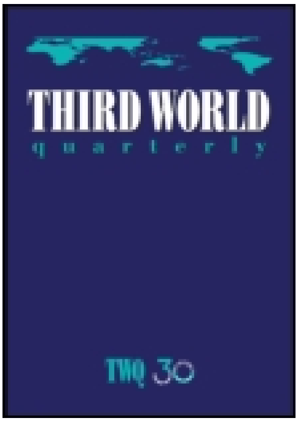

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Bugger thy Neighbour? IBSA and South–South Solidarity

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ABSTRACT *South–South cooperation is assumed to reflect a deep attitude of solidarity among nations of the global South. We point out that, although India, Brazil and South Africa (IBSA) present themselves as being in the vanguard of South–South cooperation, their foreign economic policies make such solidarity somewhat thin. We focus on examples in which these three states deliberately but also unintentionally create sub-optimal conditions for the development of some of their Southern neighbours. This outcome reflects the policies that emerging centres of accumulation in the South are promoting, as well as the material interests of the dominant class alliances in the aforementioned states. There is a need for close scrutiny of the foreign economic policies of dynamic developing economies, and for closer multilateral coordination among the states of the global South.*

It is often assumed (more than explicitly stated), that 'solidarity' makes international cooperation between states of the global South qualitatively different from other international relations. The concept of solidarity is experiencing something of a revival at the moment, with a whole range of authors exploring its ability to capture various elements of mutual social reciprocity, responsibility and recognition. Etymologically solidarity relates to the Roman law notion of *obligatio in solidum*, which refers to the common liability of citizens for a debt.[1] Our usage today retains that element of common responsibility, but the emphasis now falls on solidarity as an attitude of compassionate reciprocity, aimed at achieving a social order that ensures mutual respect and a decent life for all.[2]

Building on this, solidarity in the context of international relations between states of the global South is assumed to go beyond the mere observance of shared norms and institutions, which is the minimal feature of the society of states. Instead, South–South solidarity (SSS) implies a mutual attitude of affective empathy flowing from a shared experience that involves common hardship

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of one sort or another, the collective pursuit of a common good, and the recognition and observance of reciprocal moral duties, including respect for national sovereignty, fundamental equality and mutual benefit. In this meaning it is mainly used as a qualifier for South-South Cooperation (SSC). For example, Paragraph 11 of the Nairobi Outcome Document of the 2009 High-level United Nations Conference on South–South Cooperation operationalises this morally demanding understanding of solidarity thus:

> We recognize the importance and different history and particularities of South–South cooperation, and we reaffirm our view of South–South cooperation as a manifestation of solidarity among peoples and countries of the South that contributes to their national well-being, national and collective self-reliance and the attainment of internationally agreed development goals, including the Millennium Development Goals. South–South cooperation and its agenda have to be set by countries of the South and should continue to be guided by the principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit.

The qualitative difference imposed by SSS also implies a special case of *noblesse oblige*. The so-called dynamic developing economies (DDEs) are said to hold a special responsibility to favour the least developed countries (LDCs) in the spirit of SSS: at the fourth UN Conference on the LDCs in May 2011, the agreed-to Istanbul Plan of Action declared in paragraph 12 that the DDEs, consistent with their capabilities, and

> guided by the spirit of solidarity with least developed countries…will provide support for the effective implementation of the programme of action in mutually agreed areas of cooperation within the framework of South–South cooperation, which is a complement to, but not a substitute for, North–South cooperation.

All of the above, of course, implies a set of quite demanding moral criteria that are relevant when we consider the trials and tribulations of SSC, and in particular the role played by the emerging powerhouses of the South in fostering SSS. For those of us who are looking for signs of normative innovation and progress in humanising international relations, this upping of the moral ante is to be welcomed. However, it also implies that we have no reason to hold our moral horses, so to speak, when considering the actual record of SSC and the behaviour of specific agents within it. If we want to make sure that SSS is or becomes more than a convenient slogan, we should apply the normative standards implied by the notion rigorously.

This article raises the question of whether the behaviour of a selected group of states from the global South lives up to the expectations generated by the notion of solidarity in SSC and the special responsibility that this puts on them. We focus on India, Brazil and South Africa, as these three individually and collectively have identified themselves closely with one another and with a solidarity understanding of SSC. According to the then South African Minister of Social Development, Zola Skweyiya, South Africa, Brazil and India are 'pivotal countries' in cooperation among developing countries.[3] It would also not be amiss to say that the claimed international identity of these emerging powerhouses of the South is closely associated with promoting and implementing the values of SSS as described above. For former Brazilian Foreign Minister, Celso Amorim, 'South–South cooperation is a diplomatic strategy, that originates from an authentic desire to exercise solidarity toward poorer countries'.[4] For its part, India has recently also 'attached more weight to solidarity with fellow developing countries'.[5]

This Special Issue of *Third World Quarterly*, with its focus on the foreign policies of emerging powers, provides an appropriate opportunity to consider the track record of IBSA in living-up to the self-imposed benchmarks of SSS. It is also an opportune time to pause and consider whether the promise of solidarity and the reality of SSC do indeed overlap sufficiently to justify the current, almost universal hype around SSC, which has apparently captured the imagination of most international organisations. In what follows we argue that the depth of SSS as exemplified in the foreign economic behaviour of IBSA is compromised by the direct results of their actions, but also by some negative externalities created by their policies. The question that we want to explore is whether the behaviour of IBSA is as coherent in promoting solidarity as its proclaimed narrative.

Before proceeding, we have to note briefly the context within which SSC takes place today, and especially as it applies to our three DDEs. This context is ultimately defined by the continuing, but modified project of global economic integration along neoliberal lines actively pursued by many DDEs. In the post-Washington consensus context there is scope for moderate revisionists such as IBSA to seek global redistribution around the rougher edges of North–South relations, *and* to pursue programmes of moderate local state-led redistribution. But this is done always in such a way that revisionism and moderate redistribution do not alienate the fractions of internationalised capital on which the insertion of these states into the global economy is dependent. This balancing act creates space in which to stabilise and reproduce the multi-class alliances reigning in India, Brazil and South Africa: alliances that combine representatives of protectionist groups, on the one hand (labour, agriculture) and outward-orientated (finance, services and mining) capital, on the other. While this balancing act takes on different forms in each of the three countries, in all three cases it places serious constraints on domestic programmes of redistribution, but also on the pursuit of a consistent and deep solidarist approach to SSC.[6]

In discussing international politics, Gramsci asked: 'Do international relations precede or follow (logically) fundamental social relations? There can be no doubt that they follow. Any organic innovation in the social structure, through its technical military expressions, modifies organically absolute and relative relations in the international field too.'[7] In the case of our DDEs, 'It may well be that in the final analysis the state in peripheral formations including most would-be contender states ultimately serves as an instrument for continued and intensified accumulation by dispossession'.[8] We argue that this is not only true domestically of IBSA, but also manifests itself in the uneven treatment that their Southern neighbours receive from them. To substantiate this claim, we first look at patterns of South–South trade, and then at the unintended consequences of capital account management.

Beggar thy neighbour: IBSA and South–South trade

By all accounts the growth of South–South trade in recent years has been spectacular. 'Between 1990 and 2008, world trade expanded four-fold, while South–South trade multiplied by more than 20 times its initial levels over the same period of time.'[9] South–South trade now accounts for 37% of global trade.[10] According to UNCTAD's *South–South Trade Monitor*, between 2001 and 2010 South–South exports on average grew by 19% per year, compared to an annual growth rate of 12% for world exports. In 2010 South–South exports represented almost a quarter of the world total,[11] compared to just 7% in 1985.[12] About 40% of all merchandise trade by developing states is South–South.[13] The share of developing economies and the CIS in the world total rose to 47% on the export side in 2011 and 42% on the import side, the highest levels ever recorded in the World Trade Organization (WTO) data series extending back to 1948.[14]

These figures obscure a number of inconvenient realities, however. One is that South–South trade is largely made-up by trade by and within one region. Asia in 2010 was responsible for 80% of South–South exports, compared to 6% for Africa and 10% for the middle and low-income states of the Americas. While developing Asia trades largely with itself, most exports from Africa and the American developing states go to the developed North.[15] Exports from Africa to Asia (largely to China and India) tripled over the period 2007–11, but Asia is only Africa's third biggest export market after the EU and the USA.[16] In addition, Africa's exports to Asia are dominated up to two-thirds by primary and resource-based goods, while imports consist mainly of capital and manufacturing goods. Economic history shows that, unless economies are moving up the value chain, they will be stuck in the rut of trading on commodities that simply provide diminishing returns in the medium to long term. Unless an economy is engaged in activities that deliver increasing returns over time (as found in manufacturing production), then that economy is not developing—it is just growing. There is thus much work to be done in promoting a diversified set of trading relations within and across the global South. As we relate below, this includes getting rid of the obstacles that DDEs erect to discourage imports from other developing states, including LDCs. But it should also involve paying more attention to the many harmful unintended consequences and negative externalities created by the policies of these dynamic economies.

One example of the latter is the unintended consequence of regional preferential trade agreements among Southern neighbours. Such preferential trade agreements between developing countries are widely welcomed as vehicles to rapid trade creation among developing countries, and a recent World Bank study argues that South–South agreements are more productive in terms of bilateral trade creation than North–South agreements.[17] Preferential agreements are essentially discriminatory against non-members, which can include other Southern states, but it is assumed that their strength lies in helping poorer states to develop their trade sector and gradually increase their integration into the global economy. Free trade agreements (FTAs) can lead to trade diversion, however, in which external suppliers of more competitively priced goods and services are replaced by preferential member suppliers of the same goods, but at less competitive prices. That does not necessarily translate into an overall welfare loss for poorer parties to the agreement, as there are other benefits of intra-FTA trade, such as the promotion of industrial development and economies of scale, that may make up for it. But from an equity viewpoint it is important to ask *who bears the cost of such trade diversion*? This question gains added importance in the case of regional South–South FTAs in which one member is more capital-abundant than other members, such as in Mercosur (Brazil), the Southern African Development Community (SADC) FTA (South Africa), and the South Asia Association for Regional Cooperation (SAARC) (India). While the jury is still largely out on the latter two, there is some evidence that, in regional integration agreements between developing countries, the poorer states, on average, could be worse affected by the burden of trade diversion. One study found that this is definitely the case in Mercosur, with Argentina and Uruguay being the relative losers, while Brazil (and also Paraguay, but for uniquely geographic reasons) is a clear winner.[18]

Such discriminatory outcomes should come as no surprise to most readers of this journal, as numerous articles over the years have argued that liberalising trade has distributional consequences that often do not work in favour of the least privileged. To capture the benefits of freer trade between states of the South, some compensation has to be built in to accommodate the developmental needs of the poorer parties. In addition, the more privileged should refrain from practices that skew the distribution of advantages in their favour. To the extent that South–South trade is growing, it seems to be doing so in an uneven fashion that is exacerbating inequality between states. As Aileen Kwa reminds us, the 'increase in trade (North–South or South–South) in and of itself does not lead to development'[19] *or equity*, we should add. In some cases South–South trade can be outright harmful to the smaller economies if it is conducted in a manner that disregards the effects of development and power differentials.

This holds true also for the South-oriented trade relations of our three DDEs, states that have placed themselves at the normative vanguard of South–South solidarity. Easier access to LDCs' markets for producers in these DDEs—sometimes facilitated by the very liberalisation conditionalities imposed by the international financial instituitions (IFIs)—has led to the near collapse of local industries. Restrictive food trade policies in India, combined with an aggressive liberalisation drive throughout SAARC, have led to the decimation of Nepal's rice industry and a systematic undermining of household food security in Nepal.[20] Such processes threaten to deepen dependent positions in the global economy. Speaking specifically of Africa, Ayers notes that:

> Africa's terms of (mal)integration in the global political economy have not been fundamentally restructured with the rise of China and other 'emerging

> economies', or their increasing footprint within Africa. Overwhelmingly, Africa continues to be incorporated within the global economy and international division of labour on a subordinate neocolonial basis, coerced for the most part into primary commodity production…As such, the [DDEs'] burgeoning [economic role] in Africa reproduces, and arguably intensifies, Africa's inveterate and deleterious terms of (mal)integration within the global political economy.[21]

Returning to the intensity and direction of South–South trade, it should be noted that less than 10% of the exports of LDCs are destined for markets in the DDEs.[22] While there are a variety of reasons for this, the relatively high levels of trade barriers maintained by at least some DDEs are also to blame. The recent growth in South–South trade has been facilitated by a two-thirds decline in Southern tariffs since 1985. Nevertheless, just over two-thirds of tariffs faced by states of the global South continue to originate in other developing states.[23] In addition, detailed analysis of what exactly these tariffs are directed at is necessary. Thus, while India's average import tariff fell from 15.1% in 2006–07 to 12% in 2010–11, this masks a huge difference between the average tariff on industrial goods (currently 8.9%) and agricultural goods (33.3%). Of course, in the absence of any sizeable industrial sectors, it is precisely agricultural goods that many LDCs would hope to export to India.[24]

This reveals how 'thin' SSE can sometimes be. Using median-voter preferences and the Heckser–Ohlin and Stolper–Samuelson theorems on the distributional effects of trade, Baccini shows that it is quite rational for voters in democratising middle-income developing states to prefer to liberalise trade with the richer North, rather than with poorer Southern neighbours.[25] Confirmation of this comes from another study, which suggests that worsening wage inequality levels in some middle-income developing states are the result more of South–South trade than of the effect of North–South interaction—the usual suspect.[26] All in all, it seems as if the DDEs find it extremely hard to square declaratory normative global goals about fostering solidarity and inter-state equality with the demands of domestic political equality and international competitiveness. Evidence is mounting that the traditional fault-lines of North–South interaction are being replicated in the burgeoning trade between Southern states.

To date, and despite some advances, IBSA have also not yet managed to qualitatively distinguish their intra-South foreign trade policies to such an extent that they deserve congratulations in terms of living up to the demands of SSS. The three DDEs did manage to surpass by more than a billion the intra-IBSA trade target of US$15 billion by 2010 that they set themselves at the 2003 inception of their dialogue forum. However, none of the three is the most important trading partner of the other. Their pursuit of intra-IBSA solidarity has not prevented the outbreak of major trade disputes between the three either, with the recent Brazil–South African 'chicken wars' being emblematic.[27]

It is, however, in IBSA's foreign economic policies towards other developing states that the thinness of their SSS is most prominent. A recent ranking of the G20 states in the wake of the global financial crisis in terms of their openness to trade places Brazil and India at the bottom end of the ranking, where they languish with the likes of the USA and Japan. In terms of trade policy, which is measured as a combination of average applied tariff levels, the level of complexity of applied tariffs, the number of anti-dumping actions taken and the efficiency of import procedures, Brazil and India in that order occupy the worst two positions among G20 states. South Africa fares somewhat better, but it also scores only around the average for the whole group of 60 states covered by the index.[28]

However, such aggregate measures tell us little about the consequences of IBSA's restrictive trade policies and practices for their partners in solidarity. To get a clearer picture of the real depth of SSS, we have to find a way to distinguish bilateral trade protection figures from the indiscriminate summaries cited above. We also have to identify measures that get us closer to the real extent of protectionism. To measure protectionism, economists often rely on an aggregation of the trade-weighted average tariffs applied by a specific state. It has been argued that this measure underestimates the degree of protection, because it relies on trade volume as a weight and hence suffers from an endogeneity bias: the presence of tariffs implies that trade volume will be lower than it could be. To rectify this, Antimiani and his co-authors favour the use of the equivalence-based trade-restrictiveness index, developed by Anderson and Neary. This index determines what the equivalent uniform tariff is which, when applied by a country, would leave the value of a country's imports assessed at world prices unchanged. The higher this uniform tariff, the more restricted a country's imports, hence its name: the Mercantilistic Trade Restrictiveness Index (MTRI).

Antimiani *et al* makes use of the Global Trade Analysis Project's computable general equilibrium model. The model generates comparable bilateral trade data for 87 regions of the world across 57 trade sectors. From this, MTRI index scores

TABLE 1. MTRI uniform tariffs of India, EU, Japan and Brazil applying to selected states and regions (2001–04)

	India	EU(25 members)	Japan	Brazil
LDCs	26.1	0.8	15.9	1.2
ACP states	33.0	11.4	25.3	9.8
China	28.1	7.5	10.7	16.6
ASEAN	27	7.3	6.5	15.3
Rest of Asia	25.7	9	9.3	17.3
Rest of Latin America	15.6	15.9	65.9	4.92
Mexico	15.3	5.1	34.6	16.8
Argentina	51.7	10.8	34.7	5.7
Turkey	29.9	8.1	15.9	17.9
Chile	6.7	3.3	15.6	6.8
Australia and New Zealand	27.6	9.5	26.3	5.5
EU (25)	29.8	–	18.3	13.5
Brazil	38.4	28.9	6.8	–

Source: A Antimiani, P Conforti & L Salvatici, 'Measuring restrictiveness of bilateral trade policies: a comparison between developed and developing countries', *Review of World Economics*, 144(2), 2008, fn 28.

for the USA, Japan, the EU, India, China and Brazil can be produced.[29] We report their results for India and Brazil, and for comparison sake those for Japan (as a highly protectionist state) and the EU in Table 1. Both Brazil and India are less inclined than the EU and Japan to discriminate adequately between developed and developing countries as sources of imports, hence the low coefficient of variation for MTRI uniform tariffs in the case of Brazil and India.

What is particularly striking from the data is that LDCs, the African–Caribbean–Pacific group of states (ACPs) and the rest of Asia (excluding China and Japan) have faced considerable obstacles in gaining access to the Indian market, even more so than in the case of Japan. In contrast, LDCs have had quite preferential access to the EU. Brazil emerges as a somewhat more accommodating trade partner in terms of SSC, although its MTRI uniform tariffs in bilateral trade with Mexico, Turkey and with most of Asia are high. Both Brazil and India allow more favourable access to products and services from Australia and New Zealand, for instance, than they do for imports from ASEAN and from one another. This reality hardly reflects a coherent SSS position.

The study by Antimiani *et al* covers the first five years of the 21st century and thus does not fully capture steps taken by Brazil and India (and South Africa) to improve trade relations among themselves since the forming of the IBSA alliance. Be that as it may, the expressed commitment to SSS on the part of these states *precedes* the formation of IBSA and IBSA is in fact but an institutionalisation of professed policy preferences. Besides, it is unlikely that more recent steps taken fully make up for the shortfall between rhetoric and actual SSC in trade. In what follows, we look at two illustrative cases of this in more detail.

India

The shortfall between rhetoric and actual trade practices is well illustrated by the steps taken (or not taken) by India in terms of the provisions of the South Asia Free Trade Agreement (SAFTA), which came into effect in 2006. This free trade agreement links Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka into a programme of phased reduction of barriers to trade. The SAFTA agreement makes provision, however, for member states to maintain extensive lists of tariff lines applicable to 'sensitive' products and services that are excluded from the tariff-reducing schedules agreed upon. At the inauguration of SAFTA in 2006, some 53% of intra-SAFTA trade was thus 'non-free'. Indeed, India maintained a list of 865 tariff lines on sensitive items, covering 38% of the value of its imports. The vast majority (744) of these tariff lines were applicable to LDCs.

In contrast to its traditional passive role in the promotion of South Asian trade integration, India has more recently started to accept a leadership role in promoting freer trade in the region as part of the embrace of neoliberalism. What Thussu says about the Indian media also holds for how Indian elite think about its foreign economic policies: 'a particular version of India is being promoted, with grandeurs of an emerging superpower, following in the footsteps of Uncle Sam. This reinforces a reconfigured hegemony that legitimises the neoliberal agenda, predicated on free-market fundamentalism.'[30] Indian elites have used the dominant position of their country to push through liberalisation when it suits their material interests, while pursuing other policies, which exacerbate regional inequalities, when it does not.

In November 2011 India reduced the number of sensitive tariff lines applicable to imports from SAFTA LDCs to 25 and in August 2012 reduced by 30% the sensitive list applicable to nonLDCs—in effect, Pakistan. This still left 614 items on the sensitive list, however.[31] Bilaterally India is gradually also becoming more accommodating of demands on the part of smaller South Asian economies to gain duty-free access to the Indian market, with Nepal, Sri Lanka and Bhutan being the main beneficiaries. Of course, reciprocal preferential market access also brings adjustment costs but these are not necessarily shared equally between a large economy which is the key supplier (India) and its neighbours, who make up less than 1% of total imports into India.[32]

Progress to increase intra-regional trade among the members of the SAFTA has been very slow. Intra-regional trade comprises 65% of total EU trade, 51% of NAFTA trade, 25% of ASEAN trade, and 16% in the case of Mercosur. For SAFTA this ratio is just 5%.[33] Trade expansion more broadly within SAARC is also excruciatingly slow, despite improved relations between India and Pakistan (which has granted the former most favoured nation (MFN) status) and between India and Bangladesh. But, as one report laments:

> South Asia ranks second last among regions across the world in terms of ease of trading across borders (the last being Sub-Saharan Africa). In particular, India ranks abysmally low in 'ease of trading across borders' at 139 compared to China's rank of 38 in the world. India's low ranking relative to other emerging countries reflects the excessive number of documents required by exporters and importers, the time delays in exports and imports and the high costs per value per container.[34]

The obstacles to closer SSC in South Asia are multiple and their interaction complex, and it would be naïve to blame the slow pace of trade integration *solely* on the failure of India to lead the charge. One can get a better grip on this complex interplay of factors, but also on the significant responsibility that rests with India, by looking at Indian trade with Bangladesh. Bangladesh has a strong trade sector and up until early 2013 maintained positive trade balances with large markets such as the USA and the EU, mainly thanks to its competitive ready-made garments exports. India is Bangladesh's primary trading partner, and formal (captured) and informal trade (largely uncaptured) between the two has grown significantly over the past ten years. But Bangladeshi formal exports, mainly jute products and fertilisers, make up less than 1% of India's imports, and the trade-balance is heavily skewed in favour of Indian exports. All of this is despite the significant potential for complementarity and the case-in-principle that can be made for a bilateral free trade agreement, with preferential treatment for the poorer partner, which could triple Bangladeshi exports to India.

What stands in the way is a whole array of non-tariff barriers imposed and maintained by both sides, but in particular by India, and poor trade logistics, specifically in Bangladesh. Non-tariff barriers imposed by India include less-than-transparent biosecurity and phyto-sanitary restrictions, arbitrary applications of the Indian food adulteration preventions, imposition of strict requirements for a pre-shipment inspection certificate for textile exports to India, and special labelling requirements for jute imports into India.[35] These standards, regulations and certification and labelling issues create lucrative opportunities for rent seeking and encourage informal (illicit) trade, mostly Indian invisible exports to Bangladesh (further worsening the trade imbalance between the two countries). Instead of building what amounts to a South Asian version of the Berlin Wall—which seems to be India's response to illicit cross-border interactions, refugees and 'terrorists' crossing from Bangladesh—India would do much better, and some considerable good, by engaging Bangladesh in a process of trade facilitation by identifying and removing unjustifiable non-tariff barriers and by investing in the development of the logistical prerequisites of formal trade.[36]

South Africa

After the first democratic election of 1994 an important shift in South Africa's development strategy was noted. Export promotion with import controls, as pursued by the apartheid regime, was progressively abandoned in favour of greater openness through tariff liberalisation. This move was most strongly exhibited in Pretoria's commitment in the GATT Uruguay Round to bind 98% of all tariff lines, rationalise over 12 000 tariff lines and replace quantitative restrictions on agricultural products with tariffs. Furthermore, South Africa offered to cut the number of tariff categories to six at rates ranging from zero to 30%, with any discretionary alterations to the system being prohibited.[37] This comprehensive trade reform was accompanied by domestic policies that shifted South Africa towards neoliberalism, most graphically exemplified in a new macroeconomic policy, the 'Growth, Employment and Redistribution (GEAR) programme that essentially aimed to transform South Africa into a 'competition state', whose goal was to attract capital while competing with rival territories for investment.[38]

With regard to trade liberalisation South Africa became a signatory to a number of multilateral and bilateral trade agreements. However, Pretoria has entered into significantly fewer agreements than other emerging economies. Its trade agreements number the African Growth and Opportunity Act (AGOA); the South Africa–European Union Trade Agreement; SADC; South Africa–Zimbabwe; Southern African Customs Union (SACU); and the European Free Trade Association (EFTA). These trade agreements involve the gradual or complete removal of import tariffs on products exported to South Africa from co-signatory countries, as well as the gradual or complete removal of import tariffs on exports from South Africa to co-signatory countries. What is noticeable here is that the majority of South Africa's trade agreements—despite its ostensible claims regarding SSS—are with the North.

For agreements with the South SADC is by far the most important. Originally conceived as a bulwark against apartheid South Africa, the 1992 SADC Treaty changed a loose organisation of member states into a legally binding arrangement to facilitate closer economic integration between members. The SADC Trade Protocol was established in 1996 and since 2000 members have started to implement their commitments. A SADC FTA was launched in 2008. The main regional driver of trade within SADC, in terms of both exports and imports, is South Africa. Its regional importance is much more pronounced as a source of other members' imports than as a destination for their exports. Indeed, South Africa's economic domination of the region is institutionalised by SADC.

While regional integration efforts have made significant progress in lowering tariff barriers (eg 85% of intra-SADC trade is now duty free; 98% in SACU) other barriers to trade persist, primarily in the realm of non-tariff barriers (NTBs). This is important as a detailed tariff database constructed to provide consistent estimates of protection in South Africa, with data starting in 1988, does not measure protection from NTBs.[39] Thus, South Africa's actual openness to imports, particularly from its neighbours, is masked by the realities of NTBs. NTBs include *any* measure, public or private, that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential and real world income.[40] The UNCTAD Trade Analysis and Information System (TRAINS) database broadly groups NTBs into five types. These are inefficiencies in transport, border management and logistics; cumbersome fiscal arrangements; restrictive rules of origin; poorly designed technical regulations and standards; and other NTBs such as import bans, permits and licensing.

Deardorff noted that NTBs are preferred by policy makers because their effects are more assured, direct and predictable than the results of tariffs, particularly in a normative environment whereby open tariffs are largely unacceptable. Commercial contenders cannot overcome NTBs easily and they are a somewhat cynical way in which policy makers keep their markets restrictive to competitors.[41] These barriers are extensive. Studies of NTBs suggest that they are invariably more restrictive than tariffs, with studies suggesting that on average the tariff equivalent of NTBs is around 40%.[42] This is much higher than the MFN tariff applied on most products by the majority of states. Evidence from an inventory of business complaints shows that natural resource-based industries (agriculture and food, mining, textiles, etc), are the sectors most strongly affected by NTBs relative to their export volumes.[43] These are precisely the type of products that South Africa's neighbours would wish to export to South Africa. Given that Pretoria postures a strong 'African agenda' to its SSS, it is thus revealing that evidence suggests that non-tariff measures significantly raise trade costs and inhibit regional trade in Africa.[44]

The result of NTBs is that they discourage intra-regional trade, depress the export market and the profitability of the same, stimulate higher prices (which punishes primarily low-income households, with all the attendant implications for equity) and systematically protect the largest economy from competition while hindering development (or at least export receipts) in the smaller economies. Given South Africa's predominance in southern Africa, this has serious ramifications. Indeed, estimates suggest that, when South Africa imposes at least one NTB on a sector, its imports from other SADC countries drop on average by 60%.[45] Contra to Pretoria's loud SSS rhetoric, of all SADC countries, South

Africa had the highest number of types of NTBs between 21 January 2009 and 8 June 2010, with trade-related administrative NTBs dominating. Indeed, while the average number of trade-related bureaucratic NTBs in SADC was four, South Africa imposed 14. Incredibly, between January 2009 and June 2010, *all* NTBs reportedly imposed by South Africa were against other SADC members.[46] Consequently, between 2009 and 2011 within SADC, South Africa had the most NTB complaints against it (see Table 2).[47]

SADC is different from most other regional organisations because of South Africa's overwhelming dominance. This dominance creates a need for a coherent regional integration project that requires a high level of intervention in the implementation of the regional process. As SADC itself notes, 'The policies and strategies that are adopted for trade, industry, finance and investment should take into consideration the special needs of less-developed member countries and ensure that a win-win situation prevails'.[48] Consequently, 'Deliberate policies will … be required to deal with industrial development for the periphery areas or countries that may not be as competitive as others'.[49] Integration implemented according to the logic of the market integration model, with minimum intervention in the functioning of the markets and the distorting effects of NTBs will not lead to an optimal result. Instead, benefits will concentrate only in South Africa, with some of the less-developed members of SADC worse-off inside the free trade area. Under current conditions the use of NTBs—particularly as practised by dominant South Africa—contributes to such a scenario, even while Pretoria's neighbours are told about the benefits of SSS and how, through devices such as the IBSA forum, South Africa is looking after its neighbourhood's interests.

TABLE 2. Complaints by SADC members related to non-tariff barriers imposed by other SADC members, 2009–2011.

Country	NTB complaints against (resolved)	NTB complaints against (pending)	Total NTB complaints against
Angola		8	8
Botswana	11	2	13
DRC	6	4	10
Lesotho	8	6	14
Madagascar	–	–	–
Malawi	21	6	27
Mauritius	3	0	3
Mozambique	17	15	32
Namibia	17	5	22
Seychelles	14	0	14
South Africa	30	4	34
Swaziland	10	1	11
Tanzania	6	12	18
Zambia	28	1	29
Zimbabwe	16	6	22

Source: *10th Meeting of the SADC Sub-committee on Trade Facilitation, 14–15 June, 2012, Gaborone, Botswana*, Gaborone: SADC Secretariat.

'Bubble thy neighbour'? Negative externalities of Brazil's capital account management[50]

A further detailed example of the harm that policies pursued by IBSA can cause to their Southern neighbours is an example of a negative externality. An externality, economists tell us, is a benefit or cost that is infeasible to charge to provide or not to provide.[51] Policies pursued by an agent that make good sense in one or more respects may, in another respect, impose costs on bystanders while the agent has no apparent incentive to bear or share that cost. Both market-based and non-market options may be available to deal with the unintended costs. In inter-state relations, bilateral or multilateral cooperation and coordination is a preferred option to mitigate negative externalities and to exploit positive externalities systematically.

Capital controls (taxes or restrictions on cross-border transactions in assets such as bonds or stocks) provide an example of a public policy that holds clear-cut benefits for the instituting agent, but has unintended costs for 'innocent' bystanders. This is not the place to go into the theory and history of capital account management,[52] but it is worth mentioning that mainstream economic thinking has become less negative about it in the wake of repeated economic crises over the past 15 years, largely attributable to the volatility of international capital flows. Indeed, two important lessons were drawn from the Asian financial crisis of 1997–98. One is that countries that are vulnerable to potential volatility in their capital accounts can take out 'insurance' by building-up large holdings of foreign reserves, a policy explored effectively by China, Singapore and South Korea. The second lesson is that we should revisit the neo-orthodox economic article of faith that capital account liberalisation is as desirable as trade liberalisation and that both should take place at the same time. Both these lessons may have mercantilist consequences, depending on their aims.[53] Following the most recent and deepest global financial crisis, however, orthodox economists have come to accept that it might be advisable for developing state authorities to 'manage' the flow of short-term non-direct investment capital inflows into their economies. Inflows into emerging markets reached $665 billion in 2008, then dropped to $178 billion in 2009, before rapidly increasing again from 2010 onwards.[54] These surges were driven by low-investor confidence in OECD markets based on historically low interest rates and declining output in Japan, Europe and the USA.

Inflow surges of the magnitude seen in 2008 and again in 2010 have many potential negative consequences. They drive up the real exchange rate of the local currency and so undermine the competiveness of the local tradable goods sector, create asset bubbles, fuel inflation, inhibit economic growth and undermine the positive effects of trade on job creation and on the mitigation of poverty and income inequality. Furthermore, such distortions create uncertainty about international prices and limit the space for monetary policy by driving down interest rates.[55] In view of such negative consequences even the IMF has reversed its traditional open-capital/financial-account stance and granted that it makes sense for individual developing states to consider imposing prudential regulations on short-term capital movements in response to, or to prevent, inflow bubbles.[56] Until 2012, however, hardly anyone raised concerns about the multilateral effects of capital account management. These concerns include the vexed question of whether capital account management is not yet another mercantilist tool for keeping the exchange value of a currency artificially low. Crucially capital management by a DDE may deflect some potential inflows to other investment targets, creating exactly the conditions for an investment bubble and its associated ills not in its own economy but in that of its neighbours. It is this second potential consequence that deserves our attention, as there is evidence that this was perhaps the most pronounced effect of the prudential measures introduced by Brazil from 2008 onwards.

Deep capital markets, high interest rates and a relatively booming economy made (and continues to make) Brazil a highly preferred destination and the country attracts the most portfolio investment of all Latin American states. Between January 2007 and August 2008 gross foreign portfolio flows to Brazil increased fivefold, from just over $5 billion to over $31 billion, accompanied by a 30% cross-rate appreciation of the Brazilian real. While the country had increasingly liberalised its capital account over the preceding two decades, it introduced a number of prudential regulations affecting foreigners and foreign exchange in response to this and consequent surges. For our purposes the most important type of regulation is a tax on foreign portfolio flows into specific assets, the Imposto de Operaçoes Financieras (IOF). Table 3 lists the relevant measures introduced since March 2008.

There are various opinions about the effectiveness of these measures. Baumann and Gallagher find that the measures had small but significant impacts, such as shifting the composition of capital inflows towards longer-term investment, and moderating exchange rate volatility and asset prices. In contrast, Jinjarak *et al* argue that there was no evidence that the tightening of controls was effective in reducing the magnitudes of capital inflows. They did, however,

TABLE 3. Capital control measures taken by Brazil during the most recent global financial crisis, 2008–12

March 2008	Introduction of a tax (IOF) of 1.5% on fixed-income investments
October 2008	Reduction of IOF on fixed income to 0%
October 2009	Introduction of 2% IOF foreign investment in equities and debt securities
October–December 2010	Increase of IOF to 4% on local bonds, then to 6%; IOF of 2% on equities remains; closing of tax-evasion loopholes
March 2011	Introduction of a tax rate of 6% on foreign borrowing by Brazilian firms (with average maturity of less than 360 days; reduced to less than 2 years in April 2011)
December 2011	Tax on foreign investment in equities set at 0%
March 2012	Tax rate of 6% on foreign borrowing by Brazilian firms extended to cover maturity rate of 3 years; extended to 5 years in the same month)
June 2012	Tax rate on foreign borrowing (with average maturity of 2 to 5 years) by Brazilian firms set to zero.

Sources: K Forbes, M Fatzscher, T Kostka & R Straub, *Bubble thy Neighbor: Portfolio Effects and Externalities from Capital Controls*, National Bureau of Economic Research Working Paper 18052, May 2012, p 35; and M Stokes, 'Capital control measures by Brazil: how successful?', *Brazilian Bubble*, 29 June 2012, at http://brazilianbubble.com/capital-controls-in-brazil-how-successfulopinion/, accessed 27 November 2013.

observe a modest and short-lived success in preventing further declines in inflows when capital controls were relaxed in 2008 and again in January 2011 by the newly inaugurated government of Dilma Rousseff. There is agreement that these measures sent important signals, however. The first was on the ability of the Brazilian government to effectively protect its autonomy in monetary policy; the second re-affirmed its left-of-centre scepticism about the prevalence of market failures in a liberalised global economy.[57] For our purposes, the most important consequence was an unintended one, namely that of deflecting at least some of the volatility 'tsunami', as President Rousseff has called it, away from Brazilian shores to those of its Southern neighbours.

The best available evidence of this comes from the study by Kristin Forbes and her colleagues, from which we have taken the first part of the title of this section. Making use of regressions linking data flows with information gleaned from structured interviews with foreign investors in which they systematically probe their responses to the measures listed in Table 3, the authors found that investors significantly decreased their portfolio allocations to Brazil in both bonds and equities. Most significantly they found that what acted most strongly as the deterrent were not so much the control measures *per se*, but their implicit signalling to the investment community that more controls were potentially to follow. This finding ties in well with what Baumann and Gallagher, and Jinjirak *et al* pointed out, namely that the most noticeable effect of these measures lay in what they signalled about Brazil's willingness to defend its policy autonomy and its most likely future actions.

Baumann and Gallagher also echo one other important finding by Forbes and her colleagues. The latter showed that, while decreasing their exposure to Brazil, the investors that they interviewed as a rule simultaneously increased their investment exposure to other emerging markets, especially those that had some exposure to China (and hence were likely to continue to benefit from Chinese growth), but excluding those who were viewed as more likely to use capital control measures on investment flows. The excluded group includes states such as Colombia, Indonesia and Thailand which have all instituted new controls on capital inflows from non-residents since 2006. Other markets in Latin America, such as Argentina and Chile, were significantly more likely to be targeted by investors wanting to have exposure in Latin America but also wanting to avoid the policy risks signalled by Brazil. Potential non-Latin American portfolio-flow 'beneficiaries' of the externalities created by Brazil's IOF measures include Russia and the Philippines. While data limitations make it difficult to determine for specific states the duration and scale of the externalities created by Brazil's actions, they do seem to be significant and negative in terms of their effects.[58] Note that Bauman and Gallagher also detected some statistically significant externalities for the currency market and stock asset prices in Chile flowing from Brazilian IOF measures. The effect on the Chilean peso was noticeable, but the effect on Chilean asset prices was relatively small.[59]

Tentative as the results are, there seems to be enough reason to be concerned about the negative multilateral effects of short-term, reactive unilateral capital controls (to be distinguished from long-term controls of the sort that China, India and South Africa, among others, retain[60]). There is surely room for a variety of approaches to monetary policy, and Brazil and others are to be commended for their attempts to maintain monetary autonomy in very difficult circumstances. But, reviewing the cross-country evidence on capital controls, one cannot help but be struck by the extreme variety of policies and approaches pursued by developing countries. In contrast, there is much less variability among—and obvious coordination between—OECD states in this regard.[61] Extreme variance, and the lack of coordination in policy responses to volatility in global portfolio flows, creates opportunities for the dissemination of the type of negative externalities we believe that Brazil's unilateral actions precipitated. The IMF has to bear some responsibility for providing inconsistent advice to developing countries over the past two decades. However, in view of the above, and acknowledging the deep rethink that the IMF is having on capital controls, we find the following IMF comment useful:

> For countries experiencing a surge in inflows, choosing appropriate responses can be challenging given the uncertainties associated with the causes and effects of the inflows and with possible policy reactions. The variety of policy responses adopted—and their potential multilateral implications—suggests the importance of developing a broadly accepted framework for considering policies to deal with capital inflows.[62]

Conclusion

If purchasing power parity (PPP) measures of GDP are used, Beijing's economy is already three-quarters the size of that of the USA, while Brazil, Russia and India have economies of similar size to Japan, Germany, Britain, France and Italy. Collectively BRICs 'already have a bigger share of world trade than the US'.[63] Trade with BRICs is already close to half of the value of combined trade with the EU and the USA, and larger than with other emerging market economies. Foreign direct investment and development financing from emerging economies are making a significant impact in some key areas, despite their relatively small volumes compared with those from advanced countries. Beyond the increased flows of goods and capital, the dynamic developing economies have brought new scope and depth into the South's economic relations with the rest of the world. However, in this environment are the LDCs doing as well as they can? A variety of reasons have been given for why they have not been able to start closing the gap with other developing countries.[64] We suggest that one of these reasons is that actual policies of DDEs place restrictions on them, creating direct obstacles and consequences that both hinder their development and strike at the heart of notional SSS.

Durkheim's distinction between mechanical and organic solidarity seems instructive here. The first implies recognition of the other 'as belonging to the group from which I get my identity' and is accompanied by a compassion that says 'You are like me, but you don't have what I have (and you need it). That makes me feel shameful.' To the extent that solidarity is at work in SSC, we would suggest that it is of this type, based on a superficial and instrumental universality. In contrast, organic solidarity is associated with an appreciation of and respect for what is distinctive about the other, celebrating difference and the individually unique contributions and needs of the other. Such 'solidarity results from a particularistic identification with the singularity of another individual and the perceived misrecognition of his qualities and needs'.[65] Elsewhere we have argued that the DDEs of an emerging global South are pursuing this type of recognition from the core states in world politics.[66] Thus far, it is apparent that the states of the IBSA coalition subscribe in these respects to an instrumental and mechanical SSS that is little more than a discursive veil.

This contributes, we believe, to the fact that SSC has, as yet, not realised the high expectations that many have had of it since the advent of the postcolonial epoch. Initially narrowly focused on technical cooperation and tinged with a strong anti-North sentiment, during the past two decades its development focus and geographical scope have been broadened and institutions such as UNCTAD have increasingly reflected such developments.[67] While it is still often promoted as constituting an exploitation-free alternative to international interaction, SSC is today more generally accepted as a complement to and not as a substitute for North–South exchanges. Bodies as wide-ranging as the IMF, OECD, the UN, the Commonwealth and the Non-Aligned Movement have come to embrace it as a core instrument for promoting economic growth in developing countries, in general, and in the group of 48 LDCs, in particular). But this form of solidarity is evacuated of most meaningful content, other than the fetishisation of growth and trade.

Decision makers in key emerging economies in geographic poles of accumulation need to take seriously the very real effects their trade and other economic policies have on their neighbours and on the rest of the South in general, particularly the LDCs. It is not enough to premise the 'rise of the rest' on some notional (and, if our evidence is correct, mistaken) idea that what is good for IBSA (or BRICs) is good for the rest of the developing world.[68] Detailed analysis of what is actually happening in the foreign economic policies of the DDEs, and the implications that these have for the rest, is essential. Otherwise, SSS may become merely a fig leaf for a destructive process that pulls the ladder away from everyone else, while select large economies progress, often at the expense of their neighbours and erstwhile Southern brothers and sisters.

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