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Introduction

Since its inception, UNCTAD, both as an institution and as a secretariat, has undertaken a wide range of activities relating to economic cooperation among developing countries. Such activities are integrated, in a form or another, in all areas of work of the organization. The emphasis on the South-South cooperation has been further strengthened in the light of the outcomes of the UNCTAD XI (Sao Paulo, June 2004). The concept of a new geography of international economic relations, especially South-South cooperation, has been endorsed by UNCTAD member States. The Spirit of Sao Paulo, the political declaration adopted by UNCTAD XI, stresses that "…there are encouraging signs that a significant source of global growth is being generated in the South. This new development is contributing to creating a new geography of world trade. We underscore the importance of initiatives to facilitate the emergence of new dynamic centres of growth in the South through additional steps for the integration of these emerging economies with other developing ones. This can be achieved, *inter alia*, by means of a more comprehensive Global System of Trade Preferences among Developing Countries, which should also address the problems of the LDCs. Given the growing importance of regional and interregional initiatives, we encourage UNCTAD to further develop capabilities designed to assist countries to participate effectively in these initiatives, while ensuring functional and coherent linkages with the multilateral system". This political decision has been translated into programmatic provisions in the Sao Paulo Consensus as well as in concrete action during the High-level Segment of the Trade of Development Board in October 2004, which was devoted specifically to this issue.

The Group of 77, which was established at the first UN Conference on Trade and Development (UNCTAD), has provided the umbrella under which various other forms of economic and trade cooperation among developing countries have evolved over the years. At UNCTAD XI in São Paulo (June 2004), Ministers of the Group of 77 and China met and adopted a “Ministerial Declaration on the Occasion of the Fortieth Anniversary of the Group of 77” in which they reaffirm the central concerns and interests that bind them together, including (a) maintaining a common platform to voice their concerns and advance their economic interests; (b) striving for equity and justice in international economic relations; and (c) establishing an equitable international trade regime.[1] The vision and goals of the Group of 77 have found expression in the Millennium Declaration and the Millennium Development Goals, giving further impetus to their follow-up and achievement.

The present report provides information with respect to both activities undertaken by UNCTAD in relation to the economic cooperation among developing countries and addresses a number of key issues of relevance for the South-South cooperation as part of the concept of the new geography of international economic relations. It contained in the Annex an eleven-point "Positive agenda for South-South trade".

I. The new geography of international economic relations

1. UNCTAD Trade and Development Board undertook in October 2004 a comprehensive review of the stages of evolution of the South's role in the world economy and international trade, current opportunities and challenges for developing countries in the context of the evolving new trade geography, and strategies and policies for strengthening South-South trade and economic cooperation and integration. The trend towards a new trade geography was a welcome phenomenon and ushered in a sense of optimism as regards the performance of developing countries in international trade.

2. The long-term trend was clearly for the share of developing countries in world trade and investment to increase, and within that process for the South-South share to continue to rise. There were three key interlinked determinants and trends that shaped the new trade geography: the increasing role and importance of the developing countries, and therefore of their development, to drive trade and growth;

[1] TD/405.

South-South trade and economic cooperation reaching a critical mass and growing vigorously; and the changing context of North-South interdependence and terms of engagement, as well as the South's economic relations with countries with economies in transition. However, it was necessary to exercise due caution in the use of the concept of the new trade geography and to avoid unrealistic expectations in regard to its scope and impact.

3. The growth in South-South trade had been driven, in particular, by East Asia - initially by ASEAN countries and more recently by China, whose booming domestic economy was drawing in imports from both developing and developed countries. The high level of demand in China was also pulling up many commodity prices and enabling other developing countries to seize sizeable new export possibilities. Two-thirds of South-South trade took place in Asia. Elsewhere – in Latin America or Africa – more "traditional" North-South trading patterns had been harder to shift.

4. Nevertheless, regional integration processes had gathered steam in these regions as well. In Latin America, which had a long history of fruitful regional and subregional cooperation, economic integration arrangements were now being further developed in a manner compatible with the principle of "open regionalism". The results appeared encouraging, and regional and subregional trade relations currently covered a significant amount of manufactured exports. The African region was pushing for the creation of integration arrangements such as internal common markets, which offered a unique opportunity to deepen South-South trade on a regional and subregional basis.

5. The real challenge before developing countries was to identify and consider more actionable proposals on South-South cooperation. The primary responsibility in increasing South-South trade and investment rested with individual developing countries. They needed to put in place and implement the best policy mix to stimulate export-oriented growth, attract and secure investment (both domestic and foreign) and promote their greater integration into the international trading system. With regard to trade policy, there was a need to strike the right balance so as to bring about progressive and managed liberalization - which would ensure a greater competitive stimulus to domestic firms without impeding any Government's right to regulate. The role of small businesses was also important in promoting South-South trade and cooperation.

6. There were several routes open for developing countries to stimulate South-South trade, such as measures to reduce their own levels of border protection, including giving trade preferences for other developing countries, whether granted unilaterally or under a negotiated framework (such as the GSTP); providing trade preferences specifically for the LDCs; and undertaking regional liberalization in the framework of regional trade agreements (RTAs) concluded among developing countries or among developed and developing countries.

7. South-South RTAs also provided an opportunity for Governments to develop solutions to the legal, regulatory and "behind the border" challenges that also arose in the multilateral context - for example, product safety and health standards and other non-tariff barriers, as well as market entry barriers. Still another route was multilateral MFN-based liberalization for products of mutual interest in the context of the current Doha negotiations.

8. Furthermore, in addition to trade, more investment flows should be present in South-South economic cooperation, while taking into account the fact that most developing countries were not capital exporters. At the same time, since foreign direct investment was in short supply and was concentrated in a few developing countries, development strategies relying on domestic or regional savings and investment were needed.

9. Another area of possible South-South cooperation would be to achieve complementarities by harmonizing national laws and regulatory frameworks, including those on corporate issues and competition policy. Developing countries also stood to gain from the multilateral negotiations on trade facilitation, as part of the Doha Round, provided the necessary resources were made available to them to meet the attendant costs.

10. There was also a need to strengthen South-South interregional cooperation and establish or reinforce strategic partnerships of developing countries. The international trade, financial and development institutions also had important roles to play, including as providers of development finance, technical assistance and support for capacity building. They might tailor their policy approaches to support South-South cooperation.

11. The importance and practical value of UNCTAD's substantive work in analysing and interpreting the evolving new trade geography from a development standpoint was recognized. The high-quality reports prepared by the UNCTAD secretariat on this item (TD/404 and TD/B/51/6) contained fresh analysis and perspectives, as well as practical strategies. In continuing its research and analysis on this issue, UNCTAD was encouraged to further elaborate strategic approaches to enhancing South-South trade in the overall context of the new trade geography. One analytical challenge would be to determine whether current developments portended a decisive or qualitative change in the economic situation of the South. The participation of developing countries in dynamic and new sectors should be reflected in such work.

12. It was suggested that UNCTAD should look into the impact of the growing number of free trade agreements with investment components and examine the impact of the multiplicity of such agreements on investment flows from North to South. Further, UNCTAD, as the focal point for development, trade and investment in the UN system, was expected to contribute to confidence-building between developed and developing countries and play a complementary role, especially in terms of technical assistance, particularly in the area of South-South cooperation.

II. International Trade Negotiations, Regional Integration and South-South Trade, Especially in Commodities

13. Economic cooperation among developing countries has been a key aspect of their development strategy for years. The need for cooperation and solidarity among developing countries is becoming even more pressing, particularly in trade negotiations at the multilateral and regional levels, as these negotiations become continuous, involve multiple players, and extend into the national policy space domain. In this setting, developing countries are confronted with difficult challenges of transforming and using trade as an engine of promoting growth, development and poverty reduction. Some critical elements of a development strategy for developing countries include strengthening of trade negotiation capacity, strengthening of regional integration and improved networking among integration organizations, and enhancing South-South trade, especially in commodities.

Capacity building for international trade negotiations

A. Growing demands from multilateral trade negotiations

14. The broadened scope, growing complexity and extended time frame of today's multilateral trade negotiations continue to place increasing demands on the negotiating capacities of developing countries. The scope of international trade negotiations already expanded significantly during the Uruguay Round and with the launch of the Doha Round in 2001, it has widened even further. Today, trade negotiations include much more than border issues such as reducing tariffs and non-tariff barriers; now they also encompass agreements in *behind-the-border* regulatory areas such as trade in services, intellectual property rights, investment and trade facilitation measures, and environmental issues. Reflecting the extended and complex nature of negotiations, the Doha Work Programme could not itself be concluded by its original January 2005 deadline. The 1 August 2004 Decision of the WTO General Council postpones the end date of negotiations until the Sixth WTO Ministerial Conference,

set for December 2005.[2] According to most Geneva-based officials closely involved in the negotiations, it is now clear that the original three-year time frame for negotiations will extend to at least five years, concluding sometime in 2006 or even later.

B. Growing demands from regional trade negotiations

15. In addition to WTO negotiations, efforts to negotiate regional trade agreements have accelerated in recent years (see the discussion in Section II). Developing countries have been negotiating and concluding agreements with both developed and developing countries. Emerging from such negotiations is a widening array of regional trade agreements, some 300 of them, with a significant bearing on the development prospects of developing countries and on the multilateral trading system. Some 40 per cent of world trade takes place within the regional trade agreements that are in force today, and this share is projected to grow.

16. Recent *new-generation* regional trade agreements cover not only trade in goods, but also *behind-the-border* regulatory areas. Some regional trade agreements cover more of these areas than the WTO and extend more deeply into them. Often referred to as "WTO-plus" agreements, they extend beyond multilateral disciplines and liberalization commitments in areas such as services, investment, competition policy, intellectual property rights and environment. Negotiations have been launched for large-scale, plurilateral agreements that would transform economic relationships based on pre-existing unilateral preferences into relationships based on strict reciprocity, as with the Free Trade Area of the Americas (FTAA) and ACP-EU negotiations for economic partnership agreements. These negotiations will have implications for multilateral trade negotiations, as negotiations of North-South regional trade agreements tend to involve deeper market access and higher regulatory standards than negotiations at the multilateral level. In this situation, developing country trade negotiators need to foresee and assess the extent of the policy and systemic impacts of a growing number of regional trade agreements on their countries' trade and development prospects.

C. Enhancing the quality of negotiating capacity

17. In view of the continuous, expanding and complex nature of trade negotiations, the importance of capacity building for effectively negotiating bilateral, regional and multilateral trade agreements cannot be overstated. In the area of international trade policy making, the challenge for developing countries is to build national negotiating capacity through improved access to trade-related information; trade and trade policy analyses; national and regional consultations; and both human and institutional development. The payback is double because, once successfully implemented, trade negotiation capacity-building efforts allow developing countries not only to participate more effectively in trade negotiations and related standard-setting processes but also to design national trade policies that can better capture gains deriving from emerging international trade opportunities.

18. So that developing countries can effectively negotiate a range of issues as wide as those comprising the Doha round, the quality of their negotiating capacity must be significantly enhanced. Capacity building must, therefore, include increased understanding of a broadening range of trade-related issues and provision of assistance to help developing-country negotiators make better use of their access to trade- and investment-related information and to perform and interpret related analyses and scenario building so that they can fully assess the implications of proposed trade agreements. Improved networking between developing countries and their national and regional stakeholders from both the private and public sectors is also critical for determining which policies will be

[2] UNCTAD member States discussed the implications of the July package on 8 October 2004 at the Fifty-First session of the Trade and Development Board, based on the UNCTAD secretariat's report "Review of Developments and Issues in the Post-Doha Work Programme of Particular Concern to Developing Countries: A Post-UNCTAD XI Perspective" (TD/B/51/4). A summary of these deliberations was provided by the President of the Board (see UNCTAD document TD/B/51/L.8).

implementable in a manner that promotes the growth of national and regional economies (see Section II).

19. Capacity building must be tailored and targeted to the expressed needs of countries and specific negotiating contexts. International trade negotiations can be characterized as involving three sometimes connected phases: a pre-negotiation phase, an actual negotiation phase, and a post-negotiation phase.[3]

20. In the *pre-negotiation phase*, it is important to set very clear negotiation goals reflecting national/regional trade interests, as well as clear and realistic strategies for reaching those goals. This depends to a large extent on the quality of preparations, on the amount of information, and on available research and analyses. UNCTAD is developing computer-based software and tools to help developing countries use trade data to assess the implications of various proposals made in multilateral and regional trade negotiations. Such tools include the Agricultural Trade Policy Simulation Model (ATPSM) and the Trade Analysis and Information System (TRAINS).[4] Additionally, to address developing countries' concern about the actual gains they realize from the multilateral trading system, UNCTAD is launching a new initiative to develop trade and development benchmarks designed to help assess the contribution of trade and trade negotiations to development.

21. In the *actual negotiation phase*, effective participation depends heavily on highly specialized skills and capacities of negotiators and their command of the rules, facts and intellectual arguments in specific negotiating areas. It is difficult for many Geneva-based negotiators from developing countries to acquire and utilize the needed expertise, as they must cover all WTO negotiations at a general level and, in addition to trade negotiations, must cover the work of many other international organizations in Geneva. Moreover, it is not just the scope and complexity of WTO negotiations that demand increased negotiating capacity and extended timelines for successful outcomes; it is also the changing character of the negotiations themselves. The structure and process of Doha negotiations are fundamentally different from earlier rounds of multilateral trade negotiations.

22. The *Geneva Process is* less formal and structured than the negotiating forums of the past. Negotiations now comprise a constellation of seemingly independent yet strategically linked parallel consultations between Chairs of *Negotiating Groups* and selected Members. Many developing countries have been emphasizing the need to ensure that this process is transparent and fully participatory, including broader participation by developing countries across the full range of parallel consultations of the various negotiating groups. Moreover, intergovernmental deliberations of UNCTAD XI and the Trade and Development Board point to three process-related objectives that can facilitate negotiations. One is that the procedures and processes for negotiations should be transparent, inclusive, participative, and consultative, even if this means that negotiations take longer and requires extra effort. Second, in terms of decision making, negotiations should take on board, to the extent feasible, "responsive concerns" of the two thirds of WTO members that are developing countries, so that they have ownership of the results. Third, there is a need to rationalize, streamline, prioritize and manage the time frame and agenda of negotiations so that they remain manageable and do not overload the limited negotiating resources of developing countries.

23. If the current negotiation process is to carry forward the July Package, developing-country negotiators need to assess the content of the package and its implications. They also need to more

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[3] Such a characterization was elaborated on by Rubens Ricupero, former Secretary-General of UNCTAD.

[4] ATPSM is a comprehensive database and simulation-modelling software for use by agricultural trade policy makers who may not have knowledge of economics, modelling or programming. TRAINS is an information system intended to increase transparency in international trading conditions. For example, it provides information on the Generalized System of Preferences. In addition, with the new software jointly developed with the World Bank (World Integrated Trade Solution – WITS), users can access the entire time series of the database through the Internet.

effectively mobilize information and assess possible specific elements of negotiating modalities in the July package. UNCTAD can contribute in this regard by making available to developing countries its analyses on key trade and development issues and assisting them in building negotiation capacity. Upon request, UNCTAD provides technical advice to developing countries on the development aspects of trade liberalization in agriculture, non-agricultural products and services. Particular emphasis is given to meeting the needs of LDCs and countries with special needs. UNCTAD also provides a forum for intergovernmental dialogue between developing and developed countries, with a view to facilitating consensus building on trade issues. Its Trade and Development Board and its Commission on Trade in Goods and Services and Commodities identify critical development issues for discussion and consensus building among developing and developed countries. At the fifty-first session of the Board on 8 October 2004, for example, many countries, both developing and developed, agreed that the preparatory process for UNCTAD XI had contributed to facilitating positive progress in concluding the July Package.[5]

24. The *national process* is equally important in backing up negotiators in the negotiations. This involves effective communication and interaction at the national level between, *inter alia,* national ministries, the business sector and civil society. An effective multi-stakeholder process at the national level plays an essential role in the identification of national interests in negotiations. It is also important in facilitating national acceptance and implementation of the results of negotiations. Many developing countries have created national WTO committees, or inter-institutional trade committees, to galvanize stakeholders' active contributions to trade negotiations. Such structures are important for all three negotiation phases – pre-negotiation, negotiation and post-negotiation. UNCTAD is assisting developing countries, especially LDCs and African countries, in setting up inter-institutional trade committees. Some countries have, in addition, embraced regional negotiating approaches such as the Caribbean Regional Negotiating Machinery.

25. Coalition building is another important element in the actual negotiations to build economic clout to negotiate and advance issues of common interests. The important role played by the G-20 and G-33 on agriculture negotiations, the G-90 on development issues, and other coalitions such as that of four West African countries on the cotton initiative have helped focus attention on addressing some of the negotiating issues of key interest to developing countries. UNCTAD has given support to the meetings of groups, including through pre–WTO Ministerial Conference meetings of LDCs, African countries, Arab States, ACP countries, Caribbean States and others. The promotion of enhanced solidarity and networking among developing countries helps ensure that knowledge about negotiations is shared and common positions are identified and utilized in negotiations.

26. In the *post-negotiation phase*, the challenge at the national level is to implement trade agreements and develop policies and measures to take advantage of the new trading opportunities. This includes putting into place necessary legislative measures to enact the WTO agreements as well as adjustment measures to develop productive and competitive capacities to take advantage of the new trading opportunities opened up by multilateral trade liberalization. This, it has been recognized, can be an elaborate exercise that often exceeds the financial and implementation capacities of developing countries. Effective international financial and technical assistance is therefore required to empower developing countries to develop the necessary trade-related infrastructure, not only to comply with a trade agreement's obligations, but also to make use of its rights and opportunities. While it may not be possible for developed countries to make binding commitments to provide a given level trade-related technical assistance from the outset when they sign off on trade agreements, it is expected that, within a needs-based, demand-driven and coherent trade and development technical assistance strategy, the international community can define ways to mobilize the required technical, financial and development assistance for developing countries.

[5] See summary by the President of the Board in UNCTAD document TD/B/51/L.8.

27. It must be emphasized that the negotiating process does not end with the adoption of a trade agreement, but rather continues in a post-negotiation phase. At the international level, continued participation in negotiations is needed to propose modifications or improvements to the rules whenever implementation of agreements demonstrates serious deficiencies or difficulties. Moreover, effective use of the dispute settlement mechanism is a key aspect in this phase; countries must often resort to its use in cases where their WTO rights are affected by other Members.

D. Capacity building must extend beyond quality; quantity is important, too

28. Given the realities of continuous and complex trade negotiations, capacity building must involve not only improving the quality of developing-country negotiators but also their quantity. Strictly from a logistical standpoint, more negotiators are essential to facilitate participation in the large number of parallel consultations and formal meetings comprising the Geneva Process, while at the same time ensuring that regional trade negotiations are adequately managed. That is precisely why developed countries have such large delegations in Geneva, and it is why developing countries are trying to increase their Geneva-based staffing. Several small countries are considering joint representation – for example, via the Delegation of the Pacific Islands Forum to the WTO and the ACP Group Geneva Office. A number of mechanisms are being developed to assist countries that do not have permanent representations in Geneva.[6] However, non-residents may need a 'friend of the non-residents' to promote their interests in the Geneva Process and to provide them with regular information on the status of consultations.

29. Having more Geneva-based negotiators would allow developing countries to better communicate WTO developments to national policy makers and to interact with them. It would also permit interaction with regional trade negotiators in capitals on a regular basis in order to encourage the latter to carefully assess and strategically respond to the tide of demands for regional trade agreements, and thus ensure cross-agreement coherence in their trade obligations with their developed-country trading partners. Improved coordination and information flow must thus be part and parcel of any negotiation capacity-building effort.

E. UNCTAD's role in trade negotiations capacity building

30. By virtue of its accumulated expertise and its mandates from Bangkok (UNCTAD X) and São Paulo (UNCTAD XI), UNCTAD continues to be in a unique position to assist developing countries and their regional groupings in trade and trade negotiations through research and analysis, intergovernmental consensus building and technical cooperation. Given the extended scope, complexity, structure and process of Doha Round negotiations, UNCTAD's capacity-building activities could be increased to meet the needs of the Geneva process and the national process, as well as intergovernmental consensus building more generally. In addition, as negotiations on the July Package accelerate, it may be necessary to design a set of informal seminars for Geneva-based negotiators on specific Doha Round negotiating issues, as well as on effective negotiating strategies and networking options. Such seminars would also allow for informal exchange and improved networking among developing-country negotiators and thus their sharing of information on the outcomes of various consultations associated with the Geneva Process.

South-South trade and regional integration

31. A new trade geography is emerging in international trade, with three interlinked determinants – the increasing role and importance of developing countries to drive trade and growth, South-South trade and economic cooperation, and the changing context of North-South interdependence.[7] This emerging

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[6] These include services by AITIC and the Geneva Week Series of the WTO.

[7] Since the early 1990s, many developing-country economies have grown more rapidly than those of developed countries – a trend that is expected to continue in the coming years as their domestic markets expand and their global export competitiveness increases. The South's share in global trade has grown dramatically, from about

new trade geography, however, needs to be treated with caution in order to avoid unrealistic expectations in terms of its scope and impact, particularly given that many countries, including African countries, LDCs and SIDS, do not appear to participate significantly in this trend. Developing countries face a considerable challenge in sustaining, maximizing and exploiting the opportunities emerging in the new trade geography, and in particular in mainstreaming into this dynamism the participation of those developing countries that remain marginalized from international trade.

32. Developing-country Governments, their regional integration groupings, and their economic operators need to consult, coordinate and cooperate closely and actively on South-South trade, investment and economic cooperation initiatives to devise strategies and actions to advance mutual trade and investment. Such cooperation needs to be conducted on the basis of mutuality of advantage for all parties to maximize the development gains. Approaches that engage countries and their economic operators in mutually advantageous relationships, in which all participants gain, have higher chances of being sustained and strengthened. The challenge is to develop and implement a strategic approach and positive agenda for South-South trade and economic cooperation. The annex to this note provides an 11-point positive agenda for South-South economic and trade cooperation that was discussed by UNCTAD's Trade and Development Board at its fifty-first session.[8]

A. Drivers of South-South trade

33. Facilitated by major trade and trade-related economic reforms and growing complementarities, growth in South-South exports has generally exceeded that of world trade over the past 10 years. From 1990 to 2000, South-South trade grew at an estimated average annual rate of about 10 per cent, compared to 6 per cent for world trade. With its strong growth, the share of South-South trade in total world trade climbed from 8 per cent to more than 12 per cent over the same period. About 40 per cent of the South's exports are now to other developing countries. This is true for both agricultural and manufactured goods, while the rest is accounted for by the South's trade with developed countries (over 57%) and with transition economies (below 3%). Intra-Asian trade accounts for about four-fifths of South-South trade, but the latter is becoming more broadly based. Strong growth in intra-regional trade in Africa and Latin America, albeit from smaller bases, demonstrates that growing South-South trade is not merely an Asian phenomenon. Inter-regional trade, although relatively small, is also showing signs of growth.

34. Growing South-South trade has been accompanied by increased regional trade and investment facilitated through regional trade agreements. By eliminating tariffs and non-tariff barriers to trade in goods, these regional economic integration arrangements offer important possibilities to build economies of scale; attract FDI at higher levels and on better terms; pool economic, human, institutional, technological and infrastructure resources; and build production and marketing networks between participating countries. Some arrangements may have had a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between them and the rest of the world, while many others have yet to fully attain the free trade goals and realize expected gains (see Table 1). ASEAN and MERCOSUR, for example, have maintained and reached a relatively high degree of regional trade, with CACM, UEMOA, CARICOM and SADC following closely. Intra-trade among some groupings in Asia and sub-Saharan Africa, however, is still relatively low. Recently, developing countries have reinvigorated their regional liberalization programmes and entered into

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20 per cent in the mid-1980s to about 30 per cent today. The South is also becoming an important destination for the exports of developed countries. The growing importance of the South as a producer, trader and consumer in global markets makes it a potential future engine of growth and dynamism for the global economy. For details, see UNCTAD secretariat reports "New Geography of International Trade: South-South Cooperation in an Increasingly Interdependent World" (TD/404) and "Follow-Up to UNCTAD XI: New Developments in International Economic Relations – The New Geography of International Economic Relations" (TD/B/51/6).

[8] TD/B/51/6.

initiatives aimed at a deep integration agenda including trade in services. These changes, if implemented, may further boost intra-group trade and growth.

35. In contrast, while inter-regional trade, another avenue for increasing South-South trade, has also been growing, its potential remains underutilized. For example, only 27 per cent and 12 per cent, respectively, of South-South trade in agriculture and manufacturing are conducted on an inter-regional basis. The Global System of Trade Preferences among Developing Countries (GSTP) provides a potential complementary avenue for developing countries to increase and expand their inter-regional market access opportunities. Ways need to be found to reinvigorate the GSTP, and in this respect, the GSTP Committee of Participants, in the context of UNCTAD XI, decided to launch a third round of negotiations. If effectively followed through, the GSTP negotiations will have a beneficial effect in energizing the GSTP and advancing inter-regional trade.

36. In parallel with efforts to boost South-South trade, developing countries – both individually and collectively under their regional arrangements – have entered into negotiations with developed-country partners on a variety of North-South free trade arrangements, such as the Free Trade Area of the Americas, or North-South-South agreements, such as the EU-ACP negotiations on economic partnership agreements, including on free trade. These North-South initiatives present developing countries with further challenges – not only to derive from these negotiations good deals with net development gains, but also to ensure that they complement and supplement developing countries' regional trade and economic integration processes while ensuring positive and development coherence with their integration into the multilateral trading system. At the same time, membership in multiple regional trade agreements places a tremendous burden on the administrative capacity of developing countries in managing their participation in these arrangements.

B. The need for networking: A facilitating role by UNCTAD

37. UNCTAD plays an important role in helping developing countries and their regional groupings to enhance their internal integration processes, to deal with the interface between regionalism and multilateralism, and to address the interplay among regional trade agreements. For example, as part of the preparations for São Paulo, UNCTAD convened two forums: a forum to mobilize developing countries to consult and cooperate on and coordinate their approaches and actions to address the development interface between regionalism and multilateralism,[9] and an India-Mercosur Forum.[10] UNCTAD's mandate in this area has been strengthened by UNCTAD XI.[11]

38. Given its experience and expertise in international trade and trade negotiations at the multilateral and regional levels, UNCTAD can constitute a platform for the exchange of experiences among developing countries' regional integration groupings. This platform would (a) facilitate exchange of experiences, best practices and lessons learned among policy makers and the private sector and civil society; (b) promote networking and information sharing among regional trade agreements; (c) advance consensus building and international cooperation in addressing the development dimension of regional trade agreements and the interface with the multilateral trading system; (d) assess the

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[9] See "Report on the Rio Trade Week Preparatory to UNCTAD XI", Rio de Janeiro, 7–12 June 2004 – Summary prepared by the UNCTAD secretariat (TD/L.395).

[10] See "Forum on Regionalism and South-South Cooperation: The Case of India and Mercosur" (TD/L.370), and UNCTAD Secretariat note on Regionalism and South-South Cooperation: The Case of Mercosur and India (UNCTAD XI), (TD/(XI)/BP/11).

[11] The São Paulo Consensus (TD/412), paragraph 96, states that "UNCTAD should also examine and monitor the interface between the multilateral trading system and regional trade agreements, including in respect of S&DT, and support regional integration and the promotion of South-South trade. In particular, UNCTAD, in cooperation with other development partners, should help developing countries support and strengthen their trade policy capacity at the regional level, including aspects such as investment, regional institution building, standard setting and business regulation, and provide support to regional integration efforts."

development impact of regional trade agreements; and (e) support the development of trade and technical cooperation projects.

Increasing South-South cooperation in commodities

39. As was noted above, South-South trade has been growing at a brisk rate. Commodities (including semi-processed commodities such as steel and chemicals) account for almost half of South-South trade, and South-South commodities trade grew at 8 per cent a year from 1990 to 2003. Much of this resulted from rapid economic growth in developing Asian countries. China and India saw an annual 14 per cent increase in their imports from developing countries. This was one of the major dynamic elements for international commodity markets in recent years. The share of Asian developing countries' commodity exports to other developing countries (including Asian countries) in their total commodity exports rose from 43 to 62 per cent.

40. Trends in other developing regions are similar, although somewhat less marked. South-South trade in commodities has increased faster than South-North trade for almost all commodity groups and all regions. It is also significant that South-South FDI, particularly Asian FDI into other regions, is on the increase and is stimulated by the rise of some Asian companies, particularly in metals, to the ranks of world leaders. Together with improved export opportunities that could result from changes in the international trading system, including from the Doha round of negotiations, increased demand for commodities in developing countries, particularly Asia, could considerably boost world demand both for raw materials and food products. A "window of opportunity" could thus open up over the next few years, allowing developing countries to substantially improve export earnings from commodities, including from South-South trade in commodities. This would counter some of the recent downward pressure on the prices of many commodities.

41. Neither increasing demand nor improved market access, singly or in combination, can guarantee that developing countries will make major progress in increasing commodity exports or reducing poverty. Efforts are required on the part of these countries themselves (alone and in cooperation), and assistance from the international community will be necessary, for fulfilment of the potential. There is much that developing countries can share with each other and learn from each other, including experience with organizing the commodity sector and commodity trade and establishing the necessary physical and institutional infrastructure, technical know-how, and innovative tools for providing the support that the sector needs. Exchange of experiences among developing-country actors, including both governments and civil society, can help build strong, competitive commodity sectors and strengthen the role of these sectors in economic development. The range of issues that could be raised is very wide and could include such areas as meeting new market requirements, compliance with standards, creation of stronger domestic markets, diffusion of market information and increasing participation in the value chain by developing-country producers.

42. UNCTAD is establishing an International Task Force on Commodities (ITFC) to provide for a comprehensive and systematic consultative framework on commodities, including the areas mentioned above. The ITFC will function informally and flexibly, in a spirit of cooperative endeavour. Partners will include member States (commodity developing countries and interested development partners, especially donors), international organizations, commodity-specific bodies, the private sector, NGOs and the academic community. Concerted efforts by the various parties will make possible new approaches to problems that have defied attempts at solution. South-South cooperation should, of course, play a prominent role in the work of the Task Force. One particular aspect that deserves increased attention is the need for strengthened financial services for South-South trade.[12]

[12] This issue is raised, for example, in the San José Declaration and Plan of Action on South-South Trade, Investment and Finance, San José, Costa Rica, 13–15 January 1997, para. 16. Little has been done to operationalize the proposals in this area, except for intra-Asian trade.

43. Lack of efficient financing not only increases transaction costs for South-South trade but may also act as an effective barrier to trade if neither of the two parties is able to carry the financing burden. A commodity producer would normally prefer to be paid even before selling a product, in order to partially cover production costs, while a buyer would prefer to pay one or two months after taking delivery of the commodities and having time to process and sell them. In North-South trade, a range of financial services has sprung up to fill this timing gap. For example, a developing-country seller who has a contract with a developed-country buyer can obtain financing on the basis of the contract, or even discount his future revenue and thus receive immediate payment. Or a developed-country seller can sell on credit to a developing-country buyer because the seller's credit risks are covered by his or her country's export credit agency. Loans in these scenarios are relatively cheap, at rates close to international lending rates.

44. In contrast, there are very few similar services for South-South trade. While developed countries' export credit agencies are able to provide credits and credit insurance for exports to most developing countries, there are few such agencies in developing countries, and those that exist are often able to cover exports only to developed countries. There are generally no direct links between local banks in developing countries, and one or more developed-country banks have to intermediate, adding at least 1 per cent to the costs of trade. The buyer and seller are likely to have to carry a greater part of the trade financing burden themselves, an unattractive prospect given the high domestic interest rates in many developing countries.

45. There are several steps that developing countries can take to combat the weakness of supporting trade finance infrastructure for South-South trade. One is to set up a network of export credit agencies to create a strong umbrella for South-South trade; UNCTAD is trying to act as a catalyst for such a network. Another is to explore various other ways for governments to promote South-South trade through more efficient payment and credit arrangements (for example, through bilateral payment agreements). Yet another is to improve the capacity of local banking networks and of trade-supporting institutions to support South-South trade – for example, by using structured finance arrangements. Such actions can do much to reduce transaction costs and eliminate barriers to South-South trade, and they may merit further discussion at the 2005 South Summit.

III. South-South investment flows - a potential for developing country governments to tap for supply capacity building

46. Productive capacity is pivotal to any development strategy, and prerequisite to economic growth. The accumulation of investment requires harnessing domestic resources as well as mobilising foreign investment. If the overall policy environment is conducive and supportive, and assuming there is a vibrant entrepreneurial class, countries can build on foreign and domestic capital, enhancing competitiveness and productivity, speeding up technological upgrading, and integrating into the world economy through trade, via supply chains and through equity. Since foreign investment can be coupled with particular skills and technologies, or facilitate inroads into regional or global supply and marketing chains, policy makers in many developing countries are extremely interested in FDI and other inflows. Most countries now feature sophisticated investment promotion agencies designed to attract foreign investors. In fact, there is competition among developing countries for FDI, notably since FDI flows have been stagnating since the early 2000s.

47. This makes South-South investment particularly attractive. Over the past decade, a noticeable dynamism in foreign investment has come from the developing countries themselves who are emerging as outward investors.

South-South FDI trends

48. During the 1990s, developing countries have emerged as sources of foreign investment. There was a marked increase in outflows from developing countries across the board during the 1990s, with

several countries emerging as outward investors. Recently, the surge in outward FDI from developing countries has evened out. This is due to an overlapping of a number of factors – political crises, economic recession, as well as the completion of structural change such as in the area of privatisation. Nevertheless, it is notable that several economies have firmly positioned themselves as outward investors, and it is likely that the others will re-emerge. Such countries include Malaysia, Singapore, the Republic of Korea and Hong Kong SAR, China. There are increasing investments in 2003 from Chile, Mexico and South Africa. Moreover, a take-off in investment is expected from Brazil, China and India.

49. This general trend towards rising South-South FDI flows has been motivated by a combination of push and pull factors, and similar structural, cyclical and policy factors. Some of the push factors include increased competition or limited growth opportunities in their domestic markets - e.g. South African retailing companies in Africa; efficiency-seeking FDI, such as Malaysian manufacturing companies investing in Indonesia and Viet Nam; or the procurement of raw materials, such as China's investments in iron ore and steel mills in Peru, or in oil in Angola and the Sudan. In addition to low labour costs and market-access opportunities, other pull factors for South-South FDI flows appear to be geographic proximity and ethnic and cultural ties. Since the cost of acquiring reliable information about foreign markets and transaction costs can be high for relatively small companies from the South, they tend to invest in neighbouring countries, where they have established a certain familiarity through trade, or ethnic and cultural ties. For example, perhaps because of ethnic ties, companies from the Republic of Korea invest in China and Kazakhstan, and ethnic Chinese companies invest in the East Asia and Pacific region.

50. Although there are no systematic data, there is anecdotal evidence that a relevant share of this FDI is invested in other developing countries. Some analysts suggest that at the end of the 1990s, more than one-third of the FDI in developing countries may have originated from other developing countries. According to these estimates, South-South FDI flows appear to have grown faster than FDI from high-income countries to developing countries (North-South FDI) in the late 1990s, and have remained relatively more resilient in the post-Asian-crisis period as well.

51. The trend in South-South FDI suggests that developing countries are more financially integrated with one another than was believed hitherto. This implies that a typical developing country has access to more sources of investment than before. This is particularly important for low-income economies, because TNCs from the South, because of their comparative advantages, tend to invest in countries with similar or lower levels of GDP than their home countries.

52. To get a more precise picture, it is of interest to examine at the enterprise level the actual FDI players. Within the group of the 50 largest non-financial TNCs from developing countries, Asian firms dominate with 31 enterprises. The largest corporations include Hutchison (Hong Kong, China), Singtel (Singapore) and Cemex (Mexico). The large developing country TNCs span a large range of activities, notably electronics (gradually declining in importance), food and beverages, and cement, signalling the export-competitiveness of the electronics industry, especially in Asia. The strength of food and beverages TNCs is related to market-seeking FDI, also led by Asia and also, to a lesser extent, Latin America. Some service industries feature prominently in the list, in particular transport, with many Asian firms benefiting from the region's rapidly expanding trade.

South-South investment flows: Policy measures and initiatives of developing countries

53. In order to effectively attract this potential pool of inward FDI, developing country Governments and their investment promotion agencies (IPAs) are using a host of approaches and instruments. Many of these are similar to those applied in North-South investment promotion. The underlying principle of national treatment, found in many of the world's investment laws and international investment agreements, codifies that host governments shall, as a matter of law, treat investors of one country, whether developed or developing, the same as investors from any other country.

54. Most investment continues to take place between developed countries, according to the 2004 World Investment Report.[13] This is in part due to the fact that the larger transnational corporations (TNCs) are based in developed countries. The investment promotion and investor targeting strategies of many IPAs are therefore mainly focused on investors based in developed countries. Nevertheless, companies in many of the wealthier developing economies are increasingly becoming major foreign investors in their own right. IPAs in developing countries need to examine the means by which the increasing flow of investment between developing countries can be captured.

55. Several developing countries have in fact established outward investment agencies (OIAs). OIAs are institutions whose prime function is to promote and facilitate investment abroad by carrying out specific outward investment programmes.[14]

56. OIAs are sometimes organized as part of an IPA. Examples include the Korea Trade-Investment Promotion Agency (KOTRA), the Malaysian Industrial Development Authority (MIDA) and the Mexican Investment Board (MIB). The primary objective of these agencies is to help domestic enterprises to develop business links abroad and to pursue overseas business opportunities. Activities of these entities include investment missions and conferences, as well as providing information on the political and economic conditions in foreign countries, regulations affecting investment, investment opportunities abroad and available financing.

57. OIAs in developing countries are not limited to those that are linked with IPAs. For example, institutions that provide development finance can also be considered as OIAs. Investment guarantees can also be considered outward investment promotion/facilitation. Development finance and investment guarantee institutions based in developing countries are particularly important for encouraging South-South investment as their programmes are geared more toward regions where the private sector may otherwise be reluctant to invest.

58. Development finance institutions seek to mobilize private capital for investment in developing countries and transitional economies by providing financing the form of loans, equity and grants for projects in these countries either in their entirety or in partnership with other investors. Examples of this include the Export-Import Bank of Thailand and the Development Bank of Southern Africa (DBSA), based in Midrand. Regional development banks, many of which are based in developing countries such as the Asian Development Bank and the African Development Bank, are also active in this area.

59. Investment guarantees are programmes that insure against risks (commercial and non-commercial) to encourage foreign investment and are especially important for investments in higher risk locations, including a number of developing countries. An example of an investment guarantee institution based in a developing country is the Islamic Corporation for the Insurance of Investment and Export, which was established in 1994 as a subsidiary of the Islamic Development Bank

60. A second means by which IPAs in developing economies could take advantage of the increasing investment potential between countries of the South is to tailor investment promotion and investor targeting strategies to encourage investment from other developing countries. Measures that lower the cost of entry could make it easier for firms in developing countries to invest in other developing countries (a Government could, for example, make incentives available to a wider spectrum of investors by lowering the minimum investment required to qualify). When elaborating investment promotion and investor targeting strategies for attracting investment from developed countries, it should be borne in mind those investments by major companies whose headquarters are based in a

[13] UNCTAD, World Investment Report 2004.

[14] UNCTAD, Advisory Study No. 14, Handbook on Outward Investment Agencies and Institutions, UNCTAD/ITE/IIP/8 (1999).

developed country can and do often use subsidiaries based in developing countries when investing in other developing countries. Strategies along these lines could also, for example, be elaborated around the concept of regional integration.

61. Developing country IPAs can cooperate with each other and exchange best practices in attracting investment from other developing countries. Tools to encourage this include meetings where participants share their experiences, and participation of developing country IPAs in study tours to other IPAs involved in attracting investment from developing countries and/or to developing country IPAs involved in encouraging outward investment.

62. One organization encouraging such exchanges is the World Association of Investment Promotion Agencies (WAIPA). WAIPA was established in 1995 as a non-profit organization open to all agencies whose prime function is to promote any country or territory for investment, and its Secretariat is hosted by UNCTAD. Its annual conferences and its regional workshops are attended by the Association's global membership of 167 IPAs[15], and enable IPAs to share their respective experiences in the work of attracting investment. Many developing countries, particularly from Africa, the Caribbean and Pacific (ACP) countries, have taken advantage of WAIPA's study tour programme, where a majority of the hosting IPAs are also located in developing countries.

A South-South cooperation framework

63. The work of Investment Promotion Agencies (IPAs) and of Outward Investment Agencies (OIAs) needs to be underpinned by a cooperation framework conducive to South-South investment. It is hence encouraging to note that during the last decade, investment agreements between and among developing countries have increased substantially both in number and geographical coverage. This new wave of international investment agreements (IIAs) includes mainly bilateral investment agreements (BITs), and double taxation treaties (DTTs) as well as Preferential Free Trade and Investment Agreements (PTIAs).

(i) Bilateral investment treaties (BITs)

64. Since the first BIT between two developing countries was signed in 1964, the number of South-South BITs reached 36 by 1990. Thereafter the number of South-South BITs more than quadrupled, reaching 588 in end 2004. This represents 25% of the total of 2,300 BITs in the world. In total, 104 developing countries have entered into BITs with another developing country to date, with China, Egypt and Malaysia signing more than 40 South-South BITs. In fact, these three countries have signed more agreements with other developing countries than with developed countries. In general, Asia – followed by Latin America – accounts for the largest part of South-South BITs. Statistical data further reveal that those countries with largest and fastest growing FDI outflows are those with the highest number of BITs, for example China, Malaysia and the Republic of Korea.

65. This phenomenon is occurring as developing countries are increasingly becoming home countries of FDI flows and their companies start to figure more prominently amongst the world's major transnational corporations. In fact, the outward FDI stock of developing countries has grown considerably since 1990, with a particular leap since 1995. In addition, FDI flows originating from and going to developing countries appear to be growing faster than those from developed to developing countries since the late 1990s. Thus, the South-South context is currently witnessing a parallel growth trend of South-South FDI flows and of South-South investment agreements that may be mutually reinforcing. Increasing FDI flows may provide an impetus to protect and facilitate them by means of IIAs, while IIAs, in turn, may play a role in promoting more investment flows.

[15] as of November 2004.

66. Some features are distinctive for South–South BITs. They tend to cover investment protection and promotion, refrain from explicitly prohibiting performance requirements, limit transparency requirements to the stage after the adoption of laws and regulations, and tend to put more emphasis on exceptions and on the so-called fork-in-the-road clause.

(ii) Double taxation treaties (DTTs)

67. A similar, though less pronounced trend is visible in the area of South-South investment cooperation in DTTs. Since the signing of the first DDT in 1956 between India and Sierra Leone, its number grew at a slow rate to reach 96 by 1990. During the 1990s then, 172 new DTTs were signed between 73 developing countries. The growth rate persisted until 2004 where 293 DTTs were entered between 94 developing countries. As a result, today 12 % of DTTs are amongst developing countries.

68. South-South DTTs are concluded throughout all geographical regions, but mainly in South-East Asia and to a lesser extent in Latin America and Africa. India, China and Malaysia accounted for the largest number of DTTs with other developing countries closely followed by other Asian countries while Tunisia stands out among the African and Arab countries. DTTs frequently go hand in hand with BITs to further improve the climate for FDI flows. More specifically, the years experiencing a relatively high increase in DTTs are also those with a relatively high increase in BITs. Interestingly, in the past, the cumulative number of South-South DTTs exceeded the respective number of South-South BITs, but since 1994 more BITs than DTTs exist between developing countries.

69. Due to the specific subject matter dealt with in DTTs, it is not surprising that no specific South-South features can be detected in the DTT universe. Noticeable, South-South DTTs do not uniformly include tax-sparing provisions, although these are deemed to be advantageous to the recipient country's FDI attractiveness.

(iii) Preferential trade and investment agreements (PTIAs)

70. Another important indicator for the rise in South-South cooperation in investment is the increase in Preferential Free Trade and Investment Agreements (PTIAs). Since the first South-South PTIA was signed in 1970 (between the Arab countries), its number grew rather slowly in the decade that followed. However, by 2004 the total number of PTIAs among developing countries reached 52. Today 30 % of all PTIAs are concluded among developing countries.

71. Amongst PTIAs, marked regional variations exist. Latin America and Asia are the most active regions with 29 and 14 PTIAs respectively, while Africa and the Middle East account for a smaller proportion. Moreover, African PTIAs are modest compared to the initiatives in Latin America and Asia. This regional distribution corresponds in part to the pattern of Southern outward FDI flows, albeit the ranking between Asia and Latin America differing in terms of FDI flows and PTIA memberships.

72. South-South PTIAs have been signed at bilateral and regional levels. Moreover, there are so-called "plus one agreements" which have been concluded between regional groups and additional individual countries. This approach is relatively common in Asia and Latin America. South-South PTIAs differ from BITs in terms of the depth and breadth of the investment issues covered. Some South-South PTIAs are rather modest in content because they establish frameworks for promoting FDI and mandates for future cooperation, rather than focusing on far-reaching liberalization and protection. However, they are still an expression of a broader spirit of South-South cooperation.

73. South-South IIAs also vary in terms of their substantive coverage. A number of South-South IIAs stop short of containing far-reaching substantive obligations, but rather establish frameworks for general principles in promoting investment and mandates for future cooperation. Other agreements are substantive in nature, including in as far as the development dimension is concerned. These include

provisions on the establishment of an institutional framework, the granting of flexibility, the provision of technical assistance and capacity building, and the promotion of home country measures.

IV. Examples of UNCTAD support to ECDC activities

A. South-South monetary and financial cooperation

UNCTAD is providing logistic and substantive support to the Intergovernmental Group of Twenty-four on International Monetary Affairs and Development (G-24) aims at strengthening cooperation among the member countries of the G-24 in their preparation of negotiations on monetary and financial issues in the framework of the IMF and the World Bank and other bodies. UNCTAD's support is in the form of a Project of Technical Support, which involves studies and research papers on selected topics prepared by internationally renowned experts and UNCTAD staff.

An element in South-South monetary and financial cooperation that has been gaining importance in recent years is the HIPC Ministerial Network, set up in 1999 by the countries eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. The Network ensures cooperation and exchange of experiences among HIPCs in connection with the process towards obtaining debt relief under the Initiative and their efforts to attain the Millennium Development Goals with the support of the international community. There is a regular exchange of information among senior HIPC officials about macroeconomic policy and poverty, as well as on the prospects for debt relief and long-term debt sustainability. Efforts are under way to further increase the effectiveness of cooperation among the members of the Network, which has become acknowledged as a representative forum by international organisations. The work of the meetings of HIPC Ministerial Network, and its policy recommendations, have been reflected in the Secretary-General's report to the General Assembly on External Debt and Development, prepared by the UNCTAD secretariat, in order to stimulate and influence the international policy debate at the highest level on debt relief and appropriate strategies for achieving the Millennium Development Goals and attaining debt sustainability.

B. Investment

Investment analysis

The Secretariat has prepared an issue note on *"Emerging FDI from developing countries*", which address a number of issues related to the impact on home and host countries of outward FDI from developing countries, particularly in a South-South context. A panel of experts was organised on the subject at the occasion of the 9th session of the Commission on Investment, Technology and related Financial Issues. The secretariat will undertake further work on policies aiming at facilitating South-South FDI and promoting its benefits as well as technical assistance to help developing countries to improve their FDI data collection and reporting systems.

Outward FDI

A number of activities on Outward Foreign Direct Investment (OFDI) from developing countries involving exchange of experiences among the South-South countries will take place in 2005. For instance, a Global Players workshop will be organised in Brazil in May, which involves UNCTAD and exchanging of experiences among a number of developing countries on OFDI. Country case studies on experience of China and Singapore will be presented. Other similar events are also planned. These include a seminar in China and a number of national workshops in developing countries.

Investment Policies Reviews

The Investment Policy Review (IPR) programme provides an opportunity for policy dialogue amongst the various stakeholders at the national and international level. Of particular importance are the peer reviews and comments by other developing countries which are part of the preparatory process and the discussion of the IPRs. In 2004, three IPRs were completed (Algeria, Benin, Sri Lanka) and another five are under preparation. The completed IPRs were presented to the international community in the framework of the Investment Commission, the Trade and Development Board and an Expert Meeting. The programme further expanded in 2004, with IPR recommendations having being implemented in 10 countries.

Investment Promotion

The Secretariat has strengthened its cooperation with the World Association of Investment Promotion Agencies (WAIPA). WAIPA provides its members with a unique forum for exchanging best practices and experiences in the area of investment promotion and discussing important issues in this area. UNCTAD conducted a series of training courses for investment promotion officials in cooperation with WAIPA, e.g in China in September 2004. Regional workshops were held in Algeria (for Francophone Mediterranean countries), Bahrain (for Middle East countries), Botswana (for East and Southern African countries), France (for Mediterranean countries), Slovenia (for East European countries) and India (for the Asian region). In 2004, special training in investment promotion was also given to diplomats from Nicaragua and Peru.

The Study Tour Programme is another initiative aiming at enabling young professional staff of WAIPA member agencies to visit and learn from experienced IPAs worldwide. In 2004, sixteen investment promotion officials from African Caribbean and Pacific countries received IPA training in Uganda, Italy, Costa Rica, Jamaica and Jordan.

Furthermore, the Secretariat has conducted a diagnostic study of the investment climate for the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC).

The potential of international investment agreements has been demonstrated as an essential way to facilitating FDI flows and further the ability of countries to pursue development-oriented policies, and also as a mean of South-South cooperation. UNCTAD's analytical work resulted in the finalization of the first generation of the *UNCTAD Series on Issues in IIAs,* which comprises 28 booklets. The second generation *which* builds on, and expands, the first generation through an analysis of difficult technical issues and innovative ideas to further the development dimension of IIAs was initiated. UNCTAD continued to provide technical assistance through the newly developed distance-learning course preceding the face-to-face training sessions on IIAs with a total of 82 economies (including 27 LDCs) benefiting from ad-hoc seminars, advisory services and training courses. These regional activities as well as the newly developed electronic tools, in particular the email-based Network of IIA Experts (which counted500 registered members in 2004, up from 300 in 2003) allow increase exchange of experiences among participants from developing countries.

C. Enterprise competitiveness

EMPRETEC

In 2004 the EMPRETEC Programme continued to encourage cooperation between member countries participating in the EMPRETEC Programme. EMPRETEC organized several parallel events during the UNCTAD XI Conference that largely were aimed at strengthening cooperation and exchanging experiences and success stories among developing countries. Such events included an EMPRETEC Chronicle and New initiatives, an informal EMPRETEC Directors meeting, a joint EMPRETEC – ITC workshop on successful tools for export promotion, and a joint WAIPA - EMPRETEC roundtable on business linkages, as well as two workshops with SEBRAE on business linkages.

Efforts were also made to continue to further develop cooperation among EMPRETEC centres in developing counties. This included exchange of experiences and provision of training related to entrepreneurship and business development services. In 2004, a number of developing countries participated in the implementation of new EMPRETEC Centres in particular in Guyana and Angola. The installation of the entrepreneurship training programme in Guyana and Angola has been carried out with support from Brazilian EMPRETEC Trainers and in close cooperation with SEBRAE Brazil. Brazilian trainers also conducted a number of entrepreneurship training workshops in Jordan. Furthermore, EMPRETEC Ghana undertook three installation missions to train local staff in Guyana in the area of business development services. Empretec Uruguay continues to lead the installations of the EMPRETEC Centres in El Salvador, Guatemala, Panama and Paraguay. In addition, the internet-based Management Information System, developed and maintained by UNCTAD, continues to provide detailed information on more than 1000 companies of EMPRETEC Centres in Africa, Latin America and the Middle East and facilitates the establishment of business relationships among all empretecos globally.

Financial reporting and corporate governance

During the reporting period, UNCTAD secretariat organized various events in the context of the work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) that facilitated the exchange of experiences among experts from developing countries. For instance, in the area of the practical implementation of International Financial Reporting Standards (IFRS) and corporate governance disclosures, the UNCTAD secretariat created conducive environment for experts to address implementation issues from the perspective of developing countries. As a member of the Developing Nations Permanent Task Force of the International Federation of Accountants, the secretariat have been contributing towards efforts aimed at building capacity in the area of financial reporting in developing nations.

UNCTAD together with two Brazilian partner institutions (Fundaçao Dom Cabral, Ethos Institute) and a number of foreign affiliates in Brazil, established a Study Group to explore a business linkages programme. In four meetings the Study Group examined types and benefits of linkages, mechanisms to foster and develop business partnerships and to identify concrete linkage opportunities. The Study Group resulted in the development of a comprehensive business linkages programme for the Northeast of Brazil, to be launched in January 2005. It is expected that the experiences gained from the implementation of this project will result in the extension of the linkages concept to other countries.

D. Transport and trade facilitation

Access to markets through efficient and cost-effective transport services is a basic pre-condition for developing countries to participate in international trade and globalized production processes. The "new geography of trade", i.e. the increased participation of developing countries in merchandise exports and the growth of South-South trade, would not be possible without global shipping networks, port reforms and investments in transport infrastructure as well as trade and transport facilitation.

In particular South-South trade benefits from improved trade facilitation in developing countries. Developing countries' exporters are more likely to be SMEs, and developing countries' governments and chambers of commerce are in a weaker position to support their exporters when obstacles are encountered in the destination countries. Improved trade facilitation in developing countries is thus even more beneficial to South-South than to North-South trade. Especially intra-regional South-South trade has already been growing faster than inter-regional trade. This may be initiated by lower intra-regional tariffs, but reduced transport costs and trade facilitation measures, too, play an important role in supporting this trend.

It has to be noted, however, that not all developing regions are experiencing growing intra-regional trade and, instead, still depend mostly on trade and transport services with the North. Also, in spite of the emergence and growth of global and regional transport networks, in many developing countries there still exist large areas that are not effectively connected to these networks. Further efforts are thus required to improve transport services and infrastructure especially for least developed and also landlocked countries. The challenge for policy makers is to initiate a virtuous cycle where trade facilitation and better transport services lead to more trade, and more trade in turn helps to encourage improved transport services and trade facilitation.

UNCTAD contributes to such improvements through its analytical work as well as technical assistance and capacity building activities aimed at building sustainable supply capacities through access to adequate transport services and coherent trade facilitation measures. These activities particularly extend to countries in special needs to facilitate their integration into the global economy as well as regional arrangements.

E. Development of human and institutional resources and networking

Launched in 1988, TRAINFORTRADE is an UNCTAD programme for training and human resource capacity building in the fields of international trade, trade-related services, investment and port management. TRAINFORTRADE adopts a train-the-trainers approach to create a cascade effect and to facilitate sustainability at the national and regional levels. These experts are subsequently sent to other developing countries to deliver the courses and train more local trainers and tutors, thereby implementing South-South cooperation in the field of training. For example, experts from Cape Verde trained in the TRAINFORTRADE Port Training Programme now support national deliveries of this programme in Angola in the framework of the Portuguese-speaking network of ports. South-South cooperation is also reinforced through the development of a virtual network, which allows TRAINFORTRADE partner institutions in various countries to exchange information and resources, share experiences and participate in distance learning.

South-South cooperation through the strengthening of regional integration groupings is also a priority for TRAINFORTRADE. Regional integration groupings offer an ideal framework for South-South cooperation through human resource capacity building that uses existing structures at both the national and regional level. Within this framework, representatives from regional organizations and countries in Asia, Africa, Latin America and the Caribbean met in March 2004 in Las Palmas de Gran Canaria, Spain, to examine a regional approach to training in the areas of trade, investment, and ICT development. Following on from this meeting several regional integration groupings from Africa including CEMAC, ECOWAS, IGAD, UEMOA, COMESA, SADC and UMA have requested UNCTAD's assistance in developing joint training and capacity building programmes in key areas of trade and investment. Contacts have also been established with regional organizations in Asia including APEC and ASEAN, and in Latin America with ALADI.

F. Information and communication technologies

Participants in the High-level Conference on South-South Cooperation (Marrakech, Morocco, 16-19 December 2003) declared their interest in the use of ICT for development to strengthen South-South cooperation. They expressed their will to participate in: (i) the Training Resources Platform developed by UNCTAD in the area of trade and development; and (ii) in the UNCTAD e-Tourism initiative.

The Training Resources Platform has been launched at UNCTAD XI under the name “Virtual Institute on Trade and Development”. It helps strengthen the teaching and research capacity of universities in core UNCTAD areas (trade policy, investment, globalization) by developing systematic cooperation and knowledge exchange between UNCTAD and academia, and among university members of the Institute, thereby strengthening South-South cooperation. Today, six universities from Brazil, France, India, Jordan, Mauritius and Tanzania are members of the Institute and their number is planned to reach 15-20 in the coming three years

The e-Tourism initiative was also launched at UNCTAD XI. Based on a wealth of public/private sectors partnerships, the initiative aims to increase the level of autonomy of countries of destination to promote electronically their own tourism product and match it to worldwide demand. The e-Tourism initiative strengthens South-South cooperation through networking and exchanges of best practices, trainers, pedagogical material and expertise, cost/sharing, tools standardization and interfaces, co-advertisement, as well as through the possible co-branding of joint destinations tours.The governments of Cambodia, Lao PDR, Dominican Republic, Madagascar, Mauritius, Senegal, Sudan and Zambia have already expressed their interest in the e-Tourism initiative, as well as COMESA, UMA and UEMOA.

UNCTAD's work in promoting access to and effective use of ICTs in developing countries can foster South-South trade. ICTs and in particular the Internet are expanding the possibilities of developing economies to participate in international markets, through enhanced trade-related information, and in the way goods and services are produced, delivered, sold and purchased.

ANNEX

A Positive Agenda for South-South Trade[*]

1. Increasing focus on South-South cooperation

Governments and economies operators in the South need to more deliberately focus and build on the new dynamism in South-South trade and economic cooperation. Developing countries are already assimilating and actively integrating South-South trade, investment and economic cooperation strategies into their development policies and plans. Success stories need to be replicated more widely and across different regions. These efforts need to be continued and strengthened, particularly with respect to cooperation at the inter-regional level, which remains the weaker link in South-South trade. It also requires full engagement by economic operators of the South and integration by them of South-South business opportunities into their business plans.

2. Boosting trade in new and dynamic sectors

New complementarities can be exploited to help developing countries enter into and build export capacities in dynamic and new sectors in commodities, manufactures and services. Developing countries have become major players in international markets for some of these sectors; they account for 30 per cent of world exports of the 20 most dynamic product groups. Additional work is needed to support South-South economic cooperation to identify opportunities for new – and further develop existing – Southern supply chains in new and dynamic sectors. This will require, *inter alia*, the identification of specific sectors and products, and their actual and potential markets; policy options and practical actions for translating opportunities into actual export activities and higher domestic value added; sharing of experiences and lessons learned; and partnerships and twinning of economic operators.

3. Strengthening regional cooperation and integration

Consolidating and strengthening the South's processes of regional trade and economic integration among developing countries so as to maximize their full potential is a major challenge. The potential for such cooperation has yet to be fully exploited.

4. Expanding the potential for inter-regional trade

Against the backdrop of increasing South-South trade, the time appears ripe for a paradigm shift to promote South-South interregional trade and investment flows, including through trade liberalization. The Global System of Trade Preferences among Developing Countries (GSTP) is a promising avenue for enabling developing countries to increase and expand their interregional trade.

5. Cooperating in commodities trade

With growing South-South trade in commodities, cooperation among commodity producers becomes important in meeting consumption needs in the South in respect of basic commodities, including food and fuel, and ensuring sufficient supplies of production inputs in related Southern supply chains. By enabling Southern commodity producers to achieve sustainable management of their commodity production and trade and increase their participation in supply and value chains, including on a regional basis, South-South cooperation could substantially increase returns to producers. In addition to the well-known coordination that has been achieved by oil-producing developing countries, recent enhanced cooperation between a number of developing countries producing, for example, rice and rubber has also resulted in better prices and returns for their producers.

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[*] This agenda is outlined in the UNCTAD document "Follow-Up to UNCTAD XI: New Developments in International Economic Relations – The New Geography of International Economic Relations" (TD/B/51/6).

6. *Expanding trade in services*

Exploiting complementarities in South-South services trade can offer important trade and investment opportunities. Services have gained prominence in the economies of developing countries and now account for about 50 per cent of their aggregate GDP and 15 per cent of their total exports. Efficient services are also important for economic competitiveness and for advancing human and social welfare. South-South trade in services in all four modes of GATS is on the rise and has substantial possibilities. Most of this trade is currently conducted at the regional level; increasingly, it is being facilitated by the incorporation of disciplines to liberalize services trade within regional trade agreements. Further building up South-South trade in services requires closer cooperation at the bilateral, regional and inter-regional levels in services sectors with high growth potential and that can also positively affect social welfare. These include education services, health services, professional services, construction services, computer and related services, tourism services and energy services.

7. *Cooperating on trade and environment*

Environmental measures – especially in Northern markets but also in Southern markets – affecting exports of developing countries have become increasing stringent, frequent and complex. As a result, these may undermine gains from tariff liberalization by acting as disguised barriers to trade and inhibiting effective market entry. Addressing such barriers becomes important in facilitating trade and assuring market entry for exports of developing countries into other developing countries' markets. Several practical South-South initiatives could be implemented to address these concerns, such as sub-regional early warning systems, regional cooperation in standards development and conformity assessment, and integration of processes to advance harmonization and recognition of equivalency within South-South regional and inter-regional trade arrangements in order to facilitate related South-South trade. An important contribution in this process will be made by the creation, in UNCTAD following UNCTAD XI, of the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries (See UNCTAD document UNCTAD/DITC/TED/2004/7).

8. *Ensuring market entry*

South-South exports, like South-North trade, must respond to requirements such as technical regulations and sanitary and phytosanitary measures. These will need to be addressed, including through sharing of information, setting up of mutual recognition agreements, and coordination and harmonization within regional integration arrangements. Cooperation within the South in dealing with such market entry issues, including restrictive rules of origin, will be important in facilitating market access derived from mutual tariff liberalization.

9. *Cooperating on competition law and policy*

Cooperation in competition law and policy can complement national development strategies and ensure that the gains from trade liberalization expand South-South trade, growth and development. In agriculture, industry, and the services and technology sectors, developing countries need to calibrate competition policy to help build supply capacity and competitiveness and ensure both efficiency gains for the economy and welfare gains for the population. Several regional groupings of developing countries have adopted common regional competition policies, as well as establishing regional consultation forums on the control of cross-border anti-competitive practices.

10. *Enhancing trade-related infrastructure and reducing transaction costs*

Trade-related infrastructure: Much of the trade that would naturally take place between developing countries fails to materialize owing to insufficient trade-related infrastructure. Historically, significant progress has been made in building trade-related infrastructure for North-South and South-North trade, but relatively little effort or investment has been focused on the development of such infrastructure for

South-South trade. Resolving these deficiencies is a fundamental requirement for sustained growth in South-South trade and investment. Resources are needed to build infrastructure and create a virtuous circle whereby the existence of good-quality infrastructure encourages trade and, in turn, increased trade encourages further generation, upgrading and development of trade-supporting infrastructure. Such a virtuous circle will facilitate trade, expand trade support infrastructure, and reduce transaction costs for the products (and services) of developing countries that are particularly competitive and attractive to consumers in the South as much as the North.

Facilitating trade: In trading with each other and with the rest of the world, developing countries confront major problems of trade facilitation relating to excessive trade documentation, insignificant use of information technology, lack of transparency and of clear import/export requirements, inadequate procedures, and lack of modernized institutions relating to customs clearance. In addition, difficulties in obtaining visas, especially business visas, to facilitate South-South business contacts significantly hinder the development of South-South trade and investment. Thus, addressing trade facilitation issues can contribute significantly to reducing inefficiencies in such areas as customs, including through simplification, rationalization and harmonization of procedures, greater transparency, and the elimination or minimization of avoidable administrative and procedural delays and costs incurred in international goods and services transactions, including streamlining and easing procedures for business visas.

Financing trade: One of the crucial bottlenecks in South-South cooperation relates to the lack of adequate and organized finance for South-South trade and investment. Building the required trade and financial institutions and channels should be given high priority, including through enhanced cooperation among the South's trade finance institutions. More support could be given to expanding the capacity of Southern banking systems, especially export-import banks, to provide normal, structured and concessional trade finance for South-South trade. Creating an enabling environment for accessing trade finance for South-South trade would in turn facilitate greater South-South investment in productive activities.

Enabling information flows: Promoting access to, and effective use of, information and communication technologies (ICT) in developing countries can foster trade, including South-South trade. ICT are expanding the ability of developing economies to participate in international markets. In addition, ICT enable trade in other sectors by enhancing market access and broadening the customer base, facilitating customs, transport and logistics. Most importantly, ICT play a critical role in facilitating networking between economic actors in the South.

11. Increasing awareness of opportunities for South-South trade

Trade promotion and marketing activities among developing countries, both regionally and inter-regionally, can be used effectively to increase awareness of business opportunities and promote trade and investment activities. Trade fairs, buyer/seller meets, market surveys and specific sectoral initiatives/expositions could be used to this end by developing countries and their regional organizations. Creating direct, cost-efficient marketing and distribution links, channels and networks between South traders could give a significant boost to South-South trade. Improved information flows should accelerate progress in developing more direct marketing channels, including by stimulating entrepreneurial efforts to capture new trade opportunities.