

# a more dynamic & transformative SOUTH-SOUTH TRADE

**S**outh-South trade has grown steadily over the last decade to become an important feature of international trade. Growth has been rapid and has tended to cover a broader range of products than South-North trade. Moreover, growth has been evident in areas of higher value addition and technological content offering prospects for reducing dependence on commodity trade. The greater proportional drive coming from enterprises compared to the efforts of governments still leaves scope for improvements in trade facilitation and other trade-generating initiatives.

South-South merchandise trade accounted for more than 10% of world trade (imports) in 1995 and by 2008 this share had almost doubled to nearly 20% (see table next page) valued at US\$ 3.1 trillion. More than 70% of such trade is accounted for by intra-Asian trade, about 6% by intra-trade in Latin American and Caribbean countries, and 2% by intra-African trade. The top traders in South-South trade, especially intra-regional trade, are Brazil, China, India, Saudi Arabia and Singapore, with China accounting for the largest share (over 40%). This shows that there is huge potential to expand South-South trade, especially in Africa and Latin America and the Caribbean, as well as inter-regionally, and to a wider group of developing countries.

The slump in global trade in 2009 consequent to the global recession adversely affected South-South trade. However, given the dynamism of South-South trade and that the trade of emerging economies recovered more quickly than developed countries, South trade flows should recover strongly. Moreover, developed countries, which have traditionally been the main markets for exports of the South, now face lower growth prospects, which weakens their demand for Southern exports. An impor-

tant shift in markets, therefore, is the demonstrated resilience of South-South trade in a global crisis and its potential, despite the crisis, to grow even further. South-South trade needs to be nurtured and expanded as a source of internal (more dynamic) demand to act as a bulwark against future global economic shocks.

## Towards more intra-regional and inter-regional trade

Concomitantly with South-South trade dynamism, there has been a substantial increase in the number of regional trade agreements among developing countries, along with a widening and deepening of cooperation. These developments have contributed to reducing trade and other barriers to South-South trade. Regional economic integration groupings in Africa, Asia and the Pacific, and Latin America and the Caribbean have consolidated their free trade agreements and customs union arrangements, such as in Mercosur (or the Southern Common Market), the Common Market for Eastern and Southern Africa (COMESA), the South Asian Association for Regional Cooperation (SAARC) and the Association of Southeast Asian Nations (ASEAN). Some have widened cooperation to cover services trade like the Southern African Development Community (SADC); many have developed common competition policy like the West African Economic and Monetary Union (UEMOA); and several have instituted financial and monetary cooperation mechanisms like the Banco del Sur or the Chiang Mai Initiative.

At the inter-regional level, the third round of negotiations under the Global System of Trade Preferences Among Developing Countries (GSTP) promises to act as a major catalyst for trade creation and expansion among developing countries of different regions (see box). Presently the GSTP is underutilized owing to, *inter alia*, limited items under concession (about 1,900) and limited concessions (concessions by country presently range from one item to about 100 items).

Currently more than one-third of the goods traded within the South comprise the high-skill manufacturing sectors, namely electrical and electronic goods (including parts and components), machinery and mechanical appliances, and computer and telecommunication equipment. Exports of fuels are also important. Exports of food weighed heavily in the trade between Africa and Asia. These sectors have exhibited dynamic growth since 1995. The increase in manufactured exports within the South came from an increase in the trade of manufacturing parts and components in addi-

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tion to a rise in exports of final goods, as a result of regional production-sharing schemes. This applied particularly in East Asia, driven by the emerging economies of China and India and their enterprises, as well as demand from a widening middle class with disposable income. The expansion of South-South trade has also been combined with growing South-South investments, indicating active involvement of enterprises. Businesses of the South are finding that there are quite large and profitable market opportunities to be exploited in other developing countries.

#### A way out of the commodity dependence

A critical consideration is that South-South trade shows potential to transform trade and related productive relations between countries towards goods (and services) that contain higher value addition and technological content. South-South trade offers a way out of the commodity dependence of many developing countries even though, in some cases, trade in commodities will continue to feature prominently. The latter is evident in the case of emerging economies which are seeking food, energy and mineral products from other developing countries to feed their growing population and industries.

At the same time, these emerging economies have started to develop wider economic cooperation agreements with other developing countries to enhance their productive capacities. Some of them, like India and Brazil, have elaborated duty-free, quota-free trade schemes for least developed countries (LDCs) which can stimulate trade between them, especially if such schemes are backed up with aid-for-trade programmes to develop the productive capacities of LDCs and encourage private sector involvement in inter-country investment and trade opportunities. Such trade-cum-production schemes can result in development gains for all parties involved.

#### Critical role of the private sector

Another critical factor is that South-South trade is being driven by economic factors and primarily by enterprises, unlike in the past when governments were at the forefront. Governments continue to create the enabling conditions, for example, through the consolidation of regional trade agreements or the GSTP. But it is the enterprises of the South that are seeking and exploiting new trade and investment opportunities in the South. This could partially explain the fact that South-South trade tends to cover a broader range of products compared to South-North trade, especially in the intra-regional context. An expansion of such trade therefore will stimulate economic diversification.

While many large enterprises are active in the formal trade between countries, there is an increasing role for small and medium-sized enterprises (SMEs). Many SMEs currently engage in informal border trade, mostly in the retail industries. Improved trade facilitation measures, trade financing options, governance at customs points and joint ventures can assist these SMEs to grow their industries on the basis of South-South trade. Triangular business ventures between Southern and Northern enterprises to exploit regional market opportunities could also be developed.

Finally, the sustainability of South-South trade will depend on the equitable distribution of the benefits between the countries, peoples and enterprises. There is a need to ensure that those who are likely to be negatively affected by South-South trade liberalization and expansion be assisted in finding new opportunities for income generation. Thus, South-South trade should lead not only to more trade, but also to more equitable trade between the trading partners and should promote the development of all. ⑦

## THE WAY SOUTH

### SOUTH-SOUTH TRADE TRENDS

1995-2008

|      | WORLD TRADE<br>(US\$ MILLION) | SOUTH-SOUTH TRADE<br>(US\$ MILLION) | SOUTH SHARE IN<br>WORLD TRADE<br>(APPROX. %) |
|------|-------------------------------|-------------------------------------|--|
| 1995 | 5,080,211                     | 545,227                             | 11%  |
| 2000 | 6,476,208                     | 794,817                             | 12%  |
| 2005 | 10,508,914                    | 1,696,566                           | 16%  |
| 2008 | 16,204,930                    | 3,088,750                           | 19%  |

Source: UNCTAD South-South Trade Information System.

### THIRD ROUND OF GSTP NEGOTIATIONS

UNCTAD XI



The agreement on the Global System of Trade Preferences Among Developing Countries (GSTP) was established in 1988 as a framework for the exchange of trade preferences among developing countries in order to promote intra-developing country trade. The agreement was envisaged as a dynamic instrument of economic cooperation, proceeding with step-by-step negotiations in successive stages.

The third round of negotiations was launched in June 2004 by a ministerial meeting of the committee of participants, on the occasion of UNCTAD XI. The negotiations are supervised by a negotiating committee in two areas: market access negotiations and rule-making negotiations. Under the market access pillar, the key issues are the product coverage for liberalization, the excluded list of products, the margin of preferences to be offered and the formula for cutting tariffs. In this regard, on 2 December 2009, ministers of participating developing countries agreed, *inter alia*, to apply an across-the-board, line-by-line, linear cut of at least 20% on at least 70% of their dutiable tariff lines. The linear cut will be applied on the valid MFN (most favoured nation) tariff applied on the date of importation. Differential treatment and flexibilities will be accorded to Algeria and Iran who are engaged in the WTO accession process.

Ministers also agreed that participants submit their offers by way of draft schedules of tariff concessions by the end of May 2010 and finalize the concessions by September 2010. Of the 43 countries participating in the GSTP, 22 are engaged in the third round of negotiations. The conclusion of the round on the basis of the modalities adopted by ministers would represent a huge step forward for the GSTP and the advancement of South-South trade, including through opening up new business opportunities for Southern enterprises.