

IS THE WHOLE GREATER THAN ITS COMPONENTS? A NEW REGIONALIST ANALYSIS OF THE  
INDIA-BRAZIL-SOUTH AFRICA (IBSA) DIALOGUE FORUM.

by

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## ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ANC	African National Congress
AU	African Union
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BUSA	Business Unity South Africa
COMESA	Common Market for Eastern and Southern Africa
EMCs	Emerging Market Countries
EMEs	Emerging Market Economies
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
G20+	Group of 20+ developing countries
GEAR	Growth, Employment and Redistribution programme
IBSA	India-Brazil-South Africa Dialogue Forum
IOR	Indian Ocean Rim
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPE	International Political Economy
Mercosur	Mercado Común del Sur (Southern Common Market)
MoU	Mermorandum of Understanding
MDGs	Millennium Development Goals
MFN	Most Favoured Nation
MNC	Multinational Corporation/Company
NEPAD	New Economic Partnership for Africa's Development
NRA	New Regionalism Approach
NAM	Non-Aligned Movement
NAFTA	North American Free Trade Agreement
ODA	Official Development Assistance
OAU	Organization for African Unity
OECD	Organization for Economic Co-operation and Development
REI	Regional economic integration
SC	Sectoral cooperation
SAIIA	South African Institute of International Affairs
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADDC	Southern African Development Co-ordination Conference
SAPs	Structural Adjustment Programmes
ZPCSA	The Zone of Peace and Co-operation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization

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# **CHAPTER ONE**

## **1.1 INTRODUCTION**

In mid- 2005, a conference on economic development and social equity was held in Rio de Janeiro, Brazil. It unofficially marked the two-year anniversary of the India-Brazil-South Africa Dialogue Forum, which came to be known simply as IBSA (in this study also referred to as the IBSA Dialogue Forum). During a speech at this Forum the Brazilian External Relations Minister Celso Amorim emphasised that even if IBSA was the result of a common political position shared between these three leading countries of the South, the trilateral coalition was expected to deliver more in tangible benefits and pragmatic exchanges. These changes, he argued, range from economic transfers to agreements in the areas of information technology, biotechnology, renewable energy and direct transport links (White 2005).

This study will, amongst other things, examine whether IBSA is on the right path and can thus be expected to 'deliver more in tangible benefits and pragmatic exchanges.' The theory that this dissertation will use to analyse the IBSA Dialogue Forum is New Regionalism, which will be closely examined in chapter 2. While examining New Regionalism, specific focus will be on not only highlighting the main tenets, but to also stress how this theory differs from other theories of integration. In order to do so New Regionalism will be compared with another prominent integration theory – Neofunctionalism.

Having dealt with the theory of integration, this dissertation will move on to focus on the so-called tangible benefit, by offering a chapter focusing on one of the 11 sub-sectors of the IBSA Dialogue Forum, namely that of investment. While trade and investment is jointly considered one of the important sectors, or focus areas, of the IBSA Dialogue Forum the reason for choosing to focus on investment rather than trade is the fact that trade is a more commonly analyzed and debated topic and consequently there is a greater need for focusing on the 'newer' topic of investment. The three members of the IBSA Dialogue Forum are all middle powers, in other words, they are all states that possess more agency than small and vulnerable states, but they simultaneously lack the structural position to dominate the international system (Taylor 2001: 19). The concept of middle powers will be further discussed in Chapter Three in order to examine the opportunities and limitations that comes with such a position, and to evaluate why their position as middle powers are relevant in terms of the IBSA Dialogue Forum. In addition to being regarded as middle powers the three IBSA members are also

considered emerging markets – a fact which is of paramount importance and will be highlighted in Chapter Five which deals with investment – and what improved collaboration in this field could come to mean for the success of IBSA as coalition and for the three countries separately. Furthermore, another factor influencing the choice of focus areas is that the level of integration when it comes to, for example, culture is very difficult to measure quantitatively. Consequently focusing on investment within and between member states should be aligned with the goal of determining the level of tangible integration. It needs, in this context, to be highlighted that investment is not necessarily more important than any of the other sub-sectors. In the same way that the IBSA coalition is analysed using the New Regionalism framework this theory will also be applied to emphasise the opportunities associated with an increased focus on investment.

## **1.2 A SHORT HISTORICAL OVERVIEW OF IBSA**

Before attempting to answer any of the issues raised above, it is necessary to take a closer look at the short, but important history of the IBSA Dialogue Forum. In September 2003, Brazil, India and South Africa, amongst others, led a group of middle-income countries, known as the G20+ that refused to accept an agenda for trade talks as a part of the World Trade Organization's (WTO) Doha Development Round at Cancún, Mexico. It must be mentioned that this group of countries is sometimes referred to as G-20 or G-21, due to varying number of member countries. In this dissertation, however, the group will be referred to as G20+ and a list of members is included in the Appendices. This stance arguably led to the collapse of the negotiations, which for many illustrated that the amount of power in the hands of the countries of the South had dramatically increased (Jawara & Kwa 2004). This event inspired Brazil, South Africa and India to pursue further cooperation. Hence, this collapse of the WTO's Cancún round of talks in 2003 can be said to have, more or less directly, led to the establishment of the IBSA Dialogue Forum (White & Skidmore in SAIIA 2004: 166). It was understood that none of these three so-called middle powers emerging markets were able, on their own, to achieve viable results in the negotiation process. Furthermore, it was believed that by cooperating this could be changed, and that the South could exercise some leverage when they negotiated in the WTO as a coalition. Moreover, the argument was that it was not only in terms of trade negotiation that cooperation between India, Brazil and South Africa could strengthen the position of the countries of the South; cooperation could also strengthen their influence in Forums such as the United Nations (Draper, Mills & White 2004: 2). Already this early one sees the awareness of the importance of a broad focus of cooperation – this new way of thinking allowed the countries involved to explore previously unexplored avenues of cooperation.

The first meeting between the three states took place in Brasília, Brazil, in June 2003 where the IBSA Dialogue Forum was launched and the Brasília Declaration was subsequently adopted and signed. South Africa is said to have been the primary initiator of IBSA, and the coalition is sometimes referred to as 'Mbeki's brain child' (Draper, Mills & White 2004: 8). The meeting in Brasília was followed by one in New Delhi, India, in March 2004. During this meeting the areas of mutual interest and cooperation were defined, and these areas were later identified in the broad Plan of Action (Draper, Mills & White 2004: 4). This broad Plan of Action consists of 60 mutually-agreed upon points of both bilateral and trilateral cooperation. These points were divided into the following sectors: transportation (civil aviation and shipping); tourism, trade and investment; infrastructure; job creation and small, medium and micro enterprises (SMME); science and technology; information society; health; energy; defence; and education (South African Department of Foreign Affairs 2004: 1-7). The third meeting took place in Cape Town, South Africa, in March 2005. The focus of this meeting was on trade and the WTO. An objective was set suggesting that trade between the three should be doubled within two years (SABC News, 3 September 2005). The Rio Summit built on the achievements of the Cape Town Ministerial Summit and further emphasised the importance of strengthening South-South cooperation in order to bring about human development. The Tshwane IBSA Summit of 2007 and the New Delhi Summit of 2008 were examples of much more extensive cooperation – focusing on issues including, but not limited to, global governance; the Millennium Development Goals (MDGs); South-South cooperation; sustainable development; Human Rights; Intellectual property; Terrorism; Energy; and the IBSA Facility for Alleviation of Poverty and Hunger (IBSA 8 June 2009: internet).

Around the time of the establishment of the IBSA Dialogue Forum there were many pessimistic voices suggesting that this was yet another version of South-South cooperation that was bound to be a failure. However, by 2009, this Forum is indeed active and it is arguably stronger than ever before. While it started off as an initiative where only the respective foreign ministers or deputy foreign ministers would meet, this has changed and today these trilateral meetings include the respective heads of state as well as representatives from the foreign ministries alongside actors from the relevant private spheres. This illustrates a deepening of integration in the way that more important actors are involved, as well as a widening in the form of a broader selection of actors participating. During the 2007 Tshwane meeting the conference was divided into three meetings, one where the respective governmental structures met, another conference where academics from the three countries met for debate and yet another space for the business representatives. The New Delhi summit in October 2008 offered an even larger number of Forums, including a women's Forum, an academic Forum, a business seminar, editors Forum, a technical seminar on standards in e-Governance and a workshop on energy (IBSA 8 June 2009:

internet). Consequently, one sees that there has been an important broadening of both participation and topic of debate from establishment to current date.

Nobel laureate Joseph Stiglitz has joined the voices focusing on the opportunities associated with the establishment of IBSA. He was the keynote speaker at the 2006 Rio de Janeiro conference and focussed on IBSA's potential broader contribution towards correcting the skewed results of globalisation and its role in shaping the global agenda. Stiglitz strongly advocated the new, improved 'IBSA approach' to South-South cooperation, he criticised previous coalitions of the South that had for the past 40 years been based on ideological differences and, more recently, 'globalisation and its discontents'. Continuing his line of argument he claimed that the IBSA Dialogue Forum differs from other cases of South-South cooperation. Stiglitz viewed IBSA as a constructive coalition of the South that is geared toward clear objectives based on modern economics (White 2005).

This study will seek to determine who better predicts the future of the IBSA Dialogue Forum; Joseph Stiglitz and the people agreeing with him, or the voices referring to IBSA as yet another example of South-South cooperation deemed to failure.

## **1.3 LITERATURE REVIEW**

As already established this dissertation will look at the IBSA Dialogue Forum, and discuss whether New Regionalism can be used to analyse the developments taking place – and the investment patterns (inflows and outflows) – between these three countries. Very little research has been conducted on the topic, which makes a literature review extremely difficult. However, it makes identifying gaps in the existing literature fairly easy. In terms of structure, the study's literature review will be divided into three sections, the first dealing with the IBSA Dialogue Forum, the second one dealing with New Regionalism and lastly a section on literature on investment in emerging markets.

### **1.3.1 The IBSA Dialogue Forum**

There are a relatively small number of academic articles relating to the IBSA Dialogue Forum. Some of these are written by scholars of the South African Institute of International Affairs (SAIIA). In addition to the academic articles, these scholars have also published a number of newspaper articles on the topic



(Draper 2004; Draper, Mills & White 2004; White & Skidmore 2004; Le Pere & White 2005; White 2005; SAIIA 2006). Additionally, most of the other information dealing directly with the IBSA Dialogue Forum are either speeches by government officials, *Communiqués* or information from various web pages, in addition to Miller's 'South Africa and the IBSA Initiative' (Africa Insight 2005: 52-57) and Alden & Vieira's 'The New Diplomacy of the South: South Africa, Brazil, India and trilateralism' (2005). While Draper, Mills and White (2004) focus on the opportunities that the IBSA coalition carries with it, Miller (2005) adopts a more negative view and her article highlights the constraints and challenges (from a South African standpoint) that this coalition is facing in the globalised international system.

'Much Ado About Something?' (Draper, Mills & White 2004) is an assessment of the potential of the IBSA Dialogue Forum. It looks at the progress that has been made and explores the potential of IBSA. It looks at the history of this young coalition, at the socio-economic and demographic positions of India, Brazil and South Africa. Furthermore, it explores the various factors promoting further integration between the three countries – often referred to as the ties that bind – and factors that could possibly prevent such integration to take place. Draper, Mills and White (2004) conclude that the IBSA Dialogue Forum has the potential to become a credible and accountable coalition of the most powerful developing countries of the world. However, they stress the fact that hard work and commitment are needed in order to achieve this.

In 'Ibsa is about more than just trade' (Le Pere & White 2005) the authors argue that South Africa is not ready for a trilateral trade agreement with India and Brazil. They justify this argument by pointing to the fact that South Africa and Mercosur (Mercado Común del Sur or the Southern Common Market) are staunch competitors on the international markets (especially in terms of agriculture) and further highlights that Mercosur has a competitive advantage on South Africa on most fields. Mercosur exports five times more to South Africa than vice versa, and, in addition, Mercosur is increasingly trading in value-added goods while South Africa still trades basic commodities. However, and this is of paramount importance, they argue that trade should not determine the success of South-South cooperation. They highlight the fact that IBSA countries share the same interests, skills and needs. All three of them are struggling to achieve poverty alleviation, economic development and social equity. Furthermore, they point out that the IBSA Dialogue Forum has registered some important achievements, mainly in terms of the WTO. Le Pere and White conclude, as the title of the article suggests, that a trilateral cooperation such as IBSA offers more than just trilateral trade agreements. They argue that IBSA has the ability to chart a new course for South-South cooperation, and that in order to achieve this the focal point should be shifted towards areas such as energy, health and education.

In their article, 'The New Diplomacy of the South: South Africa, Brazil, India and trilateralism' Chris Alden and Marco Vieira (2005) looks at countries in the South who are actively challenging the position and assumptions of the current leading states of the world. They pay special attention to the fact that India, Brazil and South Africa are middle-income developing countries and are thus often referred to as middle powers. The article examines the rise of trilateralism and emerging market economies. In doing so, the authors compare the IBSA Dialogue Forum to other coalitions of the South. These cooperations have had a tendency of failing and Alden and Vieira suggest how IBSA could differ from these failures.

The article by Alden and Vieira (2005) is the academic work with the most similar focus as this dissertation. Since there is a limited amount of work done on the IBSA Dialogue Forum there are many gaps in the literature where it would have been useful having done further work on. However, this dissertation will seek to fill the gap dealing with what benefits are attached to a coalition like the IBSA Dialogue Forum for the members, but also for the developing world as a whole. As a sub-focus, this thesis will seek to clarify whether placing the spotlight on, for instance, investment can lead to economic growth and development for India, Brazil, South Africa and their respective regions. One should keep in mind that most of the bibliography is a few years old; hence a new analysis of the IBSA Dialogue Forum should be an asset to the further development of this coalition. Furthermore, as the work done so far rarely focuses on IBSA as a unit operating in the global political economy there should be room for an analysis exploring whether this coalition can, through an increasingly closer cooperation, achieve more than the three states would have been able to achieve on their own, for instance in terms of the WTO and the United Nations (UN). In other words, the task of this dissertation will be to determine whether the whole is indeed greater than its parts.

### **1.3.2 New Regionalism**

The majority of contributions to the topic of New Regionalism are by Scandinavia-based scholars such as Marchand, Bøås, & Shaw (1999; 2005); Hettne, Inotai & Sunkel (1999; 2000a; 2000b); Hettne & Odén (2002) and Söderbaum (1996; 2004). However, other political theorists have also offered valuable contributions; some of the earliest contributions came from Keohane (1994) while Amin (1999) offered a rather radical, but nonetheless very important, outlook on regionalism and globalism.

'The Political Economy of Regions and Regionalisms' edited by Bøås, Marchand and Shaw which was published in 2005 focuses on regions and regionalisation, governance, development and change. It can be viewed as a continuation of their contribution to 'Third World Quarterly' in 1999 – an article called 'Special Issue: New Regionalisms in the New Millennium'. Bøås, Marchand and Shaw argue that there is a need to include insights from various disciplines. They stress that, in order to gain a deeper understanding of regionalism's multidimensionality, one should include critical geography, post-colonial theory, cultural studies and post-structuralism as well as international relations, international political economy and development. Furthermore, it is argued that one of the greatest benefits of New Regionalism is that it moves away from the Eurocentric view of the previous theories of integration theory and allows for an efficient and accurate analysis of regional integration in the developing world. This book uses case studies from as varied areas as Mesoamerica, Asia-Pacific Economic Cooperation (APEC), Association of South East Asian Nations (ASEAN), East Asia, the Middle East and Africa, and concludes that it is only New Regionalism with its conceptual changes that would enable these regions to adequately analysed.

Another contribution to the field of regionalism comes from Woolcock and Samson in their 'Regionalism, Multilateralism, and Economic Integration' which was published in 2003 and examines, as the name suggests, the link between Regionalism and Multilateralism, and explores the history of the WTO (with a specific focus on the Uruguay Round). Throughout the book case studies are used, from both the developed and developing world as well North-South examples of cooperation. Their contribution seeks to answer the following three questions:

1. What is the impact of regional agreements in the area of regulatory policy?
2. Do the approaches to regulatory barriers differ from region to region, and if so does this represent a risk of 'regulatory regionalism'?
3. Are regional approaches competing with or complementing multilateral attempts to remove regulatory barriers to trade? (Woolcock in Sampson & Woolcock 2003: 314).

Although a large focus is placed on trade in this book, it is useful in terms of this thesis due to the fact that it clearly illustrate how there has been a shift away from trade towards investment and why this has occurred. Even if New Regionalism takes a clear stand removed from those who focus narrowly on Regional Trade Agreements as the driving force of the integration process, this book is still useful as it offers valuable contributions while examining the move from old regionalism towards new regionalism – and the global context that drove such a change, and it investigate whether regionalism should be seen as a part of the globalisation process or a response to it. It is, however, important to keep in mind that

the form of new regionalism that Woolcock and Samson (2003) are referring to differs from the one that is examined in this thesis and is referred to as New Regionalism.

Even if many of the scholars behind New Regionalism are Scandinavian it is by no means a concept focusing on Scandinavia or even Europe. These scholars, including Bøås et al, Hettne et al & Söderbaum et al have mainly focused on the South and have examined regionalism in its true shape in the developing world. In fact, Grant and Söderbaum (2003: 193) criticise other scholars (amongst them Milner & Mansfield, (1997)) for being too Eurocentric in their approach to regionalism: 'Orthodox theoretical approaches to regionalism have contributed to a better understanding of regionalism and regionalist projects. However, one crucial problem is that these theoretical perspectives are developed first and foremost for the study of Western Europe, and to a lesser degree North America and Asia-Pacific. Variations when analysing the latter two are often explained in terms of how these regions differ from the 'standard case' of Europe.' As an example, they highlight how for instance regionalism in Asia-Pacific is seen as 'less institutionalised' than the EU. Furthermore, they draw attention to how Milner and Mansfield conveniently ignore Africa and the dynamic and often non-conventional regionalisation processes on this continent.

'The New Regionalism in Africa' which was edited by Grant and Söderbaum (2003), is a collection of articles seeking to advance and reinforce the trend towards new approaches to regionalism. The focus is as the title suggest on regionalism in Africa. More importantly, it highlights the fact that orthodox theories of regionalism do not satisfactorily analyse events taking place in Africa, and in other developing areas of the world. They stress that a large extent of the regionalisation that occurs in Africa is informal and it even has, in certain cases, features of illegality such as smuggling of blood diamonds and warlordism. Therefore, the authors suggest that the only version of regional theory that adequately explains events taking place in various parts of Africa is New Regionalism. A last aspect of paramount importance is the move beyond the state-centric approach. While the scholars' contribution to this volume do not ignore the importance of states, they argue that in order to understand regionalism, or rather regionalisation, in Africa it is necessary to keep in mind that states and ethnicity are two very complex issues on this continent and that the latter often is a stronger determinant of people's actions and feelings of belonging than their nationality.

While most versions of regionalist theory are Eurocentric in their outlook, this is not the case for New Regionalism. New Regionalism allows for the use of realistic assumptions – which means, amongst other things, inclusion of non-state actors and a focus on informal as well as formal integration – in their

analysis, the outcome is a result which is closer to reality and which better explains events taking place in the developing world. As a result of this, New Regionalism has been chosen as the most suitable theory to analyse the current and future position of the IBSA Dialogue Forum in a global context.

### **1.3.3 Investment (in the lieu of Emerging Market Economies)**

Investment is an exceptionally broad topic and it is thus necessary to narrow it down. In terms of this dissertation the concept of investment is a 'sub-topic' – it is in other words only used as a way to illustrate the immense possibilities associated with the IBSA Dialogue Forum. Since investment is not the main focus of this study, it will not offer a thorough examination of the various aspects of the investment concept. Instead it should be viewed as a brief introduction to the topic and it must be highlighted that this should only be regarded as the first step of a concept that arguably deserves further attention as a possible focus area of the IBSA Dialogue Forum. One way in which it is natural to narrow down the term investment for the purpose of this dissertation is to focus on investment in connection with emerging markets. The fact that all three members are emerging markets allows one to highlight this important and determining aspect while exploring the topic of investment.

The literature on Emerging Markets Economies (EMEs) is vast despite the fact that in its current shape this is a rather recent phenomenon. Hence much of the older literature is not applicable in the current global order and is thus not applicable to this thesis. One very useful book for this dissertation is 'Growth and Development in Emerging Market Economies' which was published in 2008 and edited by Harinder S. Kohli, which focuses on international private capital flows, financial markets and globalisation and is a valuable addition to the literature on prospects and challenges common to developing countries – often referred to as EMEs. This book consists of papers commissioned by the Emerging Markets Forum and focuses on exploring common opportunities, challenges and risks, and also forging a consensus between the key decision makers in the public and private sectors on how to best sustain and build on the successes of these EMEs.

While 'Growth and Development in Emerging Market Economies' examined emerging markets in general 'Emerging Capital Markets and Globalization: The Latin American Experience' by Augusto de la Torre and Sergio L. Schmukler (2007) focuses on capital markets in emerging market economies, in particularly Latin America. Although this book has a strong focus on Latin America, it is useful in the context of this thesis, not only to explore Brazil as an emerging market economy, but it also offers

insights into other regions of the world. Furthermore, it presents relevant historical developments, it raises questions based on empirical results and it examines policy issues. In addition, the main questions raised is whether the so-called Washington Consensus is to blame for the lack of progress in the financial markets of Latin America or whether it is the other variables that have hampered growth. It is a comparative study and is, as already mentioned, useful even if one's focus is not Latin America since it often examines developing emerging markets without specific attention to the Latin American region. The conclusion that is drawn is that while the scholars claiming that the lack of developments stems from weaknesses in the implementation of the reforms and the scholars suggesting that the weakness is the actual reforms both have valuable arguments. However, Torre and Schmukler (2007) suggest that these do not adequately explain the lack of the development of financial markets in the South. Instead they propose that there is a need to step back, revisit some basic issues and reshape the expectations *before* formulating the reform agenda. Consequently, the argument is that the flaws are found both in the actual reforms, but also in the implementation process – and both these issues must be addressed in order to solve the problems and allow for reforms that can be efficiently implemented so that the financial markets can successfully expand and bring about economic growth in the developing world.

Based on this literature review one should be able to argue that New Regionalism is indeed a useful analytical tool when examining the IBSA Dialogue Forum. It is the 'newness' that allows for an efficient analysis of the world system in which the IBSA Dialogue was established and continues to exist.

The initial focus of the IBSA Dialogue Forum cooperation was, amongst other aspect, on trade. Some of the older theories of regional integration could have arguably been more applicable than what they are today if the focus was purely on trade integration. However, one sees that the focus has moved beyond trade. Scholars and policy-makers alike seem to have accepted that trade is not the most important aspect of the IBSA Dialogue Forum and it might not even be one of the key elements of the developments of this coalition.

In terms of the sub-focus of this thesis – investment in the lieu of emerging markets – it is clear that the concept of EMEs is a very important phenomenon and since all three member states are emerging markets this is an important aspect to highlight. Investment is interesting due to the fact that it allows for a quantification of the integration, in the way one can measure changes that has occurred in the last year. What is more, in terms of this dissertation, investment is viewed in the light of being a tool in the process of expanding EMEs, like India, Brazil and South Africa. It is however, important to note that

investment (and emerging markets) is not the only aspect which is important in terms of future cooperation between India, Brazil and South Africa. Instead, it should be viewed as one of the many ways in which the IBSA Dialogue Forum can continue to grow and become a more important global actor while simultaneously working towards achieving economic growth, poverty alleviation and social equity.

Not much work has been done on the IBSA Dialogue Forum and although a substantial amount of work has been done on New Regionalism, it all focuses on regional cooperation between neighbouring countries. In other words, there is indeed a gap in the existing literature – no one has analysed a regional cooperation that consists of countries that are not situated close to each other. Furthermore, there seems to be more space to focus on non-conventional aspects of regional integration, such as social and cultural features. However, economic integration is also of paramount importance, a fact which is highlighted in this dissertation through the sub-focus on investment.

Regionalism in the South has historically focused on building of Regional Trade Agreements (RTAs) – which has not led to the results envisioned upon establishment – such as economic growth and social development. However, the IBSA Dialogue Forum differs from previous versions of regional integration and it is these new aspects of New Regionalism that allows for an analysis of the IBSA Dialogue Forum which would have previously not been possible – and these differences have the potential of leading to IBSA becoming the first coalition of the South that actually fulfils its promises of poverty alleviation, economic growth and development.

## **1.4 RESEARCH QUESTIONS**

This study attempts to analyse one of the most recent examples of South-South cooperation – the IBSA Dialogue Forum. Given the proliferation of organisations focusing on South-South cooperation, as well as some of their limited success (two examples of failed Southern based collaboration initiatives are the Zone of Peace and Co-operation of the South Atlantic (ZPCSA) and the Indian Ocean Rim (IOR)), this study seeks to address the question: Is IBSA offering anything new in terms of South-South cooperation and economic development? The IBSA Dialogue Forum has been criticised for being an elitist idea of cooperation. If that is the case can this be changed by closer integration? If yes, what shape should this closer integration take? The study applies New Regionalism to explain and analyse developments that have taken place so far and place a particular focus on investment in terms of emerging markets in

order to determine the possible prospects involved in an expansion of scope and structure of collaboration between India, Brazil and South Africa.

This dissertation will seek to answer the following questions:

- Are the actors involved compatible in terms of socio-economic variables?
- Is the focus on trade the 'way forward' for IBSA?
- Should efforts be put into broadening IBSA's focus in order to achieve a wider variety of benefits?
- Are the actors– India, Brazil and South Africa – attempting to create economic growth and social upliftment for their respective regions, or are they in this coalition solely to pursue their national interests?
- Where and in what shape would cooperation be most beneficial for the member countries? In other words, what should be the focus of future coordination and cooperation?
- Should the IBSA members focus on investment as means of achieving further integration? Can an investment focus lead to economic prosperity? And are India, Brazil and South Africa to attract foreign investors?
- What are the patterns of investment between and within the three member state? And most importantly, are these three countries able to join forces and collaborate in order to draw investment to the political south or is this rather a zero-sum game where for instance India's gain is Brazil's loss?
- What should the IBSA Dialogue Forum of the future look like?

In other words, this study will seek to establish whether this coalition has the necessary common ground, both in terms of nation specific characteristics, but also in terms of goals, motivations, interests and power. Furthermore, it will, based on this, determine how they could maximise international leverage (and improve their socio-economic statistics) in order to achieve these goals, and consequently strengthen both the countries' positions as well as IBSA's position in the global structure. If they manage to do this, it should be fair to argue that for India, Brazil and South Africa the whole has indeed proved to become greater than the sum of its parts.



## 1.5 THEORETICAL FRAMEWORK

The theoretical framework this study will use is, as already mentioned New Regionalism. New Regionalism is 'a broad, open-ended framework for analysing regionalisation in a multilevel and comparative perspective' (Hettne & Söderbaum 1998: 6). New Regionalism usually refers to the second wave of regionalism which started developing in the latter half of the 1980s, after the first wave of regionalism in the 1960s and 1970s had become a failure (Söderbaum 1996: 1). What is important to keep in mind when discussing New Regionalism, is that there is not only one regionalism, but many. In other words, many different versions exist, and this study will use capital letters when referring to the New Regionalism, which is by some named New Regionalism Approach/Theory (NRA/T).

One major attraction with New Regionalism is the fact that it rests on assumptions that are closer to reality than the assumptions used by scholars of Old Regionalism. Consequently, when applying New Regionalism to an analysis of the EU different assumptions are used than when examining for instance the Southern African Development Community (SADC). This allows for the outcome that is closer to real life since there are probably more differences between the EU and SADC than there are similarities. Furthermore, an important component of New Regionalism is that it obviates the artificial separation of state and non-state actors associated with traditional or conventional regional approaches. In addition to this, it recognises that formal and informal aspects of regionalisation are often intertwined (Grant & Söderbaum 2003: 5). Consequently, New Regionalism moves beyond the state-centric approach and allows for the inclusion of non-state actors in the analysis of the integration process. This is not to say that states are not important according to New Regionalism, rather this approach to regionalism allows for non-actors to be centrally placed – sometimes more central than the states. Moreover, New Regionalism argues that countries that share common cultures, languages, religions, or ethnic backgrounds – but not geographic proximity – could be considered regional partners. The notion of regionalism flows from the idea that various non-governmental factors can induce increased levels of economic and political activity among countries, whether they are located nearby or not (Mansfield & Milner 1997: 4). This is related to the claim that informal regionalisation might at times be a stronger integration factor than formal regionalisation, and allows for a broader focus when examining regionalisation – which again offers a more accurate view of the integration process.

One disadvantage with New Regionalism theory is that it has been criticized for applying an 'everything goes approach' to regionalism. In other words, one needs to be strict when it comes to limiting this

approach. This, however, is also one of the advantages with New Regionalism. This approach allows for the use of more realistic assumption which again allows for a more realistic outcome, one that is not Eurocentric, but rather also applicable to South-South cooperation. New Regionalism will be discussed in detail in Chapter Two.

## 1.6 CONCEPTUAL CLARIFICATION

In order to create clarity primarily two concepts – regionalism and integration – will be explored. Regionalism dates back several centuries. The previous peak in regional activity occurred in the inter-war period when industrialised countries responded to the great depression by attempting to form closed trading blocs with less developed countries- in the case of European countries these did so with their colonies (Ravenhill in Ravenhill 2005: 126). Possibly because regionalism has existed for such a length of time and in such different forms and shapes there is much disagreement as to how to define this concept. One of the few issues on which writers on regionalism agree is that there is no such thing as a 'natural' region. Regions are social constructions whose members define their boundaries (Ravenhill in Ravenhill 2005: 117). According to Haarlov (1997: 14), Haas defines regional integration as follows: 'The study of regional integration is concerned with explaining how and why states cease to be wholly sovereign, how and why they voluntarily mingle, merge, and mix with their neighbours, so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflict between themselves'. Haas, however, was a Neofunctionalist scholar and there are substantial differences between Neofunctionalism and New Regionalism, this will be discussed in Chapter Two, here it suffice to highlight the fact that regional integration does not necessarily have take place between neighbours.

Robson (in Haarlov 1997: 13) defines international economic integration as: 'A state or a process that derives its importance from its potential for enabling its participants to achieve a variety of common goals more effectively by joint or integrated action than by unilateral measures'. Haarlov (1997: 15) offers his own definition when he argues that regional integration is 'a process through which a group of states voluntarily in various degrees share each other's markets and establish mechanisms and techniques that minimize conflicts and maximize internal and external economic, political, social and cultural benefits of their interaction'. Haarlov's definition is useful to this study due to the fact that his definition does not geographically limit regional integration and furthermore he emphasises the fact that the degree of integration varies and that, maybe most importantly, it is not only economic integration that takes place, but also political, social as well as cultural. The importance of these aspects will be further emphasised in Chapter Two. Hettne (Hettne in Hettne et al 2000: xviii) agrees with Ravenhill

(2005) and emphasizes the fact that regions are not 'given,' and that they need not be formal organisations. Instead he suggests that regions are created and recreated in the process of global transformation. Since it is a forever changing concept it is difficult to come up with a definition that is generally accepted, but most theorists will agree that regions are: 1) territorially based subsystems of the international system, and 2) that there are many varieties of regional subsystems with different degrees of regionness (in other words, there are various level of 'unity'.)

## 1.7 METHODOLOGY

There has been a debate in social science for more than half a century as to how to conduct research: should the focus be on quantitative or qualitative factors? Should social science scholars strive to be more like their colleagues in the natural sciences or should they instead do 'their own thing' and rather risk not being viewed as equals by scholars of the natural sciences (Babbie & Mouton 2001)?

Qualitative research is in some circles viewed as inferior due to the fact that there is no scientific proof that can back up an argument. The result is that some scholars have attempted to quantify their qualitative info – often with an unsuccessfully result. The reason being that qualitative research, by definition includes a human factor – a human interpretation of facts – which is the reason for it being considered inferior to natural science which allows for an externalisation of the human factor. A possible way to minimise the negative effect of the uncertainties attached to qualitative research is to be explicit about the assumptions and the interpretation of facts – in other words to highlight the fact that this is the authors interpretation. In terms of integration theory it is often possible to use quantitative variables to measure, at least in certain aspects, the degree of integration that has taken place. Measures used are for instance statistics regarding increased trade and investment between the states in question.

In terms of this dissertation one can measure the amount of foreign direct investment (FDI) taking place in the three countries and where these investors are coming from, and subsequently monitor changes that have occurred. These are just a couple of examples of how it is, in the context of this thesis, possible to use quantitative indicators-many more exists. However, it is important to keep in mind that it is far from sufficient to only use quantitative measures. In order to monitor the integration process it is necessary to also use qualitative methods. An example of this is for instance how the IBSA Dialogue Forum started off with meetings between the foreign ministers of India, Brazil and South Africa, while today the heads of state will partake in the meetings. A further aspect in terms of integration and the qualitative measure of the change of levels, is the fact that the selection of actors involved is widening – not only has the power increased to include heads of state, it has also widened to include businesses,

women's Forums and academics. Moreover, deep political bonds like for instance India's support of the struggle in Apartheid South Africa, as well as the fact that a large percentage of the population in Brazil feel that they have strong ties with Africa are qualitative indicators that may prove to be more important than the quantitative ones (Draper, Mills & White 2004: 7). The reason for this being that the feeling of familiarity as a decision making tool cannot be underestimated, and a business man that feels that he knows and understand what is going on around him is more likely to be willing to invest in a certain country, than someone who feels as if they are on completely unfamiliar soil. Consequently, one sees a need to not only focus on quantitative variables since the qualitative ones often offer a fuller picture.

An additional aspect tied to the debate around quantitative versus qualitative research, and directly related to the topic of integration theory is the importance of, as argued by Ravenhill, distinguishing between a formal process of intergovernmental collaboration taking place between two or more states and regionalisation, which refers to the growth of economic interdependence within a given geographical area (Ravenhill in Ravenhill 2005: 117). Consequently, one might find that when using quantitative measures one end up measuring the degree of regionalisation rather than determining whether the region is experiencing increased regionness – which would lead to less than adequate conclusions being drawn.

When looking at the indicators of integration one has to keep in mind that even if a certain fraction of society, for instance the elite, is involved, this does not mean that the nation as a whole has become more integrated. By keeping this in mind one should be able to make it apparent whether integration is something only the elite is involved in, or whether it includes actors from a wide sector of the respective societies. It is therefore important to explore which areas of the integration process are moving at the fastest speed, which actors attend meetings, where agreements are signed and so on. This, however, will be further discussed in Chapter Two.

The material needed for this dissertation includes official documents, books, journal articles and newspapers in addition to personal interviews and internet sources. The reason for the use of internet is, as mentioned earlier, that the IBSA Dialogue Forum was established six years ago, and therefore a very limited amount of work, academic as well as non-academic, has been done on the topic. Furthermore, it allows for a stronger focus on qualitative factors. Consequently, it is necessary to use these sources, and to rather be explicit about the fact that this information possibly can lack objectivity as well as the required grounding in theory. This, of course, is only applicable when examining the IBSA Dialogue Forum; when concentrating on the analytical framework, New Regionalism and on the section

dealing with investment, the dissertation will be built on conventional sources, such as historical and contemporary books, journals, articles and newspapers.

The first stage of research involved the collection of material concerning IBSA from a broad range of relevant actors. This consisted of interviews with scholar and officials at the South African Institute of International Affairs (SAIIA) and the South African Department of Trade and Industry (DTI). This was done in order to create an as wide as possible foundation. Simultaneously, work done on the theoretical framework was used in order to examine the various possible development of IBSA. In other words, this thesis will attempt to explore, by using a New Regionalist framework, how IBSA can develop into a broad and solid cooperation between India, Brazil and South Africa, which can potentially lead to poverty alleviation, economic growth and social equity in the three poorest regions in the world.

## 1.8 IMPORTANCE OF STUDY

Globalisation and regionalisation are two related processes. Söderbaum (1996) argues that together these two processes of structural change are the most important characteristics of the contemporary global political economy. Or in the words of Grant & Söderbaum (2003: 7-8): 'New Regionalism acknowledges the external dimension and the close relationship between globalisation and regionalisation. Globalisation and regionalisation is, according to New Regionalism, intimately connected and are together shaping the emerging world order'. Amin (1999) agrees with Söderbaum when he suggests that these two processes are of paramount importance when discussing the development in Africa, Latin America and parts of Asia. Arguably regionalism is of much greater importance to the poor developing states than to other more developed and richer areas of the world (Söderbaum 1996: 1). The reason why regionalism is of utmost importance to the poor regions of the world is that for instance in Africa political leadership has no possibility of influencing the process of globalisation nor its counter-reaction in the form of global regionalisation single-handedly. It is more a question of how to relate to the process and to elaborate a strategy for an active way of responding. Passivity from the leadership towards the process will only increase the impact of its negative aspects, most frequently implying further marginalisation. Subsequently, the present tendency of marginalisation of for instance Africa has led to political striving for increased regional cooperation with both security and commercial incentives. This development carries with it the possibility of even turning stagnant intra-regional activities into dynamic cooperation (Abrahamsson in Hettne *et al* 2000: 296). Consequently, a collaboration as for instance seen in the IBSA coalition could be necessary, not only in

order to achieve economic growth in the political South, but also to curb the negative effect of an increasingly globalised world – a world where states such as India, Brazil and South Africa could become increasingly marginalised – if they do not cooperate in order to influence their positions in the global structure as well as the *perception* of them held by other (often more powerful) states. Hence the members have the opportunity to become greater and more powerful than the sum of the power of the three countries combined. In other words, together they could achieve goals that they on their own could only dream of achieving. It is thus important to determine how this could be done, and how cooperation could come to maximise benefits for all three countries. The fact that very little academic work has been done on the topic could be an obstacle to achieving these goals and it is therefore important to change this.

## 1.9 SCOPE AND LIMITATIONS OF STUDY

This study examines the IBSA Dialogue Forum. In doing so focus will be on exploring when this coalition was established and why, this attempt to put IBSA in a historical perspective is important due to the fact that the global structure in which the countries find themselves has been an important determinant of their foreign policy. These countries (and to a perhaps larger extent their neighbours) have frequently been on the receiving end of the adverse effect of the globalisation process – a fact which is arguably the strongest driving force behind a continuous focus on increased coordination and cooperation – since it is viewed as a way to join force to overcome this dismal position.

Furthermore, the focus of this dissertation is to establish what has been achieved thus far and what the potential for further achievements are. In doing so it would have been useful to examine the achievements of for instance the various forums, such as the Business Forum, Academic Forum and so on. This could have been done in order to measure the extent of integration that has taken place and to explore possible ways forward. However, this will not be the focus of this study. Instead this study takes on a more overall look, examining what has been achieved on the whole, and looking at only one sub-sector – investment- as a possible growth factor. The reason for choosing to focus on the IBSA Dialogue Forum in its entirety is that it is important to know what the overall picture looks like, and to examine the ideals this coalition is built on, what it has achieved and what it has the potential to further achieve.

Moreover, one should arguably have examined all the various sectoral cooperation efforts with the objective of determining exactly in which areas cooperation would prove to be most beneficial for India, Brazil and South Africa. In other words, which sectors should be receiving the most attention in order to further these three countries' national interests. However, this is not the focus of this study, instead one sector, namely investment has been chosen in order to illustrate what can be achieved if the IBSA members place effort on facilitating a move of capital to the South. It is important to stress the fact that it is not implied that this is neither the only sub-sector nor the most beneficial sub-sector; it is merely an example of the potential of the IBSA Dialogue Forum. Further study should arguable examine and compare the different sub-sectors in order to clarify which it would be most beneficial to concentrate on.

## 1.10 CHAPTER OUTLINE

Chapter one has served as a general introduction to the study. This chapter includes, as indicated, the research problem and the methodology.

Chapter Two will specifically focus on the theoretical framework which is New Regionalism. The theory will be examined in order to determine the strengths and weaknesses of New Regionalism. This is done so that the theory can be efficiently used in the rest of the dissertation to analyse the IBSA coalition, and the concept of investment.

Chapter Three starts off by exploring the topic middle powers followed by a section examining India, Brazil and South Africa's demographics and socio-economic situation as well as the foreign policies. In this chapter emphasis has been placed on analysing these countries separately (as opposed to the coalition) and to compare them in order to highlight important similarities and differences.

Chapter Four looks at the coalition formed in June 2003. While the previous chapter focused on the three actors separately, this chapter will explore India, Brazil and South Africa *jointly*- in the shape of the IBSA Dialogue Forum. The background of the IBSA Dialogue Forum will be explored and focus will be placed on looking at the opportunities such cooperation entails for the three member states and their respective regions. In addition to this, attention will briefly be on the position of the South (as 'represented' by India, Brazil and South Africa) in the WTO as well as within the United Nations. Most importantly, however, this chapter offers an analysis of the IBSA Dialogue Forum using the New Regionalism framework. Efforts will in this case be on creating clarity as to why New Regionalism is

such a useful theory in a world system that has been changed by globalisation, and why it thus is highly applicable to a regionalisation process such as the IBSA initiative.

The focus of Chapter Five will be on investment and the special conditions that need to be taken into consideration when analysing investment in emerging markets. All three IBSA member states are classified as emerging markets and this thesis will explore possibilities linked to investment within and between India, Brazil and South Africa. New Regionalism will be the focus of the last section of this chapter and the task will be to determine whether 'the whole really is greater than its components,' thus answering whether increased integration, (and an increase in investment) between the IBSA member states better equips them to achieve some of their shared goals, such as poverty alleviation, economic growth and social equity.

Chapter Six will serve as a general conclusion of what has been discussed in this thesis, and will discuss possible ways forward.

## **1.11 SUMMARY**

This introductory chapter has offered a short description of the various chapters of this study. More importantly, it offered a literature review and research questions, took a brief look at the theoretical framework and gave conceptual clarification. Following the introduction chapter is a chapter examining the theory that will be applied throughout the dissertation – New Regionalism and the next chapter offer a comparative look on the three members of the IBSA Dialogue Forum. After having explored the commonalities and differences of India, Brazil and South Africa, as well as having debated their positions as middle powers, this study will turn the focus to the IBSA Dialogue Forum. Starting off with some background information, followed by a section highlighting the importance of a collaboration like the IBSA Dialogue Forum, before placing focus on exactly which developments that have occurred. This will be followed by a chapter exploring investment possibilities and what consequences to expect from the facilitation of investment activities for emerging markets in general and for the IBSA members in particular. The reason for focusing on investment is that this is one way in which the IBSA Dialogue Forum has an opportunity to cooperate closer in order to build a stronger coalition and to bring economic development to India, Brazil and South Africa. First of all, though, attention will be given to the theoretical framework – New Regionalism.



## **CHAPTER TWO**

### **NEW REGIONALISM**

#### **2.1 INTRODUCTION**

This chapter starts off with a section exploring the evolution of New Regionalism. In doing so, the focus will be on first of all determining in what world context this theory developed, furthermore it will be established how this new approach to regionalism differs from other, older forms of regionalist theory. In addition to this, the most influential writers will be highlighted. Following this is a section examining the main tenets of New Regionalism in order to stress how this approach differs from other theories of integration. Subsequent to this is a section concentrating on the applicability of New Regionalism to the IBSA Dialogue Forum. Lastly, this study will identify the existing criticism of New Regionalism and debate the validity of these.

Gavin and van Langenhove (in Sampson & Woolcock 2003: 278) argue that regionalism is a dynamic, evolving process for which there is no one-size-fits-all definition. Grant and Söderbaum (2003: 7) agree and further suggest that: 'Regionalism, as a generic term and in the broadest possible sense, refers to the general phenomenon of regionalism. In a more narrow and operational sense, regionalism represents the body of ideas, values and concrete objectives that are aimed at transforming a geographical area into a clearly identified regional social space. In other words, it is the urge to by any set of actors re-organise along regional lines in any given issue-area. Regionalisation implies a dynamic element, the pursuit of regionalisation, creating a regional system or network in a specific geographical area or regional social space, either issue-specific or more general in scope. Regionalisation may be caused by regionalism, but it may also emerge regardless of whether there is a regionalist project and ideology present. Regionalisation can occur unintentionally, without actors necessarily being conscious of or dedicated to regionalism. Likewise, the rhetoric and ideology of regionalism may not always have much significance for the reality of regionalisation in practice'. Having stated this it is necessary to note that according to New Regionalism, there are two regionalising processes that may be identified. 'Regionalism' refers to the often formal projects with particular plans and strategies and that often lead to institutional arrangements. 'Regionalisation' on the other hand refers to the actual processes that result in forms of cooperation, integration, connectivity and convergence within a particular cross-national territorial area. Orthodox approaches to integration theory have invariably neglected this latter,

often more informal, though no less tangible, set of processes (Hettne and Söderbaum 2000: 458). In other words, the term 'regionalisation' is often used to describe a process mainly driven by market forces of trade and investment flows while 'regionalism' emerges from state-led projects of cooperation, intergovernmental dialogues and treaties. (Gavin & Van Langenhove in Sampson & Woolcock 2003: 280).

It is crucial to understand that New Regionalism is a complex process of change taking place simultaneously at various levels of analysis; the global system level, the level of interregional relations, the states, and subnational actors (Hettne & Söderbaum 1998: 7). As a result, New Regionalism is not a static framework that uses unrealistic assumptions to analyze the world. Instead this framework allows for a wide range of changing variables – where it is accepted that in certain cases there are actors that are even more powerful than states. In general, much of the current debates on economics and politics centres on the fascinating relationship between globalism and regionalism. There are many perceptions of and opinions about both of these processes and how they relate to each other, but according to Hettne & Söderbaum (1998: 8) the only conclusion that can be drawn is that regionalisation and globalisation are mutually constitutive processes within the broader context of global system change; and that it seems that there are different layers of globalism and regionalisms operating simultaneously. Consequently, it is of paramount importance to bear in mind that the world system is dynamic. In addition to this, New Regionalism allows for the debate to move beyond the question of whether regionalism is part of the globalisation process or tool that can be used to prevent the adverse effect of globalisation – and instead accept that it can be both a part of and a counter measure. This chapter will elaborate further on this issue and other central aspects of New Regionalism, starting with the evolution of the New Regionalism approach.

## **2.2 EVOLUTION OF NEW REGIONALISM**

The focus of this study is specifically on New Regionalism, thus a definition of the concept is needed. As a consequence of the fact that there is not much agreement amongst scholars regarding how to define regionalism many definitions of New Regionalism has been offered. Grant and Söderbaum (2003: 9) stress the fact that New Regionalism 'draws attention to the content of regionalism rather than the form, implying a critical questioning of any given type of regionalism, for whom and with what consequences it is being put into practice, consolidated or resisted. Furthermore, rooted as it is in critical IPE, an unbending concern for the excluded, poor and marginalised people, which critically questions existing

structures and in whose interests prevailing strategies are carried out constitutes perhaps the most important component of this perspective'. This view on regional integration theory makes it particularly interesting for an analysis of the IBSA Dialogue Forum. This is reinforced by Söderbaum (1998: 91) noting that New Regionalism is based on 'the recognition that the Eurocentric and unrealistic assumptions of orthodox theory do not apply in the industrialised world and certainly do not apply in the developing world'. Bøås, Marchand & Shaw (in Shaw 2005: 4-5) support this view by suggesting that: 'One of the most important contributions of New Regionalism has been its challenge to existing Western or Eurocentric bias in theorising about regionalism and regionalisation'. New Regionalism usually refers to the revival of regional integration and cooperation theory and praxis since the latter half of the 1980s, after the decline and failure of the first wave of regionalism in the 1960s and 1970s (Söderbaum 1996: 1). Thus the rush to regionalism in the 1990s is the second major wave of regional trade agreements (RTAs) since the Second World War, and is therefore sometimes referred to as 'the Second Regionalism'. This proliferation of RTAs was rationalised at the time by the widespread concern relating to the potential failure of the GATT's Uruguay Round of multilateral trade negotiations. Driven by the fear of a WTO failure, countries were installing their own safety nets on a regional basis (Sampson & Woolcock 2003: xiii). The first wave occurred in the early 1960s, largely in response to the 1957 establishment of the European Economic Community (Ravenhill in Ravenhill 2005: 126). The late 1950s and early 1960s were characterized by the formation of various regional arrangements, which sparked much theoretical work on their causes and effects. But many of these arrangements were stillborn; and most failed to accomplish their stated purposes. These developments contributed to the pattern of global, multilateral economic organisation that prevailed throughout much of the post-World War II era (Mansfield & Milner 1997: 1). Representatives of Old Regionalism include Mitrany (1945 and 1975) and Deutsch (1978) – both these two scholars had a European focus on their work.

Old Regionalism was shaped by the bipolar Cold War context where the United States (US) and Soviet Union (USSR) were the two superpowers. The decline of the US hegemony and the breakdown of the communist subsystem that took place in the 1980s created a room-for-manoeuvre in which New Regionalism could develop (Hettne in Hettne et al 2000: xx). The structural changes in the global political and economic order which followed the collapse of the USSR and ended the bipolar world of rivalry between democracy and market economics at one end of the spectrum and communism and planned economics at the other, called for new frameworks that could adequately explain the dramatically changed global structure (Gavin & Van Langenhove in Sampson & Woolcock 2003: 277). The collapse of the Soviet bloc and the emergence of many new states led to a shift of focus towards

cooperation, and conflict was no longer defined in terms of Cold War politics (Smith in White, Little & Smith 2005: 71).

Old Regionalism focused on the relationship between sovereign states seen through the eyes of protectionism theories and regionalisation was generally looked upon as a political system imposed from above. New Regionalism, on the other hand, takes place in a multipolar global order and is as a consequence of this radically different from Old Regionalism. One aspect where it differs is that, New Regionalism regard the concept of regionalisation as spontaneous processes from within. In other words, according to New Regionalism, regionalisation does not occur unless actors – states and non-states – in a particular region want it to occur. This aspect of New Regionalism is of paramount importance since it creates a clear distinction between regionalism and globalisation. While globalisation causes states to get 'trapped in a process', New Regionalism sees the integration process as an explicitly chosen, voluntary action (Boughey 2003: 53). Therefore, some of the most powerful criticism of New Regionalism tends to come from the representatives of the International Financial Institutions (IFIs); they take on a globalist view, and argue that regionalism constitutes a threat to the multilateral system. However, to the supporters of New Regionalism the theory forms the basis for an improved and better functioning multilateral system, promoting trade and economic development but also allowing the actors some flexibility so that they can avoid getting 'trapped in the process' (Hettne in Hettne et al 2000: xvi). What is important to keep in mind in this regard is that the public debate often portray globalisation as exploitation by the strong (developed states and transnational cooperations (TNCs)) of the weak (developing states) which will more likely than not end in social disarray and conflict. However, most governments both in the developed as well as the developing world are generally favourable to the idea of international integration, as long as they can avoid the most harmful aspects of such an integration (Soysa & Gleditsch in Hettne & Odén 2002: 26). This, however, will be further discussed under heading 2.3 dealing with the main tenets of New Regionalism. Before that it is important to explore the origin of New Regionalism, which, as the heading suggest, will be the topic of this section.

The argument here is that New Regionalism is better suited to explain the current global order, or disorder. The theory is based on more realistic assumptions than old versions of regionalism – making it more suitable to not only analyse a current regional collaboration, but furthermore to analyse South-South cooperation, such as the IBSA Dialogue Forum.

Many political theorists have done work on New Regionalism, the most prominent ones are Keohane (1984), Söderbaum & Taylor (2003), Söderbaum (2004), Hettne & Söderbaum (1998), Hettne, Inotai, &

Sunkel (1999), Hettne Inotai, & Sunkel (2000a; 2000b) and Hettne & Odén (2002). Keohane argues that New Regionalism was a response to the hegemonic decline the world witnessed at the time, and that New Regionalism was more open and compatible with the interdependent world economy which had started to develop, and it also accepted its place in the world as a component of the globalist framework. Moreover, the New Regionalism approach goes beyond the idea of a free market, and includes economic, political, social and cultural aspects. Furthermore, these aspects are all interdependent variables, consequently attempts to separate and analyze one issue in isolation is at best futile, and as Söderbaum argues, at worst devastating (Söderbaum 1996: 43). In other words, the concept of regionalism now comprised of issues such as trade, environment degradation and protection, social political security, the democratic process and economic integration to mention a few. Another aspect which differs when comparing Old and New Regionalism is that the latter includes NGOs and relationships between regions (inter-regionalism) in the analysis of the political and economic system of the contemporary world (Keohane 1984: 47). A further example of the broadening of analysis and the need to always be aware of the dynamic world system In other words, one should always make sure that one does not fall for the temptation of analysing it as a static concept – which it is not – instead of as the dynamic process it actually is.

Hettne (in Hettne et al 2000: xxvii) suggests that since New Regionalism was conceived as a political and therefore also normative project it involves 'world order values,' expressed in the three preferred outcomes: peace, development, and ecological sustainability. The corresponding problems related to these values are of course war, starvation and environmental degradation. New Regionalism considers it as being of paramount importance to address these problems aggressively in order to achieve the 'world order values'. In 'Globalisation and the New Regionalism' Hettne et al (1999: 11) argue that regions are an emerging phenomena and that the dynamics of regionalisation must be understood in the context of globalisation and can be analysed as processes that go on 'between various dimensions inherent in the process' and 'between levels of the world-system'. This phenomenon is supporting the globalisation process at the same time as it is a mean of controlling it. The result of these processes is a change from relative heterogeneity to increased homogeneity, especially regarding culture, security, economic policies, and political regime. This aspect of regionalisation corresponds with globalisation in the way that the latter can be seen as a wave of liberal ideas spreading across the globe, forcing people and countries to conform to the globalisation ideas or to be left behind. However, Hettne emphasises the power regionalism has as a tool to combat globalisation, arguably its own 'creator', and thus sees it also as a response to the globalisation process. In fact, he goes as far as claiming that regionalism is the only viable option for instance for Africa, keeping in mind the massive inequality that exists between

North and South. In other words, according to Hettne, the only way to achieve peace, development and ecological sustainability in Africa is through regionalisation. However, it is not only important to Africa, but also to other regions of the world that have severe problems with poverty and unrest such as Latin-America and parts of Asia. Hettne et al (1999: 23) claim war can be avoided by changing the level of analysis from the states to regions. He justifies this by highlighting the fact that regions normally have more dynamic borders than states in the developing world and thus territorial disputes can more easily be avoided.

Samir Amin (1999) agrees with Hettne (1999) in most aspects, his opinions are, however, more radical than the ones of Hettne. He claims that to challenge the capitalist globalisation process the focus must shift towards regional integration both in Latin-America and Africa as well as in the Arab world. In addition, he argues that the United States' power as a hegemon has not declined significantly and he maintains that if the system we have today, with the US as the hegemonic power, continues the west will continue to get increasingly richer while the developing countries will only get increasingly poorer. Amin argues that the only way to prevent this from happening is through regionalisation due to the fact that operating in a large, more powerful unit, the voice of the South becomes more likely to be heard.

Bertil Odén (2002) used the theory of Amin (1999) as a building block when he claimed that the third world should see regionalism as an alternative to globalisation. Regionalism is, according to Odén (2002), needed for the developing countries to stop the exploitation they have been exposed to for decades by the industrialised world (Boughey 2003: 45). Odén justifies this point of view by suggesting that although regionalism will bring about a stronger focus on the powerful countries' interests, the world's developing countries are better off in a regional collaboration than in a unilateral world. The reason for this being, first of all, that the poorest countries have relatively more bargaining power when negotiating with the region's hegemon than when negotiating with the world's hegemon. Secondly, and arguably more importantly, countries in a region are more likely to have common interests and consequently have more to gain if they join forces with their regional counterparts.

## **2.3 THE MAIN TENETS OF NEW REGIONALISM**

It has so far been established that various theories on integration exist. However, this study argues that New Regionalism is different to most of them and that it is the approach that best explains the current world system. New Regionalism is a multidimensional process, implying increased regional

homogeneity and integration with respect to a number of dimensions, such as culture, politics, security, economics and diplomacy. It is thus wider in its analysis – or more inclusive than previous versions of regionalisation theory. There are various versions of new regionalism, and consequently different names have been applied to this approach. This thesis will however follow the theories as put forward by the likes of Hettne, Söderbaum, Amin and Odén and this version will, for the purpose of this study, be referred to as New Regionalism (which is identical with what these scholars sometimes refer to as the New Regionalist Approach/Theory) (Söderbaum 1996: 1-2).

Although the topic was briefly touched upon in the section above, the differences between Old and New Regionalism cannot be over-emphasised as they enable one to explore the characteristics of New Regionalism and shall therefore be further discussed here. The term 'New Regionalism' has been widely employed in the theoretical, ontological and methodological debates. There is however some confusion regarding its meaning as well as its divergence from Old Regionalism' (Grant & Söderbaum 2003: 3). There are obvious differences between Old and New Regionalism such as the fact that the latter is taking place in a very different world context, as a result of this the content has changed drastically. The negligence of the global and external factor was often a fallacy of old theories of regional integration (for example neofunctionalism) (Grant & Söderbaum 2003: 7-8). Old Regionalism had a narrow focus and specific objectives. It was primarily evaluated within a static comparative framework, and most often with respect to the famous trade creation versus trade diversion dichotomy. Political cooperation was distinctively separated from economic integration, while simultaneously there could be different forms of economic cooperation in various sectors (Söderbaum 1996: 2).

New Regionalism, on the other hand, is a multidisciplinary and multidimensional process, which is based on the idea that economic, political, social and cultural variables are interdependent and cannot be artificially separated and treated as if it was monodisciplinary. Conventional economic analysis often treats political, social and cultural aspects as exogenous variables, while socio-economic variables and realities are often neglected by political scientists, and it should be fair to argue that Old Regionalism actually reflect this perception of the world.

New Regionalism is an attempt to merge three previously isolated theoretical perspectives: theory of international relations/international political economy (IPE); development theory; and regional integration theory. The reason for this being that the study of international politics makes little sense in isolation from global economic issues. Similarly, the study of world order makes little sense if not related to 'development.' Development theory however is state-centric and thus lacks relevance and needs to be

merged with IPE in turn would be enriched by the more dynamic and normative concerns central to classical development theory, and in particular alternative development theory. Such a merger may ultimately strengthen an emerging 'critical political economy', dealing with historical power structures at various levels of analysis, emphasizing contradictions in them, as well as change and transformation expressed in normative terms (Hettne & Söderbaum 1998: 14). Söderbaum (1996: 43) suggests that because of this it is justified to argue that New Regionalism takes on a holistic view of theory and methodology and one of the main tenets is that the whole is indeed more than the sum of the parts, and that in addition to this the parts are understood from the perspective of the whole. In other words, according to New Regionalism, regionalisation goes far beyond the goal of creating region-based free trade regimes and security alliances. Rather, the political ambition of establishing regional coherence and identity seems to be of primary importance (Hettne in Hettne et al 2000: xix). This is what Odén (in Hettne et al 1999: 159-164) refers to as the importance of creating 'territorial identity' and 'regional coherence'. The re-conceptualisation of regions is one of the central themes in New Regionalism. Its approach to the concept of region is one of the main aspects that separate New Regionalism from previous regional paradigms. As Marchand, Bøås and Shaw (1999: 903) argued one of the more serious limitations of earlier regionalist approaches was a tendency to only focus on highly institutionalised forms of regionalisation. They argue that New Regionalism, on the other hand, reflects the multitude of interrelated and complex structural transformations of the current world political economy. One of the consequences of this is that when it comes to conceptualising the region and the process of regionalisation they assert 'there does not exist any single hegemonic definition of any of these concepts. Instead we are confronted with a multitude of competing genres and approaches, which should be cherished rather than perceived as problematic'.

A further divergence from Old Regionalism is found in the way New Regionalism stresses the fact that the process of regionalisation must be from 'below' and 'within.' The re-definition of the process and objectives of regionalism derives from 'pressures from below' – this pressure followed the transformations in world politics after the Cold War. Critical theory scholarship developed a concept of region as a unit of analysis where transformations in post-Cold War world politics and globalisation have unleashed a peace/security/development nexus involving complex patterns of interaction between states and non-state actors (Iheduru in Grant & Söderbaum 2003: 50).

Moreover, it is no longer only economic, but also ecological and security imperatives that push countries and communities towards cooperation. Therefore states are no longer the only actors, rather actors such as organisations, institutions and various movements are of paramount importance. Furthermore,



while Old Regionalism was considered to be introverted New Regionalism is argued to be extroverted reflecting the deeper interdependence of today's global economy. In other words, states have generally accepted that there are threats to their survival that they are not capable of handling on their own, and in order to cope with the global transformation that is constantly taking place it is necessary for them to cooperate, across borders (Hettne in Hettne et al 2000: xx).

For close to two decades the global system has witnessed a new trend towards regionalism in all parts of the world. Regions can, as Hettne (in Hettne et al 2000: xxi) argues, only be defined *post factum*, and many different regionalisms exist, supported or challenged by many different ideological arguments and reflecting various positions in the world economy as a whole. Regionalism is one way to deal with various global problems, but its content will be conditioned by the nature of these problems. A rough distinction can be made between *core* regions and *peripheral* regions. The former are politically stable and economically dynamic and organise for the sake of being better able to control the world, an example of this kind of regional grouping is the EU. Peripheral regions are defined as being politically more turbulent and economically more stagnant; consequently they organise in order to diminish the harm caused by the process of marginalisation. At the same time regional arrangements in peripheral regions are often fragile and in many cases ineffective – an example here is SADC. Due to this the focus of peripheral regions are often on security regionalism and developmental regionalism rather than on the creation of free trade regimes (Hettne in Hettne et al 2000: xxi). The three states of the IBSA Dialogue Forum do not easily fit into either of these two categories, instead they are middle power and emerging markets that are growing increasingly influential in the global system. This leaves one at the interesting position where it is possible to argue that India, Brazil and South Africa are states that are neither a part of the periphery, nor of the core. However, it is also possible to argue that they are *both* core and peripheral states (Draper, Mills & White 2004: 2). This is evident when exploring the IBSA initiative and one discovers that indeed the initial focus of the cooperation was on trade and investment, but that this was done in order to fuel the development curves of these three states – and the members soon adopted a much broader agenda. In other words, this cooperation has both characteristics common in regional cooperation among developed states as well as characteristics most likely found in the South. Therefore, the IBSA Dialogue Forum can be viewed as an attempt by the three states to promote economic growth and development – allowing them to some day in the future to be firmly placed amongst the core states of the world.

Another very important characteristic of New Regionalism is the concept of 'regionness'. The degree of regionness of a particular area can increase or decrease depending on regional dynamics, on which

global as well as national and local forces of course have an impact. Regionalisation takes place at many levels of the world system: the system as a whole, the level of interregional relations, and the international structure of the single region, the latter including states, subnational ethnic groups and microregions. It is not possible to state which of these levels that are most influential since changes on the various levels interact and the relative importance of them varies from one region and one period to another (Hettne in Hettne et al 2000: xxii). Consequently, in all regions the level of regionness will differ at any given time due to the fact that regionalisation remains a complex and ever-changing process – thus, there will always be at least one aspect that is going through transformation.

In order to accentuate the important characteristics of New Regionalism, it is useful to compare the theory to other, older, theories of integration, for instance Neofunctionalism. Neofunctionalist writers argued that regional integration is promoted through the creation of limited supranational institutions. These supranational institutions will initially be set up in order to deal with complex technical issues. The interaction between the technocrats would then eventually lead the political elite and interest groups of a state to support further integration (Kriek 1986: 24). As soon as these powerful elements of any state realize that it would serve their economic self-interests to further integrate they would pursue this goal. When these influential parts of a society pursue further regional integration it will lead to spillover effects into other areas. This process of spillovers is an issue of paramount importance to Neofunctionalist writers, due to the fact that they claim it will eventually lead to political cooperation between states and complete integration of regions (Gilpin 2001: 351). Said differently, the spillover effect suggests that the initial steps towards integration would give rise to internal economic and political developments which in turn would necessitate further cooperation (Kriek 1996: 30).

The concept of spillover effect is of such importance to Neofunctionalist theory that it needs to be further explained. The world, according to Neofunctionalists, has become so complex, so inter-linked and consequently interdependent that the need for technocrats has developed. These technocrats have obviously become actors in their own right and with their own self-interests. With them being so widely used their ability to influence a decision making process has dramatically increased. Consequently, and as a result of the complexities of the world system and the consequent use of technocrats the governments have been 'trapped in a web of unintended consequences spun by their own previous commitments' (Moravcsik 1993: 475). Because of this it should be fair to argue that Neofunctionalists view integration as a process in which the political elite and other powerful actors gradually redefine their interests in accordance with regional orientation. Hence it is seen as a 'top-down' phenomenon where the upper stratum of society pushes the integration process forward in order to serve their self-

interests. In addition, and this point is of paramount importance, Neofunctionalism as well as other Old Regionalism theories viewed regional integration as self-maintaining. Not only was it self-maintaining, but it also had an end-goal that was a complete integration of regions. New Regionalism on the other hand views, as discussed earlier, integration as a process from within and below and argues that the states, sub-national organisation as well as the global structure determine how closely integrated a region is. What is more, it stresses the fact that integration is a dynamic process, *not* a static concept. In other words, New Regionalism uses a dynamic analysis which is grounded in the interrelation of global-regional-national-sub-national levels (Söderbaum 1996: 43). All this allows the actors to 'mix and match' within the constraint of the existing world (dis)order to decide *how* they want integration to occur and *what* level of regionness they see as most beneficial to them. Consequently, one sees that Neofunctionalism and New Regionalism both include other than state actors. However, in Neofunctionalism the integration process is driven by an elite, while New Regionalism argues that there is indeed grass-root involvement and that this force can at times be just as strong as the power of a political or economic elite. In addition to this, New Regionalism diverge from Neofunctionalism in arguing that it is not a process that is out of the actors' control – rather it can be steered in directions that best benefits the actors. Or, in the words of Grant and Söderbaum (2003: 6), 'There are no 'natural' or 'given' regions, but these are constructed, de-constructed and re-constructed – intentionally and sometimes unintentionally – in the process of global transformation by collective human action and identity formation'.

The debate around regionalisation is, as mentioned earlier, inextricably intertwined with globalisation. The topic of discussion often revolves around whether regionalism should be seen as 'part-of' or as a 'response-to' the globalisation process. Hettne refers to this as the debate about whether regionalism is a 'stepping-stone' or a 'stumbling-block' for the globalisation process (Hettne in Hettne *et al* 2000: xxii). Söderbaum (1996: 30) argues that the exact balance of outward-and inward-orientation is an intriguing issue, and that regionalism cannot be reduced to a one-dimensional question of the formation of trade blocks or whether regionalism is a 'stumbling block' or a 'stepping-stone' for multilateral free trade. The reason for this is that New Regionalism is simultaneously both outward-and inward-oriented. Söderbaum justifies this argument by stressing the fact that New Regionalism does not challenge the notion that increased international and regional trade is important for development in the poor regions of the world such as for instance Southern Africa. However, he points out that cooperation is by its very nature exclusive, and genuine regionalisation is therefore per definition also inward-orientated. New Regionalism subsequently challenges the neoliberal and neoclassical one-dimensional propositions that *ceteris paribus* multilateralism is preferable to regionalism or that, *ceteris paribus*, it is irrelevant whether

developing states choose to cooperate with regional or non-regional partners. In other words, New Regionalist theory suggests that it is indeed a relevant issue (which carries with it serious consequences) whether states choose globalisation (also often referred to as unilateralism) or regionalism as a method of integration (Söderbaum 1996: 30).

New Regionalism recognizes the limitations and inherent risks associated with unilateralism, uncoordinated adjustment to the world market and the adverse effects of globalism on poor regions of the world such as Southern Africa, Latin America and parts of Asia. Seen from this perspective, mutual cooperation is often to be preferred rather than non-cooperation in the present volatile and imperfect world order. This is due to the fact that regional and inter-regional cooperation will be more optimal than globalisation, atomistic bilateral cooperation with the developed world and/or national development strategies. Said differently, both the strategy of inward- and outward-orientation are qualified, and it is not a policy option of *either or*, but of *both and*. This means that for instance Southern Africa as a region will become an actor in international affairs and it is mainly through the strengthening of the whole that it will be possible to increase the region's bargaining power, which seems to be a precondition for finding a solution to the debt situation as well as for gaining better access to other markets and improving the region's terms-of-trade (ToT). At the same time it is only through New Regionalism that there will be a climate conducive to raising the level of investment (domestic as well as foreign) and for genuine regionalisation concerning the 'core' of regionalism (Söderbaum 1996: 30-31). Thus, in terms of the IBSA Dialogue Forum a strengthening of the whole – through the strengthening of the parts – can allow for increased investment, and this strengthening of the parts will hence reinforce the whole.

Hettne (in Hettne et al 2000: xxiii) agrees with Söderbaum (1996) and argues that in terms of New Regionalism the regionalisation process is neither *only* a 'stepping-stone' nor *only* a 'stumbling-block'. Instead he suggests that New Regionalism is at the same time both a 'stumbling-block' as well as a 'stepping stone.' The processes of economic globalisation and political regionalisation are going on simultaneously; hence they contribute to both disorder, and possibly, a future order. These two processes are articulated within the same larger process of global structural transformation, the outcome of which depends on a dialectical rather than linear development. The latter cannot therefore be readily extrapolated or easily foreseen. Instead it expresses the relative strength of contending social forces involved in the two processes, taking different forms in different parts of the world. Thus regions can be viewed as emerging phenomena, ambiguously forming part of and driving, but also reacting against and modifying, the process of globalisation. Söderbaum (1996: 41) refers to this as the interdependence between actors and structure, and regards it as one of the most important

characteristic of New Regionalist theory. The actors (amongst other, states) are influenced by the structure, the global political economy, but they are not 'helpless victims' of what is going on in the contemporary world. At least they do not have to be, according to New Regionalism theory the states, and other actors, are capable of steering the development in directions that are beneficial to them, obviously within the constraint of the global structure.

It has been mentioned that New Regionalism is not confined to what is agreed on and implemented within the framework of formal regional organisations and agendas. This is often labelled political, formal or *de jure* regionalisation – earlier in this chapter referred to as 'regionalism' (Söderbaum 1996: 33). Instead taking place is actually a spontaneous, market-driven, informal or *de facto* regionalisation *despite* what has been agreed upon on a political level – so-called regionalisation. What is important to keep in mind is that in the long-run one cannot exist without the other and hence these two 'types' of regionalisation have to be consistent and mutually reinforcing. Thus negative and positive integration must be implemented simultaneously (Söderbaum 1996: 42). However, according to New Regionalism there is no 'order' which determine what should come first, and therefore, no way of telling which of the two types that is the most influential. New Regionalism settle with establishing the fact that politics of formal regionalism must be linked with the economics and sociology of spontaneous regionalism (Söderbaum 1996: 34).

Regional integration is traditionally seen as a harmonisation of trade policies leading to deeper economic integration and with political integration as a possible future result (what the Neofunctionalist writers would refer to as 'spillover' effects). New Regionalism, however, refers to a more comprehensive process, implying a change of a particular region from relative heterogeneity to increased homogeneity with regard to a number of dimensions, the most important being culture, security, economic policies, and political regimes. The convergence along these dimensions may be a natural process or politically steered or, maybe most likely as Hettne argues a mixture of the two (Hettne in Hettne et al 2000: xxiv). In other words, the convergence occurs, in most cases, when both regionalism (formal) and regionalisation (informal) factors are at play. Culture takes a long time to change; of importance here is rather the inherently shared culture which more often than not is transnational, national borders in many cases being artificial divisions of a larger cultural area. This is of course not the case with India, Brazil and South Africa, the 'borders' (or dividing line) between them are indeed real and the substantial geographic distances between them might raise the question whether these three states have anything in common in terms of culture. However, what is important to keep in mind in this regard is the fact that although the countries might be geographically situated far from each other, they still have important

similarities. They are all emerging markets, and for instance Brazil possesses the largest population claiming African descent outside of Africa. In fact, it is the second largest overall, surpassed only by Nigeria. Similarly India and South Africa share strong ties as a result of India's stance against Apartheid (Draper, Mills & White 2004: 7). This tie is reinforced by the fact that South Africa currently has the highest population of Indians outside of India (Mail & Guardian 2006: 27). In terms of cultural bonds, South Africa could arguable end up being the glue that keeps the coalition together. Hence one sees that the two countries that are generally considered to be the most powerful in the coalition are dependent on South Africa as 'the link', suggesting that it is indeed not possible to only measure integration in quantitative form, but that rather qualitative aspect can be the strongest aspect of the integration process.

Typically, regional politics is an aggregation and 'concentration' of national interests (Hettne in Hettne et al 2000: xxv). This is clearly illustrated in the cooperation efforts between India, Brazil and South Africa; the three states share similarities such as their positions in the world system as emerging markets and their immense socio-economic problems, all three being some of the most unequal societies of the world. They seek to use these similarities to their advantage, in other words to 'unite' in order to have more political and economic leverage *vis-à-vis* core states and regions such as the US, the EU and Japan. What is conceived as 'national interests' does not disappear, but due to the imperative of global interdependence, it becomes inseparable from various shared transnational interests and concerns, which are manifesting themselves in the regionalisation process. This is often referred to as the change from a Westphalian to a post-Westphalian logic (Hettne in Hettne et al 2000: xxvii). The Westphalian Treaty of 1648 was based on three principles stating that: 'Sovereign states should not be subject to higher political authority; sovereign heads of state should determine the religion of their realm; and all states should strive to maintain the balance of power in order to avoid the emergence of a hegemon that could threaten the concept of sovereignty (Jackson in Baylis & Smith 2001: 43). Globalisation and its consequences have altered the global system and the definition of a country's sovereignty has been altered. A sovereign country in the current global order is exposed to very strong interest groups, domestic and international ones, and are forced to include the interests of these groups in the decision making process. Consequently, a country will, in theory, be considered sovereign, but might in fact not be sovereign according to the Westphalia principles. In fact, no country is completely sovereign – as defined by the Westphalia Treaty – in the current world order.

India, Brazil and South Africa share similarities that have the potential of making the coalition very beneficial for all three states, not to say the three regions. However, there are also substantial

differences between them, for instance the population number, while India has a population of more than one billion people, Brazil and South Africa only has 198 million and 49 million, respectively. Furthermore, in terms of GDP, India and Brazil are relatively equal, but substantially bigger than South Africa with GDP's of US\$ 1237 billion and US\$ 1665 billion respectively, while South Africa's GDP is only US\$ 300 billion. These similarities and differences between the three states will be further discussed in Chapter Three. The reason for mentioning it here is that many will view these differences (in GDP and population) as a major obstacle to successful cooperation between India, Brazil and South Africa. Classical integration models, for instance, largely ignore the problems as well as the opportunities associated with asymmetries and large differences between member states. However, according to New Regionalism this does not necessarily have to prevent a successful and beneficial cooperation for all three countries involved. The result of regionalisation between states which are unequal depends on how the dominating power acts, and when there is not one power that is dominating in all fields, it is more likely to be a successful collaboration (Söderbaum 1996: 38) – and whether there is indeed one dominating power in the IBSA Dialogue Forum will be discussed in Chapter Three which compares the three member countries.

In summary, development, according to New Regionalism theory, is not reduced to a question of economics and consequently goes far beyond the formation of trade blocks, and includes, but is not limited to, avoiding costs of globalisation and marginalisation in a multipolar hierarchically structured world and avoiding the costs of market fragmentation, increased collective self-reliance, investment, production, trade, employment, macro-economic stability and credibility, infrastructure, structural transformation (including social and inter-state redistribution), economic diversification, increased collective bargaining power and social development. In short, a broad focus is necessary in order to reap the benefits of regionalisation – which can be long-term economic growth and social development (Söderbaum 1996: 41-43).

## **2.4 APPLICABILITY OF NEW REGIONALISM TO IBSA**

When discussing regionalism most scholars analyse states that are situated geographically close to each other, for instance European states. Laursen (2003: 1) argues that theories of integration have mainly been developed to explain European integration, the reason for this being that Europe was the first region to venture down the integration path, starting in the early 1950s with the European Coal and Steel Community (ECSC). However, through focusing on the 'real' regions, New Regionalism offers

analytical tools by which the diverse sets of regionalising processes may be better understood. This is of particular importance when analysing the integration processes in developing regions as these are multi-layered and cannot be analysed in the same way as for instance the EU. In the developing world one sees that much of the social and economic interconnectedness remain at the nexus of formal/informal and national/global and in some cases even legal/illegal (Taylor in Bøås, Marchand & Shaw 2005: 149). Consequently, it is fair to argue that New Regionalism makes an explicit effort not to be Eurocentric. The second perceived obstacle, the fact that India, Brazil and South Africa are not situated geographically close to each other does not have to be an obstacle at all. As Söderbaum (1996: 1) points out: 'A region may be differently defined depending on whether geographic proximity, economic, political, social, cultural or historical relations are used as the principal variable'. Dunn and Hentz (Grant & Söderbaum 2003: 185) argue that it is important to recognise the plurality of space and the multiplicity of possible constructions of space and highlight the importance of exploring the interconnectedness of social practice and the representation of space. This is important in terms of this thesis due to the fact that it is such a view on regionalism that allows us to refer to the IBSA Dialogue Forum as a regional cooperation. In older, conventional theories of regionalism the issue of geographic proximity is stressed and according to scholars of these theories the IBSA Dialogue Forum could consequently not be considered an example of regional cooperation.

As discussed, New Regionalism recognizes the fact that classical integration theory is Eurocentric and rests on unrealistic assumptions that do not apply to the developing world, and arguably not even to the developed world. As a result, New Regionalism aims at using more realistic assumptions such as the presence of underdeveloped, distorted factor and goods markets and production structures, the presence of other market and government failures, high transportation costs, imperfect and asymmetric information and competition, externalities, bounded economic and actor rationality, the role of institutions and the fact that various public and common goods may not always be achieved. These less restrictive and more realistic assumptions (in comparison to classical integration theory) make the New Regionalism approach more applicable to states of the South (Söderbaum 1996: 41).

It is important to keep in mind when discussing the IBSA Dialogue Forum that none of the three IBSA members are representative for a state of their respective regions. India, Brazil and South Africa are all surrounded by states that are substantially poorer and much less developed than them, and thus much more marginalised. This should be stressed due to the fact that their status as middle powers sets them apart from their neighbours as more powerful states and is arguably the reason why the IBSA Dialogue Forum has more potential to succeed than other South- South collaboration. The fact can also work out



to be a negative one; South Africa is different from, for example, Angola which means that their national interests might differ vastly from those of Angola's and it is thus possible that Angola's interests are not taken into account when South Africa is negotiating with a third party. Abrahamsson (in Hettne et al 2000: 296) argues that closer cooperation between marginalised states is the best, not to say only, option these states have when facing the effect of globalisation. Therefore, IBSA might prove to become the very much needed life-buoy for the states in their regions. However, neither India, Brazil nor South Africa are able to control the globalisation process on their own, hence closer cooperation is not only important to their neighbours but is also viewed to be of paramount importance for the economic and social development of the three states. Consequently, it can be argued that they can use regionalisation as a counter-measure to the harmful features of globalisation. As discussed above, New Regionalism goes far beyond the narrow gains emphasized in the classical theories of regional integration. What makes this theory extremely relevant in terms of the IBSA initiative is that it stresses the importance of counteracting the present trend of economic and political marginalisation, avoiding the 'costs of non-integration', achieving 'non-orthodox gains' and other dynamic benefits, for instance increased domestic and foreign investments and trade, production and employment creation, increased leverage in international negotiations, political-economic-social-stability and credibility, various types of economies of scale, the development of infrastructure and other services as well as structural transformation leading to improved utilisation, allocation and distribution of resources and capacities (Söderbaum 1996: 3).

Much has been said about how New Regionalism broadens the view of regionalisation so that it is no longer narrowly focusing on economic integration. However, it is important to stress that trade is still one of the core issues of integration although, as often emphasised, this is not the only issue that is important in the eyes of New Regionalist theorists (Söderbaum 1996: 36). Classical economists recognised the benefits of mutual gain from trade and exchange. The example of enormous gains made by the miracle economies of East and South-East Asia that practised export-led growth strategies is often contrasted with the failure of the import-substitution strategies that were followed by many other states, notably in Latin America, Africa and South Asia. Consequently, neoliberal theories of development assume that interdependence between the developed and the developing countries can serve to benefit the latter because capital will flow from rich to poor areas where the returns on capital investments will be highest, helping to bring about a transformation of 'backward' societies (Soysa & Gleditsch in Hettne & Odén 2002: 56). In terms of the IBSA Dialogue Forum one sees that, India, Brazil and South Africa might have learned something from the 'Asian Tigers' and consequently the initial focus of this coalition was on improving trade links between the three states, both as bilateral, as well as

trilateral agreements. However, and this is very much according to New Regionalist theory, even if the main focus was on trade, it should be highlighted that the current focus is much broader than trade and that even when trade is made a priority this is often done due to the fact that the issue of trade is closely interlinked with other aspects that also needs to form part of the integration process. Whether one agree with this or not, it is still of paramount importance for IBSA countries to join force, learn from each other and build up their economies in order to facilitate a possible move of capital towards their regions. This will be further discussed in Chapter Five.

At the same time as regional integration needs some kind of structure and rules for the actors to play by in order to steer the integration in directions beneficial for the member states, it is also of great importance that regional integration is both flexible and pragmatic, and should consequently include a certain degree of variable geometry and multi-speedism (Söderbaum 1996: 31). New Regionalism is founded on the existence of a commonality of interests at the same time as different states and actors face different problems and have different needs. One very important characteristic where New Regionalism differs from earlier, classic versions of regionalism, and which makes this theory particularly relevant to the IBSA Dialogue Forum is the fact that even though various states to some extent have different needs and face very different problems, many of these problems must be solved through regionalisation and not only by means of action at the national level or at the global level. Söderbaum (1996: 31) therefore suggests that national, regional and global levels are much more interrelated than anticipated in conventional analysis.

If regionalisation is not incorporated within a holistic framework which provides the appropriate political regime for the guidance and steering of spontaneous and market-driven regionalisation there is a chance that the trickle-down-effect will be lost and that there will be no positive spillover or balanced regional development (Söderbaum 1996: 31). This trickle-down effect is very important in terms of IBSA as one of the strongest criticisms of this coalition comes from those who claim that IBSA is nothing more than an elitist idea of cooperation, which has no support from the general populations of India, Brazil and South Africa. New Regionalism offers a solution to this problem by focusing on the holistic approach which views economic, political, social and cultural aspects of regionalisation as interlinked, thus ensuring economic and political spillover, trickle-down, spread effects; to capitalize on cross-sectoral linkages; to integrate positive and negative integration; to move beyond the obsolete policy option of inward-versus outward-orientation (Söderbaum 1996: 41).

Possibly due to the fact that the IBSA Dialogue Forum is such a young coalition one sees that many of the agreements that are signed are bilateral as opposed to multilateral. This could hamper economic growth and development. However, the three states have attempted to solve this issue through discussing ways of making the agreements multilateral. The change from bilateralism to regionalism is one crucial indicator of increasing regionness of a region, but increasing regionness can also result from overlapping bilateral agreements within a region, since such agreements imply policy convergences in various fields. Therefore there is reason not only to expect that in the future an increasing number of agreements between the three states will be multilateral as opposed to bilateral, but also that the amount of regionness will increase as the bilateral agreements overlap each other.

The importance of integration and interdependence of the national, subnational, regional and global levels, have already been mentioned. National strategies and economic programmes, including SAPs, should be integrated within regional plans, while regional strategies must be much more integrated within national plans. The reason for this being of paramount importance is the fact that New Regionalism places such a great importance on the holistic approach to integration. This holistic approach suggests that the parts (in the case of IBSA: India, Brazil and South Africa) can be strengthened through a strengthening of the whole IBSA, and not only vice versa. What are traditionally considered strictly national concerns and objectives, for instance macro-economic stabilisation and reform, development of financial and capital markets and the markets for goods and services, non-tradable as well as 'national goods' will be achieved not only through national policy reform and implementation but also through an adequately designed regionalisation strategy. Said differently, in sharp contrast to conventional wisdom, the goals of national development, national integration and nation-building, macro-economic stabilisation and functioning markets and prices at the national level are not necessary preconditions for successful regionalism. Instead, it is the other way around, that these goals and objectives will and can (for some regions at least) only be achieved if New Regionalism is allowed to play a greater developmental role (Söderbaum 1996: 32).

What is important to keep in mind when focusing on the holistic approach New Regionalism uses, is that it does *not* demand excessive supra-nationality or far-reaching regional institutions. Söderbaum uses Southern Africa as an example, and argue that supra-nationality in this region has led to a spill-back into disintegration. In order to avoid this, Söderbaum (1996: 33) suggest to limit the supra-national institution and instead focus on fostering a cooperation and regionalisation culture, what he refers to as an increased sense of common destiny and 'sitting in the same boat' and a recognition that joint action and reciprocity are preferable to unilateral action and purely nation programmes in an imperfect world.

Through such focus one allows for more flexibility and a more efficient form of cooperation, instead of a large bureaucracy that can turn out to counter-productive. The members of the IBSA Dialogue Forum seem to have adopted such an approach where they are continuously making sure that institution building is kept at a minimum – what is needed to facilitate efficient cooperation, without allowing more than what is strictly needed.

There are, however, some benefits to creating institutions and some institution building is necessary in order to help the integration process between the three member states. When discussing institutions and mechanisms that are put in place in order to promote and facilitate regional integration, it is important to keep in mind that these are costly and are not goals in themselves. However, institutions are important risk-reducers and facilitators of cooperation, providers of information, communication, knowledge in an imperfect context, benign regional hegemony will facilitate mutually beneficial regionalism and the achievement of public goods in a complex and often imperfect environment (Söderbaum 1996: 43). However, it is also important to remember that these institutions and mechanisms will not be automatically created. They will, in other words, not automatically appear when someone decides that they are needed in order to drive the integration process forward. Rather a conscious effort must be made and the political will must be there (and therefore the benefits of such an institution must be easily seen). Keohane (1984: 85) points out that: 'Like imperfect markets, world politics is characterized by institutional deficiencies that inhibit mutually advantageous cooperation.' Consequently, while some focus on institution building is needed, this should always be kept at a minimum.

This section has illustrated that there are certain characteristics of the New Regionalism approach that makes this theory particularly fitting when analysing the IBSA Dialogue Forum. Firstly, the fact that the assumptions on which New Regionalism is based differ greatly from earlier theories of regional integration as they are less Eurocentric and more aligned with the reality facing states of the South. Secondly, New Regionalism has a much broader idea of regional integration and includes factors such as culture and politics and thus not focusing narrowly on trade. In the case of the IBSA Dialogue Forum it is not unlikely that it is culture and socio-economic values which will be the most powerful forces driving the integration process. One must, however, keep in mind that it is a difficult task to evaluate the outcome of these forces and that they are most easily measured – or seen – in hindsight.

Thirdly, New Regionalism is much more flexible than earlier approaches to regional integration. This means that integration is not viewed as a linear process, instead depending on the need of the

members the integration can operate in various speeds and shapes. New Regionalism is eclectic and concerned with the dynamics and consequences of processes of regionalisation in various fields of activity and at various levels. The challenge is to understand and explain the phenomenon of regionalism and the process through which regions are coming into existence and are being consolidated – their ‘becoming so to speak – rather than a particular set of activities and flows within a pre-given (and often pre-scientific) region or regional framework (Grant & Söderbaum 2003: 6). In other words, it is India, Brazil and South Africa (the individuals, the groupings and the politicians) that determine the degree of integration that occur – they can thus avoid getting ‘trapped in the process.’ However, these actors are of course influenced by the global structure in which they operate. This is closely related to the fourth aspect which is the fact that the various levels, national, subnational, regional and global are interconnected, consequently the cooperation between India, Brazil and South Africa does not, or at least shall not, prevent for instance South Africa from closer integrating with the SADC member states. The last aspect discussed in this section is the topic of institutions. This is of course related to the four former aspects. Great emphasis is placed on the fact that states still have some autonomy; they can create the institutions they consider necessary in order to promote further integration between India, Brazil and South Africa. What is of great importance is that the members are cautious and do not establish too many institutions which will only increase the bureaucracy as well as make the coalition an expensive discipline for the parties involved, in addition it could carry with it the potential of slowing down the integration process. However, as pointed out by Söderbaum (1996: 43), institutions do not create themselves and a conscious political effort is needed in order to establish institutions that can facilitate further cooperation between India, Brazil and South Africa. The ‘beauty of New Regionalism’ is that this is not a large obstacle as it allows the member to create and recreate institutions according to when they are needed and even close them down when they are not needed. In other words, regions are dynamic and can constantly be constructed, de-constructed and re-constructed (Grant & Söderbaum 2003: 6) The reason for this being that regionalisation is not believed to be a self-maintaining process, rather it is a process that allows India, Brazil and South Africa to chose the speed and shape of integration, and steer the process in the direction that is more beneficial to them, within the constraints of the contemporary global structure.

## 2.5 DISADVANTAGES OF NEW REGIONALISM TO IBSA

Intuitively, the first criticism offered on theories of regionalism is that these are Eurocentric. Thus, the argument is that they are not applicable on regional integration efforts of the South. However, this study

has illustrated that New Regionalism differs from other theories of regionalism in that it is indeed applicable to the South due to the fact that this framework rests on more realistic assumptions.

The fact that New Regionalism is a merger of IPE, development theory and regional integration theory has led to suggestions that New Regionalism is too open-ended. However, New Regionalist theorists argue that this open-endedness is a strength since it allows for a more 'real' theory – one that better corresponds with reality. Consequently, New Regionalism is able to turn the criticisms around and make them a positive aspect of the theory in the way that these two issues allow for a more realistic analysis of current global events. In other words, the theory might be open-ended and vague, but it is still limited and clear enough to appropriately explain developments taking place in the contemporary world.

One important aspect worth mentioning in terms of disadvantages of applying New Regionalism to the South is, as argued by Haarlov (1997: 12) that: 'Experience with formal schemes for regional integration has generally been disappointing in Africa, as in the Third World in general.' He illustrates this after stating that South African goods have penetrated nearly all African markets. This occurred even during the height of sanctions during Apartheid rule in South Africa. Gavin and van Langehoven (Sampson & Woolcock 2003: 278-279) note that the growth of regionalisation in the developing world was historically influenced by the Cold War. Economists encouraged developing countries to create Regional Trade Agreements (RTAs) as the only viable means of economic development – to diversify their economy, to develop intra-industry trade and to develop South-South trade. However, many schemes of regional economic integration in Africa and Latin America were built on closed economy principles and insulation against outside competition, and consequently they became failures. Although this is valid criticism in terms of many of the approaches to regionalism, this is not so for New Regionalism since this framework explicitly includes a wide array of other factors and do not see RTAs as the end goal of the integrations process. Additionally, New Regionalist scholars stress the fact that only focusing on formal integration is futile – instead they advocate a framework which includes both formal as well as informal integration.

Another important aspect is the movement of labour. French is for instance widely spoken in central Johannesburg due to the large amount of illegal immigrants working in the metropole. This has happened despite the fact there are no agreements regarding free circulation of labour between African countries. Here one explores two concepts – what Söderbaum and Hettne refers to as *de facto* and *de jure* integrations. The illegal immigrants in central Johannesburg illustrates the fact that the *de facto* integration (also often referred to as regionalisation) is actually taking place, same as it did under

Apartheid, while, the political will, or *de jure* integration (or regionalism) is lacking. Söderbaum emphasises the fact that these two types of integration needs to occur simultaneously, while in reality it might not occur this way. In terms of the French speaking illegal immigrants one sees that *de facto* integration has occurred, but not *de jure* integration. Thus, according to New Regionalisation focus should be placed on what could be done in order to make sure that these two versions of integrations are on a similar level as possible.

One obstacle facing the IBSA Dialogue Forum at inception was that while the political will was clearly there, it would be necessary to bring along *de facto* integration in order to make it a successful coalition. Or, in other words, the IBSA Dialogue Forum was viewed as an elitist idea without any 'grass root' support. Policy-makers in India, Brazil and South Africa were reminded that of the fact that as long as IBSA is an elitist idea of intra-regional integration, thus as long as the national bureaucracy and administration and other groupings do not change their attitude, integration was going to be very difficult. The reason for this being that national bureaucracies tend to be excessively nationally oriented and work *against* as opposed to hand in hand with the economic and private forces contributing to regionalisation and the common good. In other words, a 'cooperation culture' needs to be encouraged among institutions, bureaucracies and national administrations in order to create an environment conducive to investment, trade, production and business (Söderbaum 1996: 37). However, policy-makers seem to have managed this task and have without a doubt succeeded in broadening the scope of the IBSA Dialogue Forum. In other words, while more work is needed it is fair to argue that the coalition is today less of an elitist project than it was at inception.

Even if the arguably strongest criticism of IBSA comes from the ones who view the coalition as a purely elitist project is it important to point out, as Falk (in Hettne & Odén 2002: 178) does, that there are presently indications that even in Europe regionalism is far more popular among elites than with the citizenry of the respective countries. Still, most scholars will claim that Europe is (on a general level) more integrated now than what it was in, for instance, the 1970s. The fact that it is, even in Europe, viewed as an elitist idea should hush the voices the critics of the IBSA Dialogue Forum as a South-South cooperation initiative who argue that the coalition is valueless due to the fact that it is only the elites of India, Brazil and South Africa that are interested in this cooperation. The IBSA Dialogue Forum is only a few years old and the process of integration requires time in order to get the 'average citizens' to see the value of such a regionalisation process (Falk in Hettne & Odén 2002: 170-181). It is however, fair to argue that with the small amount of time that has elapsed great changes have been made – a substantially wider group of citizens are currently involved. An example of this is the inclusion of a

Business Forum, a Women Forum and an Academics Forum to mention a few at the official IBSA meetings. This fact suggests that there was, and indeed is, a need for such a South-South coalition where members are able to further their own interests through cooperating with their counterparts in the IBSA Dialogue Forum.

A last point worth mentioning is that Falk (in Hettne & Odén 2002) argues that there are no indications suggesting a linear growth of regionalism in Europe. This should highlight the fact that regionalisation is not (as argued amongst others by Neofunctional theorists) a self-sustained process and it is in addition not linear. This offers large room for manoeuvre for the actors taking part in the integration process. In other words, by getting involved the actors will not all of a sudden find themselves 'trapped in a process' – at least if they do so they have the opportunity of reversing the trend. The reason being that according to New Regionalism a region is a constructed concept, one which can be de-constructed and re-constructed aligned with the needs and interests of the actors in question. This lack of linear growth also means that it is at times difficult to measure the 'amount' of integration that has taken place – and it is thus difficult to compare the various variables to other coalitions. This problem New Regionalism solves by allowing for an inclusion of as many aspects of integration as possible, through explicitly including these variables in the analysis one will get a clearer picture of the actual developments that have occurred and one is thus not forced to evaluate these with only narrow quantitative tools. Consequently, New Regionalism counters criticism of being too broad and too open-ended through illustrating that it is these features that make the theory applicable – more so than other frameworks – to real-life integration efforts – such as the IBSA Dialogue Forum.

## **2.6 SUMMARY**

This chapter has established that in comparison with old theories of regionalism New Regionalism differs in the way that it views regionalisation as a multidimensional process and it gives importance to a wide array of dimensions such as culture, politics, security, economics and diplomacy. Furthermore, New Regionalism includes a larger number of actors in its analysis of integration. With the introduction of New Regionalism state actors were no longer the only actors of importance – instead business, interest groups and other actors are considered to be important in the analysis of the process of regional integration. Consequently, according to New Regionalism, regionalisation is about much more than just free-trade and security alliances.



Furthermore, New Regionalism views integration as a process from within and below, suggesting that it is indeed not controlled by the elite. Rather 'the parts' are able to choose the kind of collaboration that serves their self-interests. In addition to this, New Regionalism stresses the fact that there is interdependence between the actors and structure, and that one of the dimension –culture, politics, economics and security, to mention some –cannot be analysed independently. In addition, the various levels of integration – global, regional, national and micro-regional – are also inextricably intertwined.

Another aspect discussed in this chapter is the applicability of New Regionalism on the IBSA Dialogue Forum. It is clear that as opposed to old theories of integration, New Regionalism fits the developing world due to the use of more realistic assumptions such as the presence of market and government failures and imperfect and asymmetric information and competition, to mention some. It is, amongst other things, these less restrictive and more realistic assumptions that make New Regionalism a useful tool when analysing integration in the South.

New Regionalism takes on a holistic view of theory and methodology and the whole (the IBSA dialogue forum) is indeed more than the sum of the parts (India, Brazil and South Africa) and the parts are understood from the perspective of the whole. The next chapter will explore 'the parts': India, Brazil and South Africa, and place them in a comparative perspective.

## CHAPTER THREE

### INDIA, BRAZIL AND SOUTH AFRICA IN COMPARATIVE PERSPECTIVE

#### 3.1 INTRODUCTION

India, Brazil and South Africa are all considered to be middle powers and emerging markets. The topic of emerging markets will be further explored in Chapter Four; this chapter will look at the countries separately – examining demographics and foreign policies. However, before attempting to create clarity around these aspects the concept of middle powers should be discussed. So far, this study has only offered a brief description of a middle power, in the form of Ian Taylor's (2001: 19) definition: 'A middle power is a state that possesses more agency than a small and vulnerable state, but lacks the structural position to dominate the international system'. The reason why the concept of middle power is important in relation to this chapter is that it places India, Brazil and South Africa in a global context.

The three middle powers, India, Brazil and South Africa are all surrounded by states that are substantially poorer and much less developed than them, and thus much more marginalised. It is important to emphasize their position as middle powers due to the fact that this status sets them apart from their neighbours as more powerful states and is arguably the reason why the IBSA Dialogue Forum has more potential to succeed than other South- South collaborations. New Regionalism recognizes the fact that the world system is forever changing and that a state will never remain in a static position. A collaboration like the IBSA Dialogue Forum could thus prove to be beneficial for India, Brazil and South Africa's respective regions if they are able to use their position as middle powers to alter the global structure.

South Africa's stance as a middle power can be highlighted by using the following example: Pretoria remains 'independent' over such issues as, for example, the Iraq war, relations with Cuba or the G-20+. Bond (1998) notes that South Africa is willing to go against the developing world, mainly the US and cooperate with Castro, Gaddafi, and Arafat, but they are able to get away with this without serious repercussions as long as they are cooperating with the US in terms of controlling African geopolitics and endorse and promote neo-liberal economics. Such autonomy is not only a useful tool by which the government can prevent criticism of its essentially capitalist post-apartheid foreign policy but also, as in

the case of the G-20+ actually makes material sense (Taylor 2005: 9). In other words, in comparison to their neighbours, India, Brazil and South Africa are powerful actors in the world system. A middle power is more independent and has more leverage than developing states in general. Their position as middle powers means that they focus on multilateralism and it also means that the leaders have political and economic influence – consequently an alliance by such states is more likely to succeed than a coalition of weak states, offering hope that the IBSA Dialogue Forum will indeed foster economic growth and social development for the developing world. In addition to this, the position as middle powers also suggests something about the integration process. As mentioned earlier, peripheral states tend to integrate for different reasons than core states. While the latter organise in order to be better able to control the world, the latter organise with the purpose of diminishing the harm caused by the marginalisation process. IBSA countries are situated in the middle of core and periphery, and thus hold characteristics common in both these groupings. Consequently, a regionalisation effort needs to make space for these important attributes and their position as middle powers need to be highlighted. This thesis will therefore offer a section (below) on this concept.

### **3.2 INDIA, BRAZIL AND SOUTH AFRICA AS MIDDLE POWERS**

When discussing conventional middle powers, most writers are referring to countries such as Canada, Australia, the Netherlands and Scandinavian countries. These states gained the status of middle powers in the Cold War era as they did not have sufficient power to alter the structure (the US and the USSR were controlling this kind of power), but yet had sufficient power to use their positions to influences – not dominate – international decision-making bodies. Middle powers are often viewed as catalysts who promote global issues, facilitators in the process of building coalitions and managers acting within their region to promote and enforce norms and institutional rules. By the end of this chapter, it should be evident that the members of the IBSA Dialogue Forum are indeed 'regional giants' that are already able to some extent to influence international decision-making bodies. Closer cooperation between IBSA members will lead to a strengthening of the coalition and IBSA's ability to influence the global order will grow according to the strength of the coalition.

Middle powers justify their positions not on the basis of economic or military importance on the global stage, but rather through their activism in the name of international norms and their position as an intermediary for the states excluded from the ranks of power. This further highlights the fact that a successful IBSA Dialogue Forum might turn out to be beneficial for other countries than India, Brazil and

South Africa. Many of these three countries' neighbours are weak states with close to no leverage in global forums. The presence of a strong coalition of the South which works towards, amongst other things, a more fair playing field in global forums could prove to be these countries' best chance, as of yet, to improve their current dismal positions in the world structure.

When the Cold War ended, conventional middle powers still remained middle powers, but they got company- whether they liked it or not. Some established middle powers felt threatened by the inclusion of middle powers from the South- these countries, for instance India (with their nuclear weapons), were far superior in military capabilities compared to a country such as Australia. However, they were also embraced due to the fact that an inclusion allowed for coalition building and the promotion of norms to become *truly* global. In other words, if the old middle powers had worked against an inclusion of these new countries, they would have, by definition, not have acted as middle powers. Countries like Brazil, India and South Africa all share complex relations with their respective regions, grounded in their superior economic and military position relative to other states. However, their neighbours also realise the special status these countries have as the regional powerhouse and the fact that they are subsequently much better equipped when negotiating with global powers (Alden & Vieira 2005: 1080).

The position these three countries hold becomes evident through their presence being actively encouraged in multilateral settings such as the WTO and the G7 as the representatives of their regions. As such, one sees a paradox where these countries are viewed as representatives of their regions, but that their neighbours might not always be convinced that their interests are fairly represented by these regional hegemon. To use an example: Mozambique may not trust that South Africa is advocating Mozambique's interests for instance in a G7 meeting, and might accuse South Africa of being solely motivated by self-interest. In this regard it is important to keep in mind that Mozambique will not in the foreseeable future be invited to attend such a meeting and having South Africa as a representative is likely to be more beneficial than having no one representing them at all, in other words they are choosing the lesser of two evils. In addition, Mozambique is in a stronger position when negotiating with South Africa than when facing for instance the US. Therefore, one could arguably suggest that India, Brazil and South Africa are all sound representatives for their respective regions and that the potential associated with this – assuming they take this role seriously- is endless.

This short discussion of the concept of middle powers suggests that India, Brazil and South Africa has a very important role to play and that these countries have the power to ensure social and economic development not only in the three countries, but in their respective regions. It is important to highlight the

features of middle powers due to the fact that these set India, Brazil and South Africa aside from most other developing countries – a fact which is important to keep in mind in an analysis of the IBSA Dialogue Forum since it could potentially mean that it is not only India, Brazil and South Africa that could benefit from a stronger IBSA Dialogue Forum, but also these three countries' neighbouring states could potentially (and even unintentionally) benefit.

While old theories of regional integration were accused of being Eurocentric in their analysis of regional cooperation efforts, this is not so for New Regionalism. The assumptions used in New Regionalism rests on a wide array of variables, a few of which are shared by India, Brazil and South Africa – and have been highlighted here. However, before exploring the foreign policies and consequently their attitude towards their neighbours, this paper will examine the demographics of India, Brazil and South Africa. This is done in order to get a better overview of the socio-economic situation of the countries.

### **3.3 DEMOGRAPHICS AND FOREIGN POLICIES**

The IBSA Dialogue Forum brings together three of the world's most vibrant and globally active democracies of the South. In order to determine the potential of these three democracies it is necessary to explore the distinctiveness of each member – which is the focus of this section: to examine and compare the member countries of the IBSA Dialogue Forum. According to Womack (2006: 3-4) there is no question that India, Brazil and South Africa are all regional powers. He highlights the fact that each has quite a different relationship to their neighbours. India and Brazil are both central to their neighbours in every respect, but they differ in their exposure to global power as well as in their relationship with the next largest neighbour – Pakistan, in the case of India, and Argentina, in the case of Brazil. The peacefulness of regional relationships in Latin America has been remarkable, especially when keeping in mind that this has occurred despite intra-state violence. Furthermore, South America and Africa are the two success cases in avoiding nuclear proliferation, in contrast to South Asia, Northeast Asia and the Middle East. As a consequence of this, the significance of regional institutions differs greatly. South Africa's region is more ambiguous in many respects, but its political transformation in 1990-1994 resulted in a transformation of its regional and global status, thus creating interesting pre/post comparisons for the same political entity.

As argued by Womack (2006), and many others, there are many similarities between India, Brazil and South Africa, but also a substantial amount of dissimilarities. It is, therefore, essential to look at basic

economic and demographic data as well as on the three countries' foreign policies, in order to create clarity on the similarities and the differences that exist. Table 1 illustrates basic data of India, Brazil and South Africa and it will be used in the rest of this chapter as a base of the comparison of these three countries. A brief comparison will be offered before focusing on the individual countries and at the end of this chapter there will be a summary of differences and similarities between India, Brazil and South Africa.

Table 1: Basic economic and demographic data

Indicator	South Africa	Brazil	India
Population (2009) (billion)	0.049	0.198	1.2
Population living with AIDS (2008 est) (million)	5.7	0,73	5, 1
Population growth (annual %) (2008)	1.1	1.2	1.4
Life expectancy (years)	49	71.9	69.9
Adult literacy rate (% of pop above 15yrs) (2008)	86.4	88.6	61.3
GDP (purchasing power parity) (2008 est.) (billion US\$)	490	1 990	3 267
GDP (current \$) (2008est) (billion US\$)	300.4	1 665	1 237
GDP real growth rate (ppp) (annual %) (2008 est.)	4.5	5.2	6.6
GDP per capita (2008 est.) (US\$)	10 000	10 100	2 800
Unemployment rate (2008 est.) %	21.7	8	6.8
Population living below US\$2 per day (2008)	34.1 %	21.2 %	80.4 %
Total exports (2008) (billlion)	\$36.77	\$200	\$175.7
Exports of goods&services (% of GDP) (2004)	28.2	22.5	15.3
Total imports (2008 est.) (billion)	\$33.89	\$176	\$287.5
Imports of goods&services (% of GDP) (2004)	26.4	17.0	17.2
External Debt (2008 est.) (billion)	\$44.33	\$236.6	\$163.8
Public debt (% of GDP) (2008 est.)	29.9	40.7	78
Gross Fixed Investment (% of GDP) (2008 est.)	20.1	18.6	39
FDI (net inflows in reporting country) (2003) (billion)	\$0.82	\$0.17	\$4.3
Aid per capita (current US\$) (2003)	13.6	1.7	0.9
HDI value (2008)	0.666	0.800	0.619
HDI rank (out of 177 countries) (2008)	121	70	128
Gini coefficient (2008)	57.8	57	36.8

Sources: International Monetary Fund (IMF) ([www.imf.org](http://www.imf.org))  
The World Bank ([www.worldbank.com](http://www.worldbank.com))  
The CIA World Fact Book ([www.cia.gov](http://www.cia.gov))  
The UNCTAD ([www.unctad.org](http://www.unctad.org))  
The United Nations Development Programme (UNDP) ([www.undp.org](http://www.undp.org))

This table shows that more than 1.4 billion people live in these three countries combined, which encompasses approximately 20 percent of the world's total population (Draper, Mills & White 2004: 1). This highlights the combined power these three countries hold. Separately they might not make up a large percentage of the world's population (India is the obvious exception here), but combined they do. However, a powerful global position does not necessarily follow from having a large population and one

observes that a large number of these people live below the poverty line. According to Table 1 as much as 80.4 percent of India's population lives on below US\$ 2 per day, while the figures for Brazil and South Africa, respectively are 21.2 percent and 34.1 percent. Despite the poor and relatively uneducated populations, India, Brazil and South Africa are still considered to have extensive global leverage – at least in certain fields – a position that would be further enhanced when they join forces (UNCTAD 14 July 2008: internet).

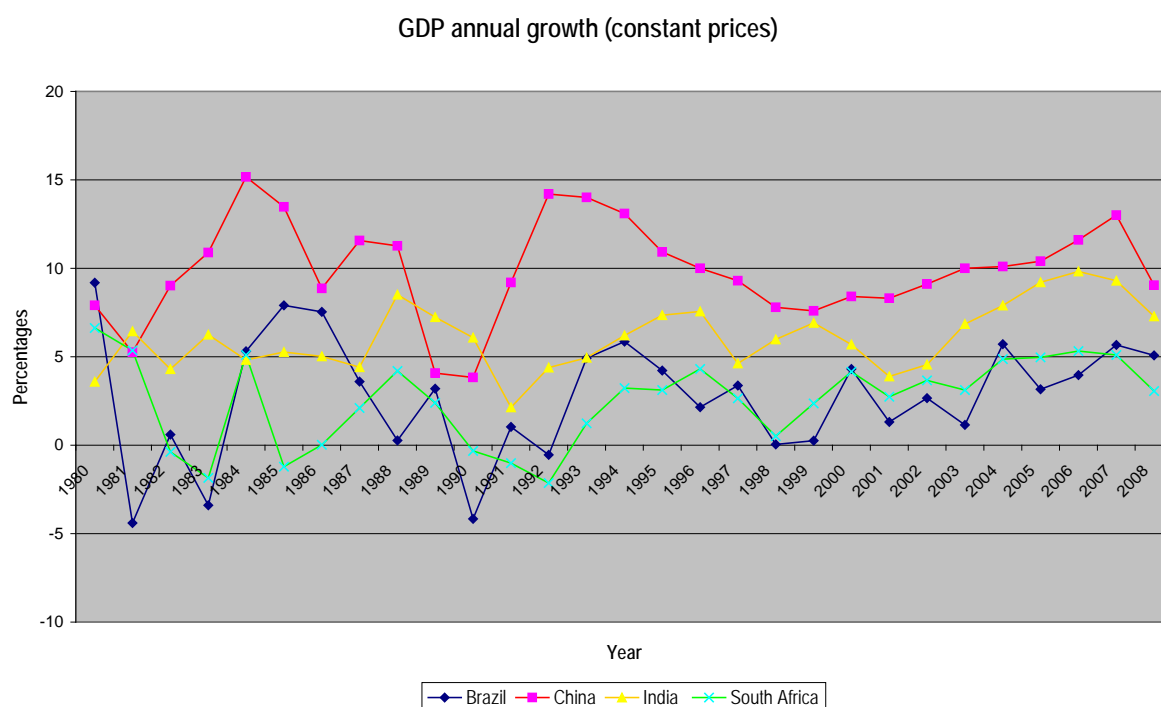
All these three countries are considered to have medium to low human development according to the UNDP's Human Development Report (2008). Out of 177 countries, Brazil ranks number 70, South Africa ranks number 121 while India is only number 128. When examining literacy rates it becomes apparent that compared to other countries in the developing world India, Brazil and South Africa have relatively high literacy rates, but in comparison to the developed world these statistics are rather poor (with India having the smallest literate population out of the three). These two facts are well-aligned with the generally held view that these three countries are middle powers which possess some agency, but is still far from close to be in a position where they are referred to as very influential actors in the global structure.

A further striking fact illustrated in Table 1 is the high Gini coefficient value in all these three leading countries of the South – a fact which corresponds with the argument raised above. The Gini coefficient is a measure of inequality developed by the Italian statistician Corrado Gini. The Gini coefficient measures the income inequality, and is a number between 0 and 100 (or between 0 and 1), where 0 corresponds with perfect equality, while 100 corresponds with perfect inequality. Especially Brazil and South Africa have a very high level of inequality; in fact they are some of the world's highest Gini coefficient values, indicating extremely large differences between the rich and the poor population (the World Bank 29 July 2009: internet).

Although trade is not the focus of this paper, it is worth mentioning while India and Brazil are rather large markets (on a global scale), importing to the value of US\$ 287.5 billion and US\$ 187 billion, in 2008, this is not so for South Africa whose export was worth less than US\$ 34 billion in the same year (refer to Table 1). The story is somewhat similar when it comes to exports – Brazil and India are large exporters at US\$ 200 billion and US\$ 175 billion, respectively. However, both South Africa and Brazil are net exporters, while India is a net importer. This holds important consequences for the economy on a whole, which is an entirely different topic altogether, but in this context it is sufficient to say that in terms of trade India and Brazil are important global actors while South Africa is still insignificant.

One very important indicator has not received any attention thus far – the GDP – or what is generally referred to as the size of the economy. The size of the GDP is of vital importance when discussing a country and its position in the world system. However, the following sections will thoroughly examine the three countries' GDP as well as other characteristics in order to further accentuate commonalities and differences found amongst the IBSA coalition's member states. However, a graph showing the IBSA Dialogue Forum's members', as well as China's, GDP growth from the 1980s to 2008 will be included here. The reason why China is included is that the Chinese economy has, in the past decade, experienced growth rates which are unprecedented in recent history. In the graph below, which measures annual percentage changes of GDPs, one sees that, although far from stable, all four countries have experienced tremendous growth since the 1980s.

Figure 1: GDP growth (annual % change)



Source: IMF ([www.imf.org](http://www.imf.org))

### 3.3.1 India

India is one of the world's largest economies, and by far the largest one in the IBSA coalition. Not only is it a large economy, but it is also a rapidly growing one. Section 3.3.1.1 further explores these facts as well as other characteristics of this large country. This is followed by a section dealing with India's outlook, their foreign policy – in global as well as regional terms. This is done in order to highlight opportunities as well as obstacles associated with a successful IBSA Dialogue Forum.



### 3.3.1.1 Demographics

India is the world's 12<sup>th</sup> largest economy with a GDP of US\$ 3267 billion in 2008. Leading up to this strong position is a decade long sturdy GDP growth rate – an achievement surpassed by very few of the world's economies. According to Aftenposten (10 July 2009: internet), India experienced an average economic growth of nine percent from 2003 to 2007. In other words, it is a force to be reckoned with, on its own, but even more so when in partnership with other powerful states of the South – states whose strengths differ from those of India's. Despite the fact that India is one of the larger economies as many as 80 percent of the population live on less than two US\$ a day (Aftenposten 10 July 2009: internet). However, the GDP growth rate was in 2008 estimated to have slowed down to 6.6 percent, this is hardly surprising though keeping in mind the current global financial crisis (that started in 2008). Regardless, of the so-called credit-crunch India's economy is substantially larger (measured in purchasing power parity-PPP) than both Brazil's and South Africa's- where Brazil's GDP (PPP) sits at less than two thirds of India's US\$ 3267 billion and South Africa's mere US\$ 490 billion (2008 estimates). However, measuring the GDP in current US\$ the picture is different (which is the reason for including both PPP GDP and current US\$ GDP in Table 1). The Indian GDP measured in current US\$ is substantially lower than measured in PPP at US\$ 1237 billion in 2008. Figure 1 shows that since 1996 the Indian GDP has experienced a relatively stable growth, peaking in 2006 when the Indian economy experienced a growth rate of almost 10 percent. One should note that while both South Africa's and Brazil's GDP measurement make intuitively sense, this is not so for India's. In fact, measured in current \$ the Indian GDP is actually lower than Brazil's current US\$ GDP (US\$ 1665 billion in 2008). However, the imperative here is that India is, regardless of measurement used, a large economy in absolute terms – a fact which is accentuated by it being (in current US\$) more than four times the size of the South African economy in 2008.

The Indian economy is clearly strong and what's more it has been growing rapidly in the past decade. This growth has slowed down over the past year as a consequence of the current financial crisis. However, the recent historic growth in India is worth exploring further. Sachs (2005: 16) points out that the new trends in India are incredibly powerful, especially within IT, textiles and apparel, electronics, pharmaceuticals, automotive components. These trends have led to India over the past decade having enjoyed economic growth ranging from 6 to 9 percent annually. Sachs argues that India has 'started to nip at the heels of China's growth rates', and investors all over the world are warming to the notion of

establishing operations, from IT to manufacturing to research and development, in the fast-growing Indian economy. This suggests that the tremendous Indian growth rate is likely to continue.

However, despite the thriving Indian economy the GDP per capita is low (US\$ 2800 in 2008) and a quarter of the population live below the poverty line (refer to Table 1) and according to the UNDP it is positioned low on the Human Development Index (number 128 in 2008) – all indicating its status as a developing state. However, further economic growth has the possibility – if combined with the right policies – to improve India's gloomy socio-economic indicators. (CIA 10 May 2009: internet).

At the same time as the Indian economy is a large one on a global scale, the country is also in possession of nuclear power and is considered to be the world's third largest military power (Aftenposten 10 July 2009: internet). As discussed in the previous session, this is a classical middle power dilemma. The possession of nuclear power has made some countries view India as a threat to stability – both in the region as well as globally. This create a paradoxical situation where, their military capabilities has partly led to India's leading position in the region, but it could also hamper future growth – due to the suspicious light other states views India in because of the fear attached to their nuclear power capabilities. Hence one sees great growth potential in the Indian economy, but the realisation of this potential depends on how efficient Indian politicians handle the current threats to economic growth.

#### 3.3.1.2 India's outlook: Foreign policy, with special focus on regional integration

A country's foreign policy is a set of goals outlining a country's behaviour towards other countries and non-state actors in terms of economics, politics, social and military issues. A country's foreign policy should theoretically (or ideally) be a reflection of the will and interests of its people. This becomes a difficult task when dealing with countries such as India, Brazil and South Africa due to their heterogeneous population – a further feature shared by the three members of the IBSA Dialogue Forum. One of the commonalities between these three countries is that within their borders one finds multiple population groups, widely varying religious beliefs and a diversity of cultures. For instance, a Hindu in the south of India might have a very differing view of what should be the focus of India's foreign policy to a Muslim in the northern parts of the country.

India's foreign policy is inextricably tied to the domestic tension between the Hindu majority and the Muslim minority as well as other ethnic, separatist and social strains which has forced politicians to

concentrate on getting the balancing act right often drawing attention away from efficient policy planning and implementation.

India, South Africa and Brazil are all regional giants. India dominates the South Asia region by the virtue of its large geographical size and population, economic extent and military might. Within South Asia itself India's position has been systematically challenged by Pakistan, ever since the latter broke away to form a separate Muslim state. Pakistan's already sceptical view of India was reinforced by the fact that India played a decisive role in the break-up of Pakistan and the subsequent founding of Bangladesh. The animosity that ensued has been referred to as a localised version of the Cold War due to the fact that the rivalry has strongly influenced decision makers' analysis of other regional issues and affected the actions of smaller states (Alden & Vieira 2005: 1087).

Historically, India's commitment to an open market economy has been rather limited. The creation of the South Asian Association for Regional Cooperation (SAARC) in 1983 represented a step towards reconciliation with the region as well as an opportunity to shift the balance of trade towards local sources – a shift from the previous outward orientation. Unfortunately, the SAARC proved to be nothing more than an annual diplomatic get-together – an example of an inefficient South-South collaboration. However, since the early 1990s India has taken decisive steps to liberalise its economy through embracing privatisation and independent management of formerly excluded areas of the domestic economy: In addition to this more latitude was given to state governments in order to encourage foreign direct investment – a step which has, judging by the current FDI figure, been extremely successful (Alden & Vieira 2005: 1087).

More recently, one sees that India and Asian economies have in general recovered from the Asian crisis and have not only regained their position, but have also shown greater resilience in many ways. Current IFI reports suggest that there are generally improved corporate governance, stronger supervision, healthier fiscal and balance of payments positions and higher reserves. From 1980 to 2005, intra-Asian trade increased steadily from 34.6 percent to 54.5 percent of the region's total world trade. The positive developments subsequent to the Asian crisis have led to Asia emerging as the third largest (measured in size and importance) area of trade integration in the world (behind the EU and NAFTA). Asia has emerged as the manufacturing global supply chain; initially built around Japan, but increasingly China (and to a lesser extent India) has begun to play a significant role. In the software and Information Technology (IT) services, India is, as mentioned above, emerging as the hub of the global services supply chain. However, like many other emerging markets India's financial sector lags behind its

manufacturing prowess and remains bank dominated (Sheng in Kohli 2008: 175-177) – a fact which will be further explored in Chapter Five.

Much has been said, and written on China's remarkable economic growth over the past decade. This is not the topic of this thesis, but it should be mentioned due to the fact that many economists have predicted that India is likely to follow China with a lag of about 10 to 15 years. Both Brazil and Russia have been popularly linked to China and India as, what Goldman Sachs termed, the so-called BRIC (Brazil-Russia-India-China) countries. This is because of their high growth from relatively low GDP levels, accelerating materials consumption per capita and large population bases (USB 2007: 9). Therefore, India is a force to be reckoned with and if the country continues on this tremendous growth path (as predicted by most economists) its ability to influence global development will only increase. The IBSA Dialogue Forum is likely to also increase their leverage in international fora as the economies of the member states grow.

### **3.3.2 Brazil**

Brazil is geographically the largest country in South America. The country shares common boundaries with every South American country except Chile and Ecuador – a fact which holds consequences for Brazil's foreign policies. In addition to this, it is also the largest economy in Latin America with an annual growth rate of approximately five percent over the last few years.

#### 3.3.2.1 Demographics

In terms of population, Brazil is larger than South Africa, but substantially smaller than India. The official figure varies, but according to the CIA World Fact Book, an estimated 198 million people lived in Brazil at the beginning of 2009 (with a population growth rate of 1.2 percent). Like its counterparts, Brazil's population is heterogeneous where a wide array of population groups refers to themselves as Brazilian. Furthermore, one also identifies diverse cultural aspects as well as representation of many noticeably differing religious groups. It goes without saying that with such diversity it is difficult to ensure that the entire population relates to the domestic policy and subsequently the foreign policies will not be an extension of the whole of Brazil's population's wills and interests, however, the next section will look at Brazil's foreign policies. This one will examine the demographics of South America's largest country.

A characteristic which further illustrates Brazil's differing nature is that, according to IBSA (02 May 2009: internet), Brazil occupies roughly 47 percent of Latin-America's land area and the country possesses 20 percent of the world's biodiversity, a large share of which is found in the Amazon rainforests. A large amount of this enormous land area is used productively. Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding its presence in world markets (CIA 2 May 2009: internet).

Brazil's economic indicators suggest that although this is a large economy, it also has substantial problems – quite typical of a developing state. The unemployment rate is low – 8 percent in 2008 – but still as much as 31 percent of the population is estimated to live below the poverty line. Consequently, despite the relatively high literacy rate – 86.4 percent – one sees that many Brazilian have not benefited from a GDP growth rate of 5.2 percent. This is further highlighted by a Gini coefficient of 57 – suggesting that the inequalities are extremely high (although not as high as in South Africa, which is to be discussed in the next session) (CIA 28 April 2009: internet).

Brazil's has the highest external debt of the three members of the IBSA Dialogue Forum (US\$ 236.6 billion in 2008). Since da Silva came to power in 2003 the focus of the economy has been to ensure economic growth while reducing the debt burden. This has led to inflationary pressure and is possible the reason why the external debt is currently still very high. In addition to this, Brazil has the lowest FDI of all the three countries and Gross Fixed Investment only constitutes 18.6 percent of GDP, a couple of percentages lower than South Africa's and substantially lower than that of India (CIA 28 April 2009: internet). This combination of high debt and low investment is clearly harmful to the goal of achieving economic growth and Brazil would do well trying to change this current pattern. One option could be for Brazil to facilitate increased foreign investment through joining other powerful emerging markets and use the IBSA Dialogue Forum as a platform to attract investors to their country and their region – an opportunity that will be further discussed in Chapter Five .

#### 3.3.2.2 Brazil's view of the world: foreign policies in general, regional integration in particular

Brazil's dominant position in South America is a product of its geography, population, economic status and military capacity. The focus of Brazilian foreign policies has been to run two separate, but coordinated approaches simultaneously. The first approach concerns itself with actively seeking a form of partnership with the US, while the second one makes multilateralism the centre of attention and

focuses on how multilateralism can be used as a means to enhance Brazil's status as an influential global actor – the latter approach being typical of a middle power. Bøås, Marchand & Shaw (2005: 13) refers to these two approaches as the 'Latin American-led regionalism' originating in Bolívar's Pan-American dream, and 'US visions of a cooperating Latin America' originating in the Monroe Doctrine. Currently, the most important expressions of the two competing forms of regionalism are Brazilian-led Mercosur pursuing a multidimensional regionalism on the one hand, and the US-led neoliberal project of creating a Free Trade Area of the Americas (FTAA) on the other.

In the early 1990s, most of Latin America embraced the pro-market reforms which are generally referred to as the Washington Consensus: market liberalisation, deregulation, and privatisation – Brazil was no exception. In this period, the world witnessed a growth in regional trade agreements unprecedented in history. The reason for this proliferation was the threat of deadlock during GATT's Uruguay Round of multilateral trade negotiations. The fear of a WTO failure drove countries to focus on Regional Trade Agreements (Sampson & Woolcock 2003: xiii; Bach in Grant & Söderbaum 2003: 21). One of the consequences of this was the formation of *Mercado Común del Sur* (Southern Cone Common Market) or Mercosur in 1994. As a result, trade initially surged, but the dominance of the Brazilian economy over the region was underscored by the unilateral decision to devalue the Brazilian currency in 1999 – which again led to the meltdown of the Argentinean economy. An example of the weaknesses associated with regionalism showing that even a newly founded benevolent relationship could have a negative impact on its neighbours (Alden & Vieira 2005: 1084-1085).

The election of Luis Inacio 'Lula' da Silva as the Brazilian President in 2003 was an indication of the changes that were to occur in tone and substance of Brazil's foreign policy. The focus shifted towards the South, illustrated by Lula's numerous high-profile visits to Africa, Southeast Asia and China. Da Silva is a former trade unionist and much aligned with his idealistic convictions he turned focus towards bringing economic growth and development to the South. To understand da Silva's foreign policy and the focus on trilateralism, it is important to bear in mind that much emphasis is still placed on previously defined and implemented policies. In other words, the relationship with the US was still important while multilateralism remained the word of the day and da Silva continued to invest in cooperative arrangements between middle power states. The new aspect was the strong focus on the South and to create formalized coalitions of regional powerhouses that could pool their material and principled assets together to achieve national interests in multilateral fora of negotiation (Alden & Vieira 2005: 1085-1086).

To explore the more practical consequences of Brazil's foreign policy program, it should be mentioned that Brazil's economic program consists of three pillars. These three pillars are a floating exchange rate, an inflation-targeting regime, and tight fiscal policy, all reinforced by a series of IMF programs (CIA 02 May 2009: internet). While economic management has been good, there remain important economic vulnerabilities. The most significant are debt-related: the government's large domestic debt increased steadily from 1994 to 2003 – until da Silva came to power. This debt burden obviously strained government finances, but the pressure eased as the debt burden as a percentage of GDP started falling in 2005. However, Brazil's foreign debt (a mix of private and public debt) remains large (even if it has decreased) in relation to Brazil's small (but growing) export base. Thus another challenge facing da Silva and his labour party is maintaining economic growth over a period of time to generate employment and make the government debt burden more manageable (CIA 12 May 2009: internet).

Before ending the section on Brazil's foreign policy one important aspect needs to be mentioned, namely the fact that the domestic support for trilateralism is limited. This means that a trilateral partnership is under constant threat since da Silva needs to appease his electorate. His attempt to create deeper connections with the South has been criticised due to the fact that a segment of the population feel that their interests are threatened since currently the markets of the South are minute in comparison with the markets of the US and the EU (Alden & Vieira 2005: 1086). These critics argue that it is of paramount importance that export growth is facilitated and believe this is easier achieved in the North. As a consequence, da Silva has to continue the two-folded focus of foreign policy – one strand focusing on the US and the other one on multilateralism. The amount of effort spent on the latter will determine Brazil's contributions to IBSA and subsequently its success.

### **3.3.3 South Africa**

South Africa is geographically much smaller than India and Brazil – more importantly, it is also smaller both in economic terms and measured in military capabilities. However, South Africa is a giant on the African continent (especially in the sub-Saharan region) and is furthermore known to perform above perceived potential on the international arena. Hence, the prospective role of South Africa in a coalition like the IBSA Dialogue Forum should not be underestimated.

### 3.3.3.1 Demographics

In terms of real GDP (measured in current US\$), South Africa is far behind India and Brazil equalling only a quarter of India's GDP, and less than a fifth of Brazil's. This suggests that it is fair to argue that South Africa's position in the world system compared to its counterparts, India and Brazil, is that of a marginalized country in terms of economic size and demographics as illustrated in Table 1. However, South Africa is still instrumental in relation to the IBSA Dialogue Forum due to it being one of the most influential countries in the multilateral arena with the most liberalised and globally integrated economy of the three (White & Skidmore 2004: 168). Furthermore, when looking at GDP per capita, South Africa is performing considerably better than India and only in the past year has Brazil reached GDP per capita levels that are on par with those of South Africa. This illustrates that even if the economy in itself is rather small the population is on average substantially richer than the average Indian population. In addition to this, South Africa enjoys hegemonic status in sub-Saharan Africa – an important feature – as established in the section above dealing with middle powers. Furthermore, Draper, Mills and White (2004: 8) argue that South Africa is known to 'punch above its weight' in global Forums – making it an invaluable member of a coalition like the IBSA Dialogue Forum.

Even if South Africa's GDP has grown steadily since 1994, South Africa's position on the UN Human Development Index has worsened from being number 89 in 1998 to number 128 in 2008. A position that is feared to deteriorate now due to the fact that the South African economy is likely to move towards recession as a result of the global economic crisis (Aftenposten 10 July 2009: internet). A further aspect accentuating this is the high Gini coefficient (at 57.8 in 2008) which indicates that the wealth is in the hands of a small group of people, while the majority of the population is living in absolute poverty. This is further emphasised by both the unemployment rate (which officially was at 21.7 percent in 2008 although many economists argues that the actual rate is substantially higher- often suggested to be as high as 40 percent) and the 2007 estimate of 50 percent of the population living below the poverty line (UNDP 14 July 2009: online).

As a consequence of its dismal performance on the HDI, its high unemployment rate and the fact that poverty is widespread South Africa receives a considerable amount of foreign aid – the total of US\$ 13.6 per inhabitant. This is significantly more than Brazil who receive US\$ 1.7 and India at 0.9 per capita. In addition to this South Africa has a smaller external debt as well as public debt – just over US\$ 44billion and 30 percent of GDP, respectively. When it comes to investment, as indicated in Table 1, gross fixed investment equals roughly 20 percent of GDP (half of India, but a couple of percentages higher than the



case of Brazil) (UNCTAD 12 September 2009: internet). In terms of FDI, a topic that will be further discussed in Chapter Five, it is evident that the inflow to South Africa in 2008 was equal to US\$ 820 million. In other words, South Africa is well behind India when it comes to FDI inflow (US\$ 4.3 billion), but ahead of Brazil's US\$ 170 million (UNCTAD 12 September 2009: internet). Keeping in mind these three countries' debt the importance of increased investment is highlighted. Investment is in general needed in order to achieve growth objectives, but the need only increases when high debt figures are added. One way of attracting investors to the Southern hemisphere is through an increased focus on investment (and the facilitation of it) in the IBSA Dialogue Forum. If these countries manage to make it attractive for people, its own population as well as foreigners, to invest in these three countries, the growth they have all been experiencing over the past decade could be amplified. This will be further discussed in Chapter Five, dealing with the concept of emerging markets and investment (CIA 02 May 2009: internet).

#### 3.3.3.2 South Africa in Africa and in the world

South Africa's has historically had a dominant economic position on the African continent, especially when considering sub-Saharan Africa – a position the country still holds today. When the African National Congress (ANC) came to power in 1994 they were democratic socialists in orientation. However, a shift occurred, not necessarily completely away from social democratic ideals, but there was a stronger influence of neo-liberal ideas as soon as the ANC came to power. Consequently, attention was placed on opening markets and strengthening trade and foreign investment became the ideal source of capital accumulation. In addition to this there was an inclination towards multilateralism in foreign policy – this was reinforced by negative responses to South Africa's unilateralism among African states and it mirrors aspects of classic middle power strategy as the new government sought to leverage its material deficiencies through recourse to international organisations. Where South Africa differed from established middle power was that it sought to position itself within the institutional and ideational framework of Southern international organisation such as the Non-Aligned Movement (NAM), the Organisation of African Unity (OAU) and the UN Conference on Trade and Development (UNCTAD) (Alden & Vieira 2005: 1083).

Under President Thabo Mbeki, South Africa grew increasingly confident in the promotion of its position as the 'natural leader' of the African continent, leading to the establishment of the New Economic Partnership for Africa's Development (NEPAD). Nepad sought to engage industrialised countries in a

programme of trade and development assistance to foster development within African countries. Much aligned with this was the South African Department of Trade and Industry's launch of the 'butterfly strategy' where Africa was the body and the wings extending out westwards towards South-America and eastwards towards Asia (Alden & Vieira 2005: 1083).

The reason behind the 'butterfly strategy' is the fact that a partnership with South American countries carries immense possibilities for South Africa. A strategic partnership has been developing between South Africa and Brazil since the early 1990s. The political affinity between these two leaders of the South helped initiate and galvanise Southern Africa Customs Union (SACU)-Mercosur relations, despite the relatively low levels of growth in trade. An agreement was signed during President Mbeki's visit to Brazil at the end of 2000. However, very little progress was subsequently made. The SACU-Mercosur free-trade agreement (FTA) seems to have become a lame duck and relations with Mercosur have earned the reputation of being a 'long process with little progress.' Political will, especially between Brazil and South Africa, has clearly been the driving force behind SACU-Mercosur relations. This originates from likeminded governments, which share a commitment toward priorities of human development and international integration. This is what New Regionalism refers to as formal integration which tends to be unsuccessful unless accompanied by informal integration – so-called regionalisation. The problem with focusing narrowly on trade issues in a collaboration between South Africa and Brazil, or SACU and Mercosur, is that both regions produce the same products at the same time of the year and are thus competitors in international markets (White & Skidmore 2004: 163-166).

So far these regional giants from the three developing continents seem to be compatible in some areas and they are extremely *incompatible* in other areas. In other words, while there is a lot to gain in certain sectors there are other parts where these three countries, or regions, are staunch competitors operating in a zero-sum game situation. The potential for instance, viewed with South African eyes, of the Asian market represents immense opportunities in the metals, automotive and components, and agro-processing sectors. As a key emerging economy, India remains a strategic partner for South Africa and great potential exists for increased trade and technology ties between the two countries. Opportunities for closer cooperation include the mining, capital equipment, agro-processing, automotive and components, information and communications technology (ICT), and services sectors (White & Skidmore 2004: 161-163).

It seems as if South Africa, much like its counterparts in the IBSA Dialogue Forum is geared towards South-South cooperation. However, it is important to keep in mind that in South Africa, similarly to in

India and Brazil, there are powerful segments of the population that do not agree with this strong political and economic focus on trilateralism. Outside the business society and the black elite in South Africa the country's foreign policy seems out of touch with many key domestic constituencies and it is constrained by an absence of resources. With such a large proportion of the population living below the poverty line and with one of the world's highest unemployment rate the pursuit of neoliberalism at home and abroad has had to face severe criticism. However, much effort has been put into this coalition from the South African side and no segment of the South African society seems to object to shifting the focus towards economic growth and development – something an efficient IBSA Dialogue Forum could assist in achieving.

### 3.4 SUMMARY

This chapter has illustrated that the real strength of the IBSA Dialogue Forum is found in the narrow membership allowing for a more efficient and focused collaboration and a common, strong position in international fora. Furthermore, it has been established that the leverage and combined weight of these three countries is unprecedented in any previous examples of South-South cooperation.

It is important to keep in mind that this is not a coalition among equals – the geographic and economic size and dimensions of these three countries are far from equal. However, the differences between these states need not prevent it from becoming a successful coalition. They might be different in terms of economic size and capabilities, but as this thesis has argued so far, there are also important similarities – and the fact that they are different could be turned to their advantage – provided that the countries are able to take advantage of each other strengths to build an even stronger coalition. One very important similarity, which could prove to be (and possibly has been) the glue that holds the coalition together is the fact that they share some important characteristics, in the form that they are all middle powers, emerging markets seeking to ensure economic growth in the South through, amongst other things, a more fair global system.

Demographically, there are some common strengths and some common weaknesses, in addition to this it has become evident that there is not one 'leader' amongst the three members of the IBSA Dialogue Forum. What is meant here is that there is not one country that is performing better than the other two on the majority of indicators. In order to use an example to illustrate this, one sees that while India is by far larger than Brazil and South Africa geographically as well as in terms of absolute GDP, this is not the

case when it comes to GDP per capita – where South Africa and Brazil are as good as equal at approximately US\$ 10000 per capita while India's population only have on average US\$ 2800 (Table 1) ([www.imf.org](http://www.imf.org)). In other words, measured in absolute terms it might seem as if India is by far outperforming its counterparts, but when one examines the per capita GDP it becomes apparent that Brazil and South Africa are in effect performing better than India. This also seems to be the case in other respects as well leading to a situation where not one country can constantly dominate the two others. Instead it allows the IBSA members to utilize each other's strengths to build a stronger coalition – which again will yield more power to the individual members. Consequently, one sees that the member's have managed not to be caught up with the differences between them, but instead placed focus on their like-mindedness and the possibility to achieve national interests through cooperating closely with offer different, but compatible, middle powers of the South.

In short, there is not one country that dominates in all fields – they each dominate in some fields. If they are able to take advantage of each other's strengths and have a cooperation where whoever is the strongest can lead, this coalition could indeed become a very strong regional cooperation – one which has the leverage to improve the developing world's position in the current global order. Here, one sees the benefit of the inclusion of a multitude of factors in the New Regionalism framework. If one had a narrow focus, on for instance trade, it would be difficult to argue that further integration amongst IBSA members would be beneficial to all of them. The reason for this being that there would be no reason for the dominating power to cooperate with the two weaker ones. However, the combination of the IBSA members being leaders in differing fields and the fact that New Regionalism argues for the inclusion of multiple variables highlights the potential benefits associated with further integration of the members of the IBSA Dialogue Forum.

While this chapter has focused on the three IBSA members as separate entities, the next one will examine the cooperative efforts by these three countries in the shape of the IBSA Dialogue Forum.

# **CHAPTER FOUR**

## **INDIA-BRAZIL-SOUTH AFRICA (IBSA) DIALOGUE FORUM**

### **4.1 INTRODUCTION**

The IBSA Dialogue Forum was established in June 2003. Central to the IBSA Dialogue Forum's mission was the goal of democratizing global institutions such as the United Nations and the World Trade Organization (as well as other Bretton Woods institutions). In addition, these three giants from the South wanted to clarify and coordinate the ideal of bringing economic growth and social development to the South – and hence ensure poverty alleviation.

The idea of building a coalition of developing countries, as indicated below, is far from a new one. A coordinated approach within the developing world has been deemed vital, as a part of a reformist approach to the world system. The G-20+ and the IBSA Dialogue Forum are the latest manifestations of this approach. In 1998, South African President Thabo Mbeki (cited in Taylor 2005: 7) addressed the NAM ministerial meeting and asserted that:

*'[I]t is vital that the NAM and the Group of 77 plus China should have a common, co-ordinated and strategic approach in their interactions with organisations of the North such as the G8 and European Union. We must ensure that the benefits of the twin processes of globalization and liberalization accrue to all of our countries and peoples and that its potential threats and risks are accordingly mitigated. It is therefore incumbent upon the Movement to continue being in the forefront of efforts to ensure the full integration of the developing countries' economies into the global economy. It is to our mutual benefit that we continue advocating for a new, transparent and accountable financial architecture.'*

This statement by then-President Mbeki illustrates the foundation upon which the establishment of the IBSA Dialogue Forum was based – the need to alter the global structures to ensure that it becomes more democratic to hinder further marginalisation of the countries of the South. In other words, Mbeki stresses the need to ensure that the developing countries are able to curb the adverse consequences of

globalisation. He furthermore, highlights the importance of a united stance by the developing world when negotiating with the much more powerful countries of the developed world.

Although the IBSA Dialogue Forum was established to, *inter alia*, improve political cooperation in the South and to ensure UN Security reform, one sees a new momentum toward alternatives for development and economic reform has emerged in the more recent trilateral discussions. Aligned with these goals the IBSA Dialogue Forum has suggested alternatives to the currently accepted economic orthodoxy, debunking some of the approaches to development advocated by credit lending agencies and from the developed world. Mokoena (SAIIA 2007: 125) highlights the changes that have occurred: 'What began primarily as a political alliance, IBSA's agenda now extends to trilateral cooperation on trade, security, bio-fuels, social development, and research and development'.

This chapter will, firstly, explore the reason for the formation of the IBSA Dialogue Forum. It will, in doing so, establish in which global structure this coalition came into being, the rationale behind the foundation of the IBSA Dialogue Forum, what the members set out to achieve and what they continue to do to ensure that these goals are realized. Secondly, it will use the New Regionalist framework to examine the developments that have taken place since initiation and explore which possible directions the coalition could move in, in order to best promote the members' interests.

## **4.2 EVENTS LEADING UP TO THE ESTABLISHMENT OF THE IBSA DIALOGUE FORUM**

The IBSA Dialogue Forum was established in 2003 and is thus a very recent coalition. This fact is important to highlight when analysing the Forum and its achievements, and the expectations of it should be adjusted accordingly. The argument for the need of a stronger, more united South was however not a recent idea. For instance, in March 2000 South Africa, Brazil, India, Nigeria and Egypt met in Cairo, Egypt, to launch a developing nations' trade bloc to challenge the G-7 in the post-Seattle, US, meeting of WTO negotiations. South Africa has been particularly eager to forge a common strategy and approach to global trade and development. In 2000, South Africa's Foreign Minister at the time, Nkosazana Dlamini-Zuma asserted that a select group of developing countries should 'form a nucleus of countries in the South that can interact on behalf of developing countries' (cited in Taylor 2005: 11). Dlamini-Zuma's idea came closer to becoming a reality when the participants at the G-77 meeting in Havana, Cuba, in April 2000 adopted a resolution aligned with Mbeki's and Dlamini-Zuma's vision of a united developing world within global trading bodies such as the WTO. Indeed, the G-77 summit was

viewed as the starting point of a collective process which would come to affect the future of the global system, sending 'a clear message to the developed countries that their reluctance to reform the international financial system is a major threat to international peace and security' (Taylor 2005: 11). However, the list of success stories resulting from this cooperation is short, arguably due to the fact that too many and too different countries were involved. These countries did not succeed in furthering their national interests through this initiative and consequently the enthusiasm which surrounded the Havana meeting soon ceased to exist.

Significant changes occurred only two years later. South Africa, Brazil and India played a key role in the establishment of the G-20+ ahead of the WTO ministerial meeting in Cancún, Mexico, which followed the breakdown of the WTO meeting in Seattle. Appendix 1 offers a list of the current members of the G-20+, the number of members has been varying which is the reason for referring to this grouping as G-20+. Events leading up to this the establishment of this grouping were, amongst others, the 2000 Cairo meeting and the subsequent Havana meeting – therefore one cannot claim that these initiatives were a complete failure. Rather one could argue that in order to succeed the scope and strategy needed to be altered. The immediate impetus behind the formation of the G-20+ was the fact that certain deadlines relating to the construction of a framework for the reduction of agricultural subsidies, agreed to at the WTO's Doha Round, were missed before the Cancún meeting. The motive for the G-20+'s formation was summed up by the Brazilian Permanent Representative to the WTO, Luiz Felipe de Seixas Corrêa (cited in Taylor 2005: 12), when he asserted that:

*'What prompted the creation of this group in the WTO was a recurrent phenomenon that we think has to be changed in order to cope with the new realities of multilateral negotiations. There is the belief or understanding that everything can be solved when the two majors get together and carve out a deal that represents their convergence of interests. And that the rest of the world, being so disunited or being so fragmented or having so many different perspectives, ends up one by one being co-opted into an agreement – or lack of an organizational framework'.*

In other words, one sees that the idea of a united negotiation front against the developed world remains, but that one has learnt from previous mistakes and take care not to make the coalition too large. Instead the strongest representatives of the South joined forces in order to achieve a goal. Consequently, the action taken by these dominating countries of the South was a reaction to the global structures of the time (structures that have arguably not changed much since then). This joining of forces has the

potential to become beneficial for most countries in the South. These powerful countries were India, Brazil and South Africa and their cooperation ahead of to the Cancún WTO meeting indirectly led to the establishment of the India-Brazil-South Africa Dialogue Forum.

Before further exploring the IBSA Dialogue Forum it is worth lingering on the global structure forming the backdrop which initiated the birth of this coalition. This is important due to the fact that it highlights why and how the foundation of the IBSA Dialogue Forum came about. Globalisation has often been accused of engendering division and inequity across and within states, where the developing states generally carry the adverse effect of this process. The fact that the globalisation process seems to benefit the developed world at the expense of the developing states led Thabo Mbeki to refer to the process and its consequences as 'global apartheid' (Taylor 2005: 2). As a consequence of this, South Africa's foreign policy has, since the 1994 elections, but particularly under the presidency of Mbeki, to an increasingly extent started adopting a reformist stance towards the global system. Activism has been particularly focussed on multilateral initiatives and alliance-building amongst like-minded states, such as for instance India and Brazil, in order to further an agenda that seeks to curb the perceived negative outcomes of globalisation, whilst also seeking to open up the markets of the developed world. Even though South Africa's diplomacy is, perhaps as expected, implicitly statist, such bargaining coalitions are of increasing interest and importance in pushing positions in the emerging global trade regime (Taylor 2005: 2). Similarly, in Brazil the inauguration of Luis Inacio 'Lula' da Silva as the country's President heralded a shift in their foreign policy focus, which was discussed in Chapter Three. It is thus often argued that these two countries, South Africa and Brazil are the driving forces behind the IBSA Dialogue Forum and that they view it, more so than India, as a vital mean to further their national interests.

Most of the work of the G-20 so far has focused on making emerging markets less vulnerable to financial crises. The current global financial crisis should allow one to determine whether this task has been successfully achieved. Relatively little time and resources has been on the very important issue of market access. The lack of access to the US and the European market for the developing world is something which has been of a great concern for key developing countries with relatively strong agricultural export sectors, such as for instance South Africa and Brazil. The unwillingness by developed countries to reduce tariff and non-tariff barriers, especially on agriculture and textiles, has become an increasingly serious concern in the developing world (Taylor 2005: 5). In other words, it is apparent that it is indeed a long way to go for India, Brazil and South Africa – the tasks they have given themselves are by no measure small and will require continuous efforts on their parts.



Through the construction of a reformist-inclined coalition with key strategic partners, the IBSA members hoped to build an alliance that would be taken more seriously than the G-15 and G-77 groupings, which were hamstrung by dissimilar attitudes towards globalisation and with some of its members lacking credibility in the eyes of the G-7. South Africa's role in this is worth further exploring. With a form of credibility derived from Mbeki's image as a philosopher-king (the 'African Renaissance' and the NEPAD is a vital part of this imagery), and his credentials as a neoliberalist and the architect of his government's Growth, Employment And Redistribution (GEAR) programme gaining him sound points in G-7 capitals, Mbeki seemed ideally placed to pursue a reformist agenda at the various multilateral bodies that deal with global trade issues. Playing a leading role in both the G-20+ and the IBSA initiative fits perfectly within this analysis (Taylor 2005: 11). This role of South Africa is of paramount importance due to the fact that although India and Brazil are arguably stronger than South Africa the latter's diplomatic skills and global position stresses its importance in the IBSA Dialogue Forum.

Consequently, one sees that at the time of the formation a large part of the developing world had reached a point where their foreign policy was driven by the push to ensure justice in the international system. They had for many years been on the losing side of various international negotiations and had tried in various ways to change this – albeit without success. They realized that first of all; their position was too weak compared to their counterparts in the North. Secondly, when they attempted to join force with other equally weak states of the South, such cooperation tended to fail. One of the reasons for failure was the fact that they had difficulties aligning their interests, making it easy for the much richer and more powerful countries to hamper cooperation of the South if this served their self-interests. Especially in WTO negotiations there are many examples of how a relatively strong coalition from the South has been ruined when a powerful country of the North has managed to coerce a developing country to vote against the interests of the alliance, through pressurising the country to not stick to the promises it has made its allies. This kind of behaviour, and the subsequent feeling of powerlessness, has been one of the strongest factors motivating developing countries to collaborate in order to try to democratise the international system. So far, the IBSA Dialogue Forum seems to be the first successful attempt at achieving this goal.

Less successful historical examples of collaborations of the South include, for example, the Zone of Peace and Co-operation of the South Atlantic (ZPCSA) and the Indian Ocean Rim (IOR). New Regionalism explains such failures as a result of a lack of clear agenda leading to these countries not being able to serve national interests thus not allowing for a strengthening of the parts through a

strengthening of the whole – as the whole is far from being strengthened. A further reason for the failure of these (and others such as the G77) was the large membership base. Combined with a broad agenda no constructive progress was made and these initiatives became no more than annual talk-shops. Mokoena (SAIIA 2007: 141) argues that the experience of earlier attempts at South-South cooperation (such as the ones mentioned above) has shown that alliances without a specific mandate and a too broad membership base have neither advocated the interests of developing countries nor challenged the global power balance. It follows that much of the interest surrounding IBSA stems from its more focused approach to cooperation. The IBSA Dialogue Forum differs from these previous versions of South-South cooperation not only due to a more clearly stipulated agenda, but also due to its narrow membership base. In addition, the political commitment to the IBSA Dialogue Forum is clearly evident and the member states seem prepared to invest more than only time and effort into its success.

## **4.3 THE ESTABLISHMENT AND EARLY EVOLUTION OF THE IBSA DIALOGUE FORUM**

### **4.3.1 The Brasília Declaration**

The IBSA Dialogue Forum's first official document was the Brasília Declaration of June 2003 (Appendix 2). This meeting in Brasília was attended by the Foreign Ministers of India, Brazil and South Africa. The Brasília Declaration is a fairly short document, with relatively vague goals – a fact which will be illustrated below. It was highlighted in this document that all three governments needed to prioritize the promotion of social equity and inclusion through implementing effective policies to fight hunger and poverty, to support family run farms, and to promote food security, health, social assistance, employment, education, human rights and environmental protection (IBSA 8 June 2009: internet). This illustrates a very important commonality between India, Brazil and South Africa: all three countries struggle with massive social and economic inequalities. This weakness, combined with a strong will to do something about this situation, unites them. In addition to this, they jointly have the capabilities to carry through this will of change. Furthermore, the IBSA members recognize that a way to improve the rather grave socio-economic statistics is through an alliance like the IBSA Dialogue Forum. This is accordance to New Regionalism viewing regional cooperation as an emerging phenomenon, ambiguously forming part of and driving, but also reacting against and modifying, the process of globalisation. Hence, New Regionalism offers an approach to altering the relatively marginalised

position the IBSA Dialogue Forum members hold in the global system – a position that could otherwise become worsened by further globalisation.

The third point of the Brasília Declaration states:

*'The Foreign Ministers of Brazil, South Africa and India gave special consideration to the importance of respecting the rule of International Law, strengthening the United Nation Security Council and prioritising the exercise of diplomacy as a means to maintain international peace and security. They reaffirmed the need to combat threats to international peace and security in accordance with the Charter of the United Nations and with the legal instruments to which Brazil, India and South Africa are parties'* (IBSA 8 June 2009: internet).

Two aspects are highlighted here. Firstly, that the initial focus of the IBSA Dialogue Forum was strongly political – a fact which is further emphasized by the delegates representing them being the countries' Foreign Ministers. Secondly, the agreements reached in Brasília are relatively vague and open-ended.

The second aspect, the lack of tangible goals, is further emphasised in point number 15:

*'The Foreign Ministers noted with concern the increased economic vulnerability of developing countries to fluctuations in global prices of commodities. They affirmed the importance of a predictable, rule-based, and transparent international trading system, to enable the developing countries to maximise their development, through gains from enhanced exports of goods and services of their competitive advantage'* (IBSA 8 June 2009: internet).

Although the goal is stipulated (in a relative vague way) point 15 is, like point three, open-ended and does furthermore not suggest a way in which this goal is to be attained. There are no suggestions of strategies for achieving these goals. This, however, is not surprising keeping in mind that this was the first meeting between representatives of India, Brazil and South Africa. As a consequence these actors seem to have rather made an attempt to steer future collaboration in certain directions and allowed for the specifics to be determined at a later stage. In other words, these representatives were merely trying to initiate a coalition with the short term goal of improving conditions of WTO negotiations and the long-term goal were left open-ended allowing the actors more room for manoeuvre in the future.

New Regionalism highlights the fact that various variables should be included in an analysis of the integration process. These include, but are not limited to political, economic, cultural and social variables. Thus one sees that this Brasília Declaration is much aligned with New Regionalist theory where the initial cooperation is on political and social variables. Furthermore, one sees that the way the goals are defined easily allow for an expansion and inclusion of other, possibly more specific goals at some point in the future. In addition, the open-ended goals also allow for the complete cancellation of them on future Declarations – if the members should agree that these goals must either be altered or removed due to them not serving their national interests. Hence, the end goal of IBSA is not a RTA, but the goal is being created as the integration process develops. Again, this is aligned with one of the main tenets of New Regionalism; the way it allows the members to steer and control the integration process according to how it serve their interests – it is not a process that once started cannot be steered or stopped.

#### 4.3.2 The New Delhi Agenda for Cooperation

The next meeting took place in New Delhi in March 2004, and the outcome was the New Delhi Agenda for Cooperation (Appendix 3). It is, however, worth noticing that between these two meetings the Heads of State and Government met in New York in September 2003, and the Defence Ministers of India, Brazil and South Africa met in Pretoria in February 2004. These two meetings are important due to the fact that illustrate not only a keen continuation of cooperation, but also a deepening of collaboration in the fact that the initial meeting in Brazil was carried out by the Foreign Ministers, while now the Heads of State and Government were also taking part. Furthermore, a widening of the cooperation effort is apparent in the fact that the Defence Ministries are meeting to discuss possible cooperation in this field. In other words, India, Brazil and South Africa seem to have gotten the first step right in accordance to what New Regionalism advocates. They are driving the process a step further towards regionness through this widening and deepening of integration.

Point three of the New Delhi Agenda for Cooperation states that:

*'The Ministers held a wide-ranging discussion in a friendly and cordial atmosphere and exchanged views on regional and international issues of mutual interest as well as promotion of trilateral cooperation in accordance with the objectives set forth in the Brasília Declaration. They attached immense value to the beneficial spin-offs from their enhanced trilateral cooperation to*

*South-South cooperation. IBSA aspires to make a significant contribution to the framework of South-South cooperation and be a positive factor to advance human development by promoting potential synergies among the members' (IBSA 8 June 2009: internet).*

Although this point is vague, similar to the example used from the Brasília Declaration, one sees that there is a drive that has been stressed – a drive towards expanding this coalition and to make it a successful example of South-South cooperation and to furthermore ensure that cooperation between India, Brazil and South Africa becomes a way of furthering their national interests. This is one of the main arguments of New Regionalism; cooperation takes place where the various actors can benefit from it. Consequently, the area in which cooperation started is no longer the sole focus instead the focal point is expanded which allows other actors to take part in this process – in an attempt to further their own interests. Grant and Söderbaum argue (2003: 6) that regions are constructed, de-constructed and re-constructed by collective human action and identity formation. As a consequence, the fact that regionalisation is a dynamic process, instead of static and linear, is highlighted. This process is likely to occur at various speeds in various sectors. In addition, integration and disintegration are closely connected and must be analysed within the same framework – making space for the entrance of new actors as well as the exit of established actors (which would, according to New Regionalism, occur when there are no more benefits associated with further cooperation).

In more general terms, one sees that the New Delhi Agenda for Cooperation was divided into sub-groups of cooperation, namely:

- Multilateralism, with particular focus on reform of UN system;
- Peace and Security;
- Terrorism;
- Sustainable Development; and
- Social Development.

Not only do this division indicate a direction as to where the actors want the cooperation to be steered, but one also sees that the goals are becoming more specific, often followed by a strategy as to how to best achieve these. One example of such is point number 20, stating:

*'Recalling that the Brasília Declaration had identified trilateral cooperation among the three countries as an important tool for achieving the promotion of social and economic development, the Ministers agreed that the three countries, with rich untapped natural resources and*

*emerging infrastructural requirements, could in a spirit of South-South cooperation, share expertise in several areas. With this view, working level discussions for enhancing trilateral cooperation in the spheres of [Science & Technology] S&T, Information Technology, Health, Civil Aviation and Shipping, Tourism Trade and Investment, Defence, Energy and education took place during the Meeting. Specific programmes of action for trilateral cooperation in each of these sectors were identified based on these discussions and endorsed by the Ministers. These are annexed in the Plan of Action' (IBSA 8 June 2009: internet).*

#### 4.3.3 The Cape Town Communiqué

The New Delhi Agenda for Cooperation concludes with an agreement that the next meeting would be held in South Africa in 2005. The Cape Town Communiqué (Appendix 4) was the official document released following the Cape Town Ministerial Meeting taking place in March 2005. The main focal points at this meeting were:

- the Millennium Review Summit;
- the World Trade Organization;
- Sustainable Development;
- Climate Change;
- Peace and Security;
- Weapons of Mass Destruction;
- Terrorism;
- the Situation in the Middle East;
- Disaster Management;
- IBSA Sectoral Cooperation; and
- IBSA facility for Hunger and Poverty Alleviation (IBSA 8 June 2009: internet).

It is sufficient to look at these focal points to notice that the IBSA Dialogue Forum has managed to further narrow in on the goals and strategies of cooperation. While they have become more specific about how to cooperate they have also managed to widen the scope of cooperation to include aspects such as the 'Situation in the Middle East' which is tied to the IBSA view of the global structure and to what its members can do in order to work towards achieving peace as a mean to facilitate poverty alleviation and security. While intuitively one might argue that the 'Situation in the Middle East' is not related to either of the three IBSA member's national interest. In this regard, it is however important to

keep in mind that according to New Regionalism and argued by Söderbaum (1996: 41) there is a strong interdependence between actors and structure. The actors – in this case the India, Brazil and South Africa – are influenced by the structure, the global political economy, but they are not 'helpless victims' of what is going on in the contemporary world. At least they do not have to be; according to New Regionalism theory the states are capable of steering the development in directions that are beneficial to them, obviously within the constraint of the global structure. Hence, as much as India, Brazil and South Africa have to accept certain facts – such as instability in the Middle East – they can use their power to influence how the future global picture will look like.

One very important and new aspect introduced in the Cape Town Communiqué is the inclusion and focus on IBSA Sectoral Cooperation. Sectoral Working Groups had been set up and in Cape Town, South Africa, the Ministers reviewed the work they had done and adopted their reports. In addition to the sectors suggested by the Sectoral Working Groups, Ministers decided to include two additional sectors, namely Agriculture and Culture. Consequently, the areas of cooperation included Agriculture; Culture; Defence; Education; Energy; Health; Information Society; Science and Technology; Tourism; Trade; and Transport (IBSA 8 June 2009: internet). In other words, a wide, yet specific, spectrum of cooperation is visible in the Cape Town Communiqué.

It was stressed by the Ministers that there is a greater scope for further intensifying cooperation between India, Brazil and South Africa and while one should continue to search for new opportunities it is important that these sectors receive the attention needed so that they can become areas in which the countries are able to work towards serving their national interests through the IBSA collaboration. At the time of the Cape Town meeting, the Health and Energy Sectoral Working Groups had not been able to convene, but otherwise, in the other sectors the first seeds of collaboration had been planted. Exploring the sectors of coordination and cooperation it should be fair to suggest that there is, much according to New Regionalist theory, a broad focus – allowing for the integration process to be driven by other than economic factors. In the case in question one sees that cultural, social and political variables receive just as much attention as the economic variable.

#### 4.3.4 The Rio Communiqué

The next meeting between India, Brazil and South Africa took place in Rio de Janeiro, Brazil, in March 2006, and the outcome was summarised in the Rio Communiqué (Appendix 5). Once again was the focus placed on the reform of the United Nations:

*'The Ministers reiterated their continued support for the reform of the United Nations to make it more democratic and responsive to the priorities of its Member States, particularly those of developing countries that constitute the vast majority of its membership. In that regard, they welcomed the decisions taken in the September Summit in New York in 2005 and expressed their full support for the implementation of those decisions as contained in the 'Summit Outcome Document' (IBSA 8June 2009: internet).*

Consequently, one sees that the IBSA members have not achieved what they set out to at inception. However, a task like reforming the UN system, which arguably has not changed much since 1945, is not something which will be done in a couple of years. Mokoena (SAIIA 2007: 125) argues that: 'While IBSA may not yet pose a challenge to current global power structures, this type of sectoral interaction has the potential to bring real economic benefits to the countries involved and their respective regions. IBSA has the potential to become the first South-South initiative to translate diplomatic declarations into real results.' Reform of the UN system and other major global structures might take some time, but India, Brazil and South Africa seem to have the patience to keep on working – until a democratisation has been achieved hence ensuring that the decision-making bodies better represents the current, real world.

It is often argued – particularly by scholars representing old theories of integration – that trade is the way forward for regionalism and regionalisation. This is, however, one aspect in which New Regionalism differs from other forms of regional integration theory. Instead of narrowly focusing on trade as the main variable of the integration process, New Regionalism allows for a broader focus suggesting that the integration process can be driven by other factors – such as for instance investment, as suggested in this study. Yet, it is useful to briefly examine trade between India, Brazil and South Africa. In 'Potential for Greater Trade between South Africa, India and Brazil', Willcox and van Seventer (2004: 18) illustrate that the trade between the three countries is low although these are some of the world's largest economies – certainly if one look at them in comparison with other economies of the South. They consequently suggest that there is room for improvement. They reached this conclusion after discussing the various countries' exports to the rest of the world, and the IBSA Dialogue Forum's member's imports of the same goods. Especially between India and Brazil, the trade has the potential of increasing drastically. They furthermore argue that out of the three members, the trade between India and South Africa is, without a doubt, the most saturated field. Additionally, they suggest that the greatest potential for trilateral trade exist in areas including, but not limited to machinery, vehicles, mineral products, chemicals and precious metals.



Although trade can, and should, be expanded, Willcox and van Seventer's argument is that this is not the field in which India, Brazil and South Africa have the most to gain. This does not mean that trade as a possible field of cooperation should be completely ignored, on the contrary; the coalition member's should continue to explore this aspect of cooperation, but a further facilitation of trade should not be the main focus of the IBSA policy-makers. The focus needs to be on other fields of cooperation – fields that are less explored and have a potentially higher gain. This study suggests that 'investment' is an example of such a field – a fact that will be discussed in Chapter Five.

The Brasília Declaration, the official document from the founding meeting of the IBSA Dialogue Forum, does indeed touch on the topic of trade, but it is not done in terms of making an effort to increase trade between India, Brazil and South Africa (IBSA 8 June 2009: internet). Instead the topic of trade in the Declaration mentioned in terms of pressurising their trading partners in the North to move away from the heavy protectionist stance and allow countries of the South to explore the comparative advantage they have on most of these markets.

The Cape Town Communiqué of 2005 discusses trade in point number 48 and notes:

*'On the issue of trade, the Ministers decided to promote coordination and cooperation in several areas including on the convergence of Preferential Trade Agreements and/or Free Trade Agreements, in the G-20 and on WTO related issues. They further agreed to conduct joint studies and research on trade-related matters. The Ministers noted with satisfaction that preferential trade agreements had already been concluded between Mercosur-SACU and Mercosur-India and further noted that discussions will commence in June 2005 on an agreement between India and SACU. A study was circulated on 'The Potential for Greater Trade between South Africa, India and Brazil' and the Member States undertook to conduct IBSA seminars on trade and investment in their respective countries as well as in key developed markets' (IBSA 8 June 2009: internet).*

It is apparent that first of all, similar to the Brasília Declaration, trade is an important aspect of cooperation and secondly that the focus is not first and foremost on increasing trade between the three members of the IBSA Dialogue Forum, instead the attention is on improving the terms of trade of the three countries, and other countries of the Southern Hemisphere, as a means of economic growth of development. In other words, focus is not on improving market access within the IBSA Dialogue Forum,

rather it is on pressurising on the larger markets such as the US and EU to improve the market access for countries of the South – a fact which corresponds with the aim of democratisation of the global system.

The Rio Communiqué of March 2006 however focuses especially on intra-IBSA trade and investment. Point number 46 states:

*'The Ministers noted with satisfaction the results of the Trade and Investment Forum. The forum was divided into four panels: a) Trilateral trade analysis; b) implementation of the preferential trade agreements between Mercosul, India and Southern African Customs Union (SACU); c) challenges to the growth of the trilateral trade (barriers, logistics and financing); and d) organization of the trilateral business meeting on the occasion of the IBSA Meeting of Heads of Government and State in September 2006. The delegations of India, Brazil and South Africa presented data and facts concerning trade issues that thrust fruitful discussions among the businessmen attending the meeting'* (IBSA 8 June 2009: internet).

Attention was drawn to the possibilities associated with increased cooperation in the automobile industries of the three countries – evidence of trilateral cooperation gaining momentum. There are now more details regarding what should be going on between these three countries, as opposed to the earlier focus of what front these three countries should face the developed world. In other words, another step is taken towards what New Regionalism refers to as regionness. The actors have broadened the scope of integration in order to allow inclusion of a wider group of their populations so that more people can use this platform to promote their self-interests. In addition, one also sees a more specific focus – the integration process has thus been deepened. The results of this communiqué and the Delhi Summit will be further discussed in the next chapter which analyses the achievements up to date and the potential of the IBSA Dialogue Forum.

In order to determine the potential of the IBSA Dialogue Forum it is useful to explore the outcome of the more recent Summits – the Tshwane Summit of October 2007 and the Delhi Summit of October 2008. This allows one to ascertain where the IBSA Dialogue Forum currently finds itself. While the previous sections looked back and offered a brief overview of historical events, this section will focus on the current situations and will examine the two previous meetings – held in Tshwane 2007 and New Delhi in 2008. The aim is to establish which changes have occurred over time and where this coalition seems to be headed and to also suggest possible directions in which it should be heading.

## 4.4 A REVIEW OF THE TSHWANE AND DELHI IBSA SUMMITS

### 4.4.1 Tshwane Summit

Womack (2005: 17) suggests that: 'an organization like the IBSA Dialogue Forum is in itself an expression of macro-regional consciousness, and it provides the venue and the referent for discussions of common attitudes towards global issues as well as shared problems.' Examining the recent Communiqués resulting from IBSA Summits suggests that he is correct. After the 2<sup>nd</sup> IBSA Summit, the Tshwane Summit in October 2007 in Pretoria, South Africa, for instance, the official document the 'Tshwane IBSA Summit Declaration' (Appendix 6) states:

*'The leaders recommitted themselves to vigorously pursue the deepening of South-South cooperation for sustainable development. They reaffirmed their shared commitment to the eradication of poverty through sustained and inclusive economic growth. They highlighted the importance of implementing the principles adopted in the Rio Declaration, Agenda 21 and the Johannesburg Plan of Implementation of the World Summit on Sustainable Development, particularly the principle of common but differentiated responsibilities and emphasized that capacity and institution building is a key to global sustainable development'* (Department for International Relations & Cooperation 8 June 2009: internet).

It is apparent that the awareness of building a strong coalition of the South is first priority. At the same time they acknowledge that what mainly the North has decided in terms of environmental needs is important, but that such cooperation can only take place if the consequences are adjusted to meet the developing world's needs and capabilities. Yet another example of the fact that, while fighting for their national interests, these states are not only creating beneficial results for India, Brazil and South Africa. Rather, the whole developing world is (with more or less conscious intention) actually benefits from this united stance amongst the members of the IBSA Dialogue Forum. This also corresponds with the IBSA countries' role as middle powers. According to Cox (in Taylor 2005: 3) the role of middle powers is 'to affirm the principle of adherence to acceptable rules of conduct by all powers, great or small.' In other words, one sees that the IBSA Dialogue Forum promotes the idea that the rules must be followed, but they do want the rules to be changed so that the global system becomes more democratic and works not *against*, but *for* the developing countries as well. In other words, the role played by the structure is of paramount importance – a fact which is also argued by New Regionalism scholars. This framework highlights the effect of the structure in which the actors operate, but argues that the actors are also able

to alter this structure, even if they do not have the power to do so alone. As middle powers the IBSA members know and advocate the importance of following the current rules and regulations, but they do also stress the need for fairer rules – not only for themselves, but for the developing world in general.

An important event at the Tshwane IBSA Summit was the launch of the Women's Forum, which aims to strengthen participation of women in the IBSA coalition. The establishment of such a forum is viewed as a sign of strong commitment amongst the members to promote gender equality and women's rights. Furthermore, point five states that:

*'The leaders acknowledge with appreciation the continued participation by academia and business leaders. The leaders are satisfied that the participation by civil society contributed to the enhancing the visibility of IBSA. They also applauded the commitment by the peoples of the three countries to participate at the Music and Dance Festival in Brazil later in October 2007'*  
(Department of International Relations & Cooperation 8 June 2009: internet).

Again, we see a strong focus on relatively unconventional aspects of integration. Instead of purely focusing on economic and political variables, the members rely on culture as one of the promoters of cooperation and integration. This is aligned with New Regionalism arguing that the driver of the regional integration process includes, but are not limited to economics, politics, social, cultural and security aspects. Additionally, these events suggest that the process of integration is being driven forward and that IBSA cooperation leads to tangible results, it is not only talk about what should happen some time in the future.

Moreover, Point 35 of the Tshwane IBSA Summit states:

*'The leaders expressed the importance of regular interaction among businesspersons of the three countries, with Government authorities playing a facilitating role in the process, for sharply enhancing the momentum of trade and investment with a view to fully utilising the large and growing opportunities in their markets. For the continued expansion of trade, investment and economic ties, the leaders encouraged the implementation of further initiatives amongst IBSA countries on standards, customs procedures, intellectual property rights, small and medium enterprise development, business-to-business linkages and participation in trade exhibition.'*  
(Department of International Relations & Cooperation 8 June 2009: internet).

This is an example of how the goals, and strategies behind these goals, have become much more explicit than what they were in the initial Communiqués – a fact which will according to New Regionalism lead to increased regionness as a result of a more intense version of integration where more actors take part and more specified topics are up for debate. During the Tshwane IBSA Summit, intra-regional trade was centrally placed on the agenda (after having been highlighted during the Rio meeting which preceded the Tshwane Summit). During previous Meetings trade debate has been centred around the WTO and trying to make the trading condition more fair and beneficial for the developing world, there was now, in addition a strong focus on trilateral trade between India, Brazil and South Africa.

It has, according to the Communiqué, been made progress; this progress is also visible in more practical examples. One sees, for instance that, numerous South African firms have set up business in India. Amongst them are Shoprite, Anglo American, De Beers, Ceres, Old Mutual, South African Breweries, Interpark, Group 5, LTA Grinaker and Eskom (Soko 2006: 12). Furthermore, by the end of 2004, a total of 35 Indian companies had established a presence in South Africa, covering as diverse a spectrum as computer software, IT, banking, pharmaceuticals and automotive. An example of the latter, is the Tata Group, which is the leading Indian investor in South Africa and had by 2005 invested R300 million and had plans to invest another R1.5 billion over the following two years. Other Indian companies in South Africa are Mahindra, Sahara Computers, the State Bank of India, Ranbaxy, Cipla and Hetro (Soko 2006: 12-13).

South African companies operating in Brazil include Sappi Trading do Brazil, Banco Standard de Investimentos SA, AngloGold, Safmarine Anglo American Brazil, Alexander Forbes Financial Services, Dex Brazil and Macsteel International. South Africa's imports from Brazil, on the other hand increased over a two-year period, from 2002 to 2004 from just under R 5million to almost R 6.5 million (Soko 2006: 14).

One of the focal points of further integration has been the automotive sector. One of the constraints in this sector includes, according to Business Unity South Africa (BUSA) (15 August 2009: internet), the differences in consumer preference in the three countries. This is a constraint that remains, but others, such as tariffs reduction and removal of non-tariff barriers have been dealt with. Consequently, one sees that in terms of the automotive industry, achievements have been already been made, although further benefits exists. This latter point is highlighted by van Seventeer and Willcox (2004: 17), suggesting that

the automotive industry is indeed one of the sectors in which further integration will prove beneficial for India, Brazil and South Africa.

#### 4.4.2 Delhi Summit (October 2008)

The 3<sup>rd</sup> IBSA Summit was held in New Delhi, India, in October 2008. The Delhi Summit Declaration (Appendix 7) is, as the Tshwane Summit Declaration, a much more extensive document than the earliest Declarations, suggesting that the areas of cooperation have expanded significantly. One also sees that it is not only the number of areas that have changed, more importantly there is also a deepening of issues in the way that more aspects of coordination and cooperation are included and the goals have become more specific and hence more easily to create strategies for.

The main aspects of the Delhi Summit Declaration were:

- Global Governance;
- Millennium Development Goals (MDGs);
- South-South Cooperation;
- Sustainable Development;
- UN Reform;
- Human Rights;
- Intellectual Property;
- Gender;
- Disarmament and Non-Proliferation;
- Peaceful Uses of Nuclear Energy;
- Terrorism;
- Doha Development Round & International Trade;
- International Financial Crisis;
- Energy;
- Food Security;
- Regional Issues;
- IBSA Facility Fund for Alleviation of Poverty and Hunger; and
- IBSA Sectoral Cooperation (IBSA 8 June 2009: internet).

It is apparent when looking at this list of topics that the areas of cooperation within the IBSA Dialogue Forum have become very broad. It is interesting to see that although a broad focus has been kept as an important feature of cooperation, the members have simultaneously been able to be specific about possible achievements. A few examples will be mentioned in order to highlight this.

Of the fields of cooperation mentioned above, the first one that should be highlighted is 'Sectoral Cooperation'. The reason for sectoral cooperation being of paramount importance is that it illustrates a shift towards technical cooperation. In sectoral cooperation one brings in the expert in order to see what can be improved in various fields. This promises an increase speed of integration in the fields elected. In terms of sectoral cooperation the leaders

*'reviewed the activities under sectoral cooperation and while acknowledging the meetings of the Working Groups and concurring with their reports, expressed satisfaction on progress made. The leaders welcomed the signing of (i) Tripartite Agreement on Tourism, (ii) MoU [Memorandum of Understanding] on Trade Facilitation for Standards, Technical Regulations and Conformity Assessment, (iii) MoU on Environment, (iv) MoU on Human Settlements Development, (v) Five Year Action Plan for Maritime Transport, (vi) Five Year Action Plan for Civil Aviation, and (vii) MoU on Women's Development and Gender Equality Programmes, to enhance cooperation in these sectors. They urged time-bound and concrete deliverables, in all sectors' (IBSA 8 June 2009: internet).*

Again, a clear determination to drive this integration process as far as possible is apparent. The leaders show commitment to working towards the IBSA Dialogue Forum being more than an annual diplomatic gathering lacking in tangible outcome. Rather they seek to ensure that the coordination and cooperation is enhanced so that it becomes an as wide as possible platform on which the members can stand while promoting national interests. Furthermore, even if the focus of cooperation is widening it is simultaneously becoming more specific, more detailed. This is a fact that is stressed by the scholars of New Regionalism: the integration process is dynamic and thus forever changing – and with time integration will increase, but at different speeds in the different fields. This process will also experience disintegration which can be the outcome of many factors – one being that the actors do not manage to enhance their self-interest through the chosen focus and decide to rather concentrate their efforts on other, more beneficial, sectors.

Point number 29 refers to the WTO:

*'The leaders acknowledged that while substantial progress was made during the informal ministerial meeting of the WTO in July this year, the final modalities in agriculture and NAMA could not be achieved. They agreed that there must be a concerted effort by all member countries to take the process forward towards a successful conclusion of the Round. They emphasized the importance of concluding the Round to achieve its development objectives, which had assumed even greater significance in the wake of the global financial and food crisis' (IBSA 8 June 2009: internet).*

Once more it is apparent that regional cooperation is forming part of and driving the globalisation process, but is also reacting against it and modifying in an attempt to make the consequences of this process more beneficial for the developing world – which is aligned with the New Regionalist view on regionalism and globalisation.

Energy was also an important aspect of the Delhi Summit as point number 34 notes:

*'The leaders recognized that energy resources are a vital input upon which the socio-economic development of states rests. The recent price volatility of crude oil has posed a challenge to the economic growth and stability of emerging and developing economies. Increasingly, energy markets have become susceptible to political considerations, driving energy security concerns into strategic and foreign policy agendas. They agreed to collaborate in diverse policy and technology areas to strengthen energy security in the three countries. They also look forward to working towards the diversification of energy baskets for a larger share of renewable, alternate and clean energy. Towards these common aims, IBSA will deepen regular exchanges, to further knowledge and know-how in the areas of biofuels, nuclear, hydro, wind and solar energy. They recognized that fossil fuels continue to be a primary source of energy supply and any reduction of emissions would be considered within the framework of the UNFCCC and Kyoto Protocol. They also encouraged the sharing of best practices in energy conservation and efficiency' (IBSA 8 June 2009: internet).*

Energy, as a scarce resource, is a controversial topic which is of great importance to the developing world in general, and if the members of the IBSA Dialogue Forum manage to better the developing world's terms on which energy negotiations take place, a large step is taken towards improving production efficiency and subsequently economic growth. This also illustrates a relatively brave stance of



the IBSA members, it highlights the fact that these three countries attempt to be proactive when attending to global issues. They no longer want to be the marginalised ones that take whatever they get offered, instead they seek to be ahead and to work towards dealing with an issue before it comes a major problem – and to furthermore, show the rest of the world that they are serious about obeying rules and regulations already existing, but they are simultaneously calling for a reviewed version of these rules and regulations.

Another topic which has received increased attention is that of global financial and investment structure. Of particular dissatisfaction with the management of the global system is the unequal representation within the International Financial Institutions (IFIs), which IBSA views as particularly damaging to the developing world. Especially African countries have very little influence on decisions taken by IFIs – decisions that carry immense consequences for them. Forty three African countries share 4.38 percent of the shareholding (and vote) in the IMF, while the G-7 countries have a total of 47.69 percent of shareholding and vote. As a result, according to Trevor Manuel (in Taylor 2005: 5), at the time Minister of Finance for South Africa, ‘the biggest fault-line is in the decision-making process. The constitution requires that a number of decisions require 85% of the shareholders to back it. This gives the US and Europe an effective veto—no US, no decision. No Europe, no decision’. It is thus in effect impossible for the developing world to get a voice in these decision-making processes – this is what the IBSA Dialogue Forum is seeking to change. As of yet, they have not been able to alter the structure, but their effort has been noted and the leaders seem committed to continue the struggle for more justice in the decision making process. The importance of India, Brazil and South Africa as middle powers and even more so *united* middle powers is highlighted by the fact that they are actually getting those that are able to control the structure to listen. Having said that, it is important to stress the fact that the steps taken so far are baby steps and the road is long, but there is reason to believe that with the continuous efforts made by the IBSA Dialogue Forum changes will happen.

Although the achievements in terms of reform are small, one sees that goals have been attained in other fields. For instance, several memoranda of understanding (MoUs) have been signed thus far on:

- agriculture and allied fields,
- bio-fuels,
- merchant shipping and other maritime transport,
- trade facilitation, and
- a framework for cooperation on ‘information society’ (Mokoena in SAIIA 2007: 125).

These steps indicate an important move towards a more integrated IBSA due to the involvement of a larger range of actors who are handling more specific topics.

Improved relations between the three countries are seen in, amongst other aspects, the meeting of the India-Brazil-South Africa (IBSA) Business Council. A workshop was held in Somerset West, South Africa in May 2008, and focus was on identifying opportunities and challenges for strengthening the trade and investment relationship between the three countries. The sectors discussed at this workshop included tourism, energy, mining, air transport, maritime transport and automotives (BUSA 15 August 2009: internet). The potential for tourism between India, Brazil and South Africa was highlighted; it was stressed that a major obstacle for improvements in this sector as well as in terms of trade and investment was the lack of direct air links between the IBSA member states. Consequently it was decided that effort would be put into establishing the necessary links – through cooperation between private sectors and governments of India, Brazil and South Africa. Furthermore, the fact that mining is a large industry in all three countries was pointed out and the need to ensure a development of these industries was emphasised. Currently a substantial amount of the trade in this industry is of raw material, a fact that needs to be altered in order to ensure that greater beneficiation takes place. Through an enhancement of infrastructure, including ports and railways, trade and investment could increase. Linked to this is the importance of competitive financial services sectors. Access to capital is fundamental for growing investment levels across all sectors. The members suggested that the regulatory restrictions that hamper linkages must be removed and that closer cooperation with the working group on trade and investment is needed (BUSA 15 August 2009: internet). These are just a few of the topics that were discussed during the Somerset West meeting in 2008. The mere fact that this meeting took place suggests that the integration process has been driven forward and that, through the involvement of private sector actors dealing with private sector issues, there has been a deepening of integration and a broadening of issues – this, of course, is aligned with what is advocated by New Regionalism scholars when they highlight the fact that a healthy regionalisation process should include a multiplicity of actors which makes the focus broad, and the fact that the actors involved are considered experts in their field allows for a more efficient deepening of the integration process.

In the long run, South Africa stands to gain considerable strategic and economic advantages from cultivating closer links with the far more populous Brazil and India, as both countries are expected to be among the world's six largest economies within the next 10 to 15 years (Taylor 2005: 14). However, as discussed earlier, it is not only beneficial for South Africa to be part of this coalition. India and Brazil also

seem able to further their national interests through this collaboration and South Africa's role seems to be of particular importance in the coalition building due to the close and strong ties it has with both India and Brazil. Consequently, South Africa is a uniting force, one which is known to punch above its weight in international fora.

It is clear that the benefits involved in furthering cooperation in terms of the IBSA Dialogue Forum are immense for all the three countries involved – and even to a certain extent for their respective regions. There have been significant achievements to date, despite the fact that the coalition is a mere six years old. In the search for tangible results, the members have managed to widen the scope of cooperation as well as deepening it through a more specific focus. Some fields of cooperation such as UN Reform still requires a substantial amount of work, but the leaders of the IBSA Dialogue Forum seem committed to continue working in order to level the playing field for themselves as well as for other developing states.

#### **4.5 NEW REGIONALISM AND THE IBSA DIALOGUE FORUM**

The IBSA Dialogue Forum cannot be easily compared to other regional integration projects. One noticeable divergence is the fact that the member states are not situated geographically close to each other. As a consequence of this, most old versions of regionalisation theory would be obsolete; this is not so for New Regionalism – which suggests that although most regional integration efforts occur between countries with geographical proximity, this is not a necessary requirement. This is perhaps the most obvious way in which the IBSA Dialogue Forum does not fit the mould of preceding regional integration attempt. There are other variables that highlight how the IBSA Dialogue Forum differs from the rest; these will be further discussed below. However, the use of this one example heralds that something new is in the making – and this new concept cannot be understood in the light of an old framework. Hence there is a need for scholars that dare to do what the members of the IBSA Dialogue Forum have done: to think new and to use these fresh ideas to meet the objectives they have set for themselves. Scholars of New Regionalism have done what the IBSA members have done; gone their own ways, building on historical parts that they deem to still be useful in the current world, but leaving behind ideas and methods that have grown stale and that do not have a place in the world that has been altered by globalisation (as the strongest determinant). In the words of Grant and Söderbaum (2003: 192):

*'Global, regional and local changes have in the past decades forced scholars to reconsider many of the established assumptions about the durability and the desirability of regional relations and institutions. In addition the studies of regionalism has had great difficulty discerning which level of analysis – global, inter-regional, national or local – is of paramount importance. Many scholars have found comfort in New Regionalism, which allows for an analysis accepting that processes at the various levels interact and that their importance differs depending on time and which region is in question'.*

A further way that the IBSA Dialogue Forum differs from preceding integration efforts of the South is that they do not narrowly focus on the establishment of regional trade agreements. Even though trade integration features on the agenda, it is neither the only aspect nor the most central one. As established in this chapter, developing countries were encouraged by economists to create RTAs. It was argued that the diversification of their economy, the development of intra-industry trade and South-South trade were the only feasible means of economic growth. In addition to this, small, weak and relatively poor economies considered RTAs as their only way of strengthening their bargaining position in international trade negotiations (Gavin & Van Langehoven in Sampson & Woolcock 2003: 284). However, many schemes of regional economic integration, particularly in Africa and Latin America, were built on closed economy principles and insulation against outside competition, and, as a consequence, these regional trade agreements failed to deliver on any of the objectives they set out to achieve (Gavin & Van Langehoven in Sampson & Woolcock 2003: 278-279). One of the reasons behind this failure is, without a doubt, the nature of these states. However, de La Torre and Schmukler (2007: 162) argue that it is more complex than just closed economy principle and insulation against outside competition. They highlight that there are two stylised views on this topic. The first view suggests that the quality of these agreements is too poor, that impatience and imperfection is allowed to cause incomplete agreements. The second view focuses on the implementation process and argues that the developing states often do not have the capacity to implement complex RTAs. In other words, they highlight the fact that there is a need to re-think regional integration in the South, that it is of no use to seek to copy regional integration efforts between developed countries. Developing countries differ fundamentally from the countries of the North, and if one wants to build a successful coalition of the South, this must be done based on principles and assumptions that are realistic for developing states.

This is what the IBSA Dialogue Forum seeks to do, and this is, according to Bøås, Marchand and Shaw (2005: 4-5), one of the important contributions of New Regionalism. This theory has been challenging existing Western or Eurocentric bias in theorising about regionalism and regionalisation. Söderbaum

(1998: 91) concurs, and notes that New Regionalism is based on 'the recognition that the Eurocentric and unrealistic assumptions of orthodox theory do not apply in the industrialised world and certainly do not apply in the developing world.' Thus, the argument is that IBSA diverges from previous regionalisation attempts of the South due to, first of all, the lack of a narrow focus on trade, and secondly, due to the acceptance of being a product of the South, which is a recognition of the fact that they need to create something new, something unique, something which suits them (as opposed to being Eurocentric) and their position (in the global system as well as in comparison to their neighbours and each other). Until now, New Regionalism is the only framework that is flexible and eclectic enough to adequately analyse and explain such events.

One further aspect linked to the argument above is the broad focus of both the IBSA Dialogue Forum and the New Regionalism framework. Although human security is not the focus of this dissertation per se, it is worth mentioning this fact since it further highlights how New Regionalism differs from preceding theories of IR or IPE and illustrates how useful New Regionalism is as an analytical tool in terms of the IBSA Dialogue Forum. In addition, it is useful as it contrast the narrow focus of earlier integration efforts with the broad and inclusive focus of the IBSA Dialogue Forum – much according to New Regionalist theory. In the current world order new threats to security has risen, mainly resulting from the changes that the globalisation process has carried with it. New security issues include migration, gun-running, gangs, domestic crime, HIV/AIDS, transnational crime and poverty. These issues do not fit into the state against state model – it is no longer the states that are threatened, but instead people are threatened (Grant & Söderbaum 2003: 188). As a consequence, one sees that old version of regionalisation theory – which tends to be state-centric – is obsolete and that parties involved in a regional coalition-building process need to be aware of the fact that many actors are involved. These actors all have different interests and a varying degree of power. Consequently, a coalition cannot be built on principles that no longer apply to the real world (such as the Westphalia Principles) – instead, focus must be on current-day obstacles, problems, possibilities and opportunities. A New Regionalism analysis of the IBSA Dialogue Forum allows for the use of such principles and it therefore offers a realistic outcome of cooperation between India, Brazil and South Africa.

Dunn and Hentz (in Grant & Söderbaum 2003: 190) argue, aligned with what has already been discussed, that at an increasing degree, New Regionalism seems to offer a new and innovative way to conceptualise and analyse processes that are occurring in the post-Cold War era. They advocate that New Regionalism provides a potentially rewarding alternative to the numerous IR/IPE paradigms that are too limited to be of much use for discussing the trends taking place in the current global order –

especially in the South. This is maintained by Söderbaum (1996: 43) when he argues that the New Regionalism approach goes beyond the idea of a free market, and includes economic, political, social and cultural aspects. He recommends that, due to the fact that these variables are all interdependent, one should not attempt to take them apart and analyze one of them in separation from the others. The significance of the fact that there is an interlinkage between variables and that they are all equally important is illustrated in Kgalema Motlanthe's (South African President at the time) speech during IBSA's New Delhi Summit in October 2008:

*'It is indisputable that without an understanding and appreciation of each other's peoples, cultures, business environment and the issues that we have in common as developing countries, efforts by the three IBSA governments to advance our collective global agenda, will always be incomplete. It is imperative that we, as leaders be cognisant that civil society's views and contributions can enrich the quality of our engagements as IBSA'* (Department of International Cooperation & Cooperation 12 May 2009: internet).

Another characteristic of this speech is that Motlanthe recognizes the fact that there is formal and informal integration taking place. What is often referred to as regionalism and regionalisation, where the former is the political, state-led process, while the latter refers to what is actually going on between the people; developments that are not necessarily initiated by state actors. Shaw (2000: 401) notes that the fact that New Regionalism's inclusion of 'non-state and non-formal interactions between the national and global levels enables it to treat the interconnections between more and less statist relations, as well as to transcend the official by recognising how the latter relates to the unofficial in a myriad of ways: the multiple conceptions of 'regions', as well as diversity of issue areas, from ecologies and ethnicities to civil societies and private armies. In terms of the IBSA Dialogue Forum one sees that despite the fact that these countries are situated far from each other they have important social and cultural links. These links could manifest themselves in for instance businessmen in India choosing to focus on increased cooperation, in various fields, with members of the Indian population in South Africa. Similarly with the large population of African decent in Brazil, they might be eager to tie closer bonds with people in South Africa that they feel they are closer related to than, for instance, people in Northern Europe which are substantially different to them in terms of culture. This feeling of familiarity cannot be over-emphasised since it, in many cases, can be an as strong determinant of actions as more concrete variables.

When using the New Regionalism framework to analyse a regional integration initiative it is important to keep in mind that New Regionalism scholars view the integration process as an open-ended goal as

opposed to earlier version of integration theory which focused on the fact that an integration effort should have a concrete outcome. Instead of focusing on a set outcome, New Regionalism is concerned with 'the multitude of strategies and ideas about a particular region, which merge, mingle and clash' (Söderbaum 2002: 4). In addition to this, New Regionalism views regions as always being in the making. According to Bøås, Marchand and Shaw (2005: 1) regions are constructed, deconstructed and reconstructed – through social practice and discourse. Not only states, but also non-state actors, participate in the process of constructing regions and giving each its specific content and character. Consequently, according to New Regionalism theory there is no end goal for the IBSA Dialogue Forum. There is not one point which the members should be working towards, where one can conclude, in hindsight, that yes, the objectives were met since the outcome is what the actors set out to achieve. Instead, one sees that the focus is rather on what the actors can achieve, how they can further their interests, rather than about the institution building. Consequently, in terms of IBSA cooperation some significant objectives have been met. Hence, it should be fair to argue that the whole is indeed greater than the sum of its part – since India, Brazil and South Africa have achieved, jointly, goals that they would not have been able to achieve on their own. However, there is much more that these regional giants of the South could achieve through closer integration. This, however, will only take place if the actors view further integration as being in their interest. According to New Regionalism, the moment further integration does not yield benefits to the parties involved it will come to an end. As a consequence, the regional integration process is better viewed as a dynamic process, one which will constantly change, both in scale and deepness, depending on the interests of the actors involved. As long as there are still goals to be achieved cooperation will continue, and since, as it has already been established, the whole is strengthened this will likely give a new momentum to the continuing integration process, both in terms of motivation to continue, but also since the strengthening of the whole has made the parts more influential – and thus more likely to be able to easier further their interests.

A last note worth highlighting is that the success of the IBSA Dialogue Forum in the future depends on whether it is able to focus on clear and possible areas of cooperation and to steer clear of (or at least delay) areas of controversy that tend to hold up the process of integration. This aspect is of paramount importance due to the fact that it emphasises one of the benefits of applying New Regionalism to a framework such as the IBSA Dialogue Forum. According to New Regionalism the regionalisation process comes from below and within and is thus not steered from above and outside, consequently the actors involved are able to choose which areas to focus on – areas that will be the most beneficial to the actors involved – and leave out the controversial aspects, or in other words, to steer the coalition clear of the issues which could lead to disintegration as a result of conflicting interests.

## 4.6 SUMMARY

This chapter has examined the Communiqués and Declarations resulting from meetings of the IBSA Dialogue Forum since its establishment in 2003 to the Summit held in New Delhi in October 2008. This has been done in order to determine the achievements of the IBSA Dialogue Forum. When analyzing these documents one sees that while the 2003 Brasília Declaration has only 20 points, the 2008 Delhi Declaration has 50. More important than the quantitative differences are the qualitative differences. The 2008 Delhi Declaration is not only more extensive in length, it is also more specific in content, goals are made clearer and strategies are made more explicit. Aligned with New Regionalism the integration process is dynamic and allows for expansion in fields deemed to be particularly beneficial for the actors. All these improvements suggest that important steps towards enhancing the collaboration between India, Brazil and South Africa have been made.

It has been established that compared to previous attempts of South-South cooperation the real strength of the IBSA coalition is found in the fact that they share a common position in international fora and the fact that all three are important actors in their own right, and the low number of members allow for an efficient cooperation with a substantial amount of leverage on the global arena. Knowing that these states are powerful on their own, through a successful collaboration these countries' power will be amplified.

The IBSA Dialogue Forum has already carried through on some of their promises, and much aligned to New Regionalism one sees that integration has occurred in fields beneficially to the member states. India, Brazil and South Africa have however not been successful in reforming global decision-making bodies. In this regard it is important to keep in mind what was stressed in the beginning of this chapter; the fact that the IBSA Dialogue Forum is a young coalition and that reforming global decision-making structure is a mammoth task – which these ambitious middle powers could possibly achieve, but that would have to be a long-term goal. As for the short to medium term goals it is apparent that some have been met and that continuous effort is put in place to ensure that further objectives are met. The use of the New Regionalism framework, allows for a view of integration as a dynamic process – a process that moves in varying speeds and that continuously alters its scope. This is what the members of the IBSA Dialogue Forum do when they relentlessly look for new areas of cooperation – areas in which all the members have a shared interest in further cooperation.



The IBSA coalition views itself as more than just an alternative to previous South-South initiatives. It recognizes its position as a constructive stepping stone to a broader and deeper cooperation in the South. Although the IBSA Dialogue Forum was initially established to improve political cooperation in the South and to ensure UN Security reform, a new momentum has emerged, one that focuses on economic and social development through economic reform of the global system. The IBSA Dialogue Forum strives to facilitate effective engagement in the Southern hemisphere in an effort to address globally relevant issues from a development perspective. The members are committed to create a successful South-South collaboration capable of delivering over and above the rhetoric that has characterized previous collaborations of the South.

The next chapter will look at one of the aspects in which the IBSA Dialogue Forum has a potential for growth – both as individual countries as well as a coalition. The topic of the next chapter is investment – chosen from a range of promising sectors – and the topic is, for the purpose of this study, seen in the light of emerging markets, and will explore the potentials associated with an increased focus on investment, as one of the sub-sector focus of the IBSA Dialogue Forum.

## **CHAPTER FIVE**

### **INVESTMENT AND EMERGING MARKETS**

#### **5.1 INTRODUCTION**

Emerging Market Economies (EMEs) have become concrete examples of the historic success of the international development community during the past 50 years in significantly improving the social and economic well-being of a very large number of human beings throughout the world. It is however, over the past two decades that we have seen an increased focus on the topic of EMEs. In the same time period, financial markets have grown considerably in developed and developing economies. This growth has, however, been far from homogeneous across regions and countries – it took place in a context of growing financial globalisation, increased cross-border capital flows and substantial foreign direct investment in the financial sector (de la Torre & Schmukler 2007: 83). While some have benefited from this, others have not. In order to determine how more people can benefit from these developments, this chapter will explore the concept of investment – and since all three IBSA member countries are considered emerging markets, investment will be seen in the light of possibilities that exist for EMEs.

There is no universally accepted definition of the concept EMEs. Both Kohli (2008: 122) and Kolodko (2003: 13) agree that the notion of EME is blurred and that various ideas of the concept exist. Kolodko (2003) argues that it is easier to say what is *not* an EME, than what is. He suggests that EMEs ‘do not include, by definition, either those highly developed market economies which have long evolved mature institutional systems, or those countries which have yet to set out on the path of market development’. The European Central Bank (16 August 2009: internet) agrees on the difficulties associated with defining EMEs, but suggests that the notion, coined by the World Bank more than a quarter of century ago, is aptly defined as: ‘a number of rapidly growing economies [that have] gained, or regained, access to international financial market. [...] economies [that] have liberalised their financial systems, at least in part, and have become broadly accessible to foreign investors’. In other words, EMEs are those markets, or countries, which do not yet classify as a developed country, but that is more developed than the poorest countries in the world. Furthermore, they tend to have a rather exceptional growth trajectory and are, through amongst other complex facets, experiencing rapidly increasing financial integration. They are hence becoming more like a developed country, but the future holds the secret as to whether their growth process will eventually lead them to one day being considered a developed country.

The focus of this chapter is on investment, seen in the light of EMEs. The reason for this is that discussing investment without paying special attention to the fact that India, Brazil and South Africa are all considered emerging markets would not offer a complete picture. The reason for choosing investment as the focal point of this chapter is the increased absolute flow of investment, and more importantly, the significance and consequences of the growth of such flows. One sees, for instance, that private capital flows have now, according to Kohli (2008: 29), replaced Official Development Assistance (ODA) from multilateral and bilateral institutions as the dominant source of foreign capital to EMEs. Such a development has ramifications stretching further than just an increase in a countries balance of payments books. It is these ramifications this study – and in particular this chapter- will explore.

In terms of structure, this chapter will first of all, offer an introduction which deals with EMEs and investment. The concept EMEs has already been defined, but the rest of the chapter will look at differences and similarities between them. Furthermore, a definition of Foreign Direct Investment (FDI) will be offered. FDI is the necessary driving force (alongside other types of investment) behind economic expansion. The next section will offer a general overview of recent financial development in EMEs. This is followed by a section focusing more specifically on the topic of this thesis, the IBSA Dialogue Forum, and the role the increased investment opportunities –both in terms of inflow and outflow could come to play. The last section applies the New Regionalism framework to analyse investment as a sector of cooperation within IBSA. In other words, the last section will illustrate how, according to New Regionalism, the various sub-sectors – in the context of this dissertation; investment – plays an important role since it allows for inclusion of a multiplicity of actors and illustrates that integration will occur where – and for as long as – actors benefit.

## 5.2 EMERGING MARKETS ECONOMIES AND INVESTMENT

The concept *investment* includes a broad range of capital flows, but this thesis will focus specifically on FDI. FDI is generally considered the least volatile component of capital flows between countries – and is thus the type of investment which should be considered most desirable. This study uses the concept *international private capital flow* to cover all types of private investment flows which are cross-border. In other words, this dissertation uses either the total amount of investment, which is referred to as international private capital flow, or it will specifically focus on FDI, which is according to UNCTAD (2009) defined as:

*‘an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor’.*

FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates. FDI may be undertaken by individuals as well as business entities. As a result of this influence exercised by the investor, one can, if the investment is large enough, be faced with a sovereignty dilemma. In other words, the consequences of a FDI growth can in certain cases lead to the need to redefine the host state's sovereignty (a topic explored in Chapter Two).

In order for an economy (emerging or not) to grow, it needs investment – foreign as well as domestic investment. This thesis focuses on cross-border investment, rather than domestic. Well-developed domestic financial systems are important in order to attract greater volumes of foreign private capital flows. Well-developed financial markets allow foreign investors greater confidence in a country's economy, allow them to leverage foreign capital with domestic finance, provide more robust and multiple exit strategies, and permit opportunities to the institutional investors for equity and debt portfolio investments. Thus, from the policy-makers' point of view, deep domestic financial markets increase the ability of the domestic financial system to absorb the volatility in international capital flows (Kohli 2008: 35-36). In other words, a deeply integrated, advanced domestic financial market is better equipped to work as a buffer for external factors – such as the current global financial crisis. The reason being that, even if they cannot control the externalities that could potentially severely affect the economy, a well-functioning domestic financial market allows them to more easily respond to these externalities – and consequently minimise the harmful effect of them. This also holds for domestic crises; the further developed a financial market is the more easily it will be able to remain stable when facing unexpected changes.

On a general level, growth and development in EMEs are heavily dependent on the following economic and financial variables:

- International private capital flow;
- Development of financial markets;

- The countries ability to integrate successfully with the global economy through trade and investment; and
- Their ability to forge public-private partnerships (PPPs) including in infrastructure (Kohli 2008: 25).

De La Torre and Schmukler (2007: 85- 92) take on a broader view and argue that there are four other variables that are very important in terms of the growth of financial markets: the income level; macroeconomic policies; institutions; and size. The developed countries tend to have larger financial markets than the developing countries. They illustrate that there is a strong correlation between the development of financial markets and the size of the countries' GDPs. Furthermore, richer states tend to have higher-quality institutions, including better property rights and rule of law, which affects financial development. In addition, less developed countries generally have more volatile investment environments and a larger government involvement in the economy, which could affect financial markets. Monetary and fiscal policies, as well as overall macroeconomic stability are also positively related to capital market development. The reason is that financial contracting becomes more difficult in high-inflation environments. Firms and individuals find it more difficult to plan when future real values are uncertain and they are therefore less likely to engage in financial contracting when inflation is imperfectly predicted. High inflation rates also distort relative prices and create incentives in favour of short-term projects, discouraging long-run investments. Large fiscal deficit can cause macroeconomic volatility which reduces incentives to engage in financial contracting.

It is possible to turn the situation around and suggest that these prerequisites are creating a dilemma. In order for their economies to grow they need investment, but in order to attract private investment they need to show that the economy is not only growing, but is performing well according to a broader macro-economic measuring tool which includes an examination of their monetary and fiscal policies as well as general infrastructure. As a consequence, it is apparent that many developing countries are struggling to reach the desired level of development due to the fact that they do not have what it takes to attract investment and they do not have the funds to do what is needed to get 'what it takes.' The consequence of this is, of course, that the states remain poor and marginalised.

The topic of institutions needs to be further discussed. Legal and broader institutional environment plays an important role in the development of financial markets. Laws and enforcement mechanisms that protect investors, clearly defined property rights and support private contractual arrangements are crucial to an adequately functioning financial market. Empirical evidence shows that regulations that

protect creditors and minority investors are associated with deeper and more active financial markets, increased valuations, lower concentration of ownership and control and greater dividend payouts. A last aspect which might affect the capital market development is the size of the economy. More information is available in larger economies, which reduces information costs to all investors – foreign as well as local. Large economies tend to have large firms which are more likely to meet the minimum size threshold necessary to achieve adequate liquidity. Economies of scale might also be important in creating the infrastructure for financial markets, because the costs of establishing clearing and settlement systems and developing the legal framework for issuing and trading are mostly fixed (de la Torre & Schmukler 2007: 85- 92). Hence one sees that the four variables highlighted by de la Torre and Schmukler are indeed relevant and should be receiving attention from EMEs seeking to further develop their financial markets. It is however important to keep in mind that in many cases increased investment is needed in order to adequately meet these goals. This fact emphasises a dilemma which weighs heavily on many EMEs' shoulders.

EMEs are often treated as one entity, it is however important to note that, while there are many similarities between EMEs, there are also significant differences. First of all, a concept like the macro-economic policy varies from country to country. Furthermore, depending on external global events some countries might be enjoying an exhilarating investment climate while others are suffering under a drought. Consequently, one is left with a situation where although it might be in EMEs interests to cooperate in order to draw investment to the South in general, they might also find themselves in a position where they have to compete with their supposedly allied economies in order to be the recipient of the larger proportion of investment inflows. In addition to this, it is important to keep in mind that a substantial amount of the investment flows are considered to be of high liquidity, a fact which suggests that it could easily be moved and one cannot trust that all that is required in order to ensure a continuation of a ten year growth period is to leave the major macro-economic policies unaltered. Brazil can be used as an example of this. Out of all EMEs, Brazil was in 1994-95 the largest recipient of private capital flows. However, by 2004-05 China, Hong Kong and Taipei (Taiwan) were the top three recipients while Brazil was now number ten on the list. This is only one example of how the investment climate can change rapidly over a relatively short period of time, another change that commonly occurs is the change in composition of these flows. FDIs- which traditionally have been the largest and the least volatile component- have risen steadily from US\$ 191 billion in 1998 to US\$ 316 billion in 2005 (63% of total net flow). Equity flows have increased from US\$ 46 to US\$ 178 over the same period, while debt flows have grown from US\$ 35 billion to US\$ 56 billion. Thus a general increase is apparent and for the

stability of relatively fragile economies it should be positive news that the largest growing component is in fact the least volatile one – the FDI (Kohli 2008: 30-31).

India, Brazil and South Africa are amongst the EMEs that are performing well in terms of these variables. In all countries the income levels are relatively high, they are generally perceived to have sound macroeconomic policies and well established (compared to other countries of the South) institutions. In addition, they are large economies. However, they all need investment in order to continue expanding and this chapter will explore how IBSA could facilitate such an expansion.

### **5.3 THE DEVELOPMENT OF EMERGING MARKETS AND THE IMPORTANCE OF FOREIGN DIRECT INVESTMENT**

Financial globalisation has, similarly to other forms of globalisation, expanded to a degree that it has become difficult to ignore. Many new developments have taken place in the last three decades, bringing about significant changes to financial markets in both developed and developing nations. However, despite the perception of widespread financial globalisation, the international financial system is far from being perfectly integrated, and there is evidence of persistent financial market segregation both across and within countries (de la Torre & Schmukler 2007: 8). In the past decade, there has been a notable increase in international private capital flows to EMEs. Most of these flows were, until the 1990s, concentrated in a few countries situated in Asia and Latin America. However, in the past few years this phenomenon has changed and a much larger number of developing countries are currently recipients of substantial private capital flows. These capital flows are significant both in absolute terms as well as relative to the countries gross national products. Simultaneously, the net capital flows to EMEs from official sources – multilateral and bilateral financial institutions such as the IMF, the World Bank and regional development banks, the EU and national aid agencies – have dropped considerably since 1998. Sub-Saharan Africa is the only exception being the only region still receiving an increasingly large capital flow from official sources (Kohli 2008: 24).

The low interest rate environment and generous liquidity conditions in the US and most other industrialised countries have led to an increase in the private capital flows to the EMEs, due to the fact that investors are likely to receive higher returns on investments in EMEs with relatively high interest rates (Kohli 2008: 66). Due to the fact that the pay-offs on investments in the relatively saturated markets of the North were decreasing investors were looking for new investment opportunities that

could yield larger pay-offs – this they found in the developing countries, or more specifically the emerging markets. Emerging markets have the added benefit in comparison with the poorest countries that they have better infrastructure in place as well as at least some beneficial macro-economic policies that allow investors to maximize their yields while still not investing in markets where the risk is considered excessively high. Although there is a forever present risk involved in the increasing financing of the emerging markets, these are smaller than in many other, especially underdeveloped, economies. In order to minimise the risks involved, capital market development policies need to take into account the intrinsic characteristics of developing countries such as small size, illiquid markets, lack of risk diversification, presence of weak currencies, and prevalence of systemic risk (de la Torre & Schmukler 2007: 23). The fact that policies which aims at minimising the risk involved, have been constructed has created a tendency of growing interests in the EMEs – this carries with it immense opportunities of economic growth and the subsequent upliftment of the markets in question. The EMEs have managed to improve their attractiveness as an asset class and the investor base has been broadened so that currently more dedicated and longer-term investors are operating in EMEs (Boorman in Kohli 2008: 72).

The risks associated with investing in EMEs are generally higher than investing in a developed country. From a policy-maker's point of view, as already mentioned, deep domestic financial markets increase the ability of the domestic financial system to absorb the volatility in international capital flows. Therefore, it is of paramount importance for the developing world to ensure a continuous integration of their financial markets into the global economy. De la Torre and Schmukler (2007: 4-5) argue that the failure to develop deep and efficient capital markets have important consequences since financial development is not just correlated with a healthy economy; it actually causes economic growth and has a positive impact on poverty alleviation and income distribution as well. Consequently, a better understanding of the drivers of capital market development and the reasons for the perceived failure of reform efforts in many emerging economies can provide useful guidance to policy-makers.

In terms of the IBSA Dialogue Forum and its members, one sees that the level of integration of their respective financial markets varies substantially. Even within the different regions one sees a strongly varying degree of financial market integration. Similar reforms have been applied to most developing countries, but the result has not been the same. East Asia, for instance, shows a higher payoff for reforms compared to Latin America and Africa, in terms of local capital market development, though a lesser impact with respect to integration with global financial markets. Possible reasons for this includes differences in savings rates, degree of macroeconomic volatility, degree of 'home bias' and time zones to mention some (de la Torre & Schmukler 2007: xii). These are important aspects especially in terms of



stability since an undeveloped, yet integrated financial market will be highly vulnerable to events in the global financial market. Consequently, in order to achieve economic growth and development, integration of financial markets must be coupled with a drive towards developing the domestic markets. This need has been highlighted during the current global financial crisis. This crisis has made it more difficult for EMEs to attract investors. There are various reasons for this, the first one being the fact that like many other economies most EMEs are facing, or are in the middle of, a recession. In addition to this, in times of crisis investors will naturally tend to invest as safe as possible – a time of crisis is not when investors are likely to take chances – and most EMEs are considered to be high risk markets, and are thus less attractive in the eyes of investors than what they would otherwise be.

A number of factors underpin the overall historic expansion of FDI into EMEs. These factors include the:

- continued robust global economic growth (until 2008) and its offshoot in the commodity price boom;
- strong corporate profits in EMEs and the resulting re-investment of a large proportion of those profits in the host country (according to the World Investment Report (UNCTAD 2008: internet) reinvested earnings accounted for about 30% of total FDI inflows to the developing world in 2007);
- changing nature of the multi-national corporation from home-country centric to what has been termed 'the globally integrated enterprise' (reflected for instance in the greater willingness of multinational companies to fund research and development (R&D) in subsidiaries in the EMEs); and
- the much improved macro-economic climate in many of EMEs; and
- generally improved investment climate.

All these positive developments have been complemented by significant financial innovations, including:

- structured financial instruments, such as credit default swaps and other derivatives, which have allowed for improved risk management of EMEs investments;
- the development of local financial markets that have created a synergy with FDI inflows;
- increased privatisation and cross-border mergers and acquisitions; and
- the ongoing scramble for natural resources (Boorman in Kohli 2008: 73).

All these factors have allowed for great changes in emerging market economies. International private capital flows have now become the primary source of foreign capital in well-performing developing

countries (Kohli 2008: 26). The positive effect of this on a country's GDP is undisputed; however, the effect of this on a country and its citizens in general is a completely different question all together. In other words, it might result in economic growth, but it might not result in social development. Unless the policy-makers manage to find ways to ensure that increased FDI inflows benefits a larger group than the people directly involved, full advantage of this positive development is not taken, and one should revisit the policy-making processes.

So far the opportunities and necessities for economic growth have been highlighted. However there are also common weaknesses which are associated with EMEs' financial systems. These include:

- Low savings rates that have hindered the deepening of domestic financial markets. An example of this is Latin America in the 1990s;
- unstable macro-economic environment which hinders financial system development, with chronic inflation, periodic external crisis, and intermittent deposit freezes, imposing heavy losses on holders of financial assets;
- structural factors, mostly micro-economic and institutional in nature, deters bank lending and the creation of a strong credit culture; and
- highly volatile capital inflows are always a concern in an economy – whether considered emerging or not (Sheng in Kohli 2008:181).

Despite these negative aspects, the overall developments over the past decade have been positive. It is, however, essential to highlight the fact that there are no guarantees that it will continue being a positive experience. Some EMEs are at risk under the current global financial developments. Some countries have large external imbalances that seem to be fuelled by rapid credit growth to the private sector- this was a characteristic of some of the countries in East Asia before the crisis of 1997. In addition to this, large fiscal deficits are a problem and large short-term external debt have been built up, most of it in foreign currency, and, additionally, many EMEs have large net international investment liabilities. A key question here is whether these developments have made the EMEs vulnerable to sudden stops in the flow of foreign capital. In this regard it is worth highlighting that some of the countries most severely affected by the Asian crisis were enjoying good credit ratings, which dropped sharply and suddenly as foreign capital flows reversed (Boorman in Kohli 2008: 71). Consequently, it should be made explicit in an analysis that there is a substantial amount of volatility associated with the concept of investment. Through a conscious effort, where taking precautions is of paramount importance, it is however possible to diminish the risk involved, and to ensure more stability than what is the case in the current financial markets.

In the years to come, external risks could prove challenging as investors will increasingly differentiate among EMEs. In particular, as external financial conditions become less benign EMEs with macro-economic imbalances and those that still rely heavily on external financing face a narrower margin for policy slippages. Therefore, with the current global economic crisis a word of caution is necessary when discussing emerging markets and their ability to attract international private capital flows. Although a majority of EMEs, especially the IBSA members, are considered to have stable macro-economic policies in comparison to many other countries of the South, this is not so when compared to for instance the US, the EU and Japan. Consequently, in 'credit crunch' times investors are likely to be more hesitant to invest in emerging market economies and will rather invest where the risk is as small as possible (knowing that the yield will not be what it could have been if invested in an emerging market economy).

In this regard, it is important to highlight the concept 'reputation'. A state's reputation is of greater importance when discussing investment, than when discussing for instance trade – the reason for this is, among other things, that trade has more tangible outcomes than investment. A good reputation is of paramount importance since it will increase the chances of investors not pulling out. If the IBSA members manage, through cooperation in the financial sectors, to create markets which are perceived to be stable, high-yielding and relatively risk free they should be able to easily attract new and larger amounts of FDI. It is even possible that they could create a reputation for themselves, in which financial cross-border activity with any of them is viewed as beneficial and almost have a 'IBSA seal' which ensure lower risks and higher pay-offs than what other countries can offer.

EMEs that still have sizeable vulnerabilities in the fiscal position, and public sector balance sheets are more susceptible to pressures in their external accounts (and to crises more generally). On top of this, policy-makers in both mature markets and in EMEs are facing renewed challenges. Central banks need to communicate effectively to financial markets their assessment of inflation risks and their resolve to contain inflation. Furthermore, financial institutions need to boost their efforts to monitor and manage risk, especially counterparty risk vis-à-vis hedge funds, private equity firms and those selling credit default swaps. Active debt management policies should continue as part of an overall plan to develop and strengthen local capital markets and deepen the institutional base (Boorman in Kohli 2008: 71-72).

So far it has been established that EMEs have, on a general level, experienced exceptional growth rates, but that there is no guarantee that this will continue and that external factors could end up

severely hampering further growth in many EMEs. This is true when discussing EMEs as one unit, it is, however, important to keep in mind that although there is a rapid increase in FDI flows to EMEs, there are strong limitations to which sectors and countries that are benefiting from this growth. The top 10 recipient countries account for approximately 65 percent of total FDI flows to EMEs. East Asia and the Pacific remain the largest regional FDI destination. However, both Latin America and Eastern European countries as well as Central Asia have seen a rapid increase in FDI inflows. The Middle East, South Asia and Africa are all regions that attract only a modest share of the FDI (roughly 15 percent of the total), the share has however, increased by over 50 percent since 2000 (Boorman in Kohli 2008: 74). Consequently, one sees that there is a large disparity within the countries referred to as EMEs. One very essential aspect in this regard is the fact that although there is a general growth of investment flows to EMEs it is possible that certain EMEs could be experiencing large degrees of disinvestment. All that is need is for one country, for instance, South Africa to experience a decrease in investment inflow lower than the increase of investment inflows to, for instance, India.

A further break-down of the investment figures in terms of regions is necessary in order to understand the development that has taken place in relatively recent history. FDI flows to EMEs have increased more than 10-fold from a modest US\$ 20 billion in 1990 to about US\$ 237 billion in 2005. Including all developing countries, and looking at this figure two years later one sees that it has reached more than US\$ 500 billion (which was a 21 percent increase from 2006) (UNCTAD 12 August 2009: internet). In this regard it is however vital to keep in mind that in the period following the Asian crisis there was a sharp decline of FDI flow to EMEs. An empirical example of the fact that in times of crisis investors choose, as discussed above, to go the 'low risk and yield' route. Furthermore, it emphasizes the fact that EMEs are often treated as one (investors do not distinguish between the various EMEs) and that crisis in one region will flow into other (unrelated) regions and influence development there. Another significant aspect, especially in the context of this paper is the fact that FDI (and capital flows in general) between countries situated in the South has increased relatively rapidly and has partly offset the decline in North-South flows. In other words, while the global FDI figures (US\$ 1833 billion in 2007) have increased in the past decade, the majority of the increase in developing countries comes from capital inflow from other developing countries. The South-South FDI flow increased from US\$ 14 billion in 2003 while North-South FDI declined from US\$ 130 billion in 1999 to US\$ 82 billion in 2003. The change in these figures has led to an increase in the share of South-South FDI in total FDI to developing countries from 16 percent to 36 percent over the same period. Furthermore, along with the increase in FDI, there has been a surge in external flows into the equity markets in EMEs. This has contributed to the unprecedented rise in market indices since the late 1990s (Boorman in Kholi 2008: 72-75).

These changes are driven by many of the same factors that have led to closer integration across much of the world in the past decade. As an example, the majority of developing countries, led by the EMEs, have become more open to foreign investment over the past 10 years. These changes, however, reflect the increasing share of world trade that is taking place between developing countries and the even more rapid growth of trade between developing countries within the same region- spurred in part, by the explosion in regional trade arrangements (as discussed in Chapter Four) – suggesting that FDI often follows, or runs parallel with trade (Boorman in Kohli 2008: 74).

Another aspect in terms of South-South FDI is the fact that it used to generally flow between countries in the same region. However, a recent development is that China, India, Brazil, South Africa and Russia (as well as other developing countries) are breaking this tendency as their search for (especially) natural resources has become an increasingly important motivation for expansion of FDI flows. As an example, in 2004, 50 percent of China's outward FDI was directed towards Latin American natural resource projects. One of the reasons for this development in China and other developing countries is the increasingly larger role played by state enterprises, or by inducements provided by export-import banks and various subsidy mechanisms, in the search for natural resources (Boorman in Kohli 2008: 75-76). This phenomenon of EMEs investing in other EMEs outside their respective regions is, as mentioned, relatively new, and has not received much attention as of yet – which suggest that it is a possible focus area for the IBSA members, allowing them to achieve great benefits. The reason behind the fact that not much attention has been paid to EMEs investing in other EMEs which are geographically further a field is that the size of such outward flows is minute (and there is a lack of consistent data), since this kind of FDI has historically been intra-regional rather than global. However, now that both the scope and size has increased dramatically it is a development worthy of attention. Such attention has been given to this development by the Emerging Markets Forum (EMF) and they have focused on providing a venue for policy-makers and private business leaders to understand, debate and analyze this new concept (Kholi 2008: 32). The members of the IBSA Dialogue Forum should investigate findings done by the EMF in order to best establish a way forward for these three states. In other words, they should focus on determining how they could benefit from the possibilities attached to enhancing and expanding their financial markets.

One cannot discuss the topic of outward FDI flows from EMEs without offering some figures that can illustrate just how rapid this growth had been. In 1995, South-South FDI flows were only at 16 percent, but by 2003 it was 36 percent and in 2005 it constituted half of the total flow. In 2005, outward FDI flows

from EMEs were valued at US\$ 133 billion, which equals 50 percent of total inward FDI flows to EMEs. Keeping in mind the developing world's traditional role as a recipient, rather than the investor, one realizes the magnitude of the changes that have occurred in the past 15 years. This recent emergence of large-scale outward FDI from EMEs shows that the time cycle within which countries change from being capital importers to major capital exporters has been considerably shortened, and relatively low per capita GDP does not have to be an obstacle for FDI outward flows (Kholi 2008: 32-33). This is promising for the IBSA members in terms of further integrating their financial markets and to subsequently ensure economic growth. Yet again, one sees evidence of the fact that changes occur rapidly and that most of these capital flows can, and in most cases will, be moved rapidly according to which markets are considered more beneficial by the investors- this is generally a trade off between the risk and the yield factor, where the emerging markets are viewed to be riskier, but offering better pay-offs than the developed countries' markets.

Similar to the fact that not all EMEs are equally attractive to the investors, some sectors are generally more attractive than others, in terms of South-South FDI flows these include: pharmaceuticals, shipping, steel, textiles and information technology services. According to Hauser (in Kohli 2008: 34) the main drivers of South-South FDI flows do not differ much from the factors fuelling FDI inflows to the EMEs:

- strong growth and maturing of domestic markets;
- rise in regional trade, production networks and related FDI;
- liberalisation and privatisation of infrastructure sectors;
- comparative advantage of emerging markets Multinational Cooperations (MNCs) in investing in other developing countries; and
- the countries' desire to secure markets and sources of essential energy and other raw materials.

It is thus fair to argue that the investors in the South are not all too different from the investors from the North. They do however in many cases have one very important advantage. The investors based in the South often have a better understanding of the workings of the host economy; as a consequence they are better equipped to take on the challenge of investing in a foreign developing country and are hence also more likely to be successful at it. This is an aspect that is of paramount importance in terms of this thesis. According to New Regionalism, regionalisation occurs in various speeds and scopes and it includes a wide array of aspects such as for instance culture and similar socio-economic situations. It is evident that the fact that there is a deep understanding (an understanding that will only continue to grow as the IBSA members are becoming increasingly integrated) between investors from India, Brazil and

South Africa works in their advantage as it increases the likelihood of a more successful interaction between investors from the respective countries.

This section has explored investment in relation to EMEs and has established that investment in these markets is growing and more importantly that an increasingly large percentage of this growth comes from investors situated in other emerging markets. It is however necessary to draw attention to the fact that although there has been some positive development in the past 15 years a word of caution is needed due to the fact that when the global financial markets are struggling, emerging market economies are generally the ones feeling the crunch first. The next section will place these facts in the context of the IBSA Dialogue Forum.

## **5.4 IBSA AND INVESTMENT**

In terms of the focus of this dissertation, India, Brazil and South Africa, one sees that these countries and their respective regions' financial systems have reached differing levels of integrations. Looking at the various regions it is clear that on a general level the Asian financial systems are deeper than those in Latin America and Africa. Asia has been more willing to integrate with global financial markets and subsequently there has been a focus on transformation of existing institutions and on accelerating development of regional markets. Latin America, on the other hand, is more inward looking and uncertain (or indecisive) as to how to handle globalisation. Most African countries are still too underdeveloped to have financial markets that can compare to the ones found in Europe, the US and other more advanced areas of the developing world. In sub-Saharan Africa, South Africa is the only exception in this regard, with a well-established financial market and relatively sound infrastructure (Kohli 2008: 38). These varying levels of integration are of paramount importance due to the fact that they correspond to the level of investor interests received as well as to the benefits associated with investing in these regions. Additionally, it opens up a more rapid economic growth in the economies with more integrated financial markets.

The state of financial markets in many emerging economies looks particularly poor when considering the amount of efforts that have been taken to improve the macroeconomic environment and reform the institutions believed to foster financial development. This disappointing performance has made the conventional policy recommendations for capital market development questionable and policy-makers are left without clear guidance on how to revise the reform agenda, and many of them do not envision a

bright future for domestic capital markets, particularly for the smaller emerging economies (de la Torre & Schmukler 2007: 1). India, Brazil and South Africa are all among the more powerful and larger EMEs, and it is thus vital that these countries set an example for its small, poorer and less powerful neighbours. Not only should an example be set that could function as an inspiration for the weaker neighbour, but development of these three countries' financial markets would bring down the cost of knowledge transfer, it will also decrease the cost of such transfer and it is likely that some sort of trickle down effect will occur, where the smaller neighbours indirectly benefits from the achievements of the IBSA members.

It seems as if the IBSA members have already started this process of initiating increased cooperation on the Southern hemisphere. South-South trade has grown steadily during the past few years. According to Soko (2006: 5), developing countries accounted for (in 2006) 32% of global trade, and 41% of the exports of developing countries go to other developing countries. It is estimated that two-thirds of South-South trade takes place in Asia. However, countries of other regions are also strongly represented, next to China countries such as South Africa, Chile, Mexico and Brazil are also key sources of investment outflows (Soko 2006: 6). South-South trade remains hampered by North-South trade. This is arguably due to the fact that many developing nation states produce similar products and therefore compete for access to developed country markets. These are areas where focus should not be placed, as it has the potential to hamper the integration process – as the members of the IBSA Dialogue Forum will be competitors rather than allies.

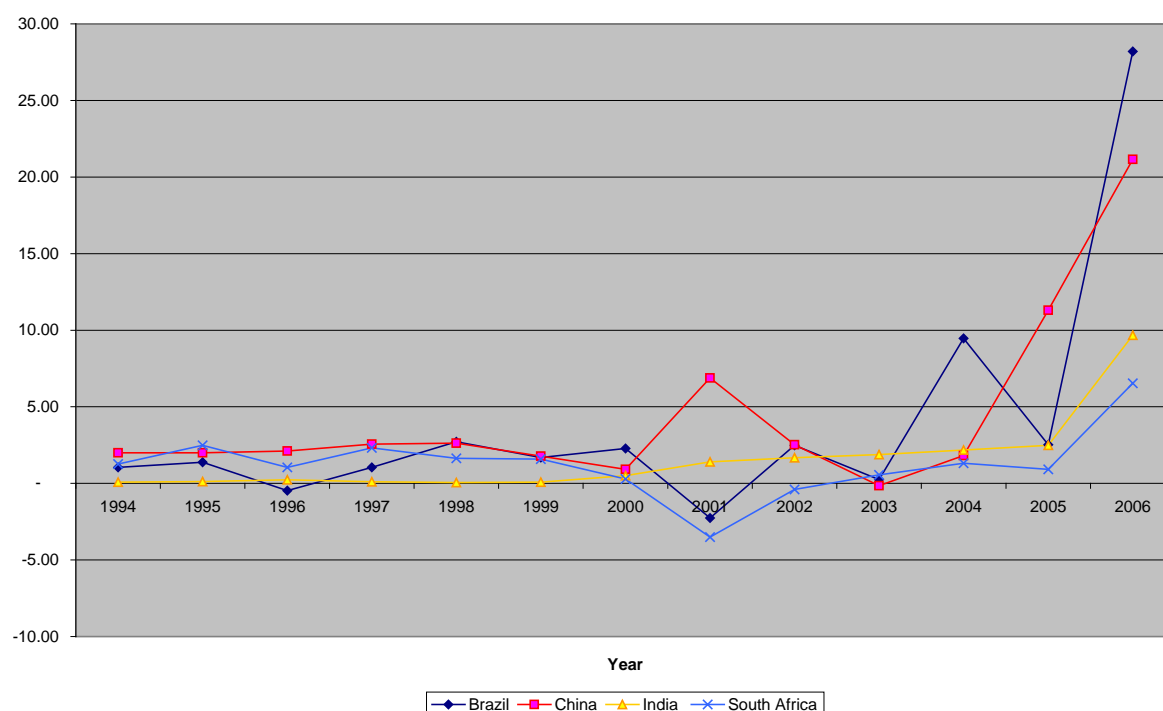
It has been established that after four consecutive years of growth, global FDI inflows rose in 2007 by 30 percent reaching US\$ 1833 billion, substantially above the previous all-time high set in 2000. Despite the financial and credit crises, which began in the second half of 2007, all the three major economic groupings – developed countries, developing countries and the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) – saw continued growth in their inflows. FDI inflows into developed countries reached US\$ 1248 billion in 2007 (UNCTAD 12 August 2008: internet).

In the developing world, FDI inflows reached their highest level ever of US\$ 500 billion – which is a 21percent increase since 2006. Simultaneously, developing countries continued to gain importance as sources of FDI, with outflows reaching a new record level of US\$ 253 billion – which was mainly a result of the outwards expansion by Asian MNCs. The three largest recipients were China and Russia – the former illustrated in Figure 3 (UNCTAD 12 August 2008: internet).



The graphs below illustrate the FDI outflows and inflows associated with India, Brazil, South Africa and China since 1994 to 2006. The reason why China is included in these charts is that the Chinese economy has, in the past decade, experienced growth rarely surpassed in history. Hence it is a yardstick illustrating that even though there is room for improvement, the IBSA members are indeed large emerging markets with substantial FDI activities.

**Figure 2: FDI net outflows (US\$ billion)**

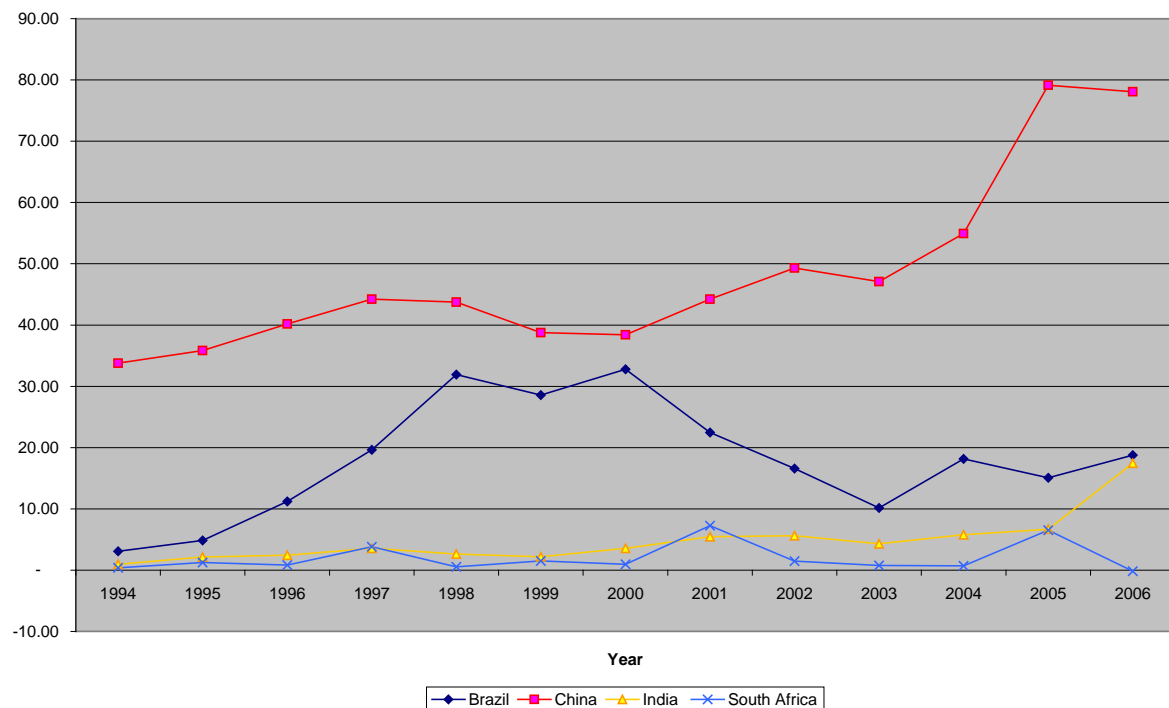


Source: IMF ([www.imf.org](http://www.imf.org))

FDI has already been defined, but it is worth re-capturing: FDI inflows and outflows comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. FDI includes, according to Beyond 20/20 (UNCTAD 15 August 2009: internet), the following three components: equity capital, reinvested earnings and intra-company loans. These figures are net, which means that it is capital transactions' credits less debits between direct investors and their foreign affiliates. Therefore, when the figures are negative (as seen in these graphs) it means that one of the three FDI components is negative, and this is not offset by positive amounts of the remaining components. This is referred to as disinvestment or reverse investment (UNCTAD 15 August 2009: internet). Since the purpose of this chapter is not to perform an in-depth analysis of India, Brazil, South Africa and China historical financial

sector trajectories, but rather to offer a brief look at the recent historical trends of these financial sectors, focus will not be on explaining what internal and external variables that triggered the disinvestment at certain points, but disinvestment is an important concept (due to the consequences it has for the economy) and thus this concept had to be briefly explained in order to avoid confusion on this topic.

**Figure 3: FDI net inflows (US\$ billion)**



Source: IMF ([www.imf.org](http://www.imf.org))

The first graph shows that, from 1994 to 2000, all four countries were relatively similar in terms of FDI outflows, and they were all fairly low – ranging from approximately US\$ -3.5 billion to US\$ 6.5 billion. Brazil has, although more unstable than its counterparts, increased their FDI outflows drastically in the last couple of years. Suggesting that Brazil has, in recent years, altered focus (as discussed in Chapter Three) and is now more active on foreign markets than it has historically been (currently exceeding even China). India's FDI outflow was the lowest of the four from 1994 to 2000 and continued to remain low thereafter, despite the fact that the other countries started focusing on investing in foreign markets. India's FDI outflow only started increasing substantially in 2005, peaking at almost US\$ 10 billion in 2006 (IMF 17 August 2009: internet).

South Africa's FDI outflow is more volatile than that of its counterparts. It reached a low point in 2001 (China actually reached a then-record high FDI outflow of almost US\$ 7 billion), but has subsequently been increasing leading to a FDI outflow level of approximately US\$ 7 billion by 2006 (the lowest of the

four). China's FDI development has, like South Africa's, been somewhat volatile since 2000 – growing from then on, peaking in 2001, before dipping and reaching its lowest point in 2003. Since 2003, the Chinese FDI outflow has been growing relatively rapidly sitting above US\$ 20 billion by 2006, as figure 2 indicates. Consequently, one sees that it is, based on the four countries illustrated in figure 2, difficult to make prediction as the development up till date has been anything but stable. However, one thing can be established, is the fact that all countries are investing a substantially larger amount of FDI today than what they did in 1994-5. The smallest increase has been experienced by South Africa – over the time period in question FDI outflows increased by approximately US\$ 5 billion – while Brazil went from just over US\$ 1 billion in 1994 to US\$ more than US\$ 28 billion in 2006 (IMF 17 August 2009: internet).

The Foreign Direct Investment inflows are shown in figure 3. In this chart it is evident that China has a clearly stronger ability to attract foreign investment. Although not always very stable, there has been a continuous growth in FDI inflows experienced in the Chinese economy. By 2006 the value of FDI inflows reached almost US\$ 80 billion. Brazil's FDI inflow history since 1994 has been much more unstable than the one of China, reaching a record high between 1998 and 2000. By 2006 however it has decreased to less than US\$ 20 billion, which is barely higher than India's FDI inflow the same year. India's FDI inflow history from 1994 to 2005 is stable and very low; however, a sharp increase was seen from 2005 to 2006, arguably spurred by the vague optimistic trend from 2001 to 2005. South Africa had, due to political reasons, close to zero FDI flowing into the country in 1994, and it took three years before this changed – in 1997 a small peak is visible. This was followed by a decrease before a new boom in FDI inflows was registered in 2001 – again followed by a contraction before booming again in 2005. However, between 2005 and 2006 a large decline was experienced, leaving South Africa below where it started – in the context of this chart – at below zero, in other words, the South African economy was experiencing a disinvestment in 2006. One sees from figure 3 that, with the exception of South Africa, all these countries have experienced periods of both growth and contraction. However, the periods of growth seem to have been stronger than the contracting periods; suggesting that all but South Africa is better capable of attracting FDI than what they were 15 years ago. In terms of further collaboration of the IBSA Dialogue Forum this illustrates how South Africa could actually benefit from knowledge transfer, it suggest that through closer cooperation between the three countries they could actually increase both each other's FDI inflows and outflows and that a regional integration initiative like the IBSA Dialogue Forum could end up having immensely positive consequences for these countries' abilities to attract FDI – and to subsequently ensure an economic expansion.

Similarly to these two figures illustrating strongly varying FDI flows, it has also been established that the financial markets vary greatly from one EME to another. Asian financial systems are generally deeper than those in Latin-America; despite the fact that the latter's GDP per capita is a multiple of that of Asia. The same holds for Africa; there is much room for improvement, even more so than both in Latin America and Asia. Furthermore, although Asia was hit hard by the crisis in 1997, the region as a whole has managed to rebound strongly and is today much sounder than its counterparts in Latin-America and Africa (Kohli 2008: 38). These two facts illustrate that high GDP per capita is not needed in order for a country to become an important source of FDI outflow – a fact that was discussed in the previous section when exploring the increase of South-South FDI. Moreover, it suggests that deeper integration – while it could be potentially damaging in times of crisis – allows for a rapid increase when the global economy is moving out of crisis. In other words, economies with less integrated financial markets will, as discussed earlier, still suffer in time of crisis, but they tend to suffer under the double disadvantage of taking longer to pick up the pace after the being hurt by a crisis.

This emphasises both the need for India, Brazil and South Africa to focus on improving their financial systems and it suggests that in time of crises (as is experienced at the moment) it is important for emerging markets to work together in order to minimize the adverse effect of such a crisis. This latter aspect is more important to EMEs than to certain other economies due to the fact that they often seem to suffer under the arguably unfair perception that crisis in one region of the world increases the risk associated with investing in another region.

As the name suggests, the achievements made by EMEs are considerable, and India, Brazil and South Africa are ahead of many other developing countries. However, the fact that financial markets' development tend to not keep pace with the respective real sectors suggests that there is still a long way to go, before these financial markets are sufficiently developed (Kohli 2008: 35). An example of this is found when exploring the financial markets in Latin-America – these markets are, as already mentioned, known to be ahead of African markets, but behind many Asian markets. One sees that Latin-America counts for five percent of global GDP, but only two percent of global financial assets (Kohli 2008: 37). Therefore, one may argue that through focusing on enhancing the investment climate Latin-America, as well as other emerging markets, will fuel economic growth. This is an important aspect for the members of the IBSA Dialogue Forum – as leading countries of the South they could work towards creating a trend where their reputations are enhanced, and consequently, investors' confidence will increase. In addition, through a drive towards facilitating increased investment by focusing on improving their infrastructure, these EMEs are likely to become more attractive in the eyes

of the foreign investors. What is important here is that it is countries like India, Brazil and South Africa (along with China, Russia and a few other powerful EMEs) that need to initiate such changes, since they are the only ones with the capabilities and the resources to do so.

The IBSA Dialogue Forum has the potential of playing a paramount role in improving the member's financial markets and to subsequently attract a larger amount of international capital flows. In terms of regions, Southern Africa and Latin America could look to Asia for lessons as to how to enhance their already existing financial markets. Through cooperation (in the shape of, for instance, knowledge transfer) these regions, but more specifically India, Brazil and South Africa could build solid, well-functioning financial markets which would allow them to attract foreign private capitals flow, which again would lead to general economic growth. A further aspect is that the three member countries could be used by poorer less developed countries as 'role models' in the process of improving financial markets. Consequently, one sees that as more advanced EMEs India, Brazil and South Africa have separately an important role to play, through a solid group effort the gains available could be amplified.

It is not only in terms of attracting private foreign capital flows that a coalition such as the IBSA Dialogue Forum could have an important role to play. As already established above, the amount of South-South FDI has increased rapidly in recent years. Various possible explanations have already been mentioned. However, one reason will be further discussed here; namely that developing country multinationals are possibly enjoying some advantages over industrial country businesses when investing in developing countries due to their familiarity with technology and business practices suitable for the various markets in the developing world. In fact, the forces driving South-South FDI appear sufficiently powerful to overcome the greater impediments sometimes faced by developing country multinationals in their home country, including bureaucratic and financial constraints on outward investment. Additionally, close ties such as for instance the large Indian population in South Africa or Brazil's population's ties with Africa could come into play and open doors that would otherwise be closed. In other words, one sees that even the cultural aspect of integration comes into play (much aligned with New Regionalist theory). While investors from industrial countries should intuitively be enjoying a benefit due to more firmly established practices this is often not so, instead multinationals from other developing countries are benefiting from an if not shared, at least similar business culture and socio-economic situation. In addition to this, a fellow 'Southerner' might meet more cooperative policy-makers, civil servants and host people in general, especially when they are able to better interpret and adjust to what is going on around them (Boorman in Kohli 2008: 75).

According to the Delhi Summit Declaration of October 2008 the IBSA members have the following to say on the financial system and the international financial crisis:

*'The leaders took note of the very serious financial crisis that has spread from the United States to the European Union and has begun to impact development countries. This unprecedented turbulence in financial markets and the resulting instability threatens global prosperity. The explosion of new financial instruments, unaccompanied by credible and systemic regulation, has resulted amongst others in a major crisis of confidence for which those responsible should be held accountable and liable. Developing countries are not immune from this and many would be very seriously affected. The leaders, therefore, stressed the need for a new international initiative to bring about structural reforms in the world's financial system. The new initiative must take into account the fact that ethics must also apply to the economy; that the crisis would not be overcome with palliative measures and that the solutions adopted must be global and ensure the full participation of developing countries. The reform must be undertaken so as to incorporate stronger systems of multinational consultations and surveillance as an integral part. This new system must be designed to be as inclusive as possible and must be transparent'* (IBSA 8 June 2009: internet).

One must keep in mind that, at the time of the IBSA Summit, the global financial crisis of 2008-09 was only in its beginning stages, and it is sure to be further discussed in the next Summit, when indeed the countries have felt more of the adverse effect of it. However, it is included here due to the fact that this could be the introduction to a much broader focus on financial systems, investment and the role these three emerging markets could come to play in the strive to enhance the position of the South in the global financial markets.

Investment is but one sector of cooperation that could end up being of paramount importance to the IBSA Dialogue Forum. Much potential exists in terms of first of all, investing in each other's countries, and subsequently not only help building each other's economies, but also making themselves less dependent on FDI from developed states – a fact that will make them more independent when it comes to negotiation in international organisations such as the WTO and the UN. Secondly, when it comes to cooperating in the process of attracting investment to the EMEs, as the more advanced EMEs these three countries can help build both the reputation of the EMEs as a group as well as assisting other less integrated EMEs in building financial systems which will allow them to increase their attractiveness in the eyes of foreign investors. In this regard, it is important to keep in mind that movement of private

capital flows is largely dependent on reputation and expectations. All IBSA members are countries that enjoy better reputations and higher performance expectations than most countries of the South- an opportunity that they should not ignore. IBSA countries could possibly enhance both the reputation and expectations of EMEs in general through an increased focus on improving their respective financial markets and hence make them more attractive to foreign investors.

## **5.5 NEW REGIONALISM AND INVESTMENT**

While New Regionalism does not offer many thoughts on the concept of investment per se, it is necessary to discuss this concept in terms of the framework of this thesis. This section applies the New Regionalist framework and analyse investment as a sub-topic of the IBSA Dialogue Forum – allowing for a more generic analysis, one that could be applicable to other sub-topic of cooperation as well. The reason for choosing this angle is the fact that the focus of this dissertation is not on the concept of investment – instead investment is used to illustrate opportunities associated with a further integration of the IBSA Dialogue Forum – and investment should thus be viewed as only one of the sub-sectors where further integration could be beneficial.

This study argues that the most important potential of the IBSA Dialogue Forum is not found in an increased focus on trade integration. Rather IBSA's strength is found in, first of all, political issues, like reform and democratisation of the international structure – an ambition one of the countries cannot achieve on their own, and which is a long-term process even when India, Brazil and South Africa join forces and put all their might behind this goal. Secondly, a concept which might prove to carry greater benefits for India, Brazil and South Africa (and the developing world in general) is investment. Through improving the investment climate in the three member states the subsequent increase in investment and economic growth will augment the IBSA Dialogue Forum global leverage – a fact which will assist in achieving the first goal. This is what New Regionalism refers to as a re-conceptualisation of a region. That these three countries need to determine what factors should be included in their cooperation efforts and what form the coalition should take. Consequently, one sees a need of ensuring that the focus is not too narrow, in order to allow the various fields to influence, and be building blocks, for each other. However, at the same time the focus should be specific enough to allow for tangible goals to be set – and to be achieved. A too wide focus will lead to inefficiency and difficulties in making strategies that can effortlessly be translated into easily achievable goals. Thus a balance must be created – which New Regionalist allows with their eclectic approach towards regional integration – where the focus is broad

and flexible enough to allow for a dynamic integration, but simultaneously specific enough to avoid inefficiency and to create clear, tangible goals. An additional aspect that is important to highlight in terms of New Regionalism is that due to the fact that it has an eclectic approach to regionalisation it also allows for the members of IBSA to choose which variables to focus on at any given time, and it thus allows for a constant re-conceptualisation of the coalition and the integration process. Therefore, it is up to the members to decide, operating within the constraints of the global structure, in which way and to what extent the integration process will be driven by integration of their financial markets.

States have, as argued by Hettne (in Hettne et al 2000: xx), accepted, on a general level, that there are threats to their survival that they are not capable of handling on their own. As a consequence of this, most states have realized that in order to cope with the global transformation which is continuously taking place it is necessary for them to cooperate, across borders. As the world is going through changes the states have been forced to make adjustment in order to handle these changes. The topic of investment in the current global economy is only one example illustrating this. As the definition of 'national security' changed – or rather broadened – one sees that protecting and attracting investment is indeed one aspect of national security, due to the fact that it potentially brings about economic growth, social development – and subsequently, socio-economic stability. Many countries (including the IBSA members) are unable to efficiently adjust to the global transformation on their own and a coalition like the IBSA Dialogue Forum could be used as a platform advocating the interest of EMEs – or more specifically of India, Brazil and South Africa – in the current global economic crisis. Regions are therefore, as argued by Hettne et al (1999: 11), an emerging phenomenon, and this phenomenon must be understood in the context of globalisation. In other words, the poorer and more marginalised the country is, the more difficult it is for the country to adjust to, and benefit from globalisation. A tool that can make this process easier is cooperation between countries with similar interests – this study has used the topic of investment to illustrate on a practical level the opportunities associated with increased integration between these three states. One must, however, note that investment is only one of many possible sub-sectors that clearly illustrate the possible gains associated with increased cooperation and integration between India, Brazil and South Africa.

Investment is an interesting sector to due to the fact that an increase in investment allows for an expansion of the economy, this is especially important for emerging markets such as India, Brazil and South Africa. Many of the sectors that have been highlighted in for instance the Communiqués are important and deserve to receive further attention; however, this thesis will only explore the possibilities associated with a drive to improve the investment climate in the IBSA member states – and the South in



general. The mere fact that these three countries are all referred to as EMEs suggest that they all have relative high levels of investments – compared to their neighbours. Consequently, if they are able to improve the current situation and to attract an increasingly growing amount of FDI this is likely to also benefit their neighbours. One must keep in mind that the emerging markets are attractive for foreign investors due to the fact that the yield received on these markets are general higher than investments in a developed country. However, the risks involved are also higher. This risk is an important aspect since it is this factor that hampers the investment rate to be as high as it could potentially be – thus creating an obstacle to economic growth. It is therefore vital that the members of the IBSA coalition are able to facilitate changes that diminish the risk factors associated with investment in these markets. It is equally important that they are able to ensure that the *perceived* risk associated with investment in India, Brazil and South Africa is diminished. If the IBSA members manage to do this, they are likely to attract more investment and should thus be able to speed up their growth curves. Such a development will also have positive influence on their respective neighbours – if one country is perceived to be safer and is able to attract more investment the positive effects will eventually reach their neighbours. This further highlights the New Regionalist argument of regionalisation being a necessary tool for marginalised states in the globalised world. It also accentuate the New Regionalist argument that regionalisation is simultaneously both a stumbling-block as well as a stepping stone to the globalisation process. Globalisation and regionalisation are going on concurrently and a regionalisation effort by IBSA members should not be seen as an attempt to control the globalisation process. Rather it is an effort to control the consequences it has for the IBSA members (and the developing world). In addition to this, it also give emphasis to great amount of power that lies in the hand of the actors in terms of shaping the integration process – it is the actors who determine whether investment and financial market integration should receive further attention – attention that could lead to it becoming a future driving force of IBSA's integration process.

In terms of this thesis, investment has been chosen as a sector of cooperation worth exploring for various reasons. Figure 1 offered a comparison of the last decades' levels of foreign direct investment in the IBSA member states, as well as in China. Using investment as a measuring stick is not done because it is necessarily more important than other sectors (although the positive effects it could have on an economies growth potential must not be under-estimated), but rather because it makes it easier to measure the changes that have occurred over the years. Investment is also a sector of particular interests due to the fact that it is one of the sectors actively involving both public and private actors. At the first stage the politicians will need to agree on policy implementations that facilitates increased investment. The second stage belongs to the private actors and it is here that real integration occurs.

This is what is referred to as the regionalisation process by New Regionalist scholars – this is where the real integration occurs, or what is sometimes referred to as *de facto* integration, as opposed to first stage which is termed *de jure* integration. In addition, a large number of investors are likely to be involved and this is aligned with New Regional theory focusing on, first of all, the involvement of a large and broad array of actors, and secondly it is a good example of how New Regionalism advocates that integration will occur as long as the benefits are there. When this sector is saturated – when there are no more gains involved in investment (which is a highly hypothetical state) the actors will move to other fields of cooperation – and the integration process will then be moving faster in the new focal area.

It is essential to note that it is not the changes in investment between these countries that are highlighted in this dissertation, instead attention is also paid to ways of facilitating increased investment and changes in the amount of investment these three countries have the potential of jointly attracting. An increase in investment carries with it immense possibilities in terms of economic growth and social development. These two aspects could then subsequently lead to an enhancement of India, Brazil and South Africa's international influence; as it implies that these countries are becoming 'forces to be reckoned with'. Furthermore, a successful investment trajectory would allow these countries to, through knowledge transfer and trickle-down effect; positively influence the growth potential of their neighbouring economies. Closely linked to this, is the fact that according to New Regionalism, regional politics is an aggregation and 'concentration' of national interests (Hettne in Hettne *et al* 2000: xxv). What is conceived as 'national interests' does not disappear in the process of regionalism, but because of the strength of global interdependence, it becomes inseparable from various shared transnational interests and concerns, which are manifesting themselves in the regionalisation process. In other words, India, Brazil and South Africa can use the IBSA Dialogue Forum to further their joint national interests – in this case, facilitation of deeper and more integrated financial markets, which is one way in which they could reach their goals of economic growth, social development and poverty alleviation.

Although India, Brazil and South Africa are, compared to many developing countries, relatively stable and powerful, it is important to emphasise that they are, in the process of analysis, not treated as developed states. Financial market development policies need to take into account the intrinsic characteristics of developing countries such as small size, illiquid markets, lack of risk diversification, presence of weak currencies, and prevalence of systemic risk (de la Torre & Schmukler 2007: 23). Although some of these variables are not relevant for India, Brazil and South Africa, it is important that the ones that are applicable are made explicit in an analysis. New Regionalism allows for the inclusion of these, more realistic, variables of financial markets of the South. Only through a constant awareness

of these imperfect characteristics in an analysis will one be able to ensure that they do not limit the scope for developing deep domestic capital markets. Again the usefulness of New Regionalism as an integration framework is highlighted. As a theory that allows for these imperfect variables and more realistic assumptions it offers an analysis of IBSA and of investment in EMEs that is closer to reality.

Bøås, Marchand and Shaw (2005: 1) argue that regions are always in the making. Regions are, irrespective of their geographical positions, continuously constructed, deconstructed and reconstructed. Not only states, but also non-state actors, participate in the process of constructing regions and giving each its specific content and character. The private spheres are the prime actors in terms of financial markets, however, it is important to keep in mind that in terms of this dissertation the focus is financial market development – and there is consequently a need for a close cooperation between private and public spheres in order to achieve this goal. The state actors need to facilitate the growth, in terms of depth and size, of the IBSA members' markets through enhancing the infrastructure, allowing for knowledge transfer, implementing sound macro economic policies and generally ensure stability which will enable the private actors to what they do best – increase investment flows (which, of course, serve their self-interests). In addition, when the investors of India, Brazil and South Africa investment in each other markets they are likely to be more successful in this task than investors of the North due to an almost intuitive understanding (due to important similarities) of how these markets operate. This place emphasis on the contribution of a non-conventional variable in terms of integration analysis, namely culture. New Regionalism argue that it is not the only the old, conventional variables such as economics that come into play in an integration process, instead an aspect such as culture is given equal importance – a fact which offer a fuller analysis, an analysis that is likely to closer correspond with reality.

Consequently, the focus of strengthening one of the sub-sectors – in this case investment and the financial markets – has the potential of strengthening the whole coalition. Prosperous financial sectors in India, Brazil and South Africa hold promises of economic growth which could lead to social development. The higher the developmental level of the state, the more likely it is to increase its global leverage. Therefore, a strengthening of the parts will indeed lead to a strengthening of the whole – which again will be beneficial for the parts, in this case: the financial markets, due to the fact that the improved relative and absolute positions of the IBSA member states in the global system will attract further investors – offering private and public actors a new momentum towards cooperation and integration.

## 5.6 SUMMARY

There is a complex set of variables influencing a country's potential for economic growth. One of these is investment, and in order to attract foreign capital flows a country needs, amongst other things sound macro-economic policies and solid financial institutions. Solid financial institutions must be coupled with an attention on integration of a country's financial markets. Through the building of these institutions and a focus on integrating its financial markets a country is likely to become more attractive in the eyes of the investors. The reason for this being important is that investment carries with it promises of economic growth and the subsequent social upliftment. Therefore, closer cooperation between the IBSA members is likely to offer great opportunities for India, Brazil and South Africa. It has been highlighted that a closer integration of their financial markets might lead to them also becoming competitors in the quest for the attention from the investors of the North. However, the loss in terms of competition is likely to be outweighed by the benefits found in not having to face unilateralism as separate entities. New Regionalism stresses the importance of regionalisation as a counter measure to the harmful effect of globalisation for the marginalised countries of the world, and the topic of investment aptly illustrate this point. Furthermore, a closer collaboration between the IBSA members as well as a continuous focus on further integrating their financial markets into the world economy could offer great benefits. Moreover, the trickledown effect could also broaden the scope of these benefits to include other emerging markets. Because of this, investment is, amongst other very important sub-sectors of focus in terms of IBSA cooperation, one of the most important one – both in terms of benefits for the individual countries, but also due to what a successful cooperation could come to mean for the developing world in general.

The next chapter, the conclusion, will draw together the various discussion of this thesis in order to highlight the arguments put forward and to suggest ways forward for the IBSA coalition, as well as possible fields of further study.

## **CHAPTER SIX:**

### **CONCLUSION**

This dissertation has sought to determine whether the whole is greater than the sum of its parts – whether states in close cooperation can achieve more than what these states could individually achieve. In other words, will the India-Brazil-South Africa Dialogue Forum allow its members more political, economic and social leverage on the global scale than the level of leverage that India, Brazil and South Africa would operating in their own capacity have? In order to answer this question, this thesis has used the New Regionalism framework to analyse the IBSA Dialogue Forum. In doing so, one of the sub-sectors of cooperation has been explored – investment. Due to the fact that all three member states are middle powers and emerging markets special attention has been paid to these two concepts. The New Regionalism framework was selected on the onset due to the fact that this theory aims at using more realistic assumptions in an analysis of regional integration efforts. Examples of such realistic assumptions include, but are not limited to, the presence of market and government failures, imperfect and asymmetric information and competition and externalities. These less restrictive and more realistic assumptions make the New Regionalism approach more applicable to nation states of the South. It has however been determined that these are not the only features that make New Regionalism particularly applicable to the IBSA Dialogue Forum. New Regionalism is, amongst other aspects, one of the few theories that allows IBSA dialogue forum to be analysed as an example of a regional cooperation where the region is not based on geographical proximity. Instead, geographical proximity is one of the many aspects – alongside culture, social, economic and political variables – which may or may not be present in an area which is referred to as a region. In other words, one sees that the fact that these three countries are situated far from each other does not prevent them from creating territorial identity and regional coherence. A gap was identified in the literature review in terms of highlighting the fact that although New Regionalism argues regions do not need to be in geographical proximity most of the work done has indeed focused on regional integration of neighbours. IBSA members are clearly not neighbours and it is interesting to apply this theory to IBSA and analyse a regional cooperation effort which stretches over three continents.

The content of the regionalism has changed radically over the last couple of decades. New Regionalism is a worldwide phenomenon that is taking place in more areas of the world than ever before. Old Regionalism was generally specific about objectives and content and often had a simple and narrow focus on free trade arrangements and security alliances, whereas the number, scope and diversity of

New Regionalism has grown significantly in the last two decades. Regionalisation is thus viewed as a multidimensional process which takes place at many levels of the world system: the system as a whole, the level of interregional relations, and the international structure of the single region, the latter including nation states, subnational ethnic groups and microregions. It is argued that it is not possible to state which of these levels are the most influential. The reason for this being that changes on the various levels interact and the relative importance of them varies from one region and one period to another and from one sector to another. In addition to this, New Regionalism is unique in the way that it gives importance to formal as well as informal variables of integration, often referred to as *de jure* and *de facto* integration. This is also tied to the fact that New Regionalisation draws a divide between the concept 'regionalism' which tends to be politically, state-driven and 'regionalisation' which is the actual process where the people of the states take part in the integration process. In terms of this thesis, the private sphere is represented by actors in the financial sector. Chapter 5 illustrated the important role these actors could potentially come to play in the integration process, and the benefits associated with closer integration of financial markets. When 'regionalism' occurs without being accompanied by 'regionalisation' the process is often accused of being an elitist idea of cooperation where no real integration occurs. This thesis has illustrated that while the IBSA Dialogue Forum could initially be seen as an elitist idea, it has through its short existence come to include a great number of actors, from the private spheres of India, Brazil and South Africa. This also illustrated a vital feature of New Regionalism theory, the fact that state and non-state actors are given great importance, and is in effect viewed to be in some sort of dependency relationship, where the one without the other will lead to a failure of regional cooperation.

The reason why old theories of integration should not be used in current analyses is that these theories do no longer apply to, nor explain the current global system. The old theories are out-dated and do not aptly offer a realistic view of the world. The IBSA Dialogue Forum is a new version of South- South cooperation which is not narrowly focusing on for instance trade integration and the building of security alliances. The IBSA Dialogue Forum strives to facilitate effective engagement in the South in an effort to address globally vital issues from a development perspective. The members are committed to creating a successful South-South collaboration capable of delivering over and above the rhetoric that has characterized such previous partnerships. Similarly to how the actors behind the IBSA Dialogue Forum had to think of new ways of achieving their objectives the scholars of regional integration theory had to find ways of reinventing themselves in order to achieve their objectives- to come up with a theory that accurately explains the current world system and that suggests ways forward for the actors involved – this is how the theory of New Regionalism came about. This is one of the main aspects suggesting that

New Regionalism is a theory that has something to offer those who dare to think along new lines of reasoning in order to achieve their goals, and the actors behind the IBSA Dialogue Forum seem to, thus far, have the courage and the drive to explore the path less treaded.

India, Brazil and South Africa differ greatly in terms of size, population, military capabilities and GDP. This does not necessarily mean that these countries are incompatible in terms of a regional cooperation effort – New Regionalism highlights the fact that variables such as cultural, social and military capabilities are just as important in an analysis of regionalism as economic variables. Consequently, New Regionalism, allows for the members of the IBSA Dialogue Forum to be viewed as compatible despite the fact that they differ in size, population, military capabilities and GDP. The reason for this being that while they all differ; it is not one country who is always ahead of the other two –instead they are all leaders in different aspect. A couple of examples of this, India is superior to Brazil and South Africa in terms of military capabilities, the same goes for GDP and population size; however, South Africa and Brazil far outweighs India when it comes to GDP per capita. In addition to this, South Africa holds a strong position in international fora, and Brazil has shown leadership capabilities in multilateral negotiations. As a consequence of this, this dissertation suggests that although socio-economic data vary significantly between the three countries, they are still compatible and their differences actually work in their advantages since it allows them to jointly – as the IBSA Dialogue Forum –practice leverage on the global level on a wide spectrum of issues. In fact, due to New Regionalism allowing for the inclusion of various variables in an analysis of an integration initiative, the unequal features of India, Brazil and South Africa do not become an issue that can hamper a positive development of the IBSA Dialogue Forum. This dissertation has argued that compared to other previous attempt of South-South cooperation, IBSA's real strength is found in the fact that they share a common position in international fora and the fact that all three are important actors in their own right. Furthermore, the low membership number allows for an efficient cooperation between these three powerful actors of the South.

It has been illustrated in this thesis that although there was an initial drive towards an increase in trade cooperation between India, Brazil and South Africa, this focus has now been altered. That is not to say that work is not being done in order to achieve further trade integration, instead a broader agenda has been adopted – of which trade forms a part. This broadening of focus is of paramount importance in New Regionalist theory. It is argued that a successful integration process cannot be viewed as static and one should always allow for the scope, size and depth of integration to expand (and to, at times contract – depending on the interests of the actors involved). The reason why trade has not received more attention in the context of this thesis is that the opportunities in terms of closer trade integration

are relatively saturated due to India, Brazil and South Africa being competitors on the major global markets such as the EU and the US when it comes to many industries, the most important one arguably being agriculture.

In terms of the consequences of a more integrated IBSA Dialogue Forum on the developing world in general the answer are rather vague. It has been highlighted that where, for instance India and Pakistan's interests clash, the former will do nothing to further the interest of its neighbour – on the contrary it will aim at achieving India's national interest at the cost of Pakistan's national interests. Therefore, in situations where India, Brazil and South Africa's interests contrast those of other developing world, the IBSA Dialogue Forum is not likely to be good representatives for the interests of the developing world. However, it is vital to keep in mind that most of the countries of the South are first of all, in a position where they carry close to no leverage in global fora, and secondly, the developing states in for instance, Southern Africa are more powerful, relatively, in a negotiation with South Africa, than when facing a developed world such as the US. Thirdly, the interests of, for instance, Uruguay are more likely, by definition, to correspond with the interest of Brazil than with those of, for instance, Germany. Therefore, the achievements of the IBSA Dialogue Forum are likely to benefit not only India, Brazil and South Africa, but also the South in general. However, one must be clear in the fact that this will not be their main goal. In other words, it is the unintended positive consequences the South stand to gain in a further integration, and strengthening, of the IBSA Dialogue Forum.

In terms of benefits of a closer IBSA collaboration for the developing world the conclusions of this thesis needs to be further emphasised. An important aspect connected with the question of beneficiaries of a sound IBSA Dialogue Forum is the drive towards achieving a more democratic and just environment for the developing countries. Central to the motivation behind establishing the IBSA Dialogue Forum's was the goal of democratising global institutions such as the United Nations and the World Trade Organization. This is a goal that the members of the IBSA Dialogue Forum is far from realizing, however, a giant, ambitious task like reform of these institutions would in most eyes be viewed as taking more than six years – which is the amount of time the IBSA Dialogue Forum has existed. Hence, it is not fair to say that India, Brazil and South Africa have not reached the goal of a more just global structure; rather, it is more appropriate to state that, as of yet, this goal has not been achieved, but the members of the IBSA Dialogue Forum are continuously working ambitiously towards one day accomplish this objective – an objective these middle powers believe can only be obtained through a continuous strive using multilateral means. This is a vital aspect of the question of what the consequences of a successful IBSA Dialogue Forum will be for the developing world. If the IBSA coalition managed to bring about



reform of the UN, the WTO and other organization whose decision-making processes carries enormous consequences for the developing world (sometimes without members of the developing world taking place in these decision-making processes) it will, without a doubt, have immense benefits for the entire developing world. In other words, while the answer to the benefits of IBSA for the developing world in most cases are ambiguous; this is not so when it comes to the question of reform of global powerful organisations – in this connection, the case is clear; the IBSA Dialogue Forum can indeed be beneficial for other developing countries.

There is a total of 11 sub-sectors within the IBSA Dialogue Forum; agriculture; culture; Defence; education; energy; health; information society; science and technology; tourism; trade and investment; transport. This dissertation has looked at 'trade and investment', or more specifically investment – after having argued that 'trade' integration is first of all, already taking place, and secondly, that trade is not the aspect that has the greatest potential in terms of an extension and deeper integration of the IBSA Dialogue Forum. One aspect which is vital to mention regarding trade is the fact that investment tends to follow (and sometimes run parallel with) trade development. Therefore, it is important to establish the level of trade in order to explore the consequences this has for investment. The conclusion reached by this thesis is that while there is some space for trade expansion (and these possibilities should be explored) trade should not be the focus of further cooperation between India, Brazil and South Africa. Consequently, this thesis explored the possibilities associated with further integration in the form of enhanced cooperation in the field of investment.

The IBSA Dialogue Forum has, like most other regional integration initiatives been criticised for being an elitist idea of cooperation. However, this thesis has illustrated that the coalition is at an increasing degree incorporating actors from a wide spectrum of spheres – it is in other words both regionalism and regionalisation. Some of the new actors getting involved are from the IBSA members' financial markets. The level of investment has been increasing in all these three Emerging Markets Economies, both in terms and outflows as well as inflows. While a substantial amount of work remains before these countries financial sectors can show performances like those in the developed world they are also progressing fast. This means that they are becoming increasingly integrated in the global economy and their financial markets are, in most cases, becoming more stable, and the IBSA members are able to enhance their reputations – a necessary prerequisite to attract further foreign investors. Instead of going into details on developments that have occurred, this dissertation only highlighted the most important aspect and rather focused on illustrating how closer integration through increased cooperation in terms of investment development is one of the possible ways forward for the IBSA Dialogue Forum. It was

also stressed that although they IBSA members might become competitors – fighting to attract the attention of the same foreign investors – the loss they might suffer in this process is highly likely to be less than the gain associated with further integration of their financial markets. Consequently, one sees that in terms of the IBSA Dialogue Forum the whole is greater than its components – since the benefits the three countries stand to gain through cooperating are greater than what they could separately achieve.

Investment and a focus on the integration of financial market is only one way in which IBSA might enhance its members' position in the global system. It is possibly not even the most important sector and future research should thus focus on the various sub-sectors identified by the IBSA members and examine which of these 11 sub-sectors that carries with it the greatest potential in terms of achieving objectives such as poverty alleviation, economic growth and social equity. A more balanced view on the IBSA Dialogue Forum is likely to be proven beneficial. Through a thorough examination of all three countries and their needs and interest, one should be able to determine more specifically which fields of cooperation it would be most beneficial for the three IBSA members to focus on.

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## APPENDICES

### APPENDIX 1: MEMBERS OF G-20+

Argentina  
Bolivia  
Brazil  
Chile  
China  
Cuba  
Ecuador  
Egypt  
Guatemala  
India  
Indonesia  
Mexico  
Nigeria  
Pakistan  
Paraguay  
Peru  
Philippines  
South Africa  
Tanzania  
Thailand  
Uruguay  
Venezuela  
Zimbabwe

(Ministério das Relações Exteriores [Ministry of Foreign Affairs] 29 October 2009: internet).

## **APPENDIX 2: BRASÍLIA DECLARATION, JUNE 2003.**

1. The Foreign Ministers of Brazil, Celso Amorim, of South Africa, Nkosazana Dlamini Zuma, and of India, Yashwant Sinha, met in Brasilia on June 6, 2003, following ongoing consultations and after the respective Heads of State and/or Government of their countries held conversations during the G-8 meeting, in Evian.
2. This was a pioneer meeting of the three countries with vibrant democracies, from three regions of the developing world, active on a global scale, with the aim of examining themes on the international agenda and those of mutual interest. In the past few years, the importance and necessity of a process of dialogue amongst developing nations and countries of the South has emerged.
3. The Foreign Ministers of Brazil, South Africa and India gave special consideration to the importance of respecting the rule of International Law, strengthening the United Nations and the Security Council and prioritising the exercise of diplomacy as a means to maintain international peace and security. They reaffirmed the need to combat threats to international peace and security in accordance with the Charter of the United Nations and with the legal instruments to which Brazil, India and South Africa are parties.
4. They agreed on the need to reform the United Nations, in particular the Security Council. In this regard, they stressed the necessity of expanding the Security Council in both permanent and non-permanent member categories, with the participation of developing countries in both categories. They agreed to combine efforts in order to enhance the effectiveness of the General Assembly and the Economic and Social Council of the United Nations.
5. They noted that new threats to security – such as terrorism, in all its forms and manifestations, drugs and drug-related crimes, transnational organized crime, illegal weapons traffic, threats to public health, in particular HIV/AIDS, natural disasters, and the maritime transit of toxic chemicals and radioactive waste – must be handled with effective, coordinated and solidary international cooperation, in the concerned organizations based on respect for the sovereignty of States and for International Law.
6. The Ministers highlighted the priority placed by the three governments on the promotion of social equity and inclusion, by implementing effective policies to fight hunger and poverty, to support family run farms, and to promote food security, health, social assistance, employment, education, human rights and environmental protection. They recalled that social empowerment makes better use of human potentials, contributing to economic development in a significant manner. The Ministers recommended

that the exchange of experiences in combating poverty, hunger and disease in the three countries would be of immense use to all of them. They recognized the importance of international effort to combat hunger. The three countries recognized and undertook to explore a trilateral food assistance program.

7. The Foreign Ministers stressed the importance, for equity reasons as well as for development goals, to address issues related to the elimination of all kinds of racial discrimination and to promote gender equality and mainstreaming a gender perspective in public policies.

8. The three Foreign Ministers expressed their satisfaction with the approval of the Convention on Tobacco Control, in the 56th Health World Assembly, and committed themselves to make every effort to ratify the Convention on the shortest period of time. They also committed themselves to promote the main objective of the Convention – to protect present and future generations against the devastating consequences of the consumption of tobacco and against exposure to tobacco smoke.

9. The Foreign Ministers identified the trilateral cooperation among themselves as an important tool for achieving the promotion of social and economic development and they emphasized their intention to give greater impetus to cooperation among their countries. While noting that their societies have diverse areas of excellence in science and technology and offer a broad range of potential opportunities for trade, investment, travel and tourism, they stressed that the appropriate combination of their best resources will generate the desired synergy. Amongst the scientific and technological areas in which cooperation can be developed are biotechnology, alternative energy sources, outer space, aeronautics, information technology and agriculture. Avenues for greater cooperation in defence matters should also be explored. The Ministers agreed upon putting forward to their respective governments that the authorities in charge of the portfolio for science and technology, defence, transportation and civil aviation, among others, also hold trilateral meetings, aiming at the creation of concrete cooperation projects.

10. The Ministers noted that the new information and communication technologies are transforming the world at a rapid speed, and in a fundamental way. At the same time, a vast digital divide exists between the developed and developing countries, which is adversely affecting the capacity of developing countries to derive optimum benefits from the globalisation process. They agreed to intensify their cooperation in ICT, including in international efforts and initiatives towards narrowing the digital divide.

11. With respect to environmental issues and sustainable development, they recognized that the Rio Conference and its Agenda 21, the Millennium Summit and the Monterrey and Johannesburg Summits,

and the Program for the Implementation of Agenda 21, contain fundamental guidelines to orient the action of their governments and cooperation initiatives. They reaffirmed that Agenda 21 identifies the major causes of continuing deterioration of the global environment as unsustainable patterns of consumption and production and call for the necessary action as contained in the Johannesburg Program of Implementation. They also highlighted their concern over the results of atmospheric warming due to the emission of greenhouse gases and encouraged countries having emission reduction goals in the Kyoto Protocol to work to bring them into force and fully implement them, as well as urged the countries that have not signed or ratified the Protocol to do so.

12. They also reiterated their efforts for the effective implementation of the Convention on Biological Diversity, especially the rights of countries of origin over their own genetic resources, as well as the protection of associated traditional knowledge. The fair and equitable sharing of benefits arising from the access to, use and management of genetic resources and associated traditional knowledge must be assured as a way to stimulate social and economic development, as well as the adding of value and the processing of biodiversity-based resources in mega diverse countries. In this context, they placed special significance on the negotiation of an international instrument on benefit sharing under the auspices of the Convention on Biological Diversity, as agreed at the Johannesburg Summit. They thus expressed their agreement that the activities of the Group of Like-minded Mega diverse Countries, of which Brazil, South Africa and India are founding members, should gain even greater importance. They also emphasised the need to render the relevant parts of the TRIPS Agreement compatible with the Biological Diversity Convention.

13. While welcoming the expansion of economic growth, employment, and social development, and the accompanying rise in standards of living, in several developing countries as a result of freer movements of trade, capital, and technology, the Foreign Ministers of Brazil, India and South Africa expressed their concern that large parts of the world have not benefited from globalisation. They agreed that globalisation must become a positive force for change for all peoples, and must benefit the largest number of countries. In this context, they affirmed their commitment to pursuing policies, programmes and initiatives in different international forums, to make the diverse processes of globalisation inclusive, integrative, humane, and equitable.

14. The Ministers regretted that major trading partners are still moved by protectionist concerns in their countries' less competitive sectors. They stressed the need to fully carry out the Doha Development Program and emphasized how important it is that the results of the current round of trade negotiations

provide especially for the reversal of protectionist policies and trade-distorting practices, by improving the rules of the multilateral trade system. They reiterated their expectation that negotiations will gain new political impetus and that it will be possible to overcome deadlocks on issues of fundamental interest to developing countries, before the Fifth Ministerial Conference in Cancun. Furthermore, Brazil, India and South Africa decided to articulate their initiatives of trade liberalisation.

15. The Foreign Ministers noted with concern the increased economic vulnerability of developing countries to fluctuations in global prices of commodities. They affirmed the importance of a predictable, rule-based, and transparent international trading system, to enable the developing countries to maximise their development, through gains from enhanced exports of goods and services of their competitive advantage.

16. They drew attention to the economic and social impact suffered by many developing countries in recent years, as a result of volatile global financial flows. They agreed to strengthen their cooperation towards making the international financial architecture responsive to development, and towards increasing its effectiveness in preventing and addressing national and regional financial crises.

17. They reiterate their belief that success in globalisation with equity requires good governance, both at the national and in particular at the international levels, in recognition of the fact that, as a result of globalisation, external factors have become critical in determining the success or failure of achieving sustainable development.

18. The Ministers recommended to their respective Chiefs of State and/or Government the convening of a summit meeting of the three countries. They also decided to further intensify dialogue at all levels, when needed, to organize meetings of top officials and experts responsible for issues of mutual interest.

19. They decided to hold regular political consultations on international agenda items, as well as to exchange information on areas of mutual co-operation in order to coordinate their positions on issues of common interest. To give expression to issues discussed and all other matters emerging out of consultations, the Ministers further agreed to establish a Trilateral Joint Commission. The Foreign Ministries will be the focal points of the Trilateral Joint Commission and the meetings will be co-chaired by the three Foreign Ministers. The secretariat facilities will be co-ordinated by the Secretary in charge of this area in the Foreign Ministry of the host country.

20. The Ministers decided to call this group "India, Brazil and South Africa Dialogue Forum" (IBSA). At the invitation of the Indian Government, the next meeting is going to take place in New Delhi, within twelve months. The Ministers of India and South Africa thanked the Brazilian Minister for convening this first trilateral meeting.

### **APPENDIX 3: NEW DELHI AGENDA FOR COOPERATION, MARCH 2004**

1. The Minister of External Affairs of India, H. E. Mr. Yashwant Sinha, Foreign Minister of Brazil, H. E. Mr. Celso Amorim, and of South Africa, H. E. Dr. Nkosazana Dlamini-Zuma met in New Delhi on 4th and 5th March 2004 for the first Meeting of the Trilateral Commission of the IBSA Dialogue Forum.

2. The Foreign Ministers reviewed developments in the trilateral initiative that began with their meeting in Brasilia in June 2003 and the meeting of the three Heads of State and Government in New York in September 2003. They appreciated the progress achieved so far and stressed the importance of carrying forward the multi-faceted dialogue and of registering tangible results in the operational areas already agreed upon. The Ministers noted the significant steps already envisaged at the trilateral meeting of the Defence Ministers of the three countries (held in Pretoria on 1 February 2004) for stepping up cooperation.

3. The Ministers held a wide-ranging discussion in a friendly and cordial atmosphere and exchanged views on regional and international issues of mutual interest as well as on promotion of trilateral cooperation in accordance with the objectives set forth in the Brasilia Declaration. They attached immense value to the beneficial spin-offs from their enhanced trilateral cooperation to South-South cooperation. IBSA aspires to make a significant contribution to the framework of South-South cooperation and be a positive factor to advance human development by promoting potential synergies among the members.

4. The Foreign Ministers reaffirmed their determination to play a constructive role in international affairs and to maintain friendly relations with all countries. Their approach to IBSA dialogue aims at imparting a new synergy to these interactions.

### **Multilateralism – Reforms of UN**

5. The Ministers agreed to work together to strengthen the multilateral system. They expressed support for early reform of the United Nations to make it more democratic and responsive to the priorities of its

member states, particularly those of the developing countries that constitute the vast majority of its membership. They agreed that their respective delegations to the UN and its specialised agencies as well as other multilateral bodies would remain in close touch with each other and would consult on all issues of significance.

6. The Ministers expressed the view that the UN Security Council, as configured today is not representative of present-day realities. They highlighted the need for reform which would impart greater balance and representativeness to the Council and reflect contemporary reality and emphasised the need for expansion in both permanent and non-permanent categories. They reaffirmed that the decisions of the Security Council should be seen as serving the interests of the global community. They agreed to jointly explore innovative solutions to the issues relating to the reform of the Security Council in order to accelerate the decision making process.

### **Peace and Security**

7. The Ministers noted that primary focus on human development, the fight against poverty, and measures to promote a better quality of life, should underpin and provide for greater guarantees for international peace and stability. The three Ministers took stock of the global security situation - concerning disarmament and non-proliferation of Weapons of Mass Destruction (WMD). They took note of avowed commitments of Governments regarding the transfer of technology related to the manufacture of WMDs and expressed hope for observance of these commitments unequivocally. They also underlined that implementation of and compliance with non-proliferation and disarmament commitments suffered from serious inadequacies, which should be redressed through appropriate forward looking multilateral actions. They agreed to intensify their cooperation at the IAEA and other forums with a view to ensuring unimpeded growth and development of peaceful use of atomic energy through supply of technology, equipment and material under appropriate safeguards.

8. On the Israeli-Palestinian situation, the three countries urged an immediate resumption of dialogue on the basis of the relevant UN Security Council resolutions, the Arab League Peace Initiative and the Quartet roadmap so as to achieve a peaceful and lasting solution thereby ending the current cycle of violence. They specially affirmed their full support to the vision of the settlement postulated in the UN Security Council Resolution 1397 of two sovereign states, Israel and Palestine, living side by side within secured and recognised borders. The three countries expressed their willingness to play a constructive role to bring about just, durable and comprehensive peace in the region.



9. The three countries noted the convergence of their views on Iraq. They stressed the maintenance of unity and integrity of Iraq as well as the restoration of security and stability in the country and called for transfer of full sovereignty to the Iraqi people as soon as possible. In this context, they agreed that the UN must play a vital role. They also emphasised the urgency of reconstruction in Iraq under a democratically elected sovereign government.

### **Terrorism**

10. The Ministers agreed that international terrorism was one of the most significant threats faced by the world today and that it can only be tackled collectively. They further agreed that terrorism should only be considered with reference to the terrorist act and its consequences. There can be no justification for terrorism- political, religious or any other. The Ministers emphasised that it was imperative today for the international community to come together to combat terrorism, in a sustained and comprehensive manner, with the ultimate objective of eradication of terrorism in all regions.

11. The Ministers reaffirmed their full support to implementing all the measures to combat terrorism outlined in the UN Security Council Resolution 1373. They called on the international community to work together in a spirit of cooperation and accommodation with the objective of an early conclusion of negotiations and the adoption of the Comprehensive Convention on International Terrorism.

### **Globalisation**

12. Recalling their commitment to pursuing policies, programmes and initiatives in different international forums, to make the diverse processes of globalization inclusive, integrative, humane, and equitable, the Ministers noted with concern that the current global economic structures and mechanisms continued to be marked by inequities. The Ministers felt that an important challenge before the international community was to maximise the benefits of globalisation and to ensure that it becomes a positive force for sustained economic growth in all developing countries. They emphasised that developing countries need to have their own agenda which would set out their goals in the context of globalising world. They must carry this agenda into multilateral processes with a view to influencing negotiations and arriving at results which are beneficial to the South. In this context, the Ministers took note with appreciation the conclusions and recommendations of the World Commission on the Social Dimension of Globalisation which called for steps to achieve a fairer form of globalisation that created opportunities for all.

13. The Ministers agreed to intensify cooperation in areas of mutual interest in the current round of multi-lateral trade negotiations as exemplified by the G-20 to realise the Doha Development Agenda and

enhance trade opportunities commensurate with the development needs of developing countries under a fair, equitable and transparent rules-based multilateral trading system.

### **Sustainable Development**

14. India, Brazil and South Africa have similar concerns with regard to the protection of environment while they march ahead on the path of socio-economic development in their respective countries. In this context the three sides agreed to work together to promote practical cooperation in ensuring sustainable development. The Ministers also agreed to coordinate positions on climate change, bio-diversity, and other related issues at the concerned multilateral fora.

15. The Ministers reaffirmed the validity of the principles contained in the Rio Declaration, particularly on common but differentiated responsibilities, the Programme of Action contained in Agenda 21, and the Plan of Implementation of the World Summit on Sustainable Development held in Johannesburg, and called for the implementation of these outcomes through the mobilization of new and additional financial resources and transfer of environmentally sound technologies within an agreed time-frame. They stressed that an international environment supportive of development would be critical to this process. They called for a specific focus on capacity building and on transfer of financial resources and technology to developing countries.

16. They underscored the importance of the decision taken at the WSSD to negotiate within the framework of Convention on Bio-diversity, an international regime to promote and safeguard the fair and equitable sharing of benefits arising out of utilization of genetic resource. The Ministers agreed on the need for ensuring that the benefits arising out of the commercial use of genetic resources accrue to the countries of origin. They reiterated in this context their commitment for effective implementation of the Convention on Biological Diversity. They also called for the establishment of a legally binding instrument for protecting intellectual property rights to traditional knowledge and folklore. India, Brazil and South Africa who are also the founding members of the Group of Like-minded Megadiverse Countries, agreed to strengthen cooperation and coordination with emphasis on multilateral negotiations and in fostering activities related to South-South Cooperation.

### **Social Development**

17. The Ministers in the context of the approaching 10th anniversary of the World Summit for Social Development, recalled that the Summit had sought to put people at the centre of development. They

emphasised the need to have the well-being of people as the focus of efforts to assess and address the gaps in the commitments made and results achieved.

18. The Ministers reaffirmed the importance of strengthening of cultural ties of the three countries. With that aim in mind, they discussed the possibility of organising a trilateral cultural fair of music, dance and cinema in Brazil as soon as possible and agreed to take the necessary steps.

19. The Ministers reiterated their earlier commitments as contained in the Brasilia Declaration to address issues related to elimination of all kinds of racial discrimination and to promote gender equality and mainstreaming a gender perspective in public policies.

20. Recalling that the Brasilia Declaration had identified trilateral cooperation among the three countries as an important tool for achieving the promotion of social and economic development, the Ministers agreed that the three countries, with rich untapped natural resources and emerging infra-structural requirements, could in a spirit of South-South cooperation, share expertise in several areas. With this view, working level discussions for enhancing trilateral cooperation in the spheres of S&T, Information Technology, Health, Civil Aviation and Shipping, Tourism, Trade and Investment, Defence, Energy and education took place during the Meeting. Specific programmes of action for trilateral cooperation in each of these sectors were identified based on these discussions and endorsed by the Ministers. These are annexed in the Plan of Action.

21. The Ministers reaffirmed the determination of their Governments to contribute actively and concretely to the implementation of internationally agreed development goals, particularly that of combating hunger and poverty. Following the Heads of State/Governments announcement in September 2003, they reviewed and approved the Guidelines for Operationalisation of the IBSA Facility for Hunger and Poverty Alleviation contained in the Plan of Action. The Ministers decided that a meeting be held before the end of March 2004, to consult with UNDP on certain operational issues. The meeting would also finalise operational guidelines for the Board of Directors and commence discussions on projects for implementation under the Facility.

22. The Ministers also reiterated the invitation for the participation of interested parties in the South-South initiative, including the private sector and civil society. To stress their political commitment, Brazil, South Africa and India announced that they have made fiduciary contributions to the Facility.

23. The Ministers also endorsed the proposal by Brazil to host a seminar on “Economic Growth with Social Equity” with the aim to promote better knowledge among IBSA members of their national policies and strategies to promote economic and social development and exchange views on international development challenges. The organisation of the seminar would be jointly coordinated by the three countries.

24. The Foreign Ministers of Brazil and South Africa thanked the Minister for External Affairs of India for convening the first Meeting of the Trilateral Commission. The three Ministers agreed that the next meeting would be held in South Africa in the first quarter of 2005.

#### **APPENDIX 4: CAPE TOWN COMMUNIQUÉ, MARCH 2005**

1. The Minister of Foreign Affairs of South Africa, H. E. Dr. Nkosazana Dlamini Zuma, the Minister of External Affairs of India, H. E. Mr. K Natwar Singh and the Foreign Minister of Brazil, H.E. Mr. Celso Amorim, met in Cape Town on 10 and 11 March 2005 for the Second Meeting of the Trilateral Commission of the IBSA Dialogue Forum.

2. The Foreign Ministers reaffirmed their determination to play a constructive role in international affairs and to maintain friendly relations with all countries. The IBSA Dialogue Forum serves as a mechanism for political consultation and co-ordination as well as for strengthening co-operation in sectoral areas and to improve economic relations between India, Brazil and South Africa.

3. They confirmed their support for a strong multilateral system as a means towards addressing issues of global concern, in particular the pre-eminent role of the United Nations in the maintenance of international peace and security and the promotion of sustainable development.

4. The Ministers noted that the Trilateral Ministerial Commission has also proved to be an excellent environment to exchange views on regional and global developments.

#### **Millennium Review Summit**

5. The Ministers agreed to work together, within the UN processes in New York, towards the successful conclusion of the Millennium Review Summit scheduled to take place from 14 to 16 September 2005. They looked forward to the Report to be issued by the Secretary-General in March 2005 in preparation for the Summit. The Ministers expressed the hope that the Summit outcome would reflect a balance

between development and security concerns and emphasised that development was an indispensable foundation for a new collective security system. In this regard they noted that the Report of the High-Level Panel on Threats, Challenges and Change and the Report of the United Nations Millennium Project 2005 provided useful inputs towards this end.

6. The Ministers reaffirmed their commitment to the goal of developing countries successfully achieving, at the minimum, the Millennium Development Goals (MDGs) as a core strategy in the international fight against underdevelopment, hunger and poverty. They reiterated their support for the New York Declaration, issued at the World Leaders' Meeting on Action Against Hunger and Poverty, and reconfirmed the importance of obtaining new and additional financial resources for fighting poverty and financing development.

7. The Ministers noted that the MDGs should not be seen in isolation, as they cut across every aspect of international co-operation. Considerably more international progress was needed, therefore, in areas such as improved market access for developing countries, increased Official Development Assistance (ODA) and more extensive debt relief as well as additional resources and new approaches to development financing.

8. The Ministers emphasised that South-South co-operation was an essential and fundamental component of international co-operation for development, especially in terms of global, regional and country-level efforts to achieve the MDGs and reaffirmed cooperation under IBSA to promote these objectives.

9. The Ministers committed themselves to work together to strengthen the political will of the UN membership to maintain the momentum of the 2000 Millennium Summit, in order to translate commitments into concrete action, in particular, in the areas of development and poverty eradication.

10. The Ministers recognised the strong multiplier effect of poverty eradication strategies targeting women and children and agreed to reflect this approach in IBSA programmes and initiatives. They also highlighted in this regard, the importance of linking the MDGs to the Beijing Platform for Action.

#### **UN Institutional Reform**

11. The Ministers re-iterated their continued support for the early reform of the United Nations to make it more democratic and responsive to the priorities of its Member States, particularly those of developing countries that constitute the vast majority of its membership. They agreed to utilise fully the window of

opportunity afforded by the Millennium Review Process for a serious effort at the long-needed UN reform, in particular the institutional reforms relating to the UN General Assembly, the Economic and Social Council and the Security Council.

12. The Ministers expressed the view that the composition of the UN Security Council no longer represented present-day realities. Bearing in mind that decisions of the Council should serve the interests of the broader United Nations Membership, they highlighted the need for the urgent reform of the Council that would include its expansion in both categories of membership, permanent and non-permanent, in order to render it more democratic, legitimate and representative. Towards this end, developing countries from Asia, Africa and Latin America would need to be included as permanent members on the Security Council. The IBSA countries agreed to exchange information and work towards this common purpose in the coming months.

13. The Foreign Ministers voiced their full support for the capable manner in which the United Nations Secretary-General, Mr. Kofi Annan, had been conducting the work of the organisation, and expressed confidence in his efforts to enhance the UN's role in international relations.

14. The Ministers recommitted their respective delegations to the UN and its specialised agencies, as well as other multilateral bodies, to remain in close touch with each other and to consult on all issues of significance.

### **South-South Cooperation and South Summit**

15. The Ministers committed themselves to developing a common vision for enhanced South-South co-operation and the realisation of the development agenda of the South during the 21st Century. They agreed to work together on economic development with social equity in the context of a globalizing world. IBSA would examine ways to adopt a pro-active approach to channel the forces of globalisation in this direction. They re-affirmed the principle that IBSA was dedicated to the strengthening of the international framework of South-South co-operation and the advancement of human development through the promotion of potential synergies among its members.

16. The Ministers welcomed the offer by Qatar to host the second South Summit in Doha, from 12-16 June 2005, as an opportunity to provide an important platform to assess the present economic, social and political situation in the South and to propose measures at the national, regional and international level that would enable developing countries to fulfill their developmental potential.

## **NEPAD**

17. The Ministers reaffirmed their support for the socio-economic development programme of the African Union and committed the IBSA partnership to seeking practical and concrete measures to be pursued in support of the implementation of NEPAD. The three countries shared a common experience in the struggle against poverty and underdevelopment, as well as complementary levels of development. There was therefore much to gain from sharing information and best practices in dealing with common challenges and in identifying areas of common concern, need and benefit.

18. Numerous opportunities existed in the promotion of trade, investment, science and technology exchanges, and in the fields of energy, ICT, agriculture, bio-technology, health, tourism and education in support of the African agenda. In this regard the Ministers pledged to explore opportunities for trilateral cooperation.

## **New Asia-Africa Strategic Partnership (NAASP)**

19. The Ministers noted the decision made during AASROC II, held in Durban in August 2004, to launch a New Asian-African Strategic Partnership during the Asia-Africa Summit, scheduled to be held in Jakarta, Indonesia in April 2005. They made a commitment to focus on practical ways of addressing the developmental needs of Asia and Africa by focusing on economic issues, trade, investment, health, human resource development and infrastructure.

## **Latin and South American Integration**

20. The Ministers expressed their support for the creation of an Asian-African Business Summit which would focus on exploring business opportunities, promoting trade and investment and identifying measures to strengthen the African private sector. They undertook to investigate ways in which to facilitate closer co-operation with South America.

21. The Ministers welcomed the efforts towards integration in the Latin America and Caribbean region and in this regard recognised the significance of the creation of the South American Community of Nations (CASA).

## **Reform of the International Financial Architecture**

22. The Ministers agreed that the existing international financial system must be renewed and strengthened to promote adequate and appropriate financing for the development of countries at widely-

differing levels of development. The Ministers emphasised the need for greater participation by developing countries in international economic decision-making and norm-setting processes, including those of the Bretton Woods Institutions and other economic and financial institutions. Developing countries had a stake in multilateral financial institutions and therefore should be fully involved in policy-making and decision-taking processes in these institutions in order to make them more accountable and responsive to the community of nations.

23. The Ministers committed themselves to working together to devise means to make the multilateral financial institutions genuinely open to participation by, and fully accountable to, the entire global constituency.

### **World Trade Organisation**

24. The Ministers agreed to intensify co-operation in areas of mutual interest in the current round of multilateral trade negotiations, in the lead-up to the 6th WTO Ministerial Conference in Hong Kong in December 2005. This co-operation, as exemplified by the G-20 in agricultural negotiations, aimed to realise the Doha Development Agenda and to enhance trade opportunities under an open, fair, equitable and transparent rules-based multilateral trading system.

25. The Ministers expressed their conviction that the incoming Director-General of the WTO should be a candidate best suited to advancing the development agenda in the WTO negotiations.

### **Sustainable Development**

26. The Ministers reaffirmed the validity of the principles contained in the Rio Declaration, particularly on common but differentiated responsibilities, the Programme of Action contained in Agenda 21, and the Plan of Implementation of the World Summit on Sustainable Development (WSSD) held in Johannesburg. IBSA would continue its efforts to mobilise new and additional financial resources and the transfer of environmentally-sound technologies within an agreed time-frame in order to implement the outcomes of these conferences.

27. The Ministers stressed that an international environment supportive of development would be critical to this process. They also called for a specific focus on capacity-building as well as on the transfer of financial resources and technology to developing countries.

28. They underscored the importance of the decision taken at the WSSD to negotiate, within the framework of the Convention on Biological Diversity, an international regime to promote and safeguard



the fair and equitable sharing of benefits arising out of the utilisation of genetic resources. The Ministers agreed on the need for ensuring that the benefits arising out of the commercial use of genetic resources accrued to the countries of origin.

29. They reiterated, in this context, their commitment to effective implementation of the Convention on Biological Diversity. They also called for the establishment of a legally-binding instrument for protecting intellectual property rights related to traditional knowledge. India, Brazil and South Africa, as the founding members of the Group of Like-Minded Megadiverse Countries, agreed to strengthen co-operation and co-ordination, with an emphasis on multilateral negotiations and in fostering activities related to South-South Co-operation.

### **Climate Change**

30. The Ministers expressed their pleasure at the entry into force of the Kyoto Protocol on 16 February 2005. They further urged developed countries to meet their own commitments and undertakings under the Protocol not only in terms of complying, with current targets for Green House Gas (GHG) emission reduction, but also in terms of the expansion of technology transfer, capacity-building and financial support to developing countries.

### **Peace and Security**

31. The Ministers reaffirmed the view that the primary focus on human development, the fight against poverty, and measures to promote a better quality of life, should underpin and provide for greater guarantees for international peace and stability. The three Ministers took stock of the global security situation concerning disarmament and non-proliferation of Weapons of Mass Destruction (WMDs) and noted the adoption by the UN Security Council of Resolution 1540 (2004) on 28 April 2004. They expressed their conviction that structures such as the International Atomic Energy Agency (IAEA) and the Organisation for the Prohibition of Chemical Weapons (OPCW), which had already been established in accordance with international disarmament, non-proliferation and arms control agreements, should not be duplicated and that these organisations be utilised as the primary institutions in the international community's endeavours to combat the proliferation of Weapons of Mass Destruction, including to non-State actors. They took note of avowed commitments of Governments regarding the transfer of technology related to the manufacture of WMDs and expressed hope for the observance of these commitments unequivocally. They agreed to further intensify their cooperation at the IAEA and other forums with a view to ensuring the unimpeded growth and development of the peaceful use of atomic energy through the supply of technology, equipment and material under appropriate safeguards.

## **Terrorism**

32. The Ministers reaffirmed that international terrorism continued to constitute one of the most serious threats to peace and security and that acts of terrorism were criminal and unjustifiable whatever the considerations or factors that might be invoked to justify them. The Ministers emphasised the need for concerted and co-ordinated action by the international community, with the ultimate objective of eradicating terrorism in all its forms and manifestations.

33. The Ministers reaffirmed their full support for the implementation of all the measures to combat terrorism outlined in relevant UN Security Council Resolutions. They welcomed the Council's efforts to increase co-operation and co-ordination among all the role-players in the fight against terrorism and called on the international community to work together in a spirit of co-operation and accommodation to eliminate terrorism. In this regard, the Ministers noted the importance of the conclusion of the Comprehensive Convention on International Terrorism and called on all States to co-operate in resolving the outstanding issues with the objective of an early conclusion of negotiations and the adoption of this Convention. The Ministers welcomed the adoption by the UN General Assembly of resolution 59/80 on "Measures to prevent terrorists from acquiring weapons of mass destruction".

34. The Ministers emphasised that international co-operation to combat terrorism should be conducted in conformity with the principles of the United Nations Charter, international law and relevant international conventions, including international human rights conventions.

## **Situation in the Middle East**

35. The Ministers expressed their full support for the new positive spirit that had emerged in the Middle East following the Palestinian elections of 10 January 2005, which resulted in the election of Mr. Mahmoud Abbas as the new President of Palestine. They welcomed the outcome of the Sharm Al Sheikh Summit between the Palestinian President Abbas and the Israeli Prime Minister Sharon on 8 February 2005, especially the undertaking of both leaders to work to effect a cease-fire.

36. The Ministers also welcomed the outcome of the London Conference in support of the Palestinian National Authority held on 1 March 2005. They noted with pleasure the call for a Donor Conference on Palestine. They committed themselves to work together to assist both the Israelis and the Palestinians to advance the Middle East Peace Process.

## **Disaster Management**

37. The Foreign Ministers expressed their deepest sympathies and condolences to the victims and survivors of the devastating tsunami that occurred in South and South-East Asia and East Africa on 26 December 2004. This natural disaster of unprecedented scale underlined the importance of the adoption by the international community of pro-active measures to address the issues of disaster reduction, mitigation and management. In this regard, the Ministers expressed their recognition for the cooperation extended by the developing countries to the countries affected by the tsunami. The three Governments should seek to co-operate in the strengthening of capacity and the implementation of development programmes at national and local levels to reduce the impacts of “sudden-onset” natural disasters. In this regard, the Ministers recalled the adoption of the Hyogo Framework for Action (2005-2015) at the January 2005 World Conference on Disaster Reduction in Kobe, Japan.

### **IBSA Sectoral Cooperation**

38. The Ministers reviewed the work of the Sectoral Working Groups and adopted their reports. While appreciating the progress made thus far, they recognised that greater scope existed for further intensifying co-operation amongst the three countries.

39. The Ministers decided to initiate trilateral cooperation in two additional sectors, namely Agriculture and Culture. While noting that the Health and Energy Sectoral Working Groups had been unable to convene, they welcomed the proposals for the convening of both these Working Groups in the near future.

40. As regards Science and Technology, the Ministers agreed on areas of co-operation for research and development and decided that each country would champion research areas through a system of coordinators. A work plan was developed for 2005/06, reflecting milestones in implementing projects, a schedule of relevant events as well as a process to finalise a working document to be signed at the next meeting of the Science and Technology Ministers, scheduled from 8 to 10 June 2005 in Brazil.

41. In the context of the Information Society sector, the Ministers noted that their countries had national e-government and Information Society Development Plans that had many similarities and decided to share information, best practices and identify projects for cooperation.

42. Recognising that digital exclusion constituted a critical obstacle to development and that Information and Communication Technologies (ICTs) should be harnessed to address the needs of the poor, the Ministers stressed the importance of cooperation in this area, especially with regard to the availability of

low-cost equipment, multi-purpose community public access centres, their sustainability and Free/Libre Open Source Software (FLOSS).

43. The Ministers agreed that they should continue to coordinate positions, particularly on Internet Governance, and collaborate on the preparations for the World Summit on Information Society (WSIS).

44. They noted that the hosting by South Africa of the FIFA Football World Cup in 2010 created a good opportunity, particularly for the IBSA ICT sectors, to collaborate on the ICT needs for the event.

45. The Ministers further welcomed the decision on the establishment of the IBSA website which will facilitate interaction on, and follow-up of, IBSA decisions. The website will be operationalised by the end of June 2005.

46. The Ministers decided to formalise an IBSA sectoral working group on Agriculture. It was agreed to maintain the momentum that resulted from the launch of the IBSA Funding Facility for Hunger and Poverty Alleviation. They also agreed to form a closer partnership between IBSA and the United Nations Development Programme (UNDP) on the implementation of the Agriculture and Livestock Development project in Guinea Bissau. A Technical Monitoring Committee (TMC) would also be established for the project.

47. The Ministers agreed that consultations between the Ministries and Departments of Agriculture would be strengthened in support of the IBSA and G-20 trade consultation processes. They decided that a meeting of IBSA experts would be convened in India to define areas for trilateral research and training in agriculture.

48. On the issue of trade, the Ministers decided to promote co-ordination and co-operation in several areas including on the convergence of Preferential Trade Agreements and/or Free Trade Agreements, in the G-20 and on WTO-related issues. They further agreed to conduct joint studies and research on trade-related matters. The Ministers noted with satisfaction that preferential trade agreements had already been concluded between Mercosur-SACU and Mercosur-India and further noted that discussions will commence in June 2005 on an agreement between India and SACU. A study was circulated on "The Potential for Greater Trade between South Africa, India and Brazil" and the Member States undertook to conduct IBSA seminars on trade and investment in their respective countries as well as in key developed markets.

49. The Ministers welcomed the launch of the IBSA Business Council. It was agreed that the Business Council and the Working Group will have an active working relationship, and also work jointly in areas such as Small, Medium and Micro Enterprises.

50. The Ministers welcomed the preparations for the IBSA Education Ministerial meeting scheduled preferably for July 2005, in New Delhi. Thematic areas previously identified in the New Delhi Plan of Action will form the basis of discussions at this meeting and include issues of higher education, distance education and basic education. A draft agreement on an Exchange Programme on Higher Education is also expected to be signed at this meeting.

51. The Ministers noted preparations for the second IBSA Defence Ministers meeting scheduled to be held in Brazil, as well as possible areas of mutual cooperation such as the exchange of personnel, training opportunities, the exchange of experiences in peacekeeping operations and Defence Industry co-operation. The above possible areas of mutual cooperation will be considered during the Ministerial meeting. Matters relating to the preparations for the proposed Defence Industry and Technology Seminar were also discussed.

52. The Ministers expressed the view that enhancing co-operation in the tourism sector was vital in order to foster people-to-people contact as well as to contribute to economic development. They highlighted that statistics of inbound tourism from among the IBSA member countries showed an encouraging upward trend. They recommended that for tourism purposes, competent authorities in the three countries examine the possibility of visa waiver or the issuing of visas on arrival for IBSA nationals.

53. The Ministers noted the possibility of arranging a meeting of IBSA Tourism Ministers to coincide with the South African Tourism Indaba in May 2005, at which discussions would be conducted on the IBSA tourism action plan, a trilateral tourism agreement, as well as the bilateral agreement between South Africa and Brazil. They also noted a number of related meetings to be arranged, amongst others, for leading IBSA private sector stakeholders in the travel, tourism and hospitality industry, on topics such as eco-tourism and conservation as well as cultural and heritage tourism.

54. The Ministers took cognisance of the importance of the transport sector in promoting trade and tourism and welcomed the progress made towards the finalization of a trilateral agreement on Civil

Aviation. They encouraged the competent authorities to meet within three months to finalise this work and to continue the negotiations on a Maritime Transport Agreement.

55. The Ministers for the first time included the cultural sector in the agenda of the IBSA Dialogue Forum. They decided to coordinate their positions within UNESCO, amongst others, on issues such as the contribution of culture to a country's economy, the protection of intellectual property rights keeping in view the development dimension, and the potential of creative industries to alleviate poverty and generate income.

56. They agreed to commence their collaboration by organizing a music and dance festival in Brazil in November 2005, a meeting in India on the audiovisual sector in 2005 and a conference in South Africa on indigenous knowledge systems at the beginning of 2006.

57. The Ministers agreed that an IBSA seminar on Economic Development and Social Equity will be held in Rio de Janeiro from 3 to 5 August 2005. The seminar will examine the contribution of the IBSA Forum towards a new paradigm for South-South dialogue and cooperation, and seek to promote a better understanding among IBSA members of their national policies and strategies in order to encourage economic and social co-operation.

58. The Ministers expressed their expectation that the seminar will deliver concrete outcomes towards fostering trilateral engagement. They agreed that in order to guide the discussion on the overarching theme of poverty alleviation, the seminar will concentrate on economic development, social equity and science and technology.

59. The Ministers emphasised the need for co-operation in the Energy Sector. They noted that the areas of non-conventional energy, bio-diesel energy, hydrogen energy and fuel cells, exchange of experience in generation, transmission and distribution of power as well as energy conservation and reforms had been identified for co-operation.

60. The Ministers noted that the IBSA Health Sector Senior Officials meeting will be held in Brazil, from 28-29 March 2005. This meeting will develop a framework for an IBSA Implementation Plan on Health. It was further agreed that the IBSA Health Ministers will meet on the margins of the upcoming World Health Assembly (WHA) meeting in Geneva, in May 2005. The Ministers will consider adopting a framework for an IBSA Implementation Plan on Health.

## **IBSA Facility for Hunger and Poverty Alleviation**

61. The Ministers reviewed progress made with regard to the operationalisation of the IBSA Facility for Hunger and Poverty Alleviation. They furthermore reviewed progress that had been made in addressing certain operational issues aimed at strengthening project implementation and future delivery. The criteria for the submission and evaluation of projects were discussed, as were certain practical guidelines for the functioning of the Board of Directors of the Facility.

62. The Ministers once again emphasised the financial commitment of their Governments to the Facility and agreed that they would extend invitations for participation in the funding of this South-South initiative. They noted with approval that the implementation of the Guinea-Bissau project was on schedule and discussed the possibility of initiating other projects. The Ministers expressed optimism that the launching of the project in Guinea-Bissau would help raise the profile of the Fund, especially among the private sector and civil society, and thereby encouraged further participation.

63. The Ministers agreed that IBSA would approach the Palestinian Authority with an offer to assist it with its reconstruction efforts.

64. The Ministers also agreed that each member country would commit an additional amount of US\$ 1 million to the IBSA Fund.

65. The Foreign Ministers of Brazil and India expressed their deep gratitude to the Minister of Foreign Affairs of South Africa for convening the Second Meeting of the Trilateral Commission and noted the special privilege of having had the opportunity to meet and interact with President Thabo Mbeki. The three Ministers agreed that the next meeting will be held in Brazil in 2006.

## **APPENDIX 5: RIO COMMUNIQUÉ, MARCH 2006**

1. The Minister of State for External Affairs of India, H. E. Mr Anand Sharma, the Minister of External Relations of Brazil, H. E. Mr. Celso Amorim, and the Minister of Foreign Affairs of South Africa, H. E. Dr. Nkosazana Dlamini-Zuma, met in Rio de Janeiro on 30 March 2006 for the Third Meeting of the Trilateral Commission of the IBSA Dialogue Forum.

2. The Ministers discussed a wide range of critical global issues and reconfirmed their shared vision and determination to play a constructive role in international affairs and to maintain friendly relations with all countries. They reaffirmed the IBSA Dialogue Forum as an important mechanism for political consultation and co-ordination as well as for strengthening cooperation in sectoral areas and to improve economic relations among India, Brazil and South Africa.

3. They confirmed their support for a strong multilateral system as a means towards addressing issues of global concern, in particular the pre-eminent role of the United Nations in the maintenance of international peace and security and the promotion of sustainable development.

### **Millennium Review Summit**

4. The Ministers recognized the successful conclusion of the Millennium Review Summit, which took place in September 2005. The Ministers expressed their hope that the UN reform processes continue to reflect a balance between development and security concerns and, in this regard, reiterated their perception that development matters remain an indispensable foundation for a new collective security system.

5. They reaffirmed their commitment to the goal of developing countries successfully achieving, at the minimum, the Millennium Development Goals (MDGs) as a core strategy in the international fight against underdevelopment, hunger and poverty. They reiterated their support for the Action against Hunger and Poverty initiative and, in particular, the Declaration issued by the promoters of the initiative on the occasion of the UN Millennium Review Summit. They reconfirmed the importance of obtaining new and additional financial and other resources for fighting poverty and financing development.

6. Within the framework of the Monterrey consensus, the Ministers acknowledged that the MDGs will not be achieved without also resorting to additional and innovative sources of financing for development. The Ministers confirmed their willingness to support and promote innovative financing mechanisms and in this regard reiterated their intention to take active part in the work by the Leading Group on Solidarity Levies, created at the Ministerial Conference on Innovative Financing, held in Paris in February/March 2006.

### **UN Institutional Reform**

7. The Ministers reiterated their continued support for the reform of the United Nations to make it more democratic and responsive to the priorities of its Member States, particularly those of developing



countries that constitute the vast majority of its membership. In that regard, they welcomed the decisions taken in the September Summit in New York in 2005 and expressed their full support for the implementation of those decisions as contained in the "Summit Outcome Document".

8. The Ministers emphasised that the Security Council must, in its composition, represent contemporary realities and not those of 1945. Keeping in view that the decisions of the Security Council should serve the interests of the larger United Nations Membership, they emphasised the need for the urgent reform of the Security Council that would include its expansion in both categories of membership, permanent and non-permanent, in order to render it more democratic, legitimate, representative and responsive. Towards this end, the representation of developing countries from Africa, Asia and Latin America, as permanent members of the Security Council, is essential. The IBSA countries agreed to continue to exchange views on this issue, which they feel is central to the process of the reform of the United Nations, and work towards this common purpose in the coming months, with the view to achieving concrete results by the end of the 60th General Assembly.

9. They welcomed the creation of the Peacebuilding Commission as an important intergovernmental advisory body through which international community could provide long term support to countries emerging from conflict, including capacity-building efforts. IBSA countries reiterated their commitment towards working for an early operationalisation of the Peacebuilding Commission.

10. They welcomed the creation of the Human Rights Council and expressed their commitment to ensuring that it fulfils the expectation of the international community. Now that the Peace Building Commission and the Human Rights Council have been created, the UN reform process must concentrate on the Security Council reform.

11. They voiced their full support for the capable manner in which the United Nations Secretary-General, Mr. Kofi Annan, has been conducting the work of the organisation, and expressed confidence in his efforts to enhance the UN's role in international relations.

12. They recommitted their respective delegations to the UN and its specialised agencies, as well as other multilateral bodies, to remain in close contact with each other and to consult on all issues of significance.

## **South-South Cooperation**

13. The Ministers reaffirmed that South-South cooperation is an essential and fundamental component of international cooperation for development, and stressed their support for mainstreaming of South-South cooperation and of the pursuit of the development of Technical Cooperation amongst Developing Countries (TCDC) to its full potential. In this regard, they recommitted themselves to work together for the enhancement of South-South cooperation and emphasized the establishment of the IBSA Fund as an example of cooperation among three developing countries for the benefit of the neediest nations of the South.

14. They noted with satisfaction the adoption of the Doha Plan of Action at the South Summit, held in Doha, between 12 and 16 June 2005. They emphasized the importance of strengthening South-South cooperation in order to promote growth and development.

### **The New Partnership for Africa's Development**

15. The Ministers reaffirmed their support for the socio-economic development programme of the African Union and committed the IBSA partnership to seeking practical and concrete measures to be pursued in support of the implementation of NEPAD. The three countries share a common experience in the struggle against poverty and underdevelopment, as well as complementary levels of development. There was therefore much to gain from sharing information and best practices in dealing with common challenges and in identifying areas of common concern, need and benefit.

### **South American Integration**

16. The Ministers welcomed the consolidation of the South American Community of Nations, which held its first Presidential Meeting in Brasilia, on 30 September, 2005, and recognized it as a major achievement in the process of strengthening the political coordination and economic, commercial and infrastructural integration among South American countries.

### **Terrorism**

17. The Ministers reaffirmed that international terrorism constitutes one of the most serious threats to peace and security and that acts of terrorism were criminal and unjustifiable whatever the considerations or factors that might be invoked to justify them. The Ministers emphasised the need for concerted and co-ordinated action by the international community, with the ultimate objective of eradicating terrorism in all its forms and manifestations.

18. They reaffirmed their full support for the implementation of all the measures to combat terrorism

outlined in relevant UN Security Council Resolutions. They welcomed the Council's efforts to increase cooperation and coordination in the fight against terrorism and called on the international community to work together in a spirit of cooperation and tolerance to eliminate terrorism. Recalling that the Outcome Document of the World Summit 2005 had called upon the member states to conclude a comprehensive convention on international terrorism during the current Session of the UN General Assembly, the Ministers stressed the importance of finalising the convention on international terrorism and called upon all States to cooperate in resolving the outstanding issues with the objective of an expeditious conclusion of negotiations and the adoption of this Convention.

19. They emphasised that international cooperation to combat terrorism should be conducted in conformity with the principles of the United Nations Charter, international law and relevant international conventions, including international human rights, humanitarian and refugee instruments.

#### **Disarmament, Non-Proliferation and Arms Control**

20. The Ministers reaffirmed the view that the primary focus on human development, the fight against poverty, and measures to promote a better quality of life, should underpin and provide for greater guarantees for international peace and stability. The three Ministers took stock of the global security situation concerning disarmament and non-proliferation, and expressed their concern over the lack of progress in multilateral fora related to the field, and voiced their hope that the international community will show the necessary resolve and political will to reinforce the international disarmament and non-proliferation regime by means of multilaterally-negotiated, transparent, balanced and effective measures.

21. The Ministers expressed their conviction that multilateral institutions set up under multilateral disarmament agreements should remain the primary institutions and mechanisms, in the international community's endeavour to achieve common objectives in the area of disarmament and non-proliferation.

22. They took note of the positive continuing cooperation among their countries at the IAEA and other fora, with a view to ensuring the unimpeded growth and development of the peaceful use of atomic energy, through the supply of technology, equipment and material, under appropriate safeguards, and reaffirmed their will to intensify such cooperation. In this regard, the Ministers called for a peaceful resolution of the Iranian nuclear programme within the context of the IAEA.

23. They highlighted that nuclear energy can play an important role in meeting growing global energy requirements while at the same time addressing concerns related to global warming. In this regard they agreed to consider further enhancing international civilian nuclear cooperation, with countries who share the objectives of non-proliferation and have contributed to them, as well as having concluded appropriate safeguard agreements with IAEA.

24. The Ministers expressed concern over the continuing impasse in the Conference on Disarmament and called upon member states to intensify efforts to reach an agreement on a programme of work. In this context, they reiterated that the Five Ambassadors proposal as revised in 2003 still remained a viable basis for a programme of work.

25. They also expressed their commitment to the universalisation of the Convention for the Prohibition of Chemical Weapons and Biological Weapons Convention (BWC), as well as to the goal of ensuring its balanced, transparent and effective implementation.

26. They also agreed on the pressing need to adopt measures aimed at strengthening the Convention for the Prohibition of Biological and Toxin Weapons, in order to consolidate its role as a key disarmament instrument of the international disarmament and non-proliferation regime, and expressed their will to intensify the cooperation and consultations in relation to the Convention, in particular in the context of its 6th Review Conference, scheduled for November-December 2006.

27. They recalled the importance of cooperative and effective international action against the illicit trade in small arms, light weapons and ammunition, and the need for the 2006 Review Conference of the United Nations Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects (UN-PoA), adopted at the Conference on the Illicit Trade of Small Arms and Light Weapons in All Its Aspects.

### **Situation in the Middle East**

28. The Ministers welcomed the holding of transparent and free parliamentary elections in the Palestinian territories on 25 January 2006 and of general elections in Israel this very week. They welcomed the strengthening of the democratic process in Palestine and the peaceful nature of the polling. They expressed the hope that the newly formed government in Palestine and the newly formed government in Israel will continue to pursue peaceful negotiations as laid down by the Road Map for

Peace and to abstain from taking any action or measure which might put in jeopardy the peace process in the region leading to the establishment of a viable, sovereign, independent State of Palestine living side by side in peaceful co-existence with the State of Israel.

### **International Trade**

29. Considering the results of the 6th WTO Ministerial Conference, held in Hong Kong, in December 2005, the Ministers emphasized the necessity of renewed political commitment to advance negotiations so that the Hong Kong deadlines are met.

30. As agriculture is central to development and the Doha Round, the Ministers expressed their conviction that Hong Kong consolidated the G-20 as an element of systemic relevance in WTO Agriculture negotiations.

31. The Ministers emphasised the need to consolidate unity on the development content of the Round. This is supported by increased activity, in the form of consultations, held in Geneva by Indian, Brazilian and South African delegations, in order to co-ordinate positions and strengthen Non-Agricultural Market Access (NAMA), as well as the establishment of the NAMA -11 whose two main principles are supporting flexibilities for developing countries and balance between NAMA and other areas under negotiation.

32. They recognized the importance of incorporating the development dimension in international discussions concerning intellectual property, as a means to preserve the policy space that countries enjoy in ensuring access to knowledge, health, culture and a sustainable environment. In this context, they welcomed the launching of a "Development Agenda in the World Intellectual Property Organization" and reaffirmed their hope that the aforementioned Organization incorporates effectively the development dimension in all its bodies.

33. The Ministers took note of the broader objectives of the European Union proposed Registration, Evaluation and Authorization of Chemicals (REACH) Legislation, in respect of the protection of human health and the environment. The Ministers reiterated their support for the commitments made on chemical safety at the World Summit on Sustainable Development (WSSD) in 2002.

34. The ministers expressed their concern for the unintended consequences that REACH will have on developing economies exporting to the EU. Such consequences will negatively affect the attainment of

development goals in the South, including the MDGs . The Ministers recognised the efforts, commitments and determination of leaders of developing economies to effectively address the challenges of poverty, underdevelopment, marginalisation social exclusion and economic disparities.

35. The Ministers urged the EU to give due consideration to the grave consequences for developing economies should REACH be adopted in its current form. The Ministers urged the EU to ensure that REACH will not become a Technical Barrier to Trade (TBT). The high costs for compliance, the possibilities for substituting commodities and the lack of technological and human resource capacity to comply may render the EU markets inaccessible for exports from developing countries. The Ministers expressed their desire that REACH should be consistent with the WTO laws and provide for adequate flexibility to developing countries.

36. The Ministers undertook to work together and jointly to address the challenges posed by REACH. The Ministers resolved to make all efforts to cooperate in coordinated manner regarding REACH.

### **International Financial System**

37. The Ministers underlined the convergence of views regarding the need for enhancing the governance of the international financial system and, in this respect, reiterated their commitment to coordinate efforts on this issue. They further stressed that progress in this field will lead to improvements in crisis prevention and the increase of resources to finance development.

### **Sustainable Development**

38. The Ministers reaffirmed the validity of the principles contained in the Rio Declaration, particularly on common but differentiated responsibilities, the Programme of Action contained in Agenda 21, and the Plan of Implementation of the World Summit on Sustainable Development (WSSD) held in Johannesburg. IBSA would continue its efforts to mobilise new and additional financial resources and the transfer of environmentally-sound technologies within an agreed time-frame in order to implement the outcomes of these conferences.

39. They stressed that an international environment supportive of development would be critical to this process. They also called for a specific focus on capacity-building as well as on the transfer of financial resources and technology to developing countries.

40. They noted with appreciation the stage of the TRIPS Council negotiations on the relationship

between the TRIPS Agreement and the Convention on Biological Diversity and reaffirmed the urgent need that Members reach a prompt solution for the problem raised by the granting of intellectual property rights concerning or making use of genetic resources and/or associated traditional knowledge without compliance of relevant provisions of the Convention on Biological Diversity. In this respect, they underscored the wide support for the proposal of amending TRIPS with a view to require intellectual property applications to disclose the country of origin of the subject matter as well as the compliance with the requirements of fair and equitable benefit-sharing and prior informed consent, in accordance with the legislation of the country of origin.

41. They expressed, in this context, their positive expectations about the results of the VIII Conference of the Parties of the Convention on Biological Diversity (COP-8/CBD), which is being held in Curitiba, Brazil (March, 20th-31st). They concurred on that COP-8 constitutes an opportunity to advance the effective implementation of CBD.

42. They also called for expediting negotiation and conclusion of the international regime on access and benefit sharing, as an instrument for protecting intellectual property rights concerning traditional and indigenous knowledge. India, Brazil and South Africa, as the founding members of the Group of Like-Minded Megadiverse Countries, agreed to strengthen cooperation and co-ordination, with an emphasis on multilateral negotiations and in fostering activities related to South-South Cooperation.

43. They recalled that Brazil, India and South Africa will jointly participate in the Capacity Building Committee of the Group on Earth Observation (GEO), an intergovernmental partnership entrusted with implementing the Global Earth Observation System of Systems (GEOSS). The participation in the Capacity Building Committee provides a unique opportunity for the three countries to cooperate in enhancing the capabilities of developing countries, especially less developed ones, in the use, analysis, interpretation and modelling of Earth Observation data, for applications in the nine societal benefit areas of GEOSS, which comprise Agriculture, Health, Disasters, Water, Ecosystems, Climate, Meteorology, Energy and Biodiversity.

### **Climate Change**

44. The Ministers expressed their satisfaction with the results of the Montreal meetings (COP-11, COP/MOP-1), particularly with the adoption of the Marrakech Accords and the establishment of the Ad-hoc Working Group on Further Commitments for Annex 1 Parties under the Kyoto Protocol to consider such commitments for the period beyond 2012. They further urged developed countries to meet their

own commitments and undertakings under the Protocol not only in terms of complying with current targets for Greenhouse Gases (GHG) emission reduction, but also in terms of their commitment in respect of technology transfer, capacity building and financial support to developing countries. They also welcomed the dialogue on long term co-operative action to address climate change by enhancing implementation of the Convention.

45. They also agreed on the need for continued consultations within IBSA Forum on the environment and climate change issues.

### **IBSA Facility Fund for Alleviation of Poverty and Hunger**

46. The Ministers reiterated the fundamental character of the IBSA Fund as a means to disseminate the best practices in the alleviation of poverty and hunger. They emphasized the importance of the participation of institutions of IBSA countries (Governmental and Non-Governmental) in the projects financed by the Fund and recommended that the UNDP, as administrator of the Fund, find means to make that participation possible.

47. The Ministers received the report of the visit of the Technical Monitoring Committee (TMC) to Guinea Bissau and accepted the recommendations made by the TMC, especially concerning the management of the project, and urged the UNDP Office in Bissau to work more closely with the UNDP Special Unit for South-South Cooperation in New York, the Coordinator of the project and the Guinean Bissau national authorities. They accepted the Committee's recommendation that an additional agreement be signed with UNDP in order to clarify rights and obligations of both parties.

48. The Ministers reiterated their commitment to move forward with other projects in the scope of the Fund. They welcomed the finalisation of the concept paper of the project on waste collection in Haiti (Carrefour Feuille) and called upon speedy appointment of a project coordinator so that the project can be implemented as soon as possible.. They underlined the importance of making progresses in the drawing up of the projects benefiting Palestine and Laos.

49. The IBSA countries recommitted themselves to allocate at least US\$ 1 million a year to the Fund.

### **IBSA Sectoral Cooperation**

50. The Ministers reviewed the work of the sectoral working groups and adopted their reports.



51. Reference was made to the two Workshops on Information Society and E-Government, held in South Africa and India, and to the commitment of the three delegations to actively participate in the last event of the series, to take place in Brazil, in June 2006.

52. The Ministers welcomed the agreement reached by the Working Group on the Information Society, on the content of the "IBSA Framework for Cooperation on Information Society", setting up the basis and defining modes of cooperation in the fields of Information Society and Communication Technologies, and took note with satisfaction of the Joint Action Program for 2006-2007, prescribing specific initiatives in all fields of cooperation covered by the Framework. The Ministers also welcomed the development of the IBSA website ([www.ibsa-trilateral.org](http://www.ibsa-trilateral.org)), maintained by South Africa, and invite the various working groups of the IBSA Forum to provide content and make full use of this channel of communication.

53. The Ministers recognized with pleasure the high level of coordination between the three delegations during the second phase of the World Summit on the Information Society (WSIS), held in Tunis, in November 2005, and its preparatory works. In this regard, the three countries reiterated their commitment to keep working together during the WSIS follow-up process, as well as in other international fora related to the issue, to promote the use of Information and Communication Technologies as a tool for development and to build multilateral, democratic and transparent global Internet governance mechanisms.

54. The Ministers decided to formalise the establishment of an additional sectoral working group on Social Issues, as a follow-up to the International Seminar on Economic Development and Social Equity, held in Rio de Janeiro, on 3rd and 4th August, 2005. They also expressed their intention of establishing as soon as possible a working group on Public Administration.

55. The member countries reiterated their commitment to further promote the production and use of Biofuels as environmentally friendly and sustainable fuels which promote socio-economic development, taking into consideration their global importance. Progress is being made, on exchange of information on Renewable Energy and the Biofuels value chain.

56. More emphasis will be placed on exchange of information into the areas of energy efficiency and conservation, and hydrogen energy. India will host the second technical meeting of the Energy Working

Group, to which other stakeholders including private sector players may be invited for the enhancement of implementation of IBSA initiatives.

57. The Ministers agreed on the importance of new initiatives aimed at strengthening economic and trade relations among developing countries, as a means to generate business opportunities and contribute to an international trade scenario more suitable to their development projects. In that regard, they took note with great satisfaction that Mercosul will be proposing to SACU and India the creation of a Working Group to explore the modalities of a Trilateral Free Trade Agreement (T-FTA) among them. They underlined the significance of this exercise and expressed their full support to the initiative.

58. Further the Ministers supported the initiative of a renewable source of energy seminar and the proposals to assist Small, Medium and Micro Enterprises through the proposed study on how to make business in the IBSA countries, and the proposals on sharing of experiences and training opportunities.

59. The Ministers also laid emphasis on the need to conclude the bilateral customs cooperation agreements expeditiously.

60. The member countries decided that, in taking forward the renewed approach to IBSA deliverables, South Africa should host a meeting on civil aviation and maritime transport in April 2006. This meeting will focus on the finalization of the trilateral on maritime transport agreement and also review implementation of air transport agreement. It should be noted, in addition, that during the present meeting of the working group in Rio, which also included the presence of representatives of Air India, VARIG and SAA, tremendous progress has been made and concrete projects have been identified for cooperation. To this end cooperation will be fostered in areas of airlink expansions, training and knowledge sharing in airports and airspace management, port management, operational and infrastructural systems, including capacity building in shipbuilding, environmental management and navigational systems.

61. The development of transshipment facilities will also be made a priority in order to support the IBSA trade strategy which advocates for the creation of South-South shipping highway that integrate subregional connection between MERCOSUL, SACU and Indian regions.

62. The Ministers noted progress on the establishment of a framework to strengthen cooperation in the field of agriculture. Specific areas of cooperation that have been identified are: research and capacity

building, agricultural trade, rural development and poverty alleviation, and other allied areas as may be agreed.

63. Following the successful meeting of the health working group held in Brazil from 6th to 10th February 2006 in which broad areas of cooperation were discussed, the South African Minister of Health invited her counterparts for a meeting in March 2006. However, this meeting will now take place on the margins of the WHO meeting in Geneva, in May 2006.

#### **IBSA Trade and Investment Forum**

64. The Ministers noted with satisfaction the results of the Trade and Investment Forum. The forum was divided into four panels: a) Trilateral trade analysis; b) implementation of the preferential trade agreements between Mercosul, India and Southern African Customs Union (SACU); c) challenges to the growth of the trilateral trade (barriers, logistics and financing); and d) organization of the trilateral business meeting on the occasion of the IBSA Meeting of Heads of Government and State in September 2006. The delegations of India, Brazil and South Africa presented data and facts concerning trade issues that thrustful fruitful discussions among the businessmen attending the meeting.

65. It was presented an evaluation of the current aspects of the negotiations involving Mercosul, Sacu and India. All delegations concluded that there must be an expansion on acting positions to fit the ever growing market of the three countries. The importance of solid links between the three countries was mentioned several times and also the necessity of a stronger South-South union. The possible substitution of imports from northern countries by imports from southern countries was considered a possible solution to enforce this new commercial agreement.

66. Brazilian businessmen pointed out that among the main barriers to be eliminated to foster trilateral trade are: a) logistics, b) customs procedures, c) lack of information and d) distances. The logistic problem was tackled by the suggestion of a study (previously discussed in the IBSA work group for trade and investment (on March 28th) to further address the issue. The private sector also emphasized the necessity of creating flights uniting Brazil-South Africa-India. The measure would help to narrow the distances both physical and cultural between IBSA partners.

67. In what concerns customs procedures, it was suggested more cooperation in the area by the specific government institutions, in order to simplify many of the regulations and turn the customs process into a more unified process.

68. The study suggested in the work group of trade and investment, as well as the magazine "Brazil Brand of Excellence", the Brazilian website "Brazil Trade Net" and the creation of the IBSA site, were solutions proposed to help ease the gap of information, and bring businessmen from the three countries closer.

69. A great deal of possible solutions were suggested to help strengthen the IBSA economic area: more aggressive free trade agreements, closer relations between businesses and industries from the three countries, enhancing contact between the automobile industries of IBSA.

70. Some sectors were also given special attention: the renewable energy sector and ethanol industry. The WG on trade and investment decided to create a seminar that will happen in South Africa before the Summit in September.

71. The meeting was praised and considered by the attendants as highly productive. It is expected new steps towards a more united and stronger IBSA by all.

72. The Ministers of India and South Africa confirmed the participation of Prime Minister Singh and President Mbeki in the IBSA Summit to be convened by Brazil on 13th September 2006.

73. The Ministers welcomed the announcement by Brazil of the II Conference of Intellectuals from the Africa and the Diaspora, which will take place in Salvador, on 12th-14th July 2006. Representatives from India will also be extended an invitation to attend this meeting as observers.

74. The Ministers of India and South Africa expressed their deep gratitude to the Minister of Foreign Affairs of Brazil for convening the Third Meeting of the Trilateral Commission.

75. The Ministers agreed that the next meeting will be hosted by India in the first quarter of 2007.

#### **APPENDIX 6: TSHWANE DECLARATION, OCTOBER 2007**

1. The Prime Minister of India, H.E. Dr Manmohan Singh, the President of Brazil, H.E. Mr. Luiz Inácio Lula da Silva, and the President of South Africa, H.E. Mr. Thabo Mbeki (thereafter referred as "the

leaders") met in Tshwane, South Africa, on 17 October 2007, for the 2nd Summit of the India-Brazil-South Africa (IBSA) Dialogue Forum.

2. The leaders recognised that since its inception in 2003, the IBSA Dialogue Forum provided a strong framework for trilateral cooperation in several key sectoral areas amongst IBSA partners. They noted that IBSA also provides them an important instrument for cooperation on regional and international issues and promoting the interests of the developing countries, thus contributing to the strengthening and deepening of South-South cooperation.

3. The leaders adopted the outcome of the 4th Ministerial Commission held in New Delhi on 17 July 2007.

4. The leaders recommitted themselves to vigorously pursue the deepening of South-South cooperation for sustainable development. They reaffirmed their shared commitment to the eradication of poverty through sustained and inclusive economic growth. They highlighted the importance of implementing the principles adopted in the Rio Declaration, Agenda 21 and the Johannesburg Plan of Implementation of the World Summit on Sustainable Development, particularly the principle of common but differentiated responsibilities and emphasized that capacity and institution building is a key to global sustainable development.

5. The leaders acknowledged with appreciation the continued participation by academia and business leaders. The leaders are satisfied that the participation by civil society contributed to the enhancing the visibility of IBSA. They also applauded the commitment by the peoples of the three countries to participate at the Music and Dance Festival in Brazil later in October 2007.

6. The leaders welcomed and applauded the coming together of parliamentarians from India, Brazil and South Africa and the fruitful talks they had as an important contribution to people to people relations and strengthening of the IBSA Dialogue.

7. The leaders welcomed and fully supported the launch of the Women's Forum which strengthens participation of women in IBSA and recognised the fundamental contribution of women in the social, cultural and economic development of India, Brazil and South Africa. They reaffirmed their commitment to the promotion of gender equality and women's rights.

8. The leaders reiterated the importance of strengthening the global governance system as it forms a critical ingredient for promoting peace, security and sustainable socio-economic development. They reaffirmed their abiding commitment and faith in multilateralism, with the United Nations playing the pre-eminent role. They reiterated that the international system cannot be reordered meaningfully without a comprehensive reform of the United Nations. The leaders emphasized that the reform of the Security Council is central to this process to ensure that the UN system reflects contemporary realities. They expressed their full support for a genuine reform and expansion of the Security Council, in permanent and non permanent categories of membership, with greater representation for developing countries in both. They reiterated that inter-governmental negotiations on the issue of Security Council reform must commence forthwith. They agreed to further strengthen cooperation amongst their countries and with other member states interested in a genuine reform of the Security Council. They also reaffirmed the need for concerted efforts by member states towards revitalisation of the General Assembly.

9. The leaders emphasised their commitment to the goal of the complete elimination of nuclear weapons and expressed concern over the lack of progress in the realisation of this goal. They emphasised that nuclear disarmament and nuclear non-proliferation are mutually reinforcing processes requiring continuous, irreversible progress on both fronts, and reaffirmed, in this regard, that the objective of non-proliferation would be best served by the systematic and progressive elimination of nuclear weapons in a comprehensive, universal, non-discriminatory and verifiable manner. They further emphasized the necessity to start negotiations on a phased programme for the complete elimination of nuclear weapons with a specified framework of time to eliminate nuclear weapons, to prohibit their development, production, acquisition, testing, stockpiling, transfer, use or threat of use, and to provide for their destruction.

10. The leaders strongly emphasized the need for ensuring the supply of safe, sustainable and non-polluting sources of energy to meet the rising global demand for energy, particularly in developing countries. In this context, they agreed to explore approaches to cooperation in the peaceful uses of nuclear energy under appropriate International Atomic Energy Association (IAEA) safeguards. They further agreed that international civilian nuclear cooperation, under appropriate IAEA safeguards, amongst countries committed to nuclear disarmament and non-proliferation objectives, could be enhanced through acceptable forward-looking approaches, consistent with their respective national and international obligations. They also reiterated the importance of ensuring that any multilateral decisions related to the nuclear fuel cycle do not undermine the inalienable right of States to pursue nuclear energy for peaceful purposes in conformity with their international legal obligations.

11. The leaders called for the international community to work together on Climate Change under the United Nations Framework Convention on Climate Change in accordance with the principle of common but differentiated responsibilities and respective capabilities. They urged all developed countries to take more ambitious and quantifiable GHG emission reduction targets in the post 2012 period under the Kyoto Protocol. Moreover they stressed the imperative of addressing unsustainable patterns of production and consumption. This would also spur the Carbon market and significantly enhance the Clean Development Mechanism's contribution to sustainable development, financial flows and transfer of clean technologies to developing countries. They urged that significant progress is needed in Bali in December 2007.

12. The leaders stressed the disproportionately high impact of Climate Change on developing countries with their greater vulnerability, inadequate means and limited capacities to adapt to its effects. They emphasised the importance for adequate, new and additional financing for the adaptation efforts of developing countries without diverting resources for development. There should be no foreclosure of opportunities for developing countries to secure the technological and financial resources required for adaptation through development.

13. The leaders urged an agreement on innovative modalities for the development, transfer and commercialization of technologies, including clean coal technologies, at affordable costs to developing countries noting that rewards for innovators need to be balanced with common good for humankind. They also urged the international community to work in a collaborative manner for the development and deployment of renewables, biofuels and biomass, and advanced clean technologies. In this connection they welcomed the work done by the International Forum on Biofuels and underlined the importance of the International Conference on Biofuels, to be held in 2008.

14. The leaders reaffirmed their commitment to the promotion and protection of human rights for all. They expressed their commitment towards developing the institutional framework of the Human Rights Council, including the Universal Periodic Review Mechanism, based on effective international cooperation. They reaffirmed their determination to work towards the operationalisation of the right to development.

15. The leaders reaffirmed that terrorism constitutes one of the most serious threats to international peace and security. They strongly condemned terrorism in all its forms and manifestations, committed

by whomever, wherever and for whatever purpose. They stressed that there can be no justification, whatsoever, for any acts of terrorism. They emphasized the need for concerted and cooperative action by the international community to realize the objectives of eradicating terrorism in all its forms and manifestations. In this regard, they called for the early adoption of a Comprehensive Convention against International Terrorism. They emphasized that international cooperation in combating terrorism should be conducted in conformity with the principles of the UN Charter, relevant UN Resolutions and International Conventions, and Human Rights.

16. The leaders noted the progress being made on the African continent towards the achievement of peace, security, stability and development. They reaffirmed their determination to support these efforts while noting the inextricable link between peace and security on the one hand, and development on the other. They commended the efforts of the African Union and noted the ongoing work to strengthen its structures.

17. The leaders reiterated their firm belief in NEPAD a key framework for socio-economic development in Africa. They acknowledged that the Pan-African Infrastructure Development Fund will, as it evolves, help accelerate Africa's growth and development to meet the objectives as set out in the NEPAD. In this regard, the IBSA partners agreed to associate with the development of the fund in accordance with their respective rules and regulations.

18. The leaders called upon all parties in the Sudan to recommit themselves to the implementation of the Comprehensive Peace Agreement (CPA) to its spirit and letter, as it is the viable option to the resolution of the conflict in the Sudan. They urged all parties involved in the conflict in Darfur to participate in the forthcoming Darfur peace talks in Libya. In the same vein they expressed their concern at the increasing violence in Darfur, and in this respect, call on all the parties in Darfur to exercise restraint. They call upon the international community to provide financial and material support for the deployment of the UN-AU Hybrid Force and the alleviation of the humanitarian situation in Darfur.

19. The leaders reflected on the situation in Zimbabwe and took note of the positive progress of SADC initiative to promote a negotiated political solution in Zimbabwe between the Government of Zimbabwe and the opposition party, under the facilitation of President Thabo Mbeki. They reiterated the need for the international community to continue its support for the people of Zimbabwe in order to overcome the challenges they are facing.



20. The leaders reaffirmed their long-term commitment for a democratic, prosperous and stable Afghanistan. They reiterated that a coherent and united international effort, in its military, political and developmental aspects, to assist the Government of Afghanistan remained vital. They underlined their centrality of the regional aspect in the reconstruction and development process. They strongly condemned the continued terrorist attacks by the Taliban on aid –workers, civilians, Afghan and international forces. They agreed that the international community needed to act resolutely and with determination, in coordination with the Government of Afghanistan, in facing the challenge of the resurgence of the Taliban and Al Qaeda.

21. The leaders reflected upon the Middle East Peace Process, and looked forward to progress towards goals of the Arab and all other major ongoing peace initiatives, including elements of the Roadmap, by means of intensified and meaningful dialogue among Israel, Palestine and other countries resulting in the establishment of an independent, sovereign, viable and united state of Palestine, living side by side at peace with Israel, within recognized and well-defined borders.

22. The leaders, in recognition of the many commonalities in the three countries in the socio-economic areas, welcomed the preparation of an integrated IBSA Social Development Strategy which will build on the best practices of the three countries for serving as a blue print for South-South Cooperation.

23. The leaders noted that WTO Doha Round of trade negotiations is entering a critical stage. These negotiations are now in a genuine multilateral process, with draft modalities texts for agriculture and industrial goods that provide a good basis for negotiations. They reaffirmed their commitment to carry out negotiations towards an outcome that is fair and acceptable to all.

24. The leaders reiterated the importance of the development dimension of the Round and welcomed the strengthened engagement, solidarity, and cooperation among developing countries in that process.

25. The leaders underlined that agriculture remains the key to the conclusion of the Round. To truly deliver on the development benefits of the Round, they called for the removal of long-standing distortions and restrictions in international agricultural trade, such as subsidies and trade barriers that affect the agricultural exports of and domestic production in developing countries. They also asserted that developed countries must agree to substantial and effective cuts in the latter's trade distorting support, with new disciplines that prevent box shifting and commit to real and new trade flows in agriculture. They underscored that meaningful and operable special and differential treatment, which

includes development instruments of Special Products and the Special Safeguard Mechanism are vital to address the concerns of developing countries with subsistence and low-income farmers.

26. The leaders emphasized that any progress towards achieving the above goals is a development imperative and should not be linked with meeting the disproportionate demands by developed countries in the NAMA and services negotiations.

27. The leaders asserted that developing countries have been constructive and willing to negotiate in all areas. They urged others to act with the same disposition.

28. The leaders recalled their commitment to making a contribution to market opening in the Doha Round in agriculture, NAMA, and services that will create new trade flows. They also committed to ensure that the process of the negotiations is not held hostage to “who goes first”. They reaffirmed their conviction that all members must “move together” to arrive at a balanced and fair outcome of the negotiations.

29. The leaders stated that through constant dialogue, reciprocal flexibility, non-dogmatic approach and good faith efforts, full modalities in the agriculture and industrial goods negotiations could be achieved before the year-end, together with equivalent results in other areas. They reaffirmed their commitment to achieving such a positive outcome within this framework.

30. The leaders underscored the importance of incorporating the development dimension in international discussions concerning intellectual property. They reaffirmed that intellectual property is not an end in itself, but one of the instruments to encourage innovation for technological, industrial and economic and social development. They also recalled that it is fundamental to preserve policy spaces necessary for ensuring access to knowledge, promoting public goals in the fields of health and culture, and a sustainable environment. In this context, they welcomed the adoption of 45 recommendations of concrete actions regarding the “Development Agenda” by this year’s WIPO General Assembly, as well as the establishment of the WIPO Permanent Committee on Development and Intellectual Property.

31. The leaders reaffirmed the need to reach a solution for the problem raised by the granting of intellectual property rights on biological resources and/or associated traditional knowledge, without due compliance with relevant provisions of the Convention on Biological Diversity, such as the granting of erroneous patents or the registration of undue trademarks. In this regard, they recalled the presentation

in the WTO of the proposal co-sponsored, among others, by the three IBSA countries to amend the TRIPS Agreement by introducing a mandatory requirement for the disclosure of origin, prior informed consent, and also fair and equitable benefit sharing of biological resources and/or associated traditional knowledge used in inventions for which applications for intellectual property rights are filed.

32. The leaders welcomed the ongoing discussion in the Inter-Governmental Working Group (IGWG) on Intellectual Property and Public Health of the World Health Organization. They stated the important role of WHO in the discussion of the impacts of intellectual property protection on public health and on the access to medicines.

33. The leaders agreed to work towards a trilateral initiative on cooperation in the field of Intellectual Property Rights (IPR) concerning capacity building activities, human resource development and public awareness programmes.

34. The leaders reaffirmed their commitment to the envisaged India-MERCOSUR-SACU Trilateral Free Trade Agreement (T-FTA), and welcomed the initial meeting amongst the representatives of SACU, MERCOSUR and India on a possible T-FTA during the exploratory discussions held in Pretoria on the 6th October 2007. They also noted with satisfaction that all sides agreed to continue discussions on the trilateral trade arrangement. They urged the need for sustained efforts to realize early an India-MERCOSUR-SACU FTA. In this regard, the leaders supported the proposal to hold a Trilateral Ministerial meeting in 2008. They also welcomed the significant progress made in MERCOSUR-SACU negotiations in Pretoria, on the 8-9 October 2007, as well as the launching of the SACU-India negotiations in the meeting held in Pretoria on 5 - 6 October 2007. MERCOSUR-SACU, MERCOSUR-India and India-SACU negotiations laid the basis for achieving the goal of a T-FTA.

35. The leaders expressed the importance of regular interaction among businesspersons of the three countries, with Government authorities playing a facilitating role in the process, for sharply enhancing the momentum of trade and investment with a view to fully utilising the large and growing opportunities in their markets. For the continued expansion of trade, investment and economic ties, the leaders encouraged the implementation of further initiatives amongst IBSA countries on standards, customs procedures, intellectual property rights, small and medium enterprise development, business-to-business linkages and participation in trade exhibitions.

36. The leaders underlined the need to provide a greater voice for and participation by developing countries in the Bretton Woods Institutions and expressed concern at the slow rate of progress that has been achieved so far. They acknowledged the role of the G20 as a key forum on global economic development and governance, and looked forward to its contribution to accelerating governance reforms in the Bretton Woods Institutions.

37. The leaders expressed their concern that many developing countries are still far from achieving the Millennium Development Goals (MDGs). They expressed their determination to mobilize support in this regard, with the specific objective to intensify common efforts towards achieving the MDGs and other internationally agreed development goals embodied in the Monterrey Consensus. They particularly stressed the need to address the problem of developing countries debt, increase the Official Development Assistance (ODA) flows and reduce the inequalities in the international trading system. They committed to close cooperation amongst IBSA partner countries while preparing for the "Financing for Development" Review conference that will take place in Doha, Qatar, in the second half of 2008. In this regard, they emphasized the importance of enhancing international efforts to develop innovative financial mechanisms to fight poverty and hunger.

38. The leaders reiterated the importance and uniqueness of the IBSA Fund Facility for South-South Cooperation for the benefit of other developing countries. They noted with satisfaction the South-South Partnership Award received by the Fund from the UN. They also agreed for a more effective mechanism for the utilization of the Fund.

39. The leaders underscored the importance of vibrant sectoral cooperation for providing a firm foundation of the IBSA Forum.

40. The leaders stressed the need for improved air and maritime connectivity among IBSA countries for expanding trade, investment and tourism. In this regard, they encouraged the concerned authorities to work towards achieving this important goal on a priority basis. They expressed the hope that by the time of the Third Summit in India, effective and innovative solutions would have been put in place to mitigate this problem.

41. The leaders called for the establishment of joint projects and collaboration for the increased usage of alternative sources of energy such as biofuels, synthetic fuels, wind and solar energy to help achieve the objective of energy security which can bring significant reduction in GHG emissions.

42. The leaders expressed the need to promote and enhance cooperation among the IBSA partners in the ICT infrastructure development, including for the Soccer World Cup being hosted by South Africa and the Commonwealth Games by India in 2010,

43. The leaders welcomed the progress made in the sector of Education with the identification of areas of cooperation. In pursuance of this, they encouraged holding of workshops and seminars, exchange of information, and joint projects. They also welcomed avenues of cooperation among the diplomatic institutes of IBSA countries.

44. The leaders also called for an early implementation of the Action Plan in the sector of Health and called upon the IBSA Health Ministers to meet within the next three months. Cooperation in this area is of particular importance and needs to be energized.

45. The leaders appreciated the initiative being taken with regard to formulation of joint projects in the sector of Agriculture and expressed the need for their expeditious implementation, for the purpose of inclusive growth and benefits to farmers. They further expressed the need to explore cooperation in the field of food processing.

46. The leaders stressed the need to explore avenues of cooperation in the sector of defence for the common benefit of the three countries.

47. While underlining the importance of cooperation in the S&T sector, they emphasized the need for immediate action to start implementation of joint research projects. They welcomed the creation of a seed fund of US\$ 1 million in each country for collaborative activities.

48. The leaders welcomed the signing of MoUs and Agreements on cooperation in areas of Wind Resources, Health and Medicines, Culture, Social Issues, Public Administration, Higher Education and on Customs and Tax Administration Cooperation, which will help further deepen trilateral cooperation among IBSA partners.

49. The leaders supported the establishment of two additional Working Groups on "Human Settlement Development" and "Environment and Climate Change" to further enhance the scope of trilateral sectoral cooperation.

50. The leaders called for an intra-IBSA trade target of US\$ 15 billion by 2010 and urged business and industry to be even more ambitious and exceed this target.

51. South Africa and Brazil welcomed the offer by India to host the 3rd IBSA Summit in 2008.

52. The President of Brazil and the Prime Minister of India expressed their deep gratitude to the President and the people of South Africa for successfully convening the 2nd IBSA Summit which represented a new milestone in the progressive development of IBSA.

#### **APPENDIX 7: NEW DELHI SUMMIT DECLARATION, OCTOBER 2008.**

1. The Prime Minister of India, H.E. Dr Manmohan Singh, the President of Brazil, H.E. Mr. Luiz Inácio Lula da Silva, and the President of South Africa, H.E. Mr. Kgalema Petrus Motlanthe (thereafter referred as “the leaders”) met in New Delhi, India, on 15 October 2008, for the 3rd Summit of the India-Brazil-South Africa (IBSA) Dialogue Forum.

2. The leaders of Brazil and South Africa expressed appreciation to H.E Dr Manmohan Singh, the Government and people of the Republic of India for the warm reception and for hosting this Summit.

3. The leaders expressed their deep satisfaction with the progress on the consolidation of the IBSA Dialogue Forum in the five years since its inception in 2003 and their gratitude to the sterling contribution of former President TM Mbeki of the Republic of South Africa in the formation and consolidation of IBSA and South–South cooperation in general. They reaffirmed their commitment to further strengthening the trilateral cooperation and reaffirmed that the Forum is an important mechanism for closer coordination on global issues, for promoting the interests of developing countries, enhancing cooperation in sectoral areas and improving their economic ties.

4. The leaders of Brazil and South Africa noted with regret the recent bomb blasts in India that resulted in the loss of innocent lives, damage to property and offered condolences to the government and the people of India. They joined the international community in condemning these acts of brutality and committed to strengthen mechanisms aimed at ending terrorism.

5. The leaders expressed satisfaction with the developing participation of civil society in its activities.

They acknowledged with appreciation the involvement and participation by academicians, business leaders, editors and women in their respective forums. They welcomed the holding of IBSA Cultural Festival and the first Food Festival in New Delhi.

### **Global Governance**

6. The leaders reiterated the need to make the structures of global governance more democratic, representative and legitimate by increasing the participation of developing countries in the decision-making bodies of multilateral institutions.

### **Millennium Development Goals (MDGs)**

7. The United Nations (UN) High level Event on MDGs held on 25 September 2008 has helped focus the world's attention on the urgent need to accelerate work towards achieving the MDGs. The leaders recognized that invigorated global efforts are required for developing countries to achieve the MDGs.

8. The leaders reiterated their support to the efforts towards the achievement of the MDGs and expressed their concern at the fact that the assistance for development is currently insufficient. In this context they called upon the developed countries to fulfill their commitments in the global partnership on increased financial flows to developing countries, including increasing Official Development Assistance (ODA) to 0.7% of their GNI, and on transfer of technology and capacity building.

9. The leaders recognized the importance of and instructed their officials to explore new models of cooperation for development and the substantive role of innovative finance mechanisms, complementary to the ODA, in order to support the efforts made to the fulfillment of the MDGs, to the fight against hunger and poverty and to sustainable development.

10. The leaders reaffirmed their determination to work together and coordinate their positions at the "Financing for Development" Monterrey Review conference that will take place in Doha, Qatar, in November 2008.

### **South-South Cooperation**

11. The leaders underscored the importance and relevance of South-South Cooperation in an uncertain international environment contributed to by factors such as rising food and energy costs, climate change and financial uncertainty, which made it all the more imperative to strengthen the collective voice of the South, in order to assist in its development efforts.

12. The leaders noted with satisfaction that the dynamism of the South is driving growth today with a substantial part of global GDP growth and trade being on account of countries of the South and intra-South trade. They pledged to promote these mutually beneficial trends through enhanced linkages such as trade, investment and technology transfer including trade agreements of bilateral or multilateral nature such as the Global System of Trade Preferences (GSTP).

13. They reiterated that South-South Cooperation cannot replace commitments by developed countries but is only a complement to North-South Cooperation. In this context, they welcomed the convening of the High-level Conference on South-South Cooperation to be held in 2009.

### **Sustainable Development**

14. The leaders reaffirmed their commitment to sustainable development and the eradication of poverty and hunger. They noted with appreciation that Brazil intends to host a meeting in 2012 to mark twenty years of Rio and in this context called upon the international community to support this initiative and to vigorously enhance the implementation of the principles and goals in the Rio Declaration, Agenda 21 and the Johannesburg Plan of Implementation in an effort to work towards a sustainable agenda.

### **UN Reforms**

15. The leaders reaffirmed their continued support for the reform of the United Nations to make it more democratic and responsive to the priorities of its Member States, particularly those of developing countries that constitute the vast majority of its membership. They expressed their full support for a genuine reform of the Security Council, with expansion in both permanent and non-permanent categories of membership, with greater representation for developing countries in both, to ensure that its composition reflects contemporary realities. They also emphasized that inter-governmental negotiations on the issue of Security Council reform should commence expeditiously and welcomed, in this regard, the General Assembly's Decision of 15 September 2008, which determined that negotiations shall begin no later than 28 February 2009, in an informal Plenary of the General Assembly. They agreed to further strengthen cooperation amongst their countries and with other member states interested in a genuine reform of the Security Council.

### **Climate Change**

16. The leaders underscored the importance for urgent action on climate change. The on-going



negotiations needed to move at an invigorated pace for long-term cooperative action in accordance with the provisions and principles of the United Nations Framework Convention on Climate Change (UNFCCC), especially the principle of common but differentiated responsibilities and respective capabilities, and the critical priority of sustainable development for developing countries. They highlighted the imperative of priority action with vastly scaled up resource allocation for adaptation in developing countries given their vulnerabilities and low capacities to cope.

17. An equitable burden sharing paradigm for equal sustainable development potential for all citizens of the world that takes into account historical responsibilities must guide the negotiations on a shared vision on long-term cooperative action, including a long-term global goal for greenhouse gases (GHG) emissions reductions.

18. Given their overwhelming contribution to the concentration of GHGs in the atmosphere and continuing high levels of GHG emissions, developed countries must take quantified time bound targets and deliver truly ambitious and absolute greenhouse gas emissions reductions under the Kyoto Protocol after 2012 with comparability of efforts among them. Moreover, developed countries have to put in place policies and measures that promote sustainable consumption patterns and lifestyles. Developed countries should also make clear commitments under the UNFCCC for significant financing to support both mitigation and adaptation in developing countries. New and innovative financial mechanisms must mobilize additional resources beyond the flexibility mechanisms of the Kyoto Protocol and other instruments of the carbon market, without diverting national or multilateral and ODA resources from the imperatives of development and poverty alleviation.

19. The leaders stressed that as developing countries pursue sustainable development, they are committed to taking nationally appropriate actions to address climate change. Their capacities for such actions need to be greatly enhanced through financing, technology and capacity building support.

20. Technology and transfer of advance clean technologies to developing countries has the potential to be a critical transformation agent in addressing climate change. The leaders called upon the international community to actively promote technology innovation and development and its transfer and deployment in developing countries. The intellectual property rights regime must also move in a direction that balances rewards for innovators and the global public good.

## **Bio-diversity**

21. The leaders stressed the importance of a timely and successful conclusion of the ongoing negotiations of a legally binding international regime on access to genetic resources and sharing of the benefits derived from their use and from associated traditional knowledge (Access Benefit Sharing - ABS). In this regard, the leaders reaffirmed the urgent need for an adequate legal framework at the international level to prevent biopiracy, ensure that national rules and regulations on ABS are fully respected across borders and recognize the value of biological resources and of traditional knowledge as an additional tool to promote sustainable development. They recognized the positive role of the IBSA Forum in enhancing the coordination within the Group of Like Minded Megadiverse Countries, of which the three countries are members, in the context of ABS negotiations.

### **Human Rights**

22. Noting that 2008 marked the 60th anniversary of the adoption of the Universal Declaration of Human Rights, the leaders reiterated their commitment to the promotion and protection of human rights. They expressed satisfaction at the progress in the development of the institutional framework of the Human Rights Council (HRC) including the Universal Periodic Review Mechanism and emphasized that the work of the HRC should be free from politicization, double standards and selectivity and should promote international cooperation.

23. The leaders underscored the importance of promoting cooperation on Human Rights with a view to exchanging information on national policies and initiatives, which could translate into dialogue and mutual benefit in the field of Human Rights promotion and protection.

### **Intellectual Property**

24. The leaders agreed on the need for establishing trilateral cooperation in the field of intellectual property rights with the aim of promoting a balanced international intellectual property regime and to make a meaningful contribution to the economic and social progress of developing countries, ensuring access to knowledge, health care and culture. Moreover, they agreed that the countries should hold consultations on a regular basis on the evolution of the international agenda.

### **Gender**

25. The leaders called on the international community to reaffirm its commitment to gender parity and to identify concrete and action-oriented steps to advance the implementation of the Beijing Platform for Action, and the outcomes of the 23rd Special Session of the UN General Assembly of 2005.

## **Disarmament and Non-Proliferation**

26. The leaders reiterated their commitment to the goal of the complete elimination of nuclear weapons and expressed concern over the lack of progress in the realisation of this goal. They emphasised that nuclear disarmament and nuclear non-proliferation are mutually reinforcing processes requiring continuous, irreversible progress on both fronts, and reaffirmed, in this regard, that the objective of non-proliferation would be best served by the systematic and progressive elimination of nuclear weapons in a comprehensive, universal, non-discriminatory and verifiable manner. They further emphasised the necessity to start negotiations on a phased programme for the complete elimination of nuclear weapons with a specified framework of time to eliminate nuclear weapons, to prohibit their development, production, acquisition, testing, stockpiling, transfer, use or threat of use, and to provide for their destruction. The leaders discussed the threat posed by non-state actors or terrorists acquiring nuclear weapons or their related materials and technologies. They reaffirmed their commitment to contribute to multilateral efforts to counter such threats and promote co-operation in this regard.

## **Peaceful Uses of Nuclear Energy**

27. The leaders underlined the importance of ensuring the supply of safe, sustainable and non-polluting sources of energy to meet the rising global demand for energy, particularly in developing countries. The leaders further agreed that international civilian nuclear co-operation, under appropriate IAEA safeguards, amongst countries committed to nuclear disarmament and non-proliferation objectives, and could be enhanced through acceptable forward-looking approaches, consistent with their respective national and international obligations. In this context, they welcomed the consensus decision of the IAEA Board of Governors to approve the India Specific Safeguards Agreement and the decision by the Nuclear Suppliers Group to adjust its guidelines to enable full civil nuclear cooperation between India and the international community. They also reiterated the importance of ensuring that any multilateral decisions related to the nuclear fuel cycle do not undermine the inalienable right of States to pursue nuclear energy for peaceful purposes in conformity with their international legal obligations.

## **Terrorism**

28. The leaders reaffirmed that terrorism presents a grave threat to international peace and security. They strongly condemned terrorism in all its forms and manifestations. They stressed that there can be no justification, whatsoever, for terrorist acts. They emphasized the need for a comprehensive and cooperative approach to eradicate terrorism. In this regard, they called for an early conclusion of

negotiations leading to expeditious adoption of the Comprehensive Convention on International Terrorism (CCIT).

### **Doha Development Round & International Trade**

29. The leaders acknowledged that while substantial progress was made during the informal ministerial meeting of the World Trade Organisation (WTO) in July this year, the final modalities in agriculture and NAMA could not be achieved. They agreed that there must be a concerted effort by all member countries to take the process forward towards a successful conclusion of the Round. They emphasized the importance of concluding the Round to achieve its development objectives, which had assumed even greater significance in the wake of the global financial and food crises.

30. The leaders welcomed the resumption of the multilateral process in the WTO and expressed the hope that this would lead to the early finalization of modalities in agriculture and NAMA. They also expressed the hope that multilateral discussions would resume in other areas of the negotiations as well, particularly issues of concern to developing countries.

31. The leaders reiterated the importance of the development objectives of the Doha Round and observed that many of the issues, which either remained unresolved or could not be addressed at all during the July informal ministerial engagement, were issues critical to developing countries. They called upon developed country members to demonstrate greater flexibility to address the development concerns, so that members could collectively achieve a positive and development oriented outcome in the Doha Round.

32. With reference to paragraph 8 of the Somerset West Ministerial Communiqué, South Africa, 11 May 2008, the leaders reaffirmed the importance of granting support to the goal of/the envisaged MERCOSUR-SACU-India Trilateral Trade Arrangement (TTA) at the highest political level. In this regard, they welcomed the proposal of a MERCOSUR-SACU-India trilateral ministerial meeting in order to promote high level discussions on the topic. Furthermore, they greeted with satisfaction the significant progress made on the regional preferential agreements between MERCOSUR-SACU, MERCOSUR-India and SACU-India towards a trilateral MERCOSUR-SACU-India TTA.

### **International Financial Crisis**

33. The leaders took note of the very serious financial crisis that has spread from the United States to the European Union and has begun to impact developing countries. This unprecedented turbulence in

financial markets and the resulting instability threatens global prosperity. The explosion of new financial instruments, unaccompanied by credible and systemic regulation, has resulted amongst others in a major crisis of confidence for which those responsible should be held accountable and liable. Developing countries are not immune from this and many would be very seriously affected. The leaders, therefore, stressed the need for a new international initiative to bring about structural reforms in the world's financial system. The new initiative must take into account the fact that ethics must also apply to the economy; that the crisis would not be overcome with palliative measures and that the solutions adopted must be global and ensure the full participation of developing countries. The reform must be undertaken so as to incorporate stronger systems of multinational consultations and surveillance as an integral part. This new system must be designed to be as inclusive as possible and must be transparent.

## Energy

34. The leaders recognized that energy resources are a vital input upon which the socio-economic development of nation states rests. The recent price volatility of crude oil has posed a challenge to the economic growth and stability of emerging and developing economies. Increasingly, energy markets have become susceptible to political considerations, driving energy security concerns into strategic and foreign policy agendas. They agreed to collaborate in diverse policy and technology areas to strengthen energy security in the three countries. They also look forward to working towards the diversification of energy baskets for a larger share of renewable, alternate and clean energy. Towards these common aims, IBSA will deepen regular exchanges, to further knowledge and know-how in the areas of biofuels, nuclear, hydro, wind and solar energy. They recognized that fossil fuels continue to be a primary source of energy supply and any reduction of emissions would be considered within the framework of the UNFCCC and Kyoto Protocol. They also encouraged the sharing of best practices in energy conservation and efficiency.

35. Renewables have come to the centre-stage in the recent times from the perspective of sustainable development, energy security and climate change. While the developing countries are pursuing this mostly to address the needs of sustainable development and energy security, the developed countries have a responsibility in the deployment of renewables for their mandated GHG reduction under their commitments within the Kyoto Protocol. The leaders recognized the need of a concerted effort for jointly developing renewable energy technologies with the developed countries for the overall benefit of the mankind. Taking into account the principle of common but differentiated responsibilities, they also called upon the developed countries to consider innovative modalities in the field of intellectual property so as to facilitate the access to such technologies by developing countries.

## **Food Security**

36. Food and nutritional security is critical for developing countries. The rise in global food prices has added a new and huge challenge to the fight against poverty and hunger, which can lead to the roll-back of hard-won development gains in several developing countries. It is imperative that the international community act resolutely and with urgency to vastly improve ways and means of producing and distributing food. This includes stepped up international collaboration to increase agricultural productivity and sharing the intellectual property of the research with developing countries in a manner that takes care of the greater good of humankind. There is also need for increased emergency aid and significant reduction in the very large trade-distorting support in developed countries. While welcoming the declaration of the High level Conference on World Food Security convened by FAO in Rome in June 2008, the leaders urged countries to deliver on the commitments made to provide funding to address issues of food security.

## **NEPAD**

37. The leaders reiterated their firm support to NEPAD as the key African Union (AU) socio-economic programme for Africa. Recognizing the central role of infrastructural development in growth and development of Africa, they re-affirmed their continued support of the programme and agreed that further cooperation should continue to focus on NEPAD's identified priorities in this regard in such sectors as ICT, energy, water and sanitation and transport.

## **Sudan**

38. The leaders noted that the 14 July 2008 formal application for a Warrant of Arrest under Article 58 of the Rome Statute of the International Criminal Court against the President of the Republic of the Sudan is a cause for concern for Africa. In this regard, IBSA countries as members of the global South community expressed their support for the African Union's Peace and Security Council position, which amongst others, expressed the AU's conviction that in view of the delicate nature of the processes underway in the Sudan, the prosecution could undermine the ongoing efforts aimed at facilitating the early resolution of the conflict in Darfur and the promotion of long-lasting peace and development in the Sudan as a whole.

39. The leaders expressed concern on the situation in the Sudan and urged all parties involved to work and commit to a speedy resolution of the serious humanitarian situation in Darfur, the implementation of the Comprehensive Peace Agreement, and stopping attacks on UN personnel, in

accordance with the commitment made by the government of the Sudan and the resolutions of the UN and the AU.

### **Zimbabwe**

40. The leaders congratulated the people of Zimbabwe for their agreement reached on 11 September 2008 in Harare on a government of national unity. They also paid tribute to former President TM Mbeki for his tireless mediation efforts on behalf of the Southern African Development Community and the AU. They also urged the parties to the agreement to fully implement it.

### **Afghanistan**

41. The leaders reaffirmed their long-term commitment to a democratic, pluralistic and stable Afghanistan. They expressed concern at the continuing deterioration of the military and political situation in Afghanistan due to a determined and coordinated resurgence of the Taliban and Al Qaeda, the growth in cross-border terrorism, its links with international terrorism, and the consequential danger these developments pose to the gains made in the recent past. They condemned the terrorist attack on the Indian Embassy in Kabul on 7 July 2008 and also the continued attacks on aid workers, civilians, Afghan and international forces by the Taliban and other insurgent groups. They reiterated, in this context, that a coherent and a united international commitment, both in its developmental and security/military aspects, remained of paramount importance and agreed to continue to cooperate and coordinate their efforts to impart greater strength to this process. They underlined the centrality of the regional aspect in the reconstruction and development process in Afghanistan.

### **Iraq**

42. The leaders took note of the developments in the security environment in Iraq in 2008 and emphasized the need for the return of peace and stability in Iraq, which are essential for its development and prosperity. A peaceful, united and stable Iraq requires a democratic and inclusive polity. The UN together with the international community has an important role to play in this regard. They reiterated support to Iraq for its efforts at reconstruction and development and its process of nation building and national reconciliation.

### **Lebanon**

43. The leaders welcomed the establishment of a Government of National Unity in Lebanon and the approval of the new electoral law. They also expressed confidence that the consolidation of the national

dialogue will contribute to the further strengthening of the democratic institutions in Lebanon in accordance with UNSC Resolutions 1559 and 1701.

### **The Middle East Peace Process**

44. The leaders underlined that the conflict between Israel and Palestine remains essentially political in nature and cannot be resolved by force. In this regard, they condemned the use of violence, particularly against innocent civilians and urged further easing of restrictions at check-points and road-blocks on humanitarian grounds. They reiterated their support for a negotiated solution resulting in a sovereign, independent, viable and united State of Palestine living, within secured and recognized boundaries at peace with Israel, in accordance with UN Resolutions 242, 338, 1397 and 1515. In this context, the leaders recalled the decision to donate US\$ 1 million per year, from the IBSA Fund, over three years. In this regard, they welcomed the project for the construction of a sports complex in Ramallah.

### **IBSA Facility Fund for Alleviation of Poverty and Hunger**

45. The leaders recommitted themselves to assist developing countries in the fight against poverty and hunger. They reiterated that the Fund constitutes a pioneer and unique initiative to enhance South-South Cooperation for the benefit of the neediest of nations of the South. The leaders reviewed the modalities of the disbursement of IBSA Trust Fund as well as the criteria for Project proposals and concurred with the new programme guidelines. In this context, the leaders welcomed with satisfaction the projects in Burundi, Cape Verde, Guinea-Bissau, Haiti, Laos and Palestine.

### **IBSA Sectoral Cooperation**

46. The leaders reviewed the activities under sectoral cooperation and while acknowledging the meetings of the Working Groups and concurring with their reports, expressed satisfaction on the progress made. The leaders welcomed the signing of (i) Tripartite Agreement on Tourism, (ii) MoU on Trade Facilitation for Standards, Technical Regulations and Conformity Assessment, (iii) MoU on Environment, (iv) MoU on Human Settlements Development, (v) Five Year Action Plan for Maritime Transport, (vi) Five Year Action Plan for Civil Aviation, and (vii) MoU on Women's Development and Gender Equality Programmes, to enhance cooperation in these sectors. They urged time-bound and concrete deliverables, in all the sectors.

47. The leaders noted with satisfaction progress made by the various Working Groups since the last IBSA Summit. They welcomed that Working Groups on Agriculture, Climate Change and Environment,



Culture, Defence, Education, Energy, Health, Human Settlement Development, Information Society, Public Administration, Revenue Administration, Science & Technology, Social Issues, Tourism, Trade & Investment and Transport had met and finalized their reports regarding trilateral cooperation, with many of them agreeing on Action Plans. The leaders noted with satisfaction the IBSA diplomatic academies have also met in New Delhi in September 2008. The leaders also took note of and instructed that work that had begun on the drawing-up of Social Development Strategy for IBSA and the future of agricultural cooperation in IBSA should be pursued in a meaningful manner so that these could be finalized in time for the 4th IBSA Summit.

48. The leaders expressed satisfaction that IBSA Ministers of Health as well as Science & Technology had met since the 2nd IBSA Summit.

#### **Fourth IBSA Summit**

49. The leaders of India and South Africa welcomed the offer of Brazil to host the 4th IBSA Summit in Brazil on 8 October, 2009.

#### **Diwali**

50. In the month of October, India marks the celebration of various festivities and auspicious days, including Diwali (the celebration of light). The leaders of Brazil and South Africa wished the Government and the people of India well during these celebrations.