Is South-South Economic Interaction Any Better for Poor Countries?

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It used to be believed that that economic interaction between developing countries (South-South integration) would necessarily be more beneficial than North-South links. The latter were seen as reproducing the global division of labour that emerged by the mid 20thcentury, whereby much of the developing world essentially specialised in primary commodities and labour-intensive (and therefore lower productivity) manufactured goods, while the North kept the monopoly of high value added production. By contrast, trade and investment links between countries in the Global South were supposed to allow for more diversification because of their more similar stages of development, thus creating more synergies.

In the past decade, these perceptions have changed drastically. First, the emergence of East Asian countries (especially China) as giant manufacturing hubs has been driven to a significant extent by North-South trade and investment. Second, the relations between China, India, Brazil and other "emerging" countries with less developed countries has not always followed the predicted lines.

Indeed, there are growing allegations – mostly to be found in the Northern media, it is true, but not confined to them – that these "emerging" countries are increasingly developing a neo-colonial relationship with poorer and resource-rich developing countries. Thus it is argued that the growing trade and investment links between (particularly) China and India with poorer developing countries exploit the natural resource base of the poorer countries, siphoning them off in ways that are ecologically damaging, inherently unequal and of little benefit to the local people. Moreover, cheaper exports from the semi-industrial countries undermine the competitiveness of local production in the poorer countries, thereby causing further shifts into primary commodity exporting and thereby stunting their development process.

China is said to be dumping its products in economies across the world, and using the resulting foreign exchange surpluses to invest in and provide aid to authoritarian regimes that allow access to natural resources. Similarly Indian corporate investors are said to be engaged large-scale land-grabs in North African countries and predatory behaviour elsewhere.

While there is some truth in these allegations, the complete reality is obviously more complex. Even if the worst-case scenario is believed, it is still the case that primary exporting countries are better off if there is increased competition among those who wish to import from them, since this allows better terms for such exports. In any case, even China's relationship with less developed economies is not really based on colonial-style control of political power, though it can be seen as using aid to acquire political influence. Indeed, China's relationship with such countries is more arm's length than that of many Western powers, largely mediated as it is by markets.

The emergence of new manufacturing hubs and the burgeoning appetite for imports has allowed less developed countries indirect access to the developed world market. Meanwhile the fast growth of newly emerging economies – not just China but Russia, Brazil, India, and so on – has

resulted in rapidly growing internal markets from which these countries stand to gain, providing an important source of demand stimulus even as developed countries are increasingly mired in financial crisis and economic stagnation.

Nevertheless, it is true that much of the cross-border economic interaction has been driven by corporate interests rather than broader interests of the citizenry in general. This explains why so many recent South-South trade and investment agreements (and the resulting processes) have been similar in unfortunate ways to North-South ones, not just in terms of the protection they afford to corporate investors but even in guarding intellectual property rights. To the extent that companies everywhere have similar interests (the pursuit of their own profits) it is not surprising that older North-South patterns are replicated.

To change things in a progressive direction requires a shift in the orientation of South-South interaction. The focus should be to democratise the interaction itself, to work out the ways in which the patterns of trade and investment flows can be altered to emphasise the creation of decent employment in all these countries. In particular, there are immense possibilities for technology sharing and even coordinating technology development in a world where intellectual property rights, still largely controlled by Northern multinational companies, have emerged as a major constraint on development.

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