile on joining the WTO in 2003 China has also become more visible, The three countries have become more visible in the decision-making

processes in the WTO, with the old Quad of US, EU, Japan and Canada making room for the three, and the latter, either individually or as a group have on occasion used their veto powers in the Doha Development Round negotiations. These countries have revealed their solidarity with the rest of the South and shown themselves to be less enamored with neoliberal strategies, given their developmentalist stance and their own reliance on a more nuanced development strategy. They have therefore become a stronger voice for the South in terms of agenda setting as well as voting, including that through their role of leaders of the less-developed country G-20 within the WTO (which is not to be confused with the general G-20 which includes mostly more-developed countries). The changed dynamics have also increased the possibility of changes in the internal structure of the WTO procedures, introducing greater ability to not only make decisions but also make them more responsive to the needs of the South as a whole.

However, these changes in power relations can be exaggerated. First, the developments brought about by the emergence of these new powers within the WTO have resulted in stalemate and deadlock. Second, the deadlock has had the result of countries like the US bypassing the WTO and engaging in bilateral negotiations with countries in the South. Gallagher (2011) shows how in trade agreements with Latin American countries the US has been able to obtain conditions that are more inimical to the development prospects of these countries than those of the WTO. Third, greater power in the WTO has not been accompanied by greater power in the World Bank, the International Monetary Fund and the Security Council of the United Nations because of their less democratic structures, though the consolidation of the power of the BICs as leaders for the global South within the WTO can eventually lead the way to greater power in these other international organizations. Fourth, when the chips are down countries like Brazil and

India have pursued their national interests, rather than some collective interests of the South as a whole which, in any case, is not unified (Ramanzini and Viana, 2012).

Greater cooperation within the South, especially if it leads to mutually beneficial institution, is likely to increase trust among Southern countries, overcoming perceived conflictual relations between the ES and the RS. This is likely to have an effect on the global economic and financial structure, since the appeal and prestige of the neoliberal approach to development has been undermined by the financial and economic crisis of 2008 and its aftermath, and by the economic plight of the leading industrialized regions, which has weakened their economic power to some degree although, at the same time making them more eager to improve their external markets. There are some openings due to this, as well as the better ability of countries like China and India to deal with the crisis through countercyclical macroeconomic policies, setting a different example and changing the power balance.

In addition to have these political economy effects in the global sphere, it is also possible for greater South-South cooperation to make domestic political economies more conducive to the successful pursuit of developmental goals. While some countries, such as the East Asian NICs have been able to pursue successful industrialization strategies by providing incentives to domestic firms while demanding technological upgrading and export growth, other countries have not been able to engage in state-private relations following such quid-pro-quo arrangements because the states have been less able to escape capture by powerful domestic elites. It is possible that if different Southern states can weaken domestic corporations by exposing them to competition from corporations from other Southern countries with the help from their states, mutually beneficial changes in domestic power relations can take place.

8. The general trade liberalization argument is not particularly compelling, although it is possible that trade liberalization between Southern economies can enlarge markets and allow Southern firms with small domestic markets to reap the advantages of scale economies and technological learning by doing, and the rationalization of spaghetti bowls can reduce complex and haphazard rules governing trade and other interactions between Southern countries. In particular, the trade diversion arguments do not hold water in the presence of dynamic learning effects. Preferential and bilateral trade agreements in which countries of the North impose problematic conditions on the countries of the South are clearly problematic, but to the extent that South-South cooperation can change global power relations, countries of the North will be less able to incorporate such conditions into the agreements they enter with Southern countries.

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NOTES

[1] These results are discussed in the Bhagwati and Srinivasan (1983) text. Note that Bhagwati is a major proponent of trade liberalization in developing countries. He argues that import restrictions are not the best way of solving the problems due to these kinds of distortions. For instance, production distortions involving production externalities are best overcome using production subsidies. This argument, however, is based on the assumption that there is substitution in consumption between protected and unprotected goods and that social desirability is best evaluated in terms individual preferences. Moreover, it does not take into account the resource constraints facing governments in developing countries, which may prevent them from providing subsidies. The argument in favor of protection can be overturned by the possibility of foreign retaliatory protectionism as well.

[2] Taylor (1983) is often referred to as the pioneers of neo-structuralism for his use of formal models to capture some of the insights of the earlier structuralist writers.

[3] Akamatsu's work on the flying geese approach was first published in the early 1930s in Japanese. See Akamatsu (1961) and Kojima (2000) for a discussion of the origin and spread of this approach.

[4] Although there have been some attempts to development an analytical approach which emphasizes these empirical features. See, for instance, Henderson et. al. (2002).

[5] Kojima's model with increasing returns predated the first generation of new trade theory models of the type pioneered by Lancaster and Krugman.