



COMPETITIVENESS THROUGH PUBLIC-PRIVATE PARTNERSHIP SUCCESSSES AND LESSONS LEARNED

WHY PAY ATTENTION TO SOUTH-SOUTH TRADE?

A BACKGROUND PAPER
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The Micro Picture

Field research reveals that markets in the South can offer real, convenient trading opportunities for enterprises in developing countries as a result of two converging factors. Factor one, many tradable products offered by developing country enterprises are more diverse and complementary than conventional wisdom has it. Factor two, countries in the South spend large amounts on importing goods from countries in the North when many of these goods are available in other developing countries, under competitive conditions in terms of price and quality, and often in their same regions and subregions.

Establishing first trade beachheads across borders in the South builds both confidence and economies of scale while providing an adequate launch pad for more ambitious international ventures. The whole spectrum of trade promotion services is encompassed in a sound South-South trade promotion methodology, including:

- Market research, through trade flow analyses, supply and demand surveys, and audits of potential buyers and sellers;
- Trade support services, through targeted training and product selection workshops;
- Product and market development, through sectoral buyer-seller meetings and other networking events with a regional scope; and
- Institutional capacity building, through the involvement of national trade support institutions in research, organization and follow-up activities.

There are robust reasons why South-South trade requires dedicated attention. A powerful one relates to awareness creation, that is, to the need of identifying and filling gaps in the trade promotion infrastructure of a country, including trade information and promotion programmes, infrastructure, trade-related services, etc., when none or very little exists, and those gaps remain unheeded. Also, it is nearly impossible to take advantage of existing and potential trade and investment opportunities in the absence of essential trade facilitating tools, where the marketing environment lacks transparency and focus.

Another important reason is that the regional marketplace frequently provides an opportunity to initiate the learning process for trading across borders on a manageable scale. The idea is to create a catalytic environment for small- and medium-sized enterprises by engaging them in a learning-by-doing process of exploring business opportunities in real-life situations.ⁱ Furthermore, regional trade development action offers scope for various other forms of business-to-business cooperation, particularly in the area of investment, technology transfer and joint ventures, and for reinforcing backward and forward linkages within value and production chains.

The vast number of follow-up activities that results from such South-South trade nurturing actions may, in turn, generate further specialized attention through local capacity building. That is, a bottom-up, demand-driven approach can complement the top-down regional integration efforts of developing economies.

The Macro Picture

Developing country trade has been growing steadily since the 1980s and currently accounts for ? of world merchandise trade and ¼ of global trade in services. South-South trade flows are increasing at more than ten percent per annum since the early 1990s –more than twice the rate of expansion of world trade– and in 2003 they represented more than ²/5 of all trade by developing nations.ⁱⁱ

As some major developing countries, whose growth strategy is predominantly based on international trade, have been growing, and are likely to continue to grow at a faster pace than that of developed countries –perhaps twice as fast,ⁱⁱⁱ – the emergence of “a new geography of trade and economics” is rapidly taking shape.

Two salient features command our reasoned attention: for many developing countries with strong economic growth, other developing countries have become increasingly important export markets and it is their intra-regional exports that have grown the most. In the words of former UNCTAD Secretary General Rubens Ricupero, "South-South trade is in fact a crucial complement to North-South flows".^{iv}

Major trade policy trends have resulted from these developments, including the burgeoning of regional trade integration agreements among groups of developing countries. Although empirical evidence is not uniform on their impact, in most cases a safe conclusion is that they are not only trade-creating but also trade-expanding mechanisms.^v Evidence also shows that intra-regional trade has grown not only where a formal trade agreement has been in place but also where there was none. In other words, South-South trade expansion is, to a large extent, a market-driven development.^{vi}

Persuading entrepreneurs in the South that trade and related investment opportunities do exist and equipping them to take advantage of those identified opportunities fosters a win-win outcome for all parties involved. This is tied up with the mainstream notions that "international trade can play a major role in the promotion of economic development and the alleviation of poverty",^{vii} and that the lowering of trade barriers among countries in the South can benefit both their own consumers and other developing countries.

Tariff and Nontariff Barriers

Trade liberalization is not an easy task for any country. Average tariffs in developing countries (12.6%) are thrice as high as those in industrial countries (3.4%) and nearly ¾ of the tariffs faced by developing country exporters are imposed by other countries in the South. Having said that, average tariffs imposed by developing countries are ? of what they used to be 20 years ago, largely as a result of the Uruguay round.^{viii}

A shift to value-added exports –from commodities to manufactures– has taken place during the same period and as more and more developing country enterprises join international production chains, low tariffs on imported components becomes a competitive must.^{ix} Likewise, numerous regional and bilateral trade agreements have been established since the 1980s to address the question of trade liberalization, investment promotion and technology transfer, some within their respective regions, some without, usually between developing and developed countries.

While tariff reduction is the main objective of trade liberalization, tackling other trade barriers is essential to move forward, like reducing or eliminating import quotas, export subsidies, licensing requirements, cumbersome customs procedures, sanitary, phyto-sanitary and technical measures, etc. However, progress in trade liberalization, to be sustainable, needs to go hand in hand with other requisites, like secure property rights, good governance and sound economic institutions.^x

Notes

ⁱ See, for instance, How can regional integration help Africa? in United Nations Economic Commission for Africa, *Assessing regional integration in Africa*, 2004, pp 21ff. <http://www.uneca.org/aria/>

ⁱⁱ The World Trade Organization's *World trade report 2003* (I A 1., 26) gauges the share of intra-developing country exports in 2001 in Asia at 66 percent; in the Middle East, at 15 percent; in Latin America, at 13 percent; and in Africa, at six percent. http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report_2003_e.pdf

ⁱⁱⁱ The World Bank, *ibid*, predicts an average growth of 4.6 percent for developing countries *vis à vis* 2.6 percent for developed ones in the period to 2015.

^{iv} Rubens Ricupero, Message of the Secretary General of the United Nations Conference on Trade and Development at the XII Summit of Heads of State and Government of the G-15, Caracas, 27 February 2004. <http://www.unctad.org/Templates/Webflyer.asp?docID=4490&intItemID=1397&lang=1>. Also, United Nations Conference on Trade and Development, *Trade and development report 2004*, pp43ff. http://www.unctad.org/en/docs/tdr2004_en.pdf

^v Lucian Cernat, Assessing South-South regional integration: same issues, many metrics, Policy Issues in International Trade and Commodities Study Series No. 21, United Nations Conference on Trade and Development, 2003, 17. http://www.unctad.org/en/docs/jtcdtab22_en.pdf

^{vi} Matthias Lücke, South-South trade in the world trading system, Kiel Institute for World Economics, 25 February 2004. http://www.geocities.com/matthiasluecke/south_south_trade_pres.pdf

^{vii} Doha Development Agenda, WT/MIN(01)/DEC/1, 20 November 2001, http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm

^{viii} World Bank, *Global economic prospects 2004*, pp38ff. <http://www.worldbank.org/prospects/gep2004/full.pdf>

^{ix} See, The benefits of reducing trade barriers between developing countries, Australian Department of Foreign Affairs and Trade, *South-South trade: winning from liberalisation*, 2004, pp19ff. http://www.dfat.gov.au/publications/south_south/south_south_trade.pdf.

^x Domestic institutions and social acceptance of trade reforms, in World Trade Organization, *World trade report 2004*, pp 181ff. http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report04_e.pdf