

SOUTH-SOUTH TRADE: TAPPING THE POTENTIAL

CHALLENGES

Developing countries don't fully exploit good business matches among their firms.

Exporters still tend to focus on traditional markets in industrialized countries. These markets are highly competitive and difficult to enter, whereas for many developing country firms, neighbouring markets offer immediate opportunities.

ITC has been promoting South-South trade for over 30 years. The untapped potential is great

among developing country firms. What is holding them back?

The answer is a mix of related facts and perceptions.

First, it's often believed that developing countries produce similar goods — mainly raw materials and commodities — and therefore don't have





trade complementarities. The lack of reliable trade information perpetuates this belief. In fact, from blankets to school textbooks and mobile phone operators, developing countries produce a wider range of goods and services than conventional wisdom would have us believe.

Second, there's a notion that low gross domestic product levels reflect limited market potential. However, developing countries import — often at high cost — from developed countries.

Third, while trade between developing countries is currently growing by 10% a year, the pace could pick up if trade barriers between them fall. On average, trade barriers among developing countries are three times higher than those imposed by the developed world. For manufactured goods, they are six to eight times higher.

Fourth, countries do not usually have a trade promotion infrastructure to encourage bilateral and multilateral trade, such as reciprocal chambers of commerce or mutual recognition of standards and inspection procedures. Developing countries also lack basics such as reliable transport and telecommunications links, and corresponding banking facilities.

South-South trade can be a “training ground” for developing and transition economies to enter the global trading system. Establishing business links across borders in the South builds confidence and economies of scale that make it less risky to expand to a wider range of markets.

SOLUTIONS

- ▶ **Information to overcome misperceptions.** Research and provide details of regional trade potential for national exports, availability of products and services to import from other developing countries and capacity of firms to deliver.
- ▶ **Trade promotion infrastructure.** Promote links between trade support institutions, establish regional trade information networks and harmonize trade procedures.
- ▶ **Reduce trade barriers.** Business and government can work together to identify barriers — such as tariff or quota restrictions — that hamper the growth of South-South trade. Negotiate for their removal in bilateral, regional and multilateral trade forums.

How ITC Can Help

- ▶ **The South-South Trade Promotion Programme** raises awareness about trade potential in various sectors between developing countries, provides market analysis tools to identify opportunities and translates them into business deals by bringing together buyers and sellers within a region. Participants have struck new deals in sectors such as pharmaceuticals, textbook publishing, automotive components and humanitarian supplies, with each meeting generating millions of dollars in new business.
- ▶ **ITC strengthens trade promotion infrastructure** with technical assistance on legal, trade finance, packaging and export quality management issues. ITC programmes and tools help improve trade promotion organizations' performance and trade information services.
- ▶ **Supply and demand surveys** on countries and products fill trade information gaps, encourage information exchange and help harmonize inspection and certification procedures.