Perspectives on Global Development 2010
Shifting Wealth

Chapter 7

Collective Responses to Shifting Wealth

Some responses to shifting wealth cannot be made unilaterally, but need collective action. The existing global governance architecture was created following the Second World War and needs updating. Evolution can be seen in the replacement of the G7, first by the G8, then the G8+5 and now by the G20. Originally intended to be a short-term response to the financial crisis, it has in fact become the new forum for discussions on international economic matters. The emergence of new donors such as China, Saudi Arabia and India also reveals the need to re-think development co-operation. As an example of the growing need for collective action, whether at the multilateral, regional or bilateral levels, this chapter focuses on trade policy. Reducing barriers to South-South trade, whether tariff or non-tariff, is an area for mutually beneficial action. Technology transfer between developing countries – through cross-border clusters of specialisation and co-operation along the global value-chain – is another potentially fruitful area for collaboration.

Introduction

This chapter addresses necessary collective responses to shifting wealth. As Chapter 6 has shown, there are many policies and actions that developing countries could take independently to capitalise on shifting wealth. But in an ever-more interdependent global economy, some action will require international co-operation and co-ordination.

The chapter starts with a discussion of the architecture of global governance in light of the growing power and influence of developing countries: its history and evolution; the goals of inclusiveness and representation; and the challenges of efficiency and effectiveness of decision making when more countries are involved. Next, it looks at international negotiations and how shifting wealth has changed the patterns and prospects for new developing-country coalitions. It takes as examples climate change negotiations at the United Nations and trade negotiations at the WTO. The chapter finishes with an examination of two areas where greater co-operation between developing countries could reap significant rewards: trade and technology transfer.

A new architecture for global governance

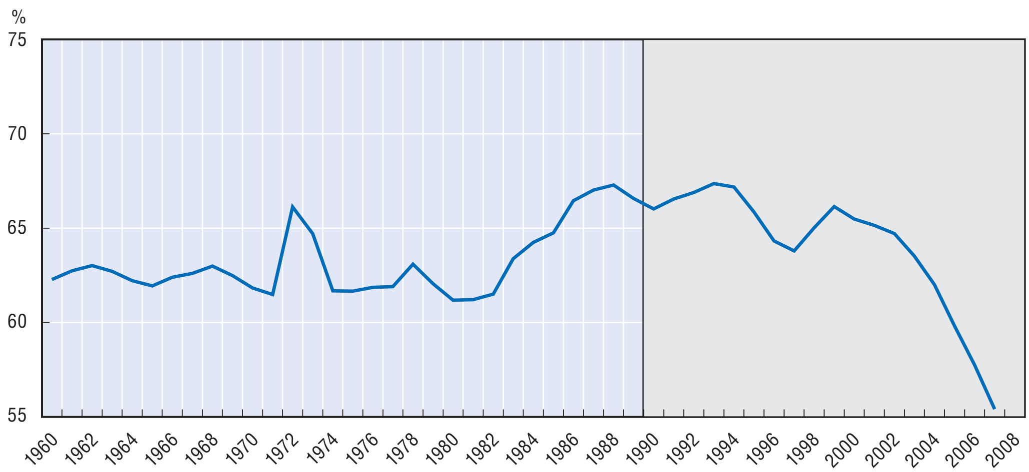
The post-war global economy has been associated with the Bretton Woods conference, which aimed to provide a structure for post-war reconstruction and stable growth in the world economy. The result was a triad of institutions. First was an agency, the International Monetary Fund (IMF), supporting a fixed exchange-rate regime. Its objective was not only to lend stability to the global financial system, but also to avoid the competitive devaluations of the 1930s. Countries agreed to adopt realistic parities and to discuss devaluations with the Fund whilst the Fund would give loans to countries to deal with speculative attacks. Second was a new bank, the International Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank, to guarantee and provide loans to countries to finance infrastructure and other needs for development. Third was a trade body tasked with ensuring ever more open markets for exports and imports and supporting growing world trade. This emerged in 1947 as the General Agreement on Tariffs and Trade (GATT), and became the World Trade Organisation (WTO) in 1995.

For over 60 years, this triad of institutions has provided the bedrock for international co-operation on economic organisation. Each organisation has evolved as differing circumstances arose. The role of the IMF was fundamentally changed by the adoption in 1971 of floating currencies throughout the industrial world. It progressively refocused its activities on developing countries and began to apply policy conditionality (Mold, 2009). Over time the IBRD shifted from a focus primarily on infrastructure lending to an entity guaranteeing and providing loans linked to policy conditionality. In recent years as China, India, and other larger countries have accumulated significant reserves of their own it has transferred its focus to smaller poorer countries, particularly in Africa. The GATT succeeded in significantly reducing tariffs through its negotiations, and also began to spread and broaden its coverage to other issues such as services and intellectual property, a wider role that was recognised by the establishment of the new WTO, formed in 1995. Through all these changes the basic triad structure endured. While in the case of the WTO the point is debateable (it operates under the principle of one country, one vote), broadly speaking decision-making power in the Bretton Woods institutions is still dominated by the industrialised nations and the G7 (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States).

Such arrangements are less tenable in a world in which the G7 accounts for a declining share of global output (Figure 7.1). Since the financial crisis, in particular, we have seen a potentially major change in this institutional setup, the dimensions of which are yet to become clear. The triad is not now redundant or being replaced, but there are new institutional responses to the global problems which are not well addressed by existing institutions. New South-South coalitions are emerging, and they are becoming increasingly assertive in international forums (Sanahuja, 2010).

Figure 7.1. **Declining share of the G7 in global output, 1960-2008**

Share of global GDP at market exchange rates



Source: Authors' calculations based on World Bank (2009) and Maddison (2009).

StatLink http://dx.doi.org/10.1787/888932288679

Modernising representation

The debate on the reform of the Bretton Woods institutions has been defined by the need to restore representativeness to the system, so that the institutions reflect the shift in economic power toward emerging countries (Boughton and Bradford, 2007). Although the institutions governing world finance and trade have adapted over time, there remains a clear disconnect between economic developments on the one hand and their institutional reflection on the other. This is particularly true of the power balance within them.

Any new order should reflect the emerging balance of economic power rather than that of two generations ago. One proposal put forward is that the European Union could create space for the rapidly growing emerging countries by moving to single representation. This change could even benefit Europe by raising its profile and increasing its influence in international affairs (Padoan, 2007). Single European (or euro-zone) representation, if set at the same level as for the United States (a little over 17% of the voting rights, in the case of the IMF), would arguably carry more clout than the current sum of EU representatives (despite their having close to 30% in total). In the IMF, greater involvement by the large emerging countries would also be more likely if the United States relinquished its veto. Chinese economists (for example Yongding, 2009) have cautioned against committing any funds to the IMF before the removal of the US veto. Currently the voting rights in the IMF of Brazil, the Russian Federation, India and China total 9.6% – about half the US share.

Including all those who matter

Global governance still fails to be truly inclusive. Low-income developing countries make extensive use of the insurance and intermediation services supplied by the multilateral financial institutions yet have little or no meaningful representation within them. Such countries have a large stake in ensuring that regulatory reforms do not stifle their development prospects and yet have little direct say in how negotiations progress. Developing countries need to be made part of the international regulatory-reform process, side-by-side with emerging and advanced countries. The challenge is to find ways to have small countries participate in global governance without imperilling effective negotiation. Two possible mechanisms for meeting this challenge are double-majority voting or delegated voting.

Double-majority voting requires a measure to secure both a majority of weighted votes (each country weighted by GDP) and a majority of countries (by number). Double-majority voting would recognise the interests of the major creditors who hold more shares (since in a reformed institution they would have the heaviest GDP), while at the same time rendering the decision-making process more inclusive. Requiring that key decisions win a majority of country votes would give developing countries for the first time the means to block major changes that they as a group are unwilling to support (Birdsall, 2009). Double-majority voting for elections of new presidents is now the rule at three of the regional multilateral banks.

Under delegated voting, nations are assigned to constituencies each of which provides one voting delegate. The constituencies can be of variable size and indeed may comprise a single nation. This is the mechanism used now at the IMF Executive Board, albeit with unreformed voting shares. Better representation of the broader membership in the Bretton Woods institutions is hindered by the current split between those countries that appoint national representatives (that are effectively in a constituency of one) and the others. The Fourth Pillar (Civil Society) Consultation on the Reform of IMF Governance suggests multi-country constituencies of equal size for all IMF member countries (Lombardi, 2009).

The rise of the G20

Outside of the triad, other international forums have become more prominent in global governance. The G20 was formed in 1999 as an opportunity for finance ministers and central bank governors from both developed and emerging-market countries to discuss financial issues. Large emerging countries started to have more sway in financial markets in the 1990s, and the Asian financial crisis of 1997-98 showed that emerging markets were too important to exclude from international economic discussions. With the onset of the current financial crisis, the G8 leaders convened a G20 summit to discuss and co-ordinate policy responses. At their September 2009 Pittsburgh meeting, the G20 leaders announced that in future the G20 would be the premier forum for international economic co-ordination, supplanting the G8's role.

The launch of this G20 process and the enlargement of the Financial Stability Forum (now Board) represent an acceleration of a trend of granting the converging powers more standing. It builds on China's role in the WTO since its entry in 2001, and their visibility in international climate discussions and the governance of international financial institutions. However, the G20 is neither multidisciplinary nor truly multilateral, since it focuses only on macro-financial issues and excludes (currently) the other 175 countries in the world. This narrow range may risk development co-operation, social, educational, security and environmental themes being neglected in global governance.[1]

The global crisis showed that finding common solutions toward sustainable long-term growth needs multilateral responses and greater inclusiveness. The crisis also exposed the limits of the "one organisation per issue" approach to global governance. The belief that a specific agenda should be assigned to a certain institution on an exclusive basis has proved inefficient (Gurría, 2010). It is useful to take a look at the same problems from different angles – although international organisations should co-ordinate and avoid duplication (Reisen, 2010).

Some argue that the shift to the G20 – precisely because it draws in the large emerging countries – actually risks undermining multilateralism, and that it marginalises the smaller countries, many of which are in Africa. Accepting its imperfections, the G20 is more inclusive than what went before. The key issue from a developmental perspective is the extent to which this new configuration will work in favour of development.

The reality is that large developing countries have always had more negotiating clout – and enjoyed more policy space – than their smaller peers. Countries such as Brazil, China, India, Indonesia, Nigeria and South Africa have always enjoyed more margin of manoeuvre than smaller developing countries. A good example of this can be found during the period of structural adjustment, when large countries were generally able to choose the pace and degree of liberalisation, but small African countries were expected to take the medicine in one go, with Latin American countries in an intermediate position (Stewart, 2006). If such a two-tier treatment becomes institutionalised, what we can look forward to might not be the catastrophic implosion of developing-country aspirations as a whole, but rather what Churchill once called "the agony of little nations" (Mold, 2007). That would be a lost opportunity for development policy.

Ensuring effective multilateral co-operation

Multilateral action will not be easier in the realigned global setting in which China and other large emerging countries have more weight than before. Pisani-Ferry (2010, p.10) has pointed to China and the United States where "the structure of domestic power does not bode well for the multiplication of binding external commitments and where willingness to accept encroachments on sovereignty is in consequence limited. China sees existing international arrangements as a way of preserving the global *status quo* and thus EU/US power, at the expense of developing countries."

This reticence to multilateral co-operation could be overcome if the benefits were more clearly visible for the emerging powers. As part of this, it is of great importance to separate positive-sum ("win-win") issues from the much more difficult zero-sum issues, which are about the sharing out of some limited resource or right. Pure zero-sum issues arising from the rise of the converging powers do exist (Pisani-Ferry, 2010). First, a rebalancing of influence will see the relative weight of the advanced countries diminish.

And second, there will be pressures for a redistribution of the stock of global commons, particular in relation to climate change and extraction rights for exhaustible resources. In such zero-sum settings, it is quite possible that emerging powers will continue to prefer bilateral agreements with resource-rich developing countries over multilateralism.

The resurrection of multilateralism is certainly high on China's policy agenda when it comes to global trade and global money. A recent Chinese presentation (Yu, 2010) painted China's interest in global governance as a "Grand Bargain": China would relinquish its rigid currency peg and some of its accumulated foreign-exchange reserves in return for increased voting shares in the international financial institutions and for resuming the stalled WTO Doha Development Agenda. "Winner-takes-all" issues such as international money (Reisen, 2009) and global regulation, where the dominant power tends to have disproportionate influence, will be particular candidates for global governance reform brought about by the rise of the converging powers.

Aid – Making international action efficient

The governance architecture for aid is another area which needs to adjust to incorporate new actors. As another sign of shifting wealth, the number of bilateral donors who are not members of the OECD's Development Assistance Committee (DAC) has grown rapidly at the beginning of the new millennium (see Chapter 3). The Paris Declaration emphasised the importance of efficiency in aid delivery. "Excessive fragmentation" of aid at the global, country or sector level impairs effectiveness, increasing transaction costs and overburdening partner administrations. The Declaration goes on to call for increased donor complementarity. The ever increasing number of bilateral donors, while welcome, risks adding to this fragmentation. Concerns have been voiced that competition from emerging donors and lenders permits recipient governments to turn down aid that is pegged to conditionality on good governance. Another source of concern is that lending practices of emerging donors might negatively affect debt sustainability in the poorest countries.

Many representatives of Western donor agencies conclude that these policy concerns can be addressed by assimilating new donors into existing frameworks of soft law in the field of development co-operation. The established donor community has certainly been trying hard to engage China and other emerging countries in a policy dialogue. The DAC launched an outreach strategy in 2005 in order to foster dialogue and co-operation with non-DAC donors. A China-DAC study group has been created to look at selected aspects of China's development co-operation in Africa.

Assimilating new actors into established frameworks of standards and best practices is of special interest for the OECD whose operational model is based on international soft law and peer review. Soft law is not effective when its reach is not global. While geopolitical considerations outlined by Paulo and Reisen (2010) may provide barriers to a rapid integration of eastern donors into existing soft law, both sets of donors share some important common concerns about development and poverty reduction. Both China and India follow the Bandung principles of the Non-Aligned Movement (1955) as the main guidelines for South-South co-operation: mutual respect for territorial integrity and sovereignty; mutual non-aggression; non-interference in internal affairs; mutual equality and mutual benefit; peaceful coexistence. Solidarity between developing countries is also the fundamental motivation of Arab aid, though here with a special emphasis on Arab and Muslim solidarity.

The inclusion of emerging development partners into existing soft law frameworks needs solutions that reconcile the requirements of transparency with new and different modes of development co-operation – Chinese aid, for example, is generally bundled together with investment and trade deals, blurring the distinction between private investment and public aid. The emergence of new donors with very different approaches to development co-operation may require a move from a system which is still largely donor-dominated to one giving an enhanced role to partner countries, for example through "reverse conditionality" – putting recipient development partners into the driving seat as they compare, evaluate and select co-operation offers from new and old donors (Mold, 2009).

Changing interests and coalitions in international co-operation

The new configuration of the global economy has changed the negotiating power of the large emerging economies within international negotiations. Examples of this can be seen in a number of issues on the international agenda. This section focuses on two in particular: climate change and trade.

Coalitions in climate change

The Bretton Woods institutions were not set up to recognise physical interactions between countries, which they saw as linked only by trade and finance. They provided no forum for negotiations on global warming. These have taken place within the United Nations Framework Convention on Climate Change, adopted at the United Nations Earth Summit in 1992 which then came into force in 1994. Since then, successive rounds of discussion and negotiations have taken place on an almost annual basis.

These climate negotiations demonstrate the impact of shifting wealth on the negotiating power of emerging and developing economies within international fora. A meaningful agreement without China, India, and the Group of 77[2] is not possible. With huge populations and growing emissions, their leverage is large. Nor, in sharp contrast to the Bretton Woods world, can the industrialised countries go it alone and rely on their own global weight to carry others in their wake. Yet the two sides approach the problem from divergent perspectives, reflecting their very different starting points.

An example is emission reductions. The joint interest in securing a reduction is accepted but how to divide the restrictions and costs involved among countries is much less clear. A central element is money: how much are developed countries prepared to put on the table to bring the developing countries to the negotiations? Developing countries are asking for what many regard as large sums (perhaps USD 200-300 billion per year after 2012), while developed countries are talking of much more modest amounts (USD 10 billion per year after 2020).

The size of this gap is evidence of a clear North-South divide over global climate arrangements, a divide which is prompting new developing-country coalitional activity. Shared opposition to northern insistence on an annual emissions cap, for example, has led China and India into a pact under which they will take a joint negotiating stance for the next five years. Such co-operation would have been unthinkable even a few years ago. It creates a block which represents half the world's population.

Broader questions are emerging, too, as to how these climate-change negotiations link to other international negotiations covering classic North-South issues. Outside the WTO system, for example, there have been calls – most notably in the European Union – for border tax adjustments to offset the additional production costs of including carbon as an input to production.

New patterns in multilateral trade negotiations

Sustained surpluses in the balance of payments of most emerging countries have changed perspectives on the political economy of regulatory frameworks for trade and capital movements. On trade issues, protectionist calls have become more prominent in the advanced economies, while levels of protection remain considerable in many developing economies.[3] The emerging trade powers – China, India and Brazil – have fared quite well with unilateralism and regionalism while their commitment to multilateralism is relatively untested. They, like the United States, the European Union and Japan, have enough market leverage to defend their interests.

The WTO has a unique position in the governance architecture of the global economy, in the sense that it is the only Bretton Woods Institution which uses the principle of "one country, one vote". Because the WTO's consensus-based rules and negotiations are anchored in shared values, such as reciprocity, transparency, non-discrimination and the rule of law, it should in principle benefit small nations disproportionately (Baldwin, 2006). Since the meeting at Cancun in 1999, the current Doha round of multilateral negotiations (the "Development Round") has stalled, weighed down by differences over issues such as agricultural subsidies, Trade Related Intellectual Property Rights (TRIPS), Non-Agricultural Market Access (NAMA), services trade and government procurement. The crisis has made reaching an agreement all the more difficult: in a booming economy, it is easier for countries to accept trade liberalisation – to do otherwise is perceived as a lost opportunity to gain from global growth, and perceptions of winners and losers are muted. Post-crisis, all participants seem to agree on the importance of avoiding falling into protectionist beggar-thy-neighbour polices. Nevertheless, for the time being it would seem that their underlying confidence in the state of the global economy is not conducive to concluding an agreement.

The large countries in the South do not necessarily speak for all

Despite the much stronger positions of some emerging countries in the negotiating forums within the WTO, "drawing a few large fast-growing developing countries into the exclusive circle of power does not make the WTO more developmental, nor does it make the institution more inclusive" (Scott and Wilkinson, 2010, p. 150). South-South trade relationships are certainly not exempt from tensions, even among the large developing countries. India's trade deficit with China, for example, widened to USD 16 billion in 2009. Echoing anxieties also voiced in Africa and Latin America (see, for instance, Paus, 2009), Indian officials and industrialists have expressed concern that India's exports to China are predominantly raw materials, whereas trade in the other direction is of manufactures which are undercutting India's small and medium-sized businesses.

Agricultural issues are one of the main bones of contention at the WTO. The agenda is being shaped increasingly by developing country coalitions – joint action by India, Brazil and South Africa contributed crucially to a situation of deadlock at the WTO ministerial meeting in Cancun by pressing for fundamental changes to the developed world's agricultural subsidies regimes. Such groups continue to push for more progress on three main issues: agricultural tariffs; the support that developed countries provide to their farmers; and agricultural-export subsidies. Hertel *et al.* (2007) suggest that developing-country poverty could be reduced by liberalising both developed countries' agricultural trade (to increase agricultural prices in developing countries), and developing countries' trade (to reduce food prices). However – as the simulation exercises in Chapter 3 clearly show – the true developmental potential of further South-South liberalisation lies in trade in manufactures rather than agricultural products. The situation is complicated further by the fact that some estimates suggest that Chinese farmers may be the largest absolute losers from global agricultural reform (van der Mensbrugghe and Beghin, 2005) – there are thus no guarantees of Chinese support on this issue.

Another example of a conflict of interest within the WTO between developing countries is with regards to calls for a "Special Safeguard Mechanism" (SSM). During the negotiations of the Doha round, the "G33" group of developing countries requested the SSM to allow an increase in tariffs if imports flooded the local market or if the prices of imports fell too low to guarantee the survival of local farmers. While the United States and Australia have been opponents of this instrument, some of its fiercest critics have been among exporting developing countries – Argentina, Malaysia, Uruguay, Thailand and, to a lesser extent, Brazil. The objection is that the SSM would affect South-South trade. They do not want a mechanism that could affect their small farmers who export (Kwa, 2010).

The current pause in multilateral trade negotiations provides an opportunity for developing countries to take stock of the situation. Arguably they would benefit from taking greater initiative in the review and reform of the multilateral trading system. A review of WTO rules from a development perspective would need to extend to an examination of the basic principles of national treatment, liberalisation and reciprocity; the body's decision-making processes and governance; and its specific agreements (for example covering agriculture, services and intellectual property). Khor (2008) argues that this would require a revitalisation of other institutions in the multilateral trading system such as UNCTAD. It would also need to address issues not covered in WTO but key to developing countries, such as commodities. A reformulation along these lines would require much South-South co-operation and co-ordination of positions and processes.

There are some particular areas in which developing countries have a strong vested interest in making sure the agenda moves forward. Some are most appropriately pursued in a multilateral setting, others regionally or bilaterally. The key question is how poor and struggling countries, can take advantage of the new configuration in the global economy. Trade and technology transfer are two areas in which developing countries would benefit from co-operation with each other.

Trade – and the need for the South to work together

Trade is one of the most powerful and direct channels for transmitting the impact of shifting wealth. Chapter 3 documented the rise in South-South trade over the last 20 years, and its sharp acceleration in the last ten. There is scope for even greater dynamism. The simulations in Chapter 3 show that the gains from liberalising South-South trade are much higher than for North-South trade: by bringing South-South tariffs down to northern levels developing countries could enjoy welfare gains of USD 60 billion. This is almost double the estimated gains which would accrue from bringing down North-South applied tariffs to the same average that applies on North-North trade. These results in themselves are unsurprising as applied and bound tariffs continue to be much higher on South-South trade (notwithstanding special schemes such as the Indian and Chinese preferential market access schemes for low-income countries). The results do however give an idea of the scope for further increasing South-South trade. Moreover, this kind of study only reports the static gains; the dynamic gains through, for example, greater competition are potentially much larger. Deep trading links with dynamically growing regions have a far better payoff in terms of growth than links to slower-growing more mature markets. For low-income, non-converging countries the opportunities are too important to be missed.

Developing countries are clearly aware of the importance of South-South tariff reductions and are pursuing this agenda outside the WTO. Their negotiations, known as the "São Paulo round", were launched in 2004 on the occasion of the UNCTAD XI quadrennial conference in São Paulo, Brazil. Through a technical co-operation agreement with UNCTAD, member states of the Global System of Trade Preferences are trying to pave the way for greater tariff reductions. In December 2009, 22 participating nations (including Egypt, Morocco and Nigeria) agreed to cuts of at least 20% on tariffs that apply to some 70% of the goods exported within this group of nations. A timeline was set for intensive negotiations to conclude the agreement by the end of September 2010.[4]

Opportunities for South-South agricultural trade

The potential for increased agricultural trade among developing countries is great. For example, sub-Saharan African agricultural markets currently suffer from much fragmentation, with little cross-border trade in agricultural produce. Contrary to conventional wisdom, factor endowments between different countries in Africa are often highly diverse, leaving a large – and currently untapped – potential for mutually beneficial trade in products like food crops. Greater intra-African trade would reduce annual variability in supplies, and create a huge potential market for the smallholders who represent the backbone of African agricultural production, particularly in the food-staples sector (cereals, roots and tubers, and traditional livestock products).[5]

For example, Kenya is a land-scarce country with an inefficient agricultural sector. A policy of self-sufficiency would therefore lead to high food costs. Yet Kenya's land-locked neighbour Uganda has relatively abundant land with reliable rainfall. Uganda could supply food to Kenya at much lower prices than currently prevail in Kenya, and this in turn would permit urban wages in Kenya to fall in terms of manufactured goods, without reducing the living standards of Kenyan workers. As a consequence, competitiveness could be enhanced (UNIDO, 2004; Ravallion, 2009).

The barriers which need to be removed to make such proposals feasible are the familiar ones associated with high transport and frontier costs. Trading costs, which are high in low-income regions generally, are still higher in sub-Saharan Africa according to the IFC Doing Business database. The World Bank (2009) has estimated that Africa has a USD 93 billion deficit in financing for its infrastructure projects. In recent years, China has been especially active in this area. New infrastructure projects should be directed towards meeting the needs of the domestic economy and promoting intra-regional trade, rather than focused simply on reducing transaction costs for raw-material exports, as has often been the case in the past. Reinvigorating the New Partnership for African Development strategic plan for infrastructure with new infusions of finance would be one way forward.

Preferential market access for struggling and non-converging countries?

Some authors have argued that what Africa needs to deal with the challenge of growing competition from the emerging economies is a policy giving all African countries (not only the poorest) preferential access to the markets of OECD members, with no rules-of-origin requirements, for a period of 10 to 15 years (see, for example, Commission on Growth and Development, 2008, and Collier and Venables, 2007). This argument for preferential treatment is based on Africa's "threshold problem" – the fact that regional trade between neighbours is low and so African countries cannot exploit agglomeration benefits (Collier and Venables, 2007).

However, recommendations for preferential treatment ignore the relatively disappointing developmental impact of preferential access schemes in the past, as well as the enormous degree of erosion in the relative value of preferences over the last three decades (Mold, 2005a). Average industrial tariffs in the OECD countries now stand at under 1%, meaning that the only area where meaningful preferential access can be conceded is in agricultural products. Contrary to the original intention of preferential access – providing strong incentives for diversification towards industrial products – such preferences now, paradoxically, offer incentives to remain specialised in agricultural commodities.

However, because developing country industrial tariffs are still typically much higher than those of OECD countries (see Chapter 3), there is still considerable scope for preferential market access to expand manufacturing trade with the emerging countries. In 2007, Brazil announced that it was to offer quota-free market access to 32 developing countries which fall into the least-developed country (LDC) classification. African governments have encouraged industries to intensify their ties with India through India's Duty-Free Tariff Preference Scheme for 34 African LDCs. The scheme provides market access on tariff lines that comprise 92.5% of global exports of LDCs and cover 94% of India's total tariff lines (Sen, 2008). In October 2009, China also announced the elimination of tariffs on 60% of imports from LDCs. However, this is still well below the coverage given by European schemes like the Everything But Arms (EBA) agreement, which gives tariff reductions on 100% of LDC exports. So far, there have been no rigorous studies as to whether such offers by the emerging countries are taken up, or whether in practice they offer significant market-access opportunities. Certainly, governments and businesses in low-income countries could be more assertive in taking advantage of preferential access. For example, China offers duty exemption on over 400 African exports to China, but few governments seem to actively take advantage of this opportunity (Standard Bank, 2009).

The key issue here is that such concessions are offered in the context of a booming trade relationship. In the past many LDCs have not managed to fully take advantage of schemes like the European Union's EBA agreement because of complex rules of origin or simply through administrative problems in taking advantage of the duty reductions (Mold, 2005b). These are errors which developing countries themselves need to learn from if their own preferential market access schemes are to be effective.

Avoiding own-goals with trade – the reduction of Non-Tariff Barriers (NTBs)

Chapter 3 investigated the scope for South-South trade liberalisation in terms of welfare improvement. South-South tariff reduction represents a necessary but not sufficient condition to expand South-South trade flows. NTBs a long list including licensing, quotas and tariff quotas, voluntary export restraints and price-control measures, and extending to import controls on food and phytosanitary standards as well as rules of origin – are not just a North-South problem. African countries often apply NTBs in a way which damages their own developmental progress through loss of intra-regional trading opportunities (Mold, 2005b).[6]

South-South trade has been characterised by an increasing number of NTBs. Cases from regional dispute-settlement mechanisms in the WTO provides a good account of barriers to market access encountered in intra-regional developing-country trade (OECD, 2005). A telling instance in which developing countries have acted to remove tariffs intra-regionally, but then undermined this by maintaining or even increasing their use of NTBs, is the Central America Common Market (CACM): half of the complaints brought by CACM members against other members during 2003-04 involved various fees and charges on imports. The phenomenon is not confined to Latin America, and has been reported widely in Africa, the Middle East and the Caribbean (OECD, 2005).

Developing countries have become extremely active in Anti-Dumping (AD) and mainly targeted other developing countries (Table 7.1).[7] Prior to the 1990s, developed countries (primarily Australia, Canada, Europe and the United States) were responsible for up to 97% of all AD initiations and 98% of all measures. From the 1990s onwards, developing countries became more active users of AD measures. Since 1995 they have accounted for 64% of all AD initiations and two-thirds of AD measures. The top five developing countries using AD measures are India, Argentina, Mexico, South Africa and Brazil (WTO, 2009). Between the beginning of 1995 and the middle of 2008, Latin American countries initiated 162 AD measures against Chinese producers, of which 115 were approved by the WTO (Paus, 2009).

Table 7.1. **Anti-dumping initiations, 1995-2007**

Number, by user and target

User	Target		Total
	Developed countries	Developing countries	
Developed countries	262	904	1 166
Developing countries	566	1 488	2 054
Total	828	2 392	3 220

Source: WTO (2009).

StatLink http://dx.doi.org/10.1787/888932289059

Shifting wealth provides a new impetus to effective regional co-operation and integration

Regional trade agreements among southern partners need to be made more effective. In both Africa and Latin America, there has been a relatively long tradition of reaching regional trade agreements, without actually managing to put them into effective practice (Cardoso and Holland, 2010; UNECA, 2006). Shifting wealth provides a new opportunity to break with that legacy. If regional agreements in the South have failed in the past, it is broadly because participants did not really have sufficient faith in intra-regional trade – they were often trapped in the old North-South mode of thinking even when expressing aspirations in favour of greater economic links with their neighbours and other developing regions. With the increase in dynamism and depth of South-South linkages, however, the potential gains are much larger, and the potential losses in terms of trade diversion are much smaller.

The desire to strengthen regional co-operation in the economic, monetary and financial domains reflects in part a response to concerns over multilateral intrusion into areas of national sovereignty. Regionalism can also potentially help shield countries from global instability (Amsden, 2007). The rise of the large emerging countries is likely to strengthen renewed interest in regional co-operation. Because many of the competitive advantages in global markets that India and China enjoy stem at least in part from their large size (through the workings of scale economies and lower sunk costs), regional integration becomes all the more imperative for smaller developing countries. Moreover, there is some evidence to suggest that the spectacular growth of global trade over the last two decades has been principally driven by regional processes (Chortareas and Pelagidis, 2004). There are political as well as economic benefits from regional integration. The changing balance of power provoked by shifting wealth will require smaller countries to work together more effectively or risk becoming marginalised in decision-making processes.

Especially interesting is the "open regionalism" promoted within Asia. Most Asian countries "insisted that regional integration focus primarily on the promotion of economic development, and that trade liberalisation should be promoted gradually" (Kojima, 2002). Asian emerging powers have tended to embark on co-operation with their neighbours, such as in the framework of the Association of Southeast Asian Nations (ASEAN)+3 forum or the Chiang Mai initiative, a multilateral currency swap arrangement among the ten members of the ASEAN, China, Japan and Korea. The initiative was launched in March 2010 and draws from a foreign exchange reserves pool worth US 120 billion.

Technology transfer

The development of strong technological capabilities in some southern countries and diversification of exports in many others create new potential for co-operation. These poles of higher-tech expertise and skills, coupled with the spread of low-cost and effective communication technologies, widen the prospects for cross-border clusters of specialisation and co-operation along the global value-chain among developing countries, supporting technology transfer. In the 1960s and 1970s such transfer was one of the clarion calls of the development movement, particularly through forums like UNCTAD. But for different reasons the issue disappeared from the debate in the 1980s and 1990s.

In the light of the new circumstances, it is perhaps time that this was reconsidered. Given their role in the – ever expanding – framework for intellectual property rights, organisations such as the World Trade Organisation (WTO) have become focused on defending rights to rents from existing technologies rather than facilitating the flow of new technologies towards poorer countries. As Chapter 5 demonstrated, the issue is of great importance to development. The difficulties of keeping up with ever faster technological change are creating new barriers against the full integration of many developing countries as competitive members of the global economy (see also Dahlman, 2009). Software provides an instructive example. Software technology is gaining prominence in national strategies for the development of information and communication technology. There has been a surge in regional and bilateral co-operation in software development in recent years, especially in e-governance and e-learning. Most technical capacity, however, remains concentrated in China, India and a few Southeast Asian countries.

The burning question is whether the leaders in this process of technological dynamism in the South – Brazil, China, India and South Africa – will draw smaller and weaker countries into the benefits of their technological dynamism, or whether they will simply become a "second-layer" next to the OECD member countries (Altenburg *et al.*, 2008). In principle, they could provide technological access more broadly and at a more affordable price (*e.g.* through licensing agreements). The challenge is to make sure that this relationship does not become one of dependence and simply widen the breach between converging and struggling or poor countries in coming years. Having been argued about for decades in multilateral forums and bilateral negotiations with OECD members, it is clear that technology transfer needs to be put back on the agenda this time in a wider context. Continuing to restrict the debate to the protection of intellectual property will not suffice against the backdrop of shifting wealth.

Conclusion

The new configuration of global economic and political power means that the affluent countries can no longer set the agenda alone.

This chapter has explored some of the dimensions in which the parameters of global governance have already been altered by shifting wealth, focusing on the implications for development. Clearly there is an urgent need for greater and more forceful multilateral action. The world's problems are becoming increasingly global, and if they are to be solved, then responsibility and solutions must be shared ones. As the world emerges from the financial crisis, co-operative solutions in many fields have become imperative.

Multilateral negotiations are often hard and slow. This should not be allowed to distract from the many areas where development benefits can be secured by co-operation among countries. Opportunities for change on this scale come along once in a lifetime. Doing so may require greater and more determined international action by players not used to having their voices heard. They will be more effective if they work together.

Notes

1. The contribution of institutions such as the OECD with its capacity to measure and benchmark the effectiveness of policies between countries and to propose best practices in practically all areas of public policy may be valuable in this context, precisely because it is multidisciplinary. This is particularly true when looking at the expansion of standards and norms originally developed for advanced countries to a more broadly applicable set of policies and governance practices.
2. Established in 1964, the "Group of 77" is the largest intergovernmental organisation of developing states in the United Nations. Member countries work to promote their collective economic interests and seek to enhance their joint negotiating capacity on major international economic issues within the United Nations system, including South-South co-operation for development.
3. See Chapter 3, and the latest information in Global Trade Alert – *www.voxeu.org/reports/GTA1.pdf*.
4. See UNCTAD (2009).
5. See, for instance, the study by Weeks (1996) on the scope for regional agricultural trade in SADC and COMESA countries.
6. For most of the African countries covered in the Investment Climate Surveys cited by Clarke (2005), enterprises involved in exporting were significantly more likely to say that trade and customs regulations were a serious obstacle than exporters in the three Asian countries in the sample. Since most exports for these African firms are to neighbouring countries, it gives an approximate idea of the impediments to intra-regional trade.
7. From 1979 to 1989, only 13 anti-dumping investigations were initiated by developing countries against other developing countries.

References

ALTENBURG, T., H. SCHMITZ and A. STAMM (2008), "Breakthrough? China's and India's Transition from Production to Innovation", *World Development*, Vol. 36, No. 2, pp. 325-344.

AMSDEN, A.H. (2007), *Escape from Empire – The Developing World's Journey through Heaven and Hell*, The MIT Press.

BALDWIN, R. (2006), *Globalisation: The Great Unbundling(s)*, Paper for the Finnish Prime Minister's Office, Economic Council of Finland as part of EU Presidency, September, *http://hei.unige.ch/~baldwin/PapersBooks/Unbundling_Baldwin_06-09-20.pdf*.

BIRDSALL, N. (2009), "Double Majorities at the World Bank and IMF – For Legitimacy and Effectiveness", Bretton Woods Non-Commission, Center for Global Development, Washington, DC.

BOUGHTON, J.M. and C.I. BRADFORD (2007), "Global Governance: New Players, New Rules", *Finance and Development*, Vol. 44, No. 4, December.

CARDOSO, E. and M. HOLLAND (2010), "South America for the Chinese – A Trade-based Analysis", *OECD Development Centre Working Paper*, No. 289, OECD Development Centre, Paris.

CHORTAREAS, G. and T. PELAGIDIS (2004), "Trade Flows: A Facet of Regionalism or Globalisation?", *Cambridge Journal of Economics* , Vol. 28, No. 2, pp. 253-271.

CLARKE, G. (2005), "Beyond Tariff and Quotas: Why Don't African Manufacturing Enterprises Export More?", *World Bank Policy Research Working Paper*, No. 3617, World Bank, Washington, DC.

COLLIER, P. and A.J. VENABLES (2007), "Rethinking Trade Preferences: How Africa Can Diversify its Exports", *CEPR Discussion Papers* No. 6262, CEPR Discussion Papers.

COMMISSION ON GROWTH AND DEVELOPMENT (2008), *The Growth Report – Strategies for Sustained Growth and Inclusive Development*, International Bank for Reconstruction and Development/World Bank on behalf of the Commission on Growth and Development, Washington, DC.

DAHLMAN, C. (2009), Different Innovation Strategies, Different Results: Brazil, Russia, India, China and Korea (the BRICKs) in CHANDRA, V., D. ERÖCAL, P.C. PADOAN and C.P. BRAGA (eds.), *Innovation and Growth: Chasing a Moving Frontier*, OECD and World Bank.

GURRÍA, A. (2010), "The OECD and the G20 Global Governance Architecture: Promoting Sustainable Growth in The New Global Context", Remarks by Angel Gurría, OECD Secretary-General, delivered at the University of Economics, Prague, 7 April.

HERTEL, T., R. KEENEY, M. IVANIC and A. WINTERS (2007), "Why isn't the Doha Development Agenda More Poverty Friendly?", *GTAP Working Paper,* No. 2292.

KHOR, M. (2008), "South-South Co-operation and Policy Co-ordination", Presentation at UNDP Workshop on South-South Co-operation, Bali, 24-25 Nov. 2008.

KOJIMA, K. (2002), "Asian Economic Integration for the 21st Century", *East Asian Economic Perspectives*, Vol. 13, pp. 1-38, March.

KWA, A. (2010), "The Challenges Confronting South-South Trade", in IPC-UNDP *South-South Co-operation: The Same Old Game or a New Paradigm?,* Poverty in Focus, No. 20, International Policy Centre for Inclusive Growth.

LOMBARDI, D. (2009), "Report on The Civil Society (Fourth Pillar) Consultations With The International Monetary Fund on Reform of IMF Governance", New Rules for Global Finance Coalition, Report of the Civil Society Consultations with the IMF.

MADDISON, A. (2009), *Statistics on World Population, GDP and Per Capita GDP, 1-2008 AD*, *www.ggdc.net/maddison*.

MOLD, A. (2005a), "Trade Preferences and Africa – State of Play and the Issues at Stake", *African Trade Policy Centre Working Paper* No. 12, ECA, Addis Ababa.

MOLD, A. (2005b) "Non-Tariff Barriers and the Hong Kong Negotiations: How Much of a Risk Do Phytosanitary Controls Pose?", Bridges, Year 9, No. 10, December, Available at: *www.ictsd.org/monthly/bridges/BRIDGES9-10.pdf#page=19*.

MOLD, A. (2007), *EU Development Policy in a Changing World – Challenges for the 21st Century*, Amsterdam University Press.

MOLD, A. (2009), *Policy Ownership and Aid Conditionality in the Light of the Financial Crisis – A Critical Review*, OECD Development Centre Study, OECD, Paris.

OECD (2005), *Looking Beyond Tariffs –The Role of Non-Tariff Barriers in World Trade*, OECD Trade Policy Studies, OECD, Paris.

PADOAN, P.C. (2007), "Europe and Global Economic Governance", *EU Diplomacy Papers*, No. 2, College of Europe.

PAULO, S. and H. REISEN (2010), "Eastern Donors and Western Soft Law: Towards a DAC Donor Peer Review of China and India?", *Development Policy Review*, ODI, London.

PAUS, E. (2009), "The Rise of China: Implications for Latin American Development", *Development Policy Review*, Vol. 27, No. 4, pp. 419-456.

PISANI-FERRY, J. (2010), "China in the World Economy: A European Perspective", *Bruegel Policy Contribution*, Issue 2010/03, *www.bruegel.org*.

RAVALLION, M. (2009), "A Comparative Perspective on Poverty reduction in Brazil, China and India", *Policy Research Working Paper* No. 5080, World Bank, Washington, DC.

REISEN, H. (2009), "Shifting Wealth: Is the US dollar Empire Falling?", VOX, Available at *www.voxeu.org/index.php?q=node/3672*.

REISEN, H. (2010), "The Multilateral Donor Non-System: Towards Accountability and Efficient Role Assignment", *Economics*, Vol. 4, 2010-5, 1 February 2010, *www.economics-ejournal.org/economics/journalarticles/2010-5*.

SANAHUJA, J.A. (2010), "Post-Liberal Regionalism: South-South Cooperation in Latin America and the Caribbean" in IPC-UNDP, *South-South Co-operation The Same Old Game or a New Paradigm?*, Poverty in Focus No. 20, International Policy Centre for Inclusive Growth Poverty Practice, Bureau for Development Policy, UNDP.

SCOTT, J. and R. WILKINSON (2010), "What Happened to Doha in Geneva? Re-Engineering the WTO's Image While Missing Key Opportunities", *European Journal of Development Research*, Vol. 22, No. 2, pp. 141-153.

SEN, N. (2008), *Statement By Mr. Nirupam Sen, Permanent Representative, During The Thematic Discussion on Africa at the Sixteenth Session of the Commission on Sustainable Development on 8 May 2008*. Available at *www.un.int/india/2008/ind1422.pdf*.

STANDARD BANK (2009), *Economics Africa BRIC and Africa, Tectonic Shifts Tie BRIC and Africa's Economic Destinies*, Economics Africa, October.

STEWART, F. (2006), "Do We Need A New 'Great Transformation'? Is One Likely?", *Research Paper* No. 2006/36, WIDER, Helsinki.

UNCTAD (2009), *Developing Countries Agree to Reduce Tariffs with UNCTAD's Support*, December, Available at *www.unctad.org/Templates/Page.asp?intItemID=5227&lang=1*.

UNECA (2006), *Assessing Regional Integration in Africa,* ARIA Report II, UNECA.

UNIDO (2004), *Industrial Development Report – Industrialization, Environment and the Millennium Development Goals in Sub-Saharan Africa,* UNIDO, Vienna.

VAN DER MENSBRUGGHE, D. and J. BEGHIN (2005), "Global Agricultural Reform: What is at Stake?", in M.A. AKSOY and J.C. BEGHIN (eds.), *Global Agricultural Trade and Developing Countries*, World Bank, Washington, DC.

WEEKS, J. (1996), "Regional Cooperation and Southern African Development", *Journal of Southern African Studies*, Vol. 22, No. 1, pp. 99-117.

WORLD BANK (2009), *World Development Indicators*, CD-ROM Version, World Bank, Washington, DC.

WTO (2009), *World Trade Report*, World Trade Organization, Geneva.

YONGDING, Y. (2009), "China Cautioned to Lend Less to IMF", *China Daily,* 17th March.

YU, Y. (2010), *China's Grand G20 Bargain*, Presentation at 8th Conference on Global Governance "Beyond the Crisis: From Recovery to Long-term Sustainable Development of the World Economy", 7-8 April.

From:

Perspectives on Global Development 2010

Shifting Wealth

Access the complete publication at:

https://doi.org/10.1787/9789264084728-en

Please cite this chapter as:

OECD (2010), "Collective Responses to Shifting Wealth", in *Perspectives on Global Development 2010: Shifting Wealth*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264084728-13-en

OECD