15369

Distr.
LIMITED

UNIDO/IS.584
19 December 1985

ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

POLICY AND INSTITUTIONAL OBSTACLES TO SOUTH-SOUTH TRADE IN MANUFACTURES*

Prepared by

M. Newson and D. Wall

* The designation employed and the presentation of material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country or its authorities, or concerning the delimitation of its frontiers. This document has been reproduced without formal editing.

V.85-37712

This study has been prepared for UNIDO by Mary Newson (Overseas Development Institute, Fellow in the Research Department, Reserve Bank of Fiji) and David Wall (University of Sussex). Appendix two was written by Gunnar Paulson (Research Fellow, University of LUnd). The authors wish to thank S. Ghuan (Madras Institute of Development Studies) for discussions on the content of the study and, of course, inputs provided by the UNIDO Secretariat are acknowledged.

TABLE OF CONTENTS

1. Introduction

Arguments in favour of economic cooperation among developing countries, and analyses of the role South-South trade can play in contributing to such countries' economic development, may be traced back to the 1950s, in particular to the work of the UN Economic Commission for Latin America under the leadership of Raul Prebisch. Since then a number of theses have been elaborated stressing the need for fostering inter-developing country trade, especially in manufactures. An important recent quantitative study undertaken by the United Nations Industrial Development Organization (UNIDO) of the feasibility and potential benefits of increased South-South trade concluded that "the potential benefits of [South-South cooperation] are substantial", and that it "provides a field for development with the potential to help accelerate the pace of industrialization in the South"(1).

The emphasis in the earlier debate on South-South cooperation was on regional cooperation; more recently attention has been focussed on global cooperation within the South. Various reasons have been proffered by the proponents of South-South trade for its expansion. They include arguments derived from both the 'old' and the 'new' export pessimism. Some concern the dynamic gains to be reaped from industrialisation which it is claimed, can only be achieved through expanded trade among developing countries; others focus on strategies to reduce the vulnerability of the South

---

1. Industry and Development: Global Report, 1985, UNIDO Vienna, 1985, pages 126 and 64 retrospectively.

to fluctuations in economic activity in the industrialised nations, and on strengthening the overall position of the developing countries vis-a-vis those in the North. It is contended by some that inter-developing country trade necessarily yields more benefits than North-South trade, while other proponents of South-South trade merely note that the potential for trade creation exists and should be exploited, without arguing for the superiority of a particular direction of trade. More recently optimism about the prospects for the growth of South-South trade has led to advocacy, for example by Sir Arthur Lewis in his Nobel Prize acceptance speech, of "collective self-reliance" as an objective for the South.

This paper does not review the literature relating to the above debate, nor reach any conclusions concerning either the rationale for South-South trade, or the optimal direction of trade(2). Our concern is to identify, and to analyse the impact of, various policy and institutional obstacles to the expansion of developing countries' mutual trade in manufactures.

There are, of course, many other kinds of obstacles impeding the growth of South-South trade which challenge the imagination of policy makers in the South; geographic dispersion with weak transport links; cultural incompatibility and political differences (up to and including a state of war); limited complementarity of industrial production; inadequacy of post-production imputs - i.e. after-sales

----
2. The interested reader is referred to the "Global Report" of UNIDO, ibid.

service, delivery scheduling, packaging etc.; and the remaining post-colonial ties to metropolitan countries with which indigenous entrepreneurs have their strongest links.

The focus of this paper, however, is on those constraints upon the expansion of South-South trade encountered within developing countries themselves, either individually or within various groupings.

It is frequently argued that 'the principle obstacles to inter-developing country trade are the developing countries own trade policies'(2) Obviously exchange control regimes will inhibit trade in general; this paper examines the extent to which the commercial policies in force in the South, and their modes of operation, actually generate a specific bias against South-South trade in manufactures. It is also widely acknowledged that the lack of various trade-facilitating institutions and infrastructure within the South constrain the ability of developing countries to exploit existing trading opportunities within the current structures of protection. It constrains also their ability to reap in full the potential benefits of any future trade liberalisation within the South.

There has long been recognition among developing countries themselves of these policy and institutional barriers to their mutual trade. This recognition was, for example, reflected in the Caracas Programme of Action adopted at the High-Level Conference on Economic Cooperation among

----

2. Helen Hughes and Karsten Laursen, 'Trade among Developing Countries: Retrospect and Prospect', World Bank, Washington, D.C., mimeo., 1979, p.12.

Developing Countries in May 1981. Although the Caracas Programme of Action is concerned with economic cooperation in a number of areas, considerable attention is focussed on trade. It is recognised that trade among developing countries may be expected to continue to grow spontaneously, but that major shifts in the geographical distribution of trade will require developing countries themselves to undertake considerable promotional efforts.

The barriers to their mutual trade arising from developing countries own commercial policies are acknowledged by the specific agreement contained within the Caracas Programme on the need to establish a global system of trade preferences (GSTP) among developing countries. In respect of institutional barriers, a number of these are identified in the areas of marketing, distribution, transport, communications, trade finance, and international payments and credit arrangements. In respect of marketing and distribution, the Programme recommends the promotion of the role of State Trading Organisations (STOs) in developing countries and of cooperation among the STOs of different developing countries. It also calls for the establishment and promotion of multinational marketing enterprises among developing countries. The Programme envisages the various infrastructural barriers to trade will be overcome, through the establishment of national enterprises in the areas of transportation, communications, shipping and insurance. In respect of trade finance, an extension of the operations of the existing regional trade development banks is called for, as well as the establishment of new regional and inter-regional ones. The Programme also recognises the need for strengthening existing sub-regional and regional payments arrangements, and for strengthening and extending reciprocal credit arrangements for the support of inter-developing country trade flows.

The majority of the elements contained in the Caracas Programme of Action for the promotion of South-South trade are not new. What is new is the extent, and global nature, of the cooperation among developing countries envisaged in the Programme. Many of the policy and institutional barriers to trade which it identifies have been recognised in the past. There have been attempts to overcome various combinations of these within a variety of sub-regional, regional and inter-regional arrangements. The experience of these previous attempts to promote trade among developing countries is of obvious relevance, to an assessment of the impact of various constraints upon trade, and to an understanding of how more ambitious global efforts at trade promotion might fare. These experiences are reviewed in the discussion of obstacles to trade in manufactures which follows. However, before briefly reviewing recent trends in trade in manufactured goods among developing countries, and examining the hindrances to its expansion, a few general remarks are in order.

An expansion of South-South trade can be achieved by the diversion of existing North-South trade flows to South-South channels, or by the creation of trade at the South-South level, or by a combination of the two. Infrastructural and institutional barriers may be expected to affect equally the ability to both divert trade to, and create trade at the South-South level. However, the effects of trade policy barriers will not be the same in both cases.

Trade Diversion

In respect of the substitution of North-South trade flows by South-South flows, the following should be noted. Trade diversion *per se* may conceivably be considered as an objective in itself where, for reasons of 'collective economic security' or 'collective self-reliance', countries within the South would prefer a situation in which prevailing levels of production and industrialisation were maintained through greater reliance on each other's, rather than North, markets. But if one is interested in the expansion of South-South trade in manufactures primarily as a means of facilitating the development and diversification of the industrialisation process in developing countries, the aim is only to divert trade to the extent that it results in higher overall levels of efficient production in the South. That is, attention should be focussed on those factors currently obstructing developing countries from switching their imports of manufactures from suppliers in the North to suppliers in the South, with the increased demand being met from increased production, rather than on factors preventing developing countries from switching current exports from destinations in the North to destinations in the South.

UNIDO(4) has identified a number of industrial products in which there would appear to exist substantial potential for trade diversion from North-South to South-South channels. All these products are both produced within the South and imported from the North; further, they are exported by the South to destinations in the North and the South. That is, the South has established an internationally competitive edge in such products. To establish the precise obstacles to the expansion of South-South trade in such products, detailed case studies of the structure of production, trade, marketing and distribution of the individual commodities would be required. Presumably though, neither the importing nor the exporting countries within the South lack, for these commodities at least, appropriate marketing and distribution systems. South suppliers can, then, by definition, compete with North suppliers in terms of productive efficiency. At the same time, North manufacturers are successfully exporting to the South. It is clear, then, that it is not tariff barriers in the importing countries within the South that are obstructing the expansion of South-South trade in these commodities. For tariffs do not discriminate between identical imports according to source. Thus, given that both North and South suppliers can offer equally attractive ex-factory or f.o.b. prices for similar goods, there must be other factors at work leading importers within the South to purchase from the North rather than the South. There are a number of reasons why such trade diversion might prove difficult in these circumstances.

----
4. Op cit.

The evidence suggests that the *ad valorem* incidence of transport costs on inter-developing country trade is higher than on North-South trade.(5) As long as transportation links between developing countries remain relatively underdeveloped compared to North-South links, transportation costs may be expected to be higher due to economies of scale considerations. They will therefore continue to hamper both the diversion of North-South trade and the expansion of South-South trade generally.

The exchange rate policies adopted by developing countries may also tend to bias their trade in a particular direction. The choice of currency, in the case of a single peg, or the choice of currencies and their respective weights in the case of basket pegs, could have implications for a country's trade structure.

For the most part, the currencies of South countries are pegged to the dollar, the French franc, the pound, the SDR or to a specially formulated basket (in most of which the currencies listed have a heavy weight). This means that fluctuations among the central currencies and "basket currencies" affect the cross-rates between the currencies of the South according to which pegs they use. Thus South currencies pegged to the dollar will devalue against South currencies pegged to the French franc if the dollar itself devalues against the franc. Therefore, an element of uncertainty is introduced into the trading arrangements among

----

5. UNCTAD doc. no. TD/B/C.7/21, *op.cit.*, p.11.

the countries of the South because of the need to use currencies of the North as numeraries; and all uncertainty is inimical to the growth of trade.

Countries pegging to, say, the US dollar, may be more inclined to trade with the US or with other South countries also pegging to the US dollar, rather than with South countries using other currency pegs.

Obstacles to trade diversion in manufactures in particular, include the industrialised nations' practise of tying their bilateral aid to the purchase of their own capital goods, machinery and equipment. Given that South-South trade in such goods has been experiencing high rates of growth of late (6), it would appear plausible to assume that aid recipients would, if given a free choice, prefer to acquire some proportion of their inputs from South suppliers. Similarly, increased use of programme rather than project aid by the multilateral aid agencies could be expected to stimulate such trade.

Also of specific relevance to trade in manufactures, is the superior ability of the North to extend export credits. The mere fact that North suppliers can offer such credits, especially on a long-term basis, gives them a competitive edge over many prospective South suppliers. This edge is further increased by a number of policy and institutional factors

----

6. See, for example, the section on "Prospects for Increased Capital Goods Exports by the South", Appendix II, to Chapter B of UNIDO, Global Report, op cit., page 76.

within the industrialised countries, which allow them to extend credit at rates well below the interest rates generally prevailing in developing country money markets. In situations of severe foreign exchange shortages, as is characteristic of the majority of developing countries, the importance of the credit facilities offered in determining the source of imports may be expected to continue.

Given that a significant proportion of production and trade in manufactures is controlled by Northern-based transnational corporations (TNCs), their policies in respect of the trading activities of their subsidiaries/ licensees in the South will obviously have an impact on the volume and direction of trade. It is not uncommon for TNCs to impose restrictive conditions on their subsidiaries and collaborators in the South, limiting or prohibiting their exports to other countries, especially other markets in the South which are supplied by the parent TNC.

Finally, the colonial history of developing countries may exert an inhibiting influence on the diversification of their foreign trade structure. Given the existence of well-established traditional trading links with the metropolitan countries, perhaps reinforced by ties of a cultural and/or linguistic nature, there may exist little incentive for developing countries' importers to seek alternative suppliers in the South.

Trade Creation

Perhaps the biggest obstacle to South-South trade creation is underdevelopment itself. On the demand side, low levels of income restrict the capacity of developing countries to absorb manufactured imports from whatever source. On the supply side, the limited extent of the industrialisation process in developing countries constrains their ability to produce both the range and quantity of manufactured goods required to meet each other's needs. The overall supply constraint can be seen from the fact that in 1980 the share of developing countries in world manufacturing value added was 10.9 percent, of which Africa accounted for 1.0 percent, Latin America for 6.1 percent, and West, South and East Asia 3.8 percent.(7) In the same year 26.1 percent of total world exports of manufactured goods were to developing countries, of which 5.4 percent went to destinations in Africa, 6.7 percent to Latin America, 6.3 percent to West Asia, and 7.6 percent to South and South East Asia. However, only 9.5 percent of total world imports of manufactures originated in developing countries, of which 0.4 percent originated in Africa, 1.5 percent in Latin America, 0.6 percent in West Asia, and 7.0 percent in South and South East Asia.(8)

Obviously, substantial South-South trade creation can only be achieved with concomitant increases in industrial production. But although constraints upon the expansion and diversification of industrial productive capacity in the South

---

7. UNIDO, Changing Patterns of Trade in World Industry: an empirical study on revealed comparative advantage, UN, New York, 1982, p.3.

---

8. UNCTAD, Handbook of International Trade and Development Statistics, UN, New York, 1983, Tables 3.2A and 3.2B.

can equally well be regarded as constraints upon the growth of South-South trade in manufactures, it is not our intention to discuss all such constraints here. The focus in this paper is primarily on those policy and institutional factors affecting the ability to exchange goods internationally, rather than upon those affecting the ability to produce goods for exchange. Decisions as to whether or not productive capacity should be established or extended within countries in the South will be conditioned by, amongst others, the availability of markets for the products of such industries. To the extent that constraints upon production are attributable to obstacles to trade, in that such obstacles limit the size of potential markets, they are considered here. Constraints upon production attributable to factors such as inadequate investment financing resources and/or institutions, limited access to required technology, shortages of skilled manpower, etc., are not discussed.

However, even given the current structure and extent of industrial production in the South, scope for trade creation would appear to exist. It may, for example, be argued that the production needed for such extra trade could be generated through the increased utilisation of currently installed productive capacity, given that industrial capacity is typically underutilised in developing countries. For example, the heterogeneity of developing countries' industrial production structures could offer potential for South-South trade creation, with the more advanced developing countries trading more sophisticated manufactured products for simple consumer goods from those countries in which the industrialisation process is still at an initial stage.

There may well be potential for expanding intra-industry trade among the newly industrialised countries (NICs), while other developing countries (ODCs) might also benefit from expanded trade among themselves in simple manufactured goods. However, the path of import substitution industrialization which most developing countries have followed has frequently involved the production of the same items, usually simple consumer items. In addition, industries set up for export to developed country markets, but now looking for markets in the South, often produce similar products, the classic cases being the quota protected garment trade and processed agricultural products. Consequently, while the lowering of trade barriers to such goods, by enlarging the market and allowing more efficient production, could increase overall production in the South, the gains from such expanded trade and production are, unlikely to be evenly distributed. In the short term some countries could in fact have considerable adjustment costs imposed on them. It is to be expected, therefore, that the industrial lobbies in many ODCs, especially those in the earlier stages of industrialization, would fiercely resist any reduction in their trade barriers. To overcome such resistance, it would be necessary to give adequate guarantees that redistributive mechanisms would simultaneously be instituted to assist any necessary structural adjustment.

When discussing barriers to South-South trade creation, some of the obstacles to trade diversion mentioned above, such as high inter-developing country transportation costs and the inability to provide supplier credits, also apply. Other factors inhibiting trade may concern the organisational structure of industrial production of particular commodities. For example, if production of potential exports is carried out by a large number of small firms, the existence of economies of scale in marketing and distribution may prevent individual enterprises from breaking into new export markets. In addition, tariff barriers, and trade policies generally, represent major obstacles to South- South trade creation. It should be remembered, however, that trade policies do not constitute ends in themselves. Primarily their function is to afford protection to domestic industry, to generate government revenue, or to support the balance of payments. Trade policy may be an element within either a broader industrialisation strategy or a broader fiscal policy package. The policy set, including institutional developments, needed to support successful trade liberalisation attempts, and the impact of such trade liberalisation on trade flows, may be expected to differ according to the underlying rationale for current trade policies.

The structure of the paper is as follows. In section 2 below, recent trends in intra-South trade in manufactures are reviewed. Section 3 proceeds to a discussion of policy obstacles to South-South trade in manufactures, in particular those attributable to direct trade intervention. (The experience of developing countries with various trade liberalisation attempts is reviewed in Appendix 1 and Appendix 2.)

2. Recent Trends in South-South Trade in Manufactures

2.1 Global Trends

Over the twenty years from 1962 until 1981 the share of South-South trade in total world trade in manufactures has been on an upward trend, albeit from a very small base. In 1962 exports from the South to the South constituted only 0.98 percent of total world exports of manufactures, but this proportion increased steadily to reach a peak of 3.73 percent in 1981, before dropping back to 2.77 percent in 1982 (see Table 1). Over the same period the share of South exports of manufactures to the North in total world exports also increased. From an initial proportion of 2.16 percent in 1962, it rose steadily until 1973 when it stood at 5.05 percent. Following 1973, not unsurprisingly, it faltered slightly, falling to 4.67 percent in 1974. From 1974 the share of South-North trade in total trade in manufactures increased steadily again until 1979, when it achieved a peak of 6.68 percent. Since then this proportion has been declining, and it stood at 5.00 percent in 1982 (see Table 1 below).

The preceding figures give some indication that destinations in the South do not constitute the major markets for exports of manufactures from the South. In fact, the share of exports to the South in the South's total exports of manufactures over the same period has evolved as follows. In 1962 this proportion stood at 44.14 percent, but declined steadily until 1973 when it reached 27.59 percent. The share of manufactured exports going to destinations in the South then entered an upward trend and reached 37.47 percent in 1981. Over the following two years this proportion declined once again, to 35.38 percent in 1982, and further to 29.97 percent in 1983 (see Table 2 below)

The importance of manufactures in total South-South trade has grown steadily over the twenty years from 1962 to 1981. In 1962 the relative share of manufactures in total South-South trade was 5.32 percent; in 1981 it stood at 30.62 percent. This proportion fell slightly in 1982 to 27.07 percent (see Table 3 below). The share of manufactures in the South's total exports to the North also increased steadily during the period 1962 to 1981, from 2.99 percent in 1962 to reach a peak of 16.29 percent in 1981. In 1982 this proportion fell to 14.98 percent (Table 4).

During the two sub-periods 1962-73 and 1973-80, South-South trade in manufactures grew at an average annual rate of 17.6 and 20.7 percent respectively. As can be seen from Table 5 below, during the latter period South-South trade in manufactures has been the most dynamic element in world trade. It has been expanding at an appreciably faster rate than South-North (10.2 percent), North-South (10.1 percent) and North-North (4.1 percent) trade in manufactures. It has also been growing faster than trade in any other commodities. This holds for both subsets of manufactures, i.e. semi-finished (SITC 5, 61-66) and finished (SITC 69, 7, 8). It should be remembered, however, that these impressive growth rates have been achieved from a small base, and in value terms South-South trade in manufactures still constitutes a small proportion of total world trade flows in manufactures, as can be seen from Diagram 1 below.

Table 1: Directions of Trade, 1962-1982
Percentage of world exports

Year	South-South	South-North	Total South	North-South	North-North	Total North
			Manufactures (SITC 5, 61-66, 69, 7, 8)			
1962	0.98	2.16	3.14	30.65	66.21	96.86
1963	1.01	2.29	3.31	28.87	67.82	96.69
1964	1.06	2.44	3.50	27.46	69.04	96.50
1965	1.13	2.45	3.58	26.60	69.82	96.42
1966	1.07	2.36	3.42	25.94	70.63	96.58
1967	1.07	2.48	3.55	24.79	71.66	96.45
1968	1.16	2.64	3.80	24.31	71.89	96.20
1969	1.17	2.85	4.02	22.89	73.10	95.98
1970	1.29	3.17	4.46	22.18	73.36	95.54
1971	1.35	3.54	4.89	21.75	73.37	95.11
1972	1.54	4.32	5.85	20.61	73.53	94.15
1973	1.69	5.05	6.74	20.42	72.84	93.26
1974	1.80	4.67	6.47	23.07	70.46	93.53
1975	2.12	4.81	6.92	27.15	65.93	93.08
1976	2.33	5.68	8.01	25.94	66.05	91.99
1977	2.75	5.90	8.66	26.26	65.08	91.34
1978	3.02	6.63	9.64	25.58	64.78	90.36
1979	3.22	6.68	9.90	23.87	66.23	90.10
1980	3.64	6.31	9.95	25.32	64.73	90.05
1981	3.73	6.10	9.82	27.14	63.03	90.18
1982	2.77	5.00	7.77	26.80	65.43	92.23

Source: Vivianne Ventura-Dias and Piritta Sorsa, "Historical Patterns of south-South Trade", paper presented at an Informal Symposium on South-South Trade: Obstacles to its Growth, UNCTAD, Geneva, 26-29 June 1985, Table 2.23, p.40.

TABLE 2

RELATIVE SHARES OF DME AND DEVELOPING COUNTRIES AS DESTINATION OF DEVELOPING COUNTRIES EXPORTS

MANUFACTURES 1962-1983

	PERCENTAGE					
	WORLD	DMEC	DEVG	NIC"S	CAPITAL SURPLUS LDC"S	OTHER DEVG
1962	100.00	52.68	44.14	6.51	0.85	37.97
1963	100.00	53.78	42.41	7.53	.99	35.25
1964	100.00	55.79	39.55	8.89	.82	31.07
1965	100.00	55.12	39.60	7.64	1.63	32.77
1966	100.00	57.26	36.95	7.29	1.29	30.25
1967	100.00	59.13	35.16	6.77	1.72	28.83
1968	100.00	59.94	34.70	8.27	2.39	27.00
1969	100.00	62.30	32.05	7.16	1.85	25.62
1970	100.00	63.60	32.86	7.54	2.03	26.06
1971	100.00	64.68	30.14	7.50	2.17	23.23
1972	100.00	66.36	28.68	7.49	2.67	21.78
1973	100.00	68.48	27.59	7.95	2.80	20.27
1974	100.00	65.86	30.52	8.05	2.62	22.92
1975	100.00	61.88	34.15	7.93	3.60	26.58
1976	100.00	65.91	31.38	8.03	5.15	23.95
1977	100.00	63.33	33.75	7.19	6.60	26.91
1978	100.00	64.70	33.05	8.07	5.44	25.38
1979	100.00	64.46	33.21	9.00	4.55	24.78
1980	100.00	59.24	35.34	10.01	4.73	25.93
1981	100.00	59.59	37.47	10.46	5.83	27.63
1982	100.00	62.32	35.38	9.85	4.72	26.18
1983	100.00	67.78	29.97	7.85	5.12	22.90

Source: Ibid.

Table 3: Product Composition of the Network of World Trade

South-South: 1962-1982 as percentage of Total Exports (1983 US$)

Year	Food	Agrrm	Fuels	Miner	Manuf.
1962	9.60	7.19	75.64	2.26	5.32
1963	10.65	6.98	73.75	2.60	6.02
1964	10.45	7.00	74.08	2.14	6.33
1965	9.58	6.69	74.82	2.08	6.82
1966	9.06	7.50	74.62	1.99	6.83
1967	9.96	6.85	74.66	2.50	7.13
1968	8.13	7.11	74.45	2.58	7.72
1969	8.11	6.27	73.80	2.90	8.91
1970	7.50	5.86	74.86	2.41	9.36
1971	7.92	5.46	74.89	2.17	9.56
1972	7.81	5.29	73.85	2.55	10.50
1973	7.10	4.85	74.34	2.37	11.34
1974	7.37	4.22	73.60	2.37	12.44
1975	8.18	5.01	69.44	2.28	15.09
1976	7.86	4.36	69.10	2.65	16.03
1977	8.58	4.17	65.85	2.78	18.62
1978	9.39	4.97	59.93	3.03	22.69
1979	9.38	4.26	60.32	4.00	22.04
1980	10.28	4.04	54.89	3.57	27.22
1981	11.16	3.81	50.46	3.95	30.62
1982	13.28	4.26	51.72	3.68	27.07

Source: Ibid.

Table 4: Product Compositionof the Network of Total Trade

South-North: 1962-1982 as percentage of total exports (1983 US$)

Year	Food	Agrrm	Fuels	Miner	Manuf.
1962	16.28	7.03	69.10	4.59	2.99
1963	15.80	6.45	69.49	5.27	2.99
1964	13.92	5.74	72.01	5.09	3.25
1965	12.57	5.24	74.04	4.85	3.29
1966	12.11	5.14	74.77	4.72	3.26
1967	11.53	4.86	75.51	4.70	3.41
1968	11.11	4.61	75.73	4.68	3.86
1969	10.09	3.92	77.42	4.25	4.32
1970	9.65	3.51	78.12	4.02	4.70
1971	9.08	3.12	79.04	3.44	5.31
1972	9.08	3.02	78.24	3.36	6.30
1973	8.32	2.84	78.53	3.06	7.25
1974	8.87	2.52	77.08	3.93	7.60
1975	9.13	2.46	76.36	3.79	8.25
1976	8.52	2.57	75.54	3.55	9.82
1977	8.01	2.27	75.98	3.28	10.46
1978	8.49	2.44	73.33	3.41	12.28
1979	8.36	2.36	73.02	3.68	12.58
1980	7.68	2.27	72.48	3.42	14.15
1981	8.35	2.31	69.47	3.59	16.29
1982	8.65	2.52	71.25	2.60	14.98

Source: Ibid.

TABLE 5

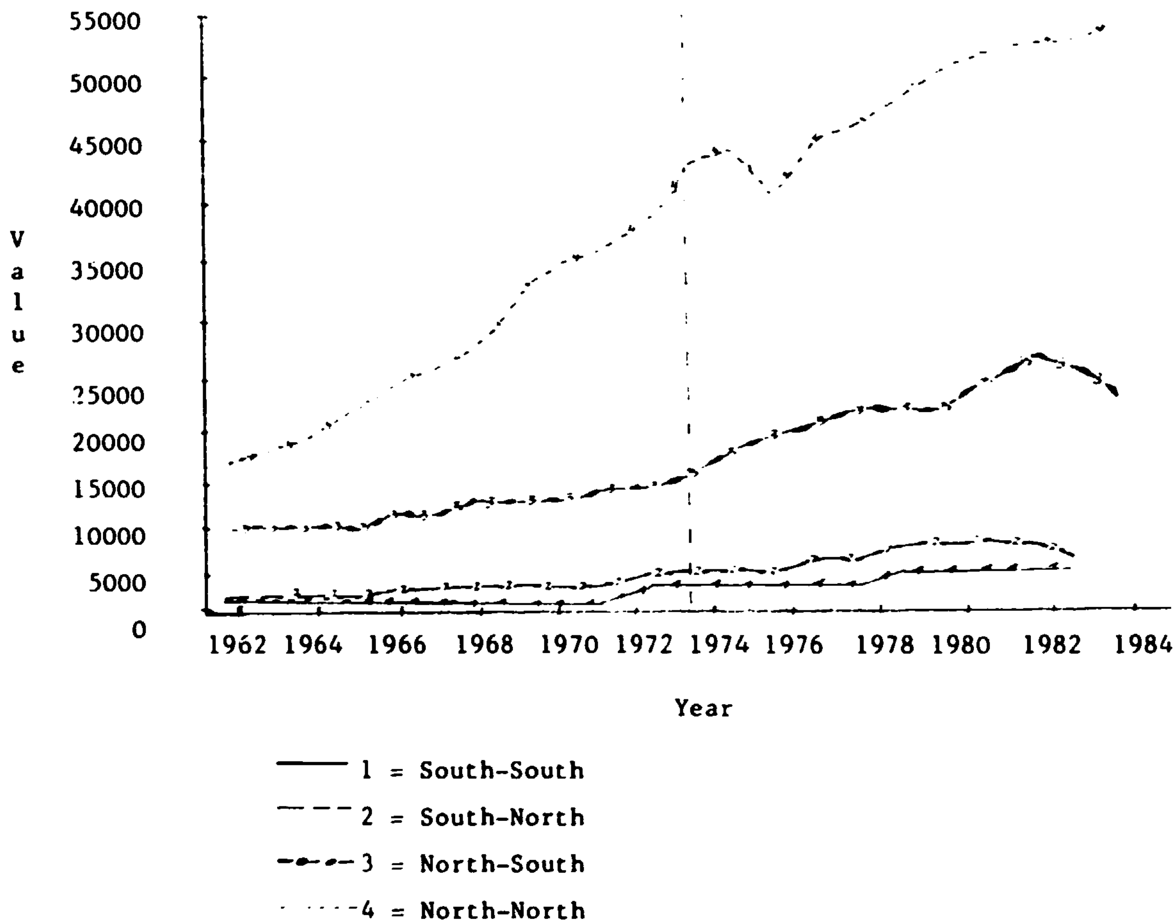
EXPORT VOLUME INDICES

GROWTH RATES

PRODUCT CATEGORIES	TOTAL	MANUFACTURES TOTAL	SEMI-FIN	FIN	FUELS	PRIMARY PRODUCTS ALL	FOOD	MINERALS	AGRRM
YEARS									
SOUTH-SOUTH TRADE									
1962-1973	9.0	17.6	15.0	20.6	8.8	9.6	5.8	9.6	4.8
1973-1980	4.3	20.7	15.1	24.8	-.83	14.6	11.0	11.7	1.2
SOUTH-NORTH TRADE									
1962-1973	11.0	21.2	13.4	30.1	12.4	7.0	3.7	6.5	1.3
1973-1980	-1.4	10.2	3.3	13.2	-2.7	2.7	-2.7	.44	-5.0
NORTH-SOUTH TRADE									
1962-1973	7.1	6.9	8.1	6.5	2.1	7.2	7.1	9.0	10.7
1973-1980	10.2	10.1	7.8	10.8	6.7	10.3	13.1	9.1	7.4
NORTH-NORTH TRADE									
1962-1973	11.1	12.4	13.4	12.0	9.4	11.4	8.6	9.4	9.4
1973-1980	3.6	4.1	4.7	3.9	1.8	3.7	3.5	2.9	-.20

Source: Ibid.

Diagram 1: Total Manufactures (SITC 5, 61-66, 69, 7, 8)
(Export Values (1983 US$))



and details of South-South trade study.

Source: Ibid.

2.2 Regional Trends

The share of South-South trade in the total exports of developing countries has increased from 18 percent in 1965 to 22 percent in 1980. However, the importance of South markets, be they within the same region or extra-regional, differs among regions within the South. For Africa, exports to developing countries accounted for 9 and 7 percent of Africa's total exports in 1965 and 1980 respectively. The share of intra-regional exports in total exports fell from 4 to 2 percent over the period 1965-80, while the share of inter-regional exports to developing countries remained constant at 5 percent. For Asia, exports to destinations in the South accounted for 23 percent of its total exports in 1965, of which 18 percent went to markets within the region, and 5 percent to markets in Africa and Latin America. In 1980 the relative shares of developing countries in total, intra- and inter-regional markets were 25, 19 and 6 percent respectively. In 1960, 19 percent of total Latin American exports were to developing countries, of which 16 percent were exported to markets within the region, and 3 percent to Africa and Asia. In 1980 the relative shares in total exports were 25, 20 and 5 percent respectively.(9)

Table 6 below gives some indication of the regional structure of South- South trade in manufactures. From this it can be seen that South-South trade in manufactures is predominantly conducted on an intra-regional basis. For all

----

9. UN, Supplement to World Economic Survey 1984, UN, New York, 1985, Table II-7, p.23.

four major regions, i.e. Latin America, Africa, West Asia and South East Asia, the largest proportion of exports destined for markets in the South go to other countries within the same region. However, inter-regional trade in manufactures has been growing more rapidly than intra-regional trade. Over the period 1965-80, West Asia is the only region where the rate of growth of exports to all developing countries is less than the rate of growth of intra-regional exports.

Table 6: Structure of South-South Exports of Manufactures (SITC 5 to 8 less (67 and 68) by Major Regions: Share of Total Manufactured Exports by Destination and Annual Average Growth Rates, 1965-1980

To: From:	Total LDCs	OPEC	Latin America	Africa	West Asia	S.E. Asia
Total LDCs						
1965	38.0	4.9	9.1	8.0	4.2	16.2
1970	33.3	5.6	8.9	7.6	3.9	12.4
1980	36.9	11.0	9.3	4.7	8.2	14.5
Annual Average Growth Rate	(23.3)	(30.4)	(23.8)	(19.2)	(29.1)	(22.7)
Latin America						
1965	44.4	2.7	43.7	0.0	0.0	0.8
1970	42.7	3.2	40.9	0.5	0.1	1.2
1980	52.6	9.9	44.4	4.2	2.5	1.5
Annual Average Growth Rate	(24.7)	(34.4)	(23.4)	-	-	(29.2)
Africa						
1965	30.8	4.1	1.2	24.4	3.7	1.2
1970	45.3	5.7	0.5	39.7	3.7	1.3
1980	26.3	6.1	1.6	15.8	2.9	5.9
Annual Average Growth Rate	(12.3)	(16.5)	(15.5)	(10.2)	(11.7)	(25.9)
West Asia						
1965	49.2	21.8	0.0	4.1	36.5	9.1
1970	49.4	32.2	0.4	8.2	37.0	3.8
1980	57.0	37.2	0.3	6.3	46.5	4.9
Annual Average Growth Rate	(27.1)	(30.4)	-	(28.2)	(27.9)	(20.7)
South East Asia						
1965	26.8	4.5	2.6	6.7	3.1	23.7
1970	27.9	4.3	1.7	5.3	2.6	17.6
1980	32.2	9.3	2.9	4.1	6.4	18.7
Annual Average Growth Rate	(23.5)	(30.6)	(25.4)	(20.7)	(30.6)	(22.6)

Source: UNCTAD, Handbook of International Trade and Development Statistics, UN, New York, 1983, Tables 3.4A, 3.8A, 3.10A, 3.11A and 3.12A.

2.3 Concentration of South-South Trade

An examination of trade flows at the regional level only, however, tends to obscure the fact that South-South trade in manufactures is highly concentrated, and that the apparent boom in such trade has, in fact, benefitted only a small number of relatively advanced developing countries. For example, Ventura-Dias and Sorsa report that the shares in South-South trade of the four largest exporters of manufactures were 41 and 53 percent in 1975 and 1979 respectively. These exporters were, in 1975, Taiwan, Singapore, Brazil and Hong Kong. In 1979, the Republic of Korea replaced Hong Kong. (10) These authors also found that,

> 'There is a clear overlapping in the list of countries that are the largest exporters of manufactures in the intra-trade of developing countries and of those that are the largest exporters to industrial countries. With just two exceptions, the ten largest exporters of manufactures in South-South and South-North trades are the same both for 1975 and 1979, albeit in different positions (Hong Kong, Republic of Korea, Taiwan (Prov. of China), Singapore, Brazil, India, Mexico, Argentina, Malaysia and Pakistan)'.(11)

The two exceptions referred to are:

> 'Jamaica, for South-North trade in 1975, Philippines for 1979 and Kuwait, for South-South trade in 1975 and 1979. The case of Kuwait is the result of statistical problems presented by the definition of manufactured goods and by the difficulties of eliminating re-exports from the data'.(12)

---

10. Vivianne Ventura-Dias and Piritta Sorsa, 'Historical Patterns of South- South Trade', paper presented at an Informal Symposium on South-South Trade: Obstacles to its Growth, UNCTAD, Geneva, 26-29 June 1985, p.68.

---

11. Ibid., p.69.

In 1975 the ten largest exporters accounted for 72 percent of South-South trade in manufactures. Their share rose to 77 percent in 1979. As for exports of manufactures by the South to the North, the ten largest exporters within the South accounted for 83 percent of such trade in 1975, and 87 percent in 1979.(13)

A study of South-South non-fuel trade, covering the period 1970-76, and based on data for 24 developing countries which together accounted for well over half of the South's total trade and almost two-thirds of South- South trade,(14) noted the following points in respect of South exports of manufactures, excluding chemicals.

First, in relation to South exports to all destinations, the rate of growth of South exports of manufactures over the period 1970-76 was greater than that of total South non-fuel exports. Within manufactures, South exports of machinery and transport equipment experienced the most rapid rates of growth. Gains in manufactures exports were mainly attributable to: (i) rapid growth in exports to OPEC at an

---

12. Ibid., p.69, footnote 14.

---

13. Ibid., Table 4.1, p.70, and Table 4.3, p.72.

---

14. National Foreign Assessment Center, 'Recent Gains in Nonfuel Trade Between the Developing Nations', Central Intelligence Agency, Washington, D.C., March 1979. The 24 developing countries are: Argentina, Bahrain, Brazil, Chile, Colombia, Egypt, Hong Kong, India, Indonesia, Iran, Iraq, Kuwait, Libya, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Province of China, Republic of Korea, Singapore, Syria, Taiwan Province of China, Thailand and Venezuela.

average annual rate of 43 percent; and (ii) modest growth in exports to the industrialised nations. The proportion of the South's exports of manufactures going to both OPEC and the developed countries increased over the period at the expense of non-OPEC developing countries and the centrally planned economies (see Table 7 below).

Second, within the sample, in 1976 13 countries accounted for 66.8 percent of inter-developing country exports of manufactures (see Table 8 below). Over the period 1970-76 this group of 13 had increased its share by 10 percent, with the gains principally accruing to the Republic of Korea, Brazil, Taiwan Province of China and Thailand.

Third, in respect of particular subcategories of manufactured goods the following was noted:

> '1. A key feature of trade between LDCs in textiles is that the bulk of such trade is in raw and semifinished products intended ultimately for terminal markets in industrialised countries. Interregional trade in textiles is dominated by the two giants, Taiwan and South Korea, both of which do substantial trade with OPEC countries.
>
> 2. Asian producers have increasingly dominated trade between LDCs in nonmetallic minerals and metals manufactures, largely through exploitation of the burgeoning OPEC markets for construction goods.
>
> 3. LDCS are rather poor markets for leather, rubber, and wood products, items mainly intended for industrialized countries.
>
> 4. Machinery and transport equipment was the fastest growing LDC global export category in the 1971-76 period.
>
> 5. LDC electrical machinery and appliance exports to all markets are dominated by Asian producers, led by Taiwan, Hong Kong, Singapore and South Korea.
>
> 6. Transport equipment, a category where trade

between LDCs exceeds sales to industrialized countries, has become especially important in LDC earnings, accounting for over 12 percent of LDC global manufactures exports in 1974-76.

7. A key feature of trade between LDCs in engineering products is that in all three major categories (nonelectrical machinery, electrical machinery, and transport equipment) substantial trade takes place between those LDCs at similar levels of development.

8. The LDCs are relatively poor markets at present for LDC consumer goods exports'.(15)

In respect of chemicals, the study by the National Foreign Assessment Center noted that although chemicals currently constitute the smallest component in South manufactures exports, there exists great potential for expansion in exports to all markets, but especially to markets in the South.(16)

---

15. Ibid., pp.20-1.

---

16. Ibid., pp.22-4.

Table 7: Developing Countries' Manufactured Exports by Destination
(Million US$ (percentage share))

	1970	1971	1972	1973	1974	1975	1976	Average Annual Growth (%) 1971-76
Total Manufactures Export Excluding Chemicals (SITC 6, 7, and 8 less 67 and 68)								
To World	8.127 (100.0)	6.666 (100.0)	12.565 (100.0)	20.115 (100.0)	25.837 (100.0)	27.925 (100.0)	36.387 (100.0)	28.4
Of which:								
Developed Countries	5.238 (64.4)	6.306 (65.2)	8.354 (66.5)	14.029 (69.7)	16.604 (64.3)	17.556 (62.9)	24.343 (66.9)	29.2
Centrally Planned Economies	370 (4.6)	390 (4.0)	561 (4.5)	661 (3.3)	810 (3.1)	961 (3.4)	995 (2.7)	17.9
Developing Countries	2.496 (30.7)	2.914 (30.1)	3.608 (28.7)	5.329 (26.5)	8.321 (32.2)	9.408 (33.7)	11.049 (30.4)	28.1
OPEC	400 (4.9)	544 (5.6)	823 (6.5)	1.242 (6.2)	2.171 (8.4)	2.851 (10.2)	3.471 (9.5)	43.3
Non-OPEC	2.096 (25.8)	2.370 (24.5)	2.785 (22.2)	4.087 (20.3)	6.150 (23.8)	6.557 (23.5)	7.578 (20.8)	23.9
Total Manufactures Exports (SITC 5, 6, 7, 8 less 67 and 68)								
To World	9.062 (100.0)	10.707 (100.0)	13.957 (100.0)	22.078 (100.0)	29.532 (100.0)	31.691 (100.0)	40.019 (100.0)	28.1
Of which:								
Developed Countries	5.649 (62.3)	6.774 (63.3)	8.974 (64.3)	14.902 (67.5)	18.495 (62.6)	19.341 (61.0)	26.006 (65.0)	29.0
Centrally Planned Economies	422 (4.7)	446 (4.2)	631 (4.5)	750 (3.4)	950 (3.2)	1.157 (3.7)	1.130 (2.8)	17.8
Developing Countries	2.968 (32.8)	3.429 (32.0)	4.302 (30.8)	6.326 (28.7)	9.979 (33.8)	11.193 (35.3)	12.883 (32.2)	27.7
OPEC	449 (5.0)	606 (5.7)	905 (6.5)	1.365 (6.2)	2.439 (8.3)	3.192 (10.1)	3.799 (9.5)	42.7
Non-OPEC	2.519 (27.8)	2.823 (26.4)	3.397 (24.3)	4.961 (22.5)	7.540 (25.5)	8.001 (25.2)	9.084 (22.7)	23.8

Table 7 continued:

Chemicals Exports (SITC 5)								
To World	935 (100.0)	1.041 (100.0)	1.392 (100.0)	1.963 (100.0)	3.695 (100.0)	3.766 (100.0)	3.653 (100.0)	25.5
Of which:								
Developed Countries	411 (44.0)	469 (45.1)	620 (44.5)	870 (44.3)	1.891 (51.2)	1.785 (47.4)	1.663 (45.5)	26.2
Centrally Planned Economies	52 (5.6)	56 (5.4)	70 (5.0)	89 (4.5)	140 (3.8)	196 (5.2)	135 (3.7)	17.2
Developing Countries	472 (50.5)	515 (49.5)	694 (49.9)	997 (50.8)	1.658 (44.9)	1.785 (47.4)	1.834 (50.2)	25.4
OPEC	49 (5.2)	62 (6.0)	82 (5.9)	123 (6.3)	268 (7.3)	341 (9.1)	328 (9.0)	37.3
Non-OPEC	423 (45.2)	453 (43.5)	612 (44.0)	874 (44.5)	1.390 (37.6)	1.444 (38.3)	1.506 (41.2)	23.6
Machinery and Transport Exports (SITC 7)								
To World	1.433 (100.0)	1.878 (100.0)	2.829 (100.0)	4.601 (100.0)	6.581 (100.0)	7.218 ((100.0)	9.469 (100.0)	37.0
Of which:								
Developed Countries	765 (53.4)	1.020 (54.3)	1.664 (58.8)	2.830 (61.5)	3.633 (55.2)	3.654 (50.6)	5.178 (54.2)	37.3
Centrally Planned Economies	8 (0.7)	22 (1.2)	26 (0.9)	42 (0.9)	33 (0.5)	60 (0.8)	66 (0.7)	42.2
Developing Countries	646 (45.1)	812 (43.2)	1.112 (39.3)	1.681 (36.5)	2.831 (43.0)	3.504 (48.6)	4.208 (44.4)	36.7
OPEC	101 (7.0)	141 (7.5)	220 (7.8)	323 (7.0)	643 (9.8)	982 (13.6)	1.212 (12.8)	51.3
Non-OPEC	545 (38.0)	671 (35.7)	892 (31.5)	1.358 (29.5)	2.188 (33.3)	2.522 (34.9)	2.996 (31.6)	32.9

Table 7 continued:

Other Manufactures Exports (SITC 6 and 8)

To World	10.836 (100.0)	11.067 (100.0)	13.370 (100.0)	21.903 (100.0)	27.590 (100.0)	25.891 (100.0)	33.977 (100.0)	21.0
Of which:								
Developed Countries	8.001 (73.9)	8.000 (72.3)	9.610 (71.9)	16.347 (74.6)	19.598 (71.0)	17.487 (67.5)	24.107 (71.0)	20.2
Centrally Planned Economies	467 (4.3)	490 (4.4)	674 (5.0)	794 (6.3)	1.133 (4.1)	1.090 (4.2)	1.222 (3.6)	17.4
Developing Countries	2.344 (21.6)	2.559 ((23.1)	3.065 (22.9)	4.708 (21.5)	6.835 (24.8)	7.314 (28.3)	8.633 (25.4)	24.3
OPEC	403 (3.7)	470 (4.2)	697 (5.2)	1.104 (5.0)	1.800 (6.5)	2.197 (8.5)	2.673 (7.9)	37.1
Non-OPEC	1.941 (17.9)	2.089 (18.9)	2.368 (17.7)	3.604 (16.5)	5.035 (18.3)	5.117 (19.8)	5.960 (17.5)	20.6

Source: National Foreign Assessment Center, 'Recent Gains in nonfuel Trade Between the Developing Nations', Central Intelligence Agency, Washington, DC., March 1979, Table 3, pp.6–7.

Table 8: Inter-developing Country Manufactures Exports excluding Chemicals

	Million US$							Average Annual Growth (%)
	1970	1971	1972	1973	1974	1975	1976	1971-76
TOTAL	2,496	2,914	3,608	5,329	8,321	9,408	11,049	28.1
Of which:								
Selected LDCs (%share of total)	1,422 (57.0)	1,216 (41.7)	2,039 (56.5)	3,128 (58.7)	4,522 (54.3)	5,487 (58.3)	7,380 (66.8)	31.6
Taiwan, Province of China	267	na	501	749	960	1,137	1,785	37.3
Rep. of Korea	61	95	142	248	420	659	1,266	65.8
Hong Kong	245	269	323	476	633	660	881	23.8
Brazil	98	147	217	338	602	851	826	42.7
India	280	281	304	345	524	586	664	15.5
Argentina	84	102	152	303	437	429	487	34.0
Singapore	96	na	na	na	na	na	393	26.5
Malaysia	54	59	66	119	197	225	269	30.7
Pakistan	133	123	128	243	209	252	228	9.4
Mexico	60	69	92	125	192	225	216	23.8
Thailand	9	11	36	69	123	280	148	59.5
Colombia	22	33	52	80	147	112	147	37.2
Iran	13	27	26	33	78	71	70	32.4

Source: Ibid.

Overall, the study identifies four key features of South-South trade in manufactures. First, that the 13 leading LDC exporters of manufactures find their own best South markets in each other. Second, that other major importers within the South are heavily dependent upon these leading exporters. Third, that the next three largest suppliers of manufactures after this leading group, are all major re-exporters of goods from the industrialised nations. And fourth, the 24 countries in the sample offer limited market opportunities for smaller LDC manufactures exporters. From this it is concluded that,

> 'There is a base of manufactures trade between the larger or more advanced LDCs that arises from their capability to specialize their industries for further export.
>
> The poorer LDCs have not been able to crack into this particular pattern in any appreciable way.
>
> There could well be substantial expansion of trade between LDCs in less sophisticated manufactures, but national policies - especially in Latin America - tend to inhibit it.
>
> There is circumstantial evidence that the Middle Eastern OPEC nations have provided somewhat more open markets for sales of LDC consumer goods, an opportunity in which some of the smaller LDCs may have shared'.(17)

A study of South-South trade over the period 1963-77 by Havrylyshyn and Wolf, based on a sample of 33 countries,(18) also found that, on closer examination, the apparent boom since the early 1970s in South- South trade in manufactures has been fairly unevenly spread.

----

17. Ibid., pp.26-9.

The countries in the sample used by Havrylyshyn and Wolf together account for approximately 60 percent of total South-South trade. The authors' analysis is carried out primarily in terms of changes in the relative shares of directional trade flows. The groupings used are both regional and functional. The latter grouping includes the subclassification of developing countries into newly industrialised countries (NICs), capital surplus oil-exporting countries (CSCs), and other developing countries (ODCs).

A high degree of concentration in South-South trade in manufactures was found, with the ten largest exporters accounting for over 90 percent of exports both of manufactures in general, and of capital goods, over the entire period.(19) Further, the NICs accounted for 78 percent of total manufactures exports to developing countries, and 83 percent of capital goods exports.(20) However, their role as exporters in intra-South trade was much greater than their role as importers. The authors note that although

---

18. Oli Havrylyshyn and Martin Wolf, 'Trade among Developing Countries: Theory, Policy Issues, and Principal Trends', World Bank Staff Working Paper, No. 479, The World Bank, Washington, D.C., August 1981. The 33 countries are: Greece, Israel, Portugal, Spain, Turkey, Yugoslavia, Cameroon, People's Republic of the Congo, Ivory Coast, Ghana, Central African Republic, Senegal, Nigeria, Tunisia, Libya, Iran, Hong Kong, Singapore, The Republic of Korea, Malaysia, Philippines, Thailand, India, Pakistan, Sri Lanka, Argentina, Brazil, Colombia, Honduras, Mexico, Panama, Paraguay, and Venezuela.

---

19. Ibid., p.63

---

20. Ibid., p.68.

> 'NICs were the fasting-growing group among the developing countries and experienced the greatest expansion of imports...[and] their growth had spill-over benefits by creating export opportunities for all developing countries...[t]he spill-over was disproportionately high for NICs trade with one another'.(21)

Thus, Havrylyshyn and Wolf conclude that,

> 'In general, it was the NICs that were able to obtain the greatest advantages in selling to the most rapidly growing markets among developing countries, namely, themselves'.(22)

---

21. Ibid., p.69.

---

22. Ibid., p.71.

2.4 Summary and Conclusions

Since 1973 South-South trade in manufactures has been experiencing rapid rates of growth, and indeed has been the most dynamic element in world trade. The relative share of manufactured goods in total South-South trade has been increasing. However, a closer analysis of these highly aggregated trends reveals that the benefits of this growth have largely accrued to a small number of relatively industrially advanced developing countries. It is the NICs which dominate exports of manufactures to the South, and much of the growth in intra-South trade is accounted for by: (i) growth in inter-NIC trade; and (ii) growth in exports from NICs to capital surplus oil-exporting countries. Those countries which dominate South exports of manufactures to the South, also tend to dominate South exports of manufactures to the North. The vast majority of developing countries have not participated to a significant degree in the boom in South-South trade in manufactures, and the impetus from this boom to the industrialisation process in these countries has presumably been similarly muted.

3. Policy Obstacles to South-South Trade in Manufactures

There are two aspects to economic policy in developing countries which may be expected to affect directional trade flows, namely, industrialisation policy and trade policy. It is, however, difficult to analyse these two policy sets separately, as trade policy is often used as an instrument of industrialisation policy, as when trade policies are implemented to protect domestic industries. As mentioned in the Introduction, the concern of this paper is with factors affecting the ability to exchange goods internationally; thus the focus in this section is on trade policies. However, the choice of industrialisation strategy will have important implications for directional trade flows. By determining the structure and characteristics of the pattern of production within a country, it will also determine the potential export markets for the goods produced and the nature of its import requirements.

If one broadly categorises industrialisation strategies into two types, an inward-looking import-substituting (IS) industrialisation policy and an outward-looking export-led one, the following emerges. An inward-looking IS policy would appear to generate contradictory biases towards exports to the South. Such a policy generates an industrial structure producing goods for which there exist potential markets within the South. This follows whether one endorses Linder's theory of trade or factor endowment theories. With an inward-looking industrialisation policy the pattern of demand will determine the structure of production. The Linder approach predicts that countries with similar patterns of demand will trade with one another. If one accepts that developing countries have similar demand patterns, one would thus expect developing countries pursuing such industrialisation strategies to trade with each other. Similarly, an import substitution strategy leads to the production of more skill- and capital-intensive goods. As developing countries tend to trade such goods among themselves, while exporting labour-intensive manufactures to the North, as predicted by the factor endowment theory of trade, a bias in favour of production of goods which are potentially exportable to the South will be generated by such a policy. In practice, however, this export potential may not be realised. This is because import substituting industrialisation policies are typically implemented using protective trade policies. This inhibits South-South trade in two ways. First, prospective exporters are likely to find that their potential markets are themselves protected by high trade barriers. Second, potential exporters, enjoying access to a protected domestic market and producing at above world prices, have no incentive to cut costs or to seek to diversify their markets. Further, the lack of complementarities in the production structures of developing countries engendered by the widespread adoption of similar industrialisation strategies may reinforce the role of the South as importers of manufactures in North-South trade flows.

Countries following an outward-looking export-led industrialisation strategy have tended to specialise in the production of labour-intensive manufactures with the pattern of production being conditioned by patterns of demand within the North rather than within the South. Such countries have

> 'sent an increasing proportion of their exports to countries whose factor endowments were most distinct from their own and which also had the most open markets, namely the developed countries and - in the 1970s - the resource-rich oil exporters'.(23)

Although the structure of production engendered by such a policy may be biased against exports to the South, there would appear to be no a priori reason to believe that such a policy produces a bias against imports from the South.

----

23. Oli Havrylynshyn and Martin Wolf, 'What have we learned about South- South Trade?', paper preented at a Conference sponsored by the World Bank on South-South versus North-South Trade: Does the Direction of Developing Countries' Exports Matter?, Universite Libre de Bruxelles, Bruxelles, Belgium, 28 February and 1 March 1983, pp.30-1.

3.1 Trade Policy Obstacles

All developing countries indulge in some form of trade intervention, and frequently do so to an extensive degree. Their reasons for taking such an active commercial policy stance are varied. Of the complex array of controls on imports currently in operation, some are designed primarily to raise revenues; some constitute an integral element of a broader development strategy where the major objective of foreign trade intervention is to afford a measure of protection to nascent domestic industries; some are intended to conserve scarce foreign exchange and ensure that it is allocated to the purchase of only those items considered essential or afforded priority by the government concerned; still others are of the nature of blanket emergency measures in the face of severe balance of payments difficulties, which it is hoped will be enforced only temporarily.

In respect of exports, the structure of protection in many developing countries may well result in an overall bias against production for export. But the inhibition of exports by the exercise of direct controls is much less common than is the case with imports. Excise duties and export taxes may be levied. Export licensing may be resorted to to meet bilateral trade agreements, or to ensure adequate domestic supplies of sensitive items. In general, however, given that they have the goods to sell, producers wishing to export are unlikely to encounter policy barriers erected by their own governments. The problems their own governments' commercial policies create for exporters are more likely to stem from the constraints such policies impose on the ability to produce, and at internationally competitive prices, especially when such production requires imported inputs, as is very likely to be the case with manufactures.

3.1.1 Policy obstacles in respect of imports

On the import side there are numerous policy instruments currently in use to regulate the flow of goods into developing countries. Some seek to regulate imports by affecting their price; others rely on direct controls over the volume of imports. In respect of price controls, the most obvious of these trade interventions is the tariff, and many trade liberalisation attempts, be they at the global, inter-regional, regional or subregional level, have concentrated primarily on securing reductions in tariff rates. In general, the imposition of tariffs serves two functions: one is to raise revenue; the other is to afford a degree of protection to domestic industries. Tariffs may also be imposed to 'mop up' premiums accruing to importers under quota arrangements.(24) The tariff structures of developing countries tend to follow broadly similar lines. Goods which are considered essential but for which there exists no, or insufficient, domestic productive capacity are subject to low or even zero rates.(25) Such goods include energy supplies,

---

24. Bhagwati, J., Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes, NBER, New York, 1978.

---

25. UNCTAD, Trade and Development Report, UN, New York, 1983.

raw materials, capital goods and staple foods. The incidence of tariffs levied on other goods tends to increase with the degree of fabrication, with the highest effective rates of protection being afforded to import-substituting activites in consumer goods industries.(26) The effect of developing countries pursuing these broadly similar industrialisation strategies behind similar protective structures is obviously to inhibit their mutual trade in manufactures.

In addition to tariffs, imported goods may be subjected to other forms of taxation such as surcharges and stamp duties, or domestic sales taxes may be levied on them. Another measure which is, in effect, an import tax is that of requiring advance deposits to be made against imports. The trade inhibiting effects of advance deposit requirements will be greater, the higher the percentage of the value of imports is the required deposit, the longer the duration of the period the deposit is required, and the lower the interest rate paid on such deposits. Frequently no interest is payable on such advance deposits.

Apart from import taxes of various kinds, most developing countries also employ other policy instruments to directly restrain the volume of their imports. Such measures include quotas and import licensing procedures. Although it is sometimes argued that the main purpose of these non-tarrif barriers (NTBs) is 'the allocation of available foreign exchange in the light of balance of payments constraints'(27)

----

26. UNCTAD doc. no. TD/B/C.7/21, op.cit.,

the employment of such measures frequently has, a not unintentional, protective effect. Bhagwati has distinguished five alternative characteristics of import control regimes, and finds that import licensing systems can be classified according to whether they regulate imports by source, by commodity composition, by end use, by payments conditions, and 'by degree and kind of restrictions on the disposal of licenses (or the imports thereunder) once one or more of the preceding forms of regulation have been attempted'(28). These first four classifications are of interest when trying to establish whether such regimes generate a bias against South-South trade.

The granting of licenses which restrict imports by source obviously has a bearing on South-South trade. Reasons for regulating imports in this manner stem from aid-tying, the need to fulfil bilateral trade agreements, or the existence of preferential trade agreements which may sometimes include source-tied import licensing in addition to the granting of tariff preferences.(29) However, to the extent that trade would not otherwise take place at all, in the case of aid-tying for example, such practises do not discriminate against South-South trade (30).

Aid-tying may also prompt the regulation of imports by

---

27. <u>Ibid.</u>, p.54.

---

28. Bhagwati, J., <u>op.cit.</u>, p.13.

---

29. <u>Ibid</u>., p.15.

commodity composition. Such practises are also employed for protective purposes, where licenses are not granted for the import of goods produced domestically. The regulation of imports by commodity composition is further undertaken to ensure that scarce foreign exchange is allocated only to the import of essential or priority items. As with tariff protection, the practise of restricting imports to goods not produced domestically will preclude trade among countries with similar productive structures. Priority items in respect of manufactures usually constitute capital goods, for which there exists limited productive capacity in the South as a whole. Thus manufactures of potential export interest to the majority of developing countries are discriminated against.

The regulation of imports by end use involves making decisions first as to the purpose to which imports are to be put, i.e. production vs. consumption; production for export vs. domestic sales; investment vs. consumption etc.; and second, decisions as to whom are to be allocated the licenses. In relation to the latter, the NBER study of exchange control regimes, which covered Turkey, Ghana, Israel, Egypt, the Philippines, India, Republic of Korea, Chile, Colombia, Brazil and Pakistan, found that import-licensing procedures in practise tended to favour large, well-established firms. This could result in a bias against South-South trade if such firms tend to rely on traditional supply lines established with the North for the purchase of their required inputs, and, if

----

30. Untying bilateral aid and increased use of multilateral aid could, of course, help stimulate South-South trade.

engaged in production for export, such firms also tend to be geared towards final markets in the North. That such a bias exists has been suggested, e.g., by UNCTAD.(31) In respect of the functional end use of manufactures, in general licensing procedures would appear to discriminate against the import of finished consumer goods for final consumption, in favour of semi-manufactures and capital goods for production purposes. Once again, the prohibition on simple consumer goods, which are the only manufactures which many developing countries are in a position to produce, will inhibit potential South-South trade.

The regulation of imports by payments conditions is an aspect of the import licensing systems of developing countries which poses a particular obstacle to the expansion of South-South trade. As is discussed in section 4 below, few developing countries are in a position to extend credit on their exports of manufactures, especially on a medium- to long-term basis. However, the foreign exchange constraints facing many developing countries make it difficult for them to import goods unless they are financed by supplier credits, and some countries, e.g. Brazil, Ecuador, and Argentina, will only approve import licenses for certain classes of goods if minimum financing conditions are met.(32)

Other non-tariff barriers to restrict imports include

---

31. UNCTAD, _Trade and Development Report_, UN, New York, 1983.

---

32. IMF, _Exchange Arrangements and Exchange Restrictions: Annual Report_, Washington D.C., 1983.

total prohibitions either by source or commodity, and technical barriers relating to customs procedures, standards, health and sanitary regulations.

It can be seen from the above discussion that both price and volume restrictions on imports in developing countries tend to discriminate most strongly against simple finished manufactures. It is precisely in the production of such goods that the majority of developing countries has some kind of capability. Protectionist devices are much lower in respect of the imports of semi-manufactured intermediate inputs and capital goods. In respect of the latter in particular, only a few developing countries have extensive well-established productive capabilities. In general, therefore, it would appear that the commercial policies of developing countries are biased against the imports of precisely those manufactured goods which are of potential export interest to developing countries. In addition, if import-licensing procedures do favour older, well-established firms, which may be expected to have formed trading links, be it as importer or exporter, with traditional markets in idustrialised countries, there is reason to believe that such procedures do inhibit the growth of South-South trade.

3.1.2 Policy obstacles in respect of exports

As mentioned above, the structure of protection adopted by many countries, implemented as part of wider import substitution industrialisation strategies, may create an overall bias against export activities, particularly when resulting in an overvalued exchange rate. The bias generated would not, however, appear to be specifically against any particular direction of trade flows given the structure of production. Direct controls to restrain the volume, commodity composition or destination of exports are, however, uncommon. Notable examples of controls on exports do exist, for example, the regulation of quantities exported by the OPEC countries. Copper and bauxite producing countries have also entered into agreements to control the volume of exports. However, except in the case of "voluntary export restraints" agreed with importing countries, such export restrictions usually relate to primary commodities, not manufactures. Neither do such arrangements bias the direction of trade.

Given that the expansion of manufactured exports, be it to markets in the North or South, typically requires an expansion of imports of raw materials, intermediate inputs and capital goods, policy obstacles to imports may also, in effect, represent policy obstacles to exports. Recognition of this fact has resulted in many developing countries instituting export incentive schemes within their current protective structures. Not only may firms engaged in production for export enjoy preferential access to import licenses for needed inputs, but they may also be eligible for tariff exemptions, rebates and duty drawbacks. It is not clear whether such export incentive schemes necessarily bias the direction of trade, although presumably they could be administered in such a way as to foster trade flows in particular directions. Should such schemes tend to favour traditional exporters, in practice a bias against the diversification of export markets may be generated.

In respect of trade policies however, the kind of obstacles, attributable to their respective governments' policies, encountered by potential exporters of manufactures within the South, to whatever destination, differ in kind from those encountered by potential importers. Importers wishing to purchase goods may find, for example, that there is a total prohibition on the products they wish to buy, that tariffs are such that it is uneconomic to import, or that licensing procedures preclude importation or restrict the volume of goods that may be imported. When it comes to policy obstacles facing exporters, the constraints are not upon exports as such but upon (a) the ability or incentive to produce at all, and (b) the ability to produce at internationally competitive prices. To the extent that exporters of manufactures first require imports of manufactures they will obviously face the same obstacles as those outlined in section 3.1 above. To the extent that necessary inputs are obtainable in limited quantities only, total production and thus exports will be constrained. If taxes in one form or another have to be paid on imported inputs, potential exporters will be put at a competitive disadvantage compared to manufactures in other countries where such taxes are not levied, or not to such an extent.

4. Financial Constraints and Institutional Obstacles(33)

There are three specific aspects of financial constraints upon the expansion of South-South trade. Of relevance to all kinds of South-South trade are payments and credit arrangements. Of particular relevance to trade in manufactures is the ability of Southern institutions to allow suppliers to provide export credits, especially on a medium- to long-term basis, and to provide export credit guarantees and insurance. And given that increased trade will require increases in production, the capacity of institutions within the South to finance investment and working capital requirements of both national and joint ventures, will also affect the scope for trade expansion. As mentioned in the Introduction, however our concern is not primarily with constraints on production, and the role of financial institutions in overcoming this latter obstacle is not discussed at any length.

4.1 Payments and credit arrangements

----

33. This section is based, among others, on the following: UNCTAD doc. no. TD/B/80, 'Payments Arrangements among the Developing Countries for Trade Expansion', Report of the Group of Experts, UNCTAD, Geneva, 25 July 1966; UNCTAD doc. no. UNCTAD/ECDC/128, 'A Review of the Main Features of Clearing Arrangements of Developing Countries', Report by the UNCTAD Secretariat, UNCTAD, Geneva, 22 November 1982; Frances Stewart and Arjun Sengupta, International Financial Cooperation, Frances Pinter (Publishers) Ltd., London, 1982; and Dragoslav Avramovic (ed.), South-South Financial Coope[illegible]ion, Frances Pinter (Publishers) Ltd., London, 1[illegible] Other references are footnoted where appropriat[illegible]

The greater the extent to which developing countries rely on the use of convertible currencies to finance their mutual trade, the more the chronic foreign exchange shortages facing the majority of developing countries will hamper South-South trade expansion. Thus any institutional developments which reduce the role of convertible currencies in financing trade transactions among countries within the South, will obviously help to promote their mutual trade. In this respect the role of multilateral clearing arrangements, which restrict the use of convertible currencies to the payment of debtor members' net balances at periodic settlement dates, and the ways in which such arrangements can be strengthened, improved and extended are of immediate relevance and have been the subject of much discussion. Similarly, the development of credit arrangements among countries in the South for the financing of their trade imbalances among themselves, and thus reducing the need for cash settlements in convertible currencies, may be expected to further sustain South-South trade. The increased use of local currencies in payment for intra-South trade transactions has also been advocated as a means of facilitating increased trade flows.

The major objective in establishing a multilateral clearing arrangement is, as mentioned above, to allow the clearing of current transactions among members without resort to the use of convertible currencies, except for the payment of debtor nations' balances at periodic settlement dates. The single most important factor governing the foreign exchange savings generated by such arrangements is the proportion of intra-member trade to members' total trade. The higher this proportion, the greater the foreign exchange savings will be. Such savings will also be greater the broader the range of transactions eligible for clearing through the arrangement, the greater the extent to which use of the arrangment is made mandatory, and the longer the period between settlement dates. By relaxing the foreign exchange constraint not only is intra-member trade stimulated, but the foreign exchange saved may be used to finance additional trade with third parties, some of which may be expected to be other developing countries. Other benefits derived from such arrangements stem from the reduction in transaction costs they afford, the retention within member countries of various commmissions and fees formerly paid to foreign banks, the reduction or elimination of exchange rate margins, and the increased speed with which intra-member payments can be effected. However, simple clearing arrangements do not provide credit to members beyond that extended between settlement dates, and this interim finance is usually limited.

As long as trade imbalances among developing countries persist, be they among members of clearing arrangements or in general, and as long as cash payments in convertible currencies are required in settlement of such imbalances, shortages of foreign exchange will continue to hamper the expansion of South-South trade. The development of institutions which can provide balance of payments support to deficit member countries by the extension of credit from surplus ones is thus seen as another way in which South-South trade may be fostered. Whatever the precise institutional form of such credit arrangements,(34) given that surplus members within the arrangement may be expected to be maintaining overall deficits vis-a-vis the rest of the world, their success requires that intra-member trade imbalances be of a transitional nature, and that trade balance reversals will eventually take place. Otherwise, countries with persistent surpluses within a credit arrangement cannot be expected to continuously accumulate claims upon deficit members which they cannot use to finance their own deficits with third parties. This is especially true where the expansion of exports to countries within the credit arrangement by the surplus country requires the import of various inputs from countries outside the arrangement. Mechanisms to ensure trade balance reversals thus need to be instituted within such credit arrangements.

Similar arguments apply when examining the possibility of using local currencies. The use of local currencies in payment for international trade transactions would, at first sight, appear to be a feasible option only among those countries whose mutual trade is strictly balanced, or among countries which anticipate future mutually beneficial trading opportunities. Developing countries which maintain persistent surpluses with others are unlikely to be either willing or able to afford to devote their limited resources to the accumulation of non-convertible currency reserves. Not only

----

34. See UNCTAD doc. no. TD/B/C.3/24, op.cit., for a discussion of the various ways in which credit arrangements could be instituted.

can these not be used to finance current transactions with third parties, but further, there would appear to be no guarantee that they could be usefully employed at any future date. UNIDO points out that, 'payments in local currency would mean a pledge by the deficit country to pay back in terms of its own future goods and services'.(35) There is, however, no a priori reason to believe that the goods and services which current deficit countries will, at various stages in the future, be in a position to provide will ever necessarily coincide with the future requirements of surplus countries. What is, in effect, being argued for is some kind of inter-temporal counter trade where, in exchange for tangible goods now, the surplus country obtains an open-ended non-negotiable credit note of ambiguous value. It is conceivable that countries with stocks of commodities for which they can find no alternative markets or uses, may be willing to participate in such an arrangement. That countries would willingly undertake production specifically to enter into agreements which entailed payment in non- convertible currencies, for which they have no apparent immediate or future purpose, seems unlikely. The improbability of such a practise being adopted would appear to increase when it comes to production and trade in manufactures. Given that manufactures tend to be import intensive, and assuming that prospective suppliers under such an arrangement would still need to use convertible currencies to some extent in paying for the required imports of capital goods, raw materials and

----

35. UNIDO, Global Report, op.cit., p.127.

intermediate inputs, it is unclear that trade expansion based on a scheme of payments in non-convertible currencies is even tenable in the longer term. Foreign exchange constraints upon the expansion of production would be made worse by the direct transfer of scarce foreign exchange, embodied in the exported manufactures, to other developing countries.

To date, experience within the South with multilateral clearing arrangements, some of which include among their objectives the promotion of the use of members' own currencies, and with credit arrangements has all been on a regional basis. Given that such arrangements have normally been established in connection with a wider programme of regional economic integration, or have been associated with a free trade arrangement, it is difficult to assess their contribution to intra-member trade creation. That is, a precise evaluation of the impact of such arrangements on trade flows in the absence of other trade liberalisation and promotion measures cannot be easily made, nor any quantifiable conclusions reached regarding the trade creation effects of simply extending and developing interlinkages between existing payments arrangements. Be that as it may, the two sections immediately below discuss the operations of the clearing and credit arrangements currently in existence, and attempts to assess their impact on inter-member trade respectively.

4.1.1 Clearing and Credit Arrangements among Developing Countries

The following eight clearing arrangements are currently established within the South, comprising a total of 56 members (the year in which each was established is given in parentheses). The Central American Clearing House (1961), the Latin American Payments and Reciprocal Credit System (1965), the CARICOM Multilateral Clearing Facility (1977), the Monetary Arrangement of the Economic Community of the Great Lakes Countries (1978), the Central African Clearing House (1979), the Regional Cooperation for Development, Union for Multilateral Payments Arrangement (1967), the Asian Clearing Union (1974) and the West African Clearing House (1975).

The first six of these arrangements are associated with regional integration movements, namely, the Central American Common Market, the Latin American Integration Association, the Caribbean Community and Common Market, the Economic Community of the Great Lakes Countries, the Central African Customs and Economic Union, and the Regional Cooperation for Development respectively.(36) The latter two arrangements are not specifically associated with an economic integration or free trade arrangement. The members of the Asian Clearing Union are Bangladesh, Burma, India, Iran, Nepal, Pakistan and Sri Lanka. The West African Clearing House comprises Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Nigeria, Sierra Leone and the Central Bank of the West African States. The members of this latter Bank are Benin, Ivory Coast, Niger, Senegal, Togo and Burkino Faso, i.e. those countries comprising the West African Monetary Union (see below).

---

36. For details on the membership of these arrangements please see Section 3 above.

There are also currently in existence five multilateral credit arrangements: the Central America Stabilization Fund (1969), the Santo Domingo Agreement (1969, revised 1981), the Andean Reserve Fund (1976), the ASEAN Swap Agreement (1977), and the Arab Monetary Fund (1976). The membership of the first three of these organisations coincides with that of the Central American Common Market, the Latin American Integration Association, and the Association of South East Asian Nations respectively. The Arab Monetary Fund comprises Algeria, Bahrain, Democratic Yemen, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates and the Yemen Arab Republic. Egypt's membership was suspended in 1979. The Arab Monetary Fund has also been considering initiating a clearing arrangement for settling current payments among member countries.

In addition, two monetary unions have been established in Africa: the West African Monetary Union (1973), the members of which are listed above, and the Central African Monetary Union (1972), comprising Chad, Cameroon, Central African Republic, Congo and Gabon.

4.1.2 Experience with Clearing and Credit Arrangements

The extent to which the existing clearing arrangements are used to make payments for inter-member trade has varied considerably. The two arrangements not specifically associated with an economic integration or free trade arrangement have experienced the lowest ratio of transactions channelled through them to total inter-member trade transactions. The estimated proportion of the Asian Clearing Union is 10-20 percent, while that for the West African Clearing House is 10 percent. By contrast, those arrangements in Latin America and the Caribbean, where perhaps efforts at integration are most advanced, until recently at least, were handling between 80 to 95 percent of intra-group trade transactions.(37) However, all three Latin American clearing facilities have been experiencing difficulties recently,(38) and these ratios have fallen in all cases, indeed to zero in one instance: the CARICOM facility was temporarily suspended altogether in 1983.

The reasons for the problems encountered since 1979 within Latin America are,

> 'owing mainly to the international financial crisis that eroded the member countries' reserves and led to the instituting of stabilization and domestic adjustment programs. As a result the balances outstanding in the clearing houses built up, with a significant impact in turn on the smooth functioning of the systems'.(39)

In respect of the Latin American Payments and Reciprocal Credit System, in 1979 one member central bank neglected to reports its debits; in 1982 another excluding itself from the clearing, while others did not use the mechanism to channel the results of their bilateral accounts. The Central American

---

37. UNCTAD, op.cit., pp.78-9.

---

38. Inter-American Development Bank, op.cit., pp.58-60.

---

39. Ibid., p.58.

Clearing House is still operating, but over the period 1979 to 1983, balances outstanding rose from zero to US dollars 300 million.(40)

Of the African arrangements, information on the fairly recently established Central African Clearing House and Monetary Arrangement of the CEPGL does not appear to be available. The value of the annual transactions channelled through the West African Clearing House rose from 49.02 million West Africa Units of Account to 108.35 million over the period 1976 to 1980. However, as mentioned above, this still constitutes a small proportion of total inter-member trade.(41)

The value of the transactions settled through the Asian Clearing Union has also risen rapidly since its inception. From an initial 22.28 million Asian Monetary Units in 1976, it rose to 228.4 million in 1981.(42)

Recent information on the RCD's Union for Multilateral Payments Arrangements is also not available.(43)

As regards credit arrangements, under the ASEAN Swap Arrangement, designed to alleviate short-term liquidity

---

40. *Ibid.*, p.59.

41. UNCTAD doc. no. TD/B/C.7/51 (Part II), *op.cit.*, p.62.

42. UNCTAD doc. no. TD/B/C.7/51 (Part III), *op.cit.*, p.20.

43. UNCTAD, *Trade and Development Report*, op.cit., p.78.

problems, amounts up to US dollars 80 million can be obtained for a period of up to six months. The Arrangement has thus far been used only by the Philippines and Thailand (44)

The Arab Monetary Fund provides four types of loans to its members for balance of payments support: automatic, ordinary, extended and compensatory loans. Eight automatic loans totalling 14 million Arab Accounting Dinars had been extended by 1980, accounting for 40 percent of all loans.(45)

In Latin America, the Santo Domingo Agreement has been used 24 times providing loans amounting to US dollars 419 million.(46) The Central American Stabilization Fund has provided loans to Nicaragua, El Salvador and Honduras.(47) The Andean Reserve Fund has approved a US dollars 37.5 million loan to provide balance of payments support to Peru.(48)

4.1.3 Impact of Clearing and Credit Arrangements on Inter-member Trade

Despite the fact that the theoretical advantages and trade stimulating effects of such arrangements are often commented upon, and calls for their strengthening and extension

---

44. UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.10.

45. Ibid., p.54.

46. Inter-American Development Bank, op.cit., p.58.

47. UNCTAD doc. no. TD/B/C.7/51 (Part I), op.cit., p.59.

48. Ibid , p.101.

frequently made, very little research appears to have been done to establish either: (a) whether when in existence, such arrangements have actually successfully promoted trade; or (b) whether where such arrangements do not exist, this actually constitutes a major constraint on trade.

In respect of (b) above, one study has been undertaken by the IMF to examine whether the establishment of a multilateral clearing facility would help promote inter-member trade in the Eastern and Southern Africa Preferential Trade Area. It concluded that,

> 'the present low volume of intraregional trade and its uncertain potential are not principally caused by the nature or application of trade and payments regulations in the region. Therefore, establishment of an alternative system for channelling intraregional settlements would not by itself lead to an expansion of intraregional trade'.(49)

Furthermore, it was also found that,

> '[a]lthough the establishment of new clearing facilities could lead to more rapid and less costly settlements, the gains in efficiency or financial saving would probably be small. The resulting reduction in the size of convertible currency working balances needed for trade settlement purposes would probably also be insignificant'.(50)

In respect of (a) above, a recent study by Tran-Nguyen(51) in which the impact of these various payments and credit arrangements is examined, reached the following,

---

49. Shailendra J. Anjaria, Sena Eken and John F. Laker, 'Payments Arrangements and the Expansion of Trade in Eastern and Southern Africa', Occasional Paper, No. 11, IMF, Washington, D.C., July 1982, p.2.

---

50. Ibid., p.3

albeit tentative, conclusions. First that in general, the existence of these arrangements had had little effect on the direction of trade. Although it is conceded that initially these institutions may have helped to promote intra-group trade, the author notes that their effectiveness appears to have declined over time. When assessing the ability of these institutions to protect intra-group trade in the face of the recent financial crisis, it is found that only in the cases of the Asian Clearing Union, the West African Clearing House and the ASEAN Swap Arrangement have intra-group exports performed better than exports to other groups of countries either within or outside of the region.

Although Tran-Nguyen does not comment on this, it is interesting to note that these are precisely the areas where, in the case of the Asian Clearing Union and the West African Clearing House, the clearing facilities are least used and are not associated with a broader trade promotion effort; and, in the case of the ASEAN Swap Arrangement, there exists no concomitant clearing facility at all. In all other cases, trade with non-member developing countries was found to have performed better than intra-group trade since 1979.

The author proffers the following possible explanations for her findings. First, all member countries of payments arrangements have recently been experiencing debt problems, and the requirement to settle net balances in convertible

----

51. A.N. Tran-Nguyen, 'The Monetary and Financial Aspects of South-South Trade', paper presented at an Informal Symposium on South-South Trade: Obstacles to its Growth, UNCTAD, Geneva, 26-29 June 1985.

currencies has limited the utility afforded by these clearing facilities. Further, the regional credit arrangements have tended to be characterised by the existence of structural trade imbalances among member countries which have impaired their functioning.

4.2 Export financing(52)

There are two ways in which the lack of extensive export financing facilities within developing countries may serve to reinforce existing trade patterns and inhibit the expansion of South-South trade in manufactures. It has already been noted in the introduction that, owing to the foreign exchange constraints facing developing countries, the terms of credit offered by prospective exporters of manufactures to countries in the South are frequently decisive in determining the source of imports. If developing countries are to expand their exports to each other, therefore, suppliers must not only be able to compete with developed countries' products in terms of quality and price, but also in terms of the credit facilities they can offer. That is, from the point of view of Southern importers of manufactures the inability of South exporters to offer supplier credits constitutes an obstacle to trade diversion to South-South channels from North-South ones.

----

52. This subsection and subsection 5.3 below are based upon the following reports: UNCTAD, Export credit insurance as a means of expanding and diversifying esports of manufactures from the developing countries, UN, New York, 1976; UNCTAD doc. no. UNCTAD/ST/MD/15: 'The provision of finance for industries in developing countries with a view to expanding and diversifying their exports of manufactured and semi-manufactured goods', Report by the UNCTAD Secretariat, UNCTAD, Geneva, 1 March 1978; UNCTAD doc. no. TD/B/C.7/27: 'Rodrigo Llorente Martinez, 'Monetary and Financial Cooperation to support the Programme of Trade Preferences among Developing Countries', UNCTAD, Geneva, 22 March 1979; UNCTAD, Institutional arrangements in developing countries for industrial and export finance with a view to expanding and diversifying their exports of manufactures and semi-manufactures, UN, New York, 1980; UNCTAD doc. no. TD/B/C.3/164: 'Export credits as a means of promoting exports from developing countries', UNCTAD, Geneva, 9 May 1980; and A.N. Tran-Nguyen, op.cit.

However, importers from the South within the North are not so reliant upon supplier credits to finance their requirements. Northern importers have access to alternative sources of credit which can be used to finance purchases from Southern suppliers. Thus the inability of South suppliers to offer export credit does not constitute an obstacle to South-North trade. In short, as long as Southern manufactures exporters can offer only limited supplier credits, their major markets may be expected to continue to be in the North, while Southern importers of manufactures will continue to purchase their requirements from the North. A bias against South-South trade is generated on both sides of the exchange relation: importers have no incentive to diversify their sources of supply, nor exporters to diversify their markets.

4.2.1 Institutional Requirements for the Provision of Export Finance

The institutional infrastructure for the provision of trade finance is highly developed in industrialised countries, and manufacturers and exporters from the developed market economies derive a distinct competitive advantage over those in developing countries from their ability to obtain adequate finance at a reasonable cost. This is especially so in respect of credits for export [illegible] al goods extended on a medium- to long-term ba[illegible] s for their ability to do so stem from a number [illegible] ome of which contribute to the reduction of th[illegible] nt of risk to the commercial banking system from the extension of trade finance, and some of which relate to government policy within developed countries, but all of which result in the lowering of the cost of such finance. These are additional to the fact that interest rates in developed market economies' money markets tend to be lower than those prevailing in developing countries anyway.

The mere size of the manufacturing and exporting sector in developed economies means it can offer the commercial banking system a considerable volume of business, which of itself, by allowing the spreading of risk by banks, will allow a reduction in the interest rate charged. This sector is well established, allowing the better evaluation of risk. Enterprises within the sector are also in a position to offer the banks adequate collateral. In addition, there exist well developed export credit insurance services within developed countries which allow the exporter to take out cover against non-payment for various reasons, and which reduce the element of risk to the commercial banks still further. Such services are economically viable within developed countries because of the volume of insurable business in manufactured exports. Finally, developed country government agencies will in many instances extend export credit guarantees direct to the financing banks to cover them against eventualities not catered for under the terms of the export credit insurance. When it is noted that developed country governments may also extend refinancing facilities at preferential rates to the commercial banking system and offer credit subsidies, it is perhaps not surprising that developed market economy exporters are frequently able to offer attractive credit terms to their customers.

The development of similar facilities in developing countries to the extent that they can offer credit on competitive terms faces a number of obstacles. Even where relatively well developed, the commercial banking systems of developing countries have, in their export financing operations, been primarily geared to the provision of short-term credits of upto 180 days on traditional exports. Lack of experience with non-traditional exports means the domestic banking system has little information regarding the supplier, customer or market in general, on which to assess the viability of financing new exports of manufactures to new markets. Such business is thus frequently perceived as very risky, and the banking system will decline to finance credits, or will only do so if exporters can provide substantial collateral, something which many manufacturing enterprises trying to break into export markets may not be in a position to do. The lack of experience, information and suitably qualified personnel in developing countries, together with the relatively small volume of potentially insurable business in manufactured exports, also makes it difficult to establish self-sustaining export credit insurance services. The absence of such services will further negatively affect the banking system's willingness to extend their export financing into new fields. This inherent, though understandable, conservatism on the part of the banks in favour of well established, traditional exporters to traditional markets and their tendency to undertake short-term financing only, obstructs not only the expansion of exports in manufactures in general, but particularly the expansion of such exports to other developing countries.

Lack of resources, especially foreign exchange resources, inhibits the ability of governments within developing countries to support export activities through the provision of direct financing or refinancing facilities, credit subsidies or export credit insurance and guarantees. Given that interest rates in developing countries tend to be higher than those in industrialised nations, substantial subsidies would be required to allow credit to be extended at rates comparable to those offered by developed country exporters.

Even where a developing country can establish national institutions to provide post-shipment credit to its exporters, and thus resolve some of the individual enterprises' problems, there still remains the problem for the country as a whole of the deferment of foreign exchange receipts. This is frequently exacerbated by the fact that to fulfil export contracts, producers require foreign exchange for the import of various inputs. Some exporters within developing countries may be deemed sufficiently creditworthy by the international capital markets to allow the refinancing of their export credits. In general, however, this is not the case, and the absence of institutions allowing developing countries to refinance their export credits, and so avoid the postponement of foreign exchange receipts, further hampers their ability to provide export finance, and thus expand their exports.

Two methods can be envisaged by which these problems might be overcome. One involves the establishing of an international facility which will itself refinance the export credits extended by developing countries. The other, the setting up of an international export credit guarantee facility which would enable developing countries to obtain refinancing of their export credits on the international capital markets. The establishment of the latter facility has been under discussion at UNCTAD for over ten years. The establishment of a Bank of Developing Countries (South Bank) which would include trade finance among its operations, is also under discussion at UNCTAD.

4.2.2 Developing Country Experience with Export Financing

Despite the difficulties discussed above, a number of developing countries have instituted export financing schemes at both the national and the regional level. Export financing schemes in developing countries

> 'have to offer practicable solutions to three main issues involved: (i) assurance of easily available financing; (ii) competitive low cost financing; (ii) insurance against foreign trade risks and assistance in providing bank collateral'.(53)

In respect of (i) and (ii) the most widely used method to increase availability and reduce the cost of export credit is for the Central Bank, a specialist government-sponsored fund or a public financial institution to offer preferential refinancing facilities to the commercial banking system on export credits extended. However, the provision of

---

53. UNCTAD doc. no. UNCTAD/ST/MD/15, op.cit., p.1.

refinancing facilities does not eliminate the risks incurred by the commercial banking system, and to meet requirement (iii) above government-sponsored export credit insurance schemes are needed.

A number of developing countries offer refinancing facilities to the commercial banking system on short-term export credits with maturities of upto six months. They include Argentina, Brazil, Chile, Colombia, Indonesia, Iran, Jamaica, Malaysia, Mexico, Pakistan, Philippines, Republic of Korea, Singapore and Thailand.(54)

In respect of long-term credits some countries, such as Argentina, Chile, Colombia and Mexico, have extended their short-term refinancing facilities to cover longer-term credits with maturities not usually exceeding five years. In the Republic of Korea financing and banking services for long-term credits are provided by the Korea Export-Import Bank. To support the export of goods requiring medium to long-term credits, the Industrial Development Bank of India provides direct finance to exporters, refinancing facilities to the commercial banking system and overseas buyers' credit.(55)

Those countries which have instituted government backed export credit insurance schemes include Argentina, Brazil, Colombia, Cyprus, Hong Kong, India, Iran, Israel, Jamaica, Malaysia, Mexico, Peru, Pakistan, Republic of Korea, Singapore

----

54. UNCTAD, Institutional arrangements in developing countries..., op.cit., pp.3-4.

----

55. Ibid., p.6.

and Trinidad and Tobago.(56)

Regional mechanisms for export financing are largely confined to Latin America. The Islamic Development Bank does have facilities for the provision of both import and export finance to its members. However, to date it has been 'financing mainly essential goods imported by member countries with balance of payments difficulties'.(57) An export credit guarantee scheme for inter-member exports has been operated by the Inter-Arab Investment Guarantee Corporation since 1975.

In Latin America, the Inter-American Development Bank has since 1963 been providing refinancing facilities for export credits. At present prefernetial interest rates for short- and medium-term export credits are provided. In addition to its normal sources of funding, the Inter-American Development Bank administers a special Venezuelan fund which provides refinancing facilities for export credits on capital goods destined for non-Latin American countries, and on both extra- and intra-regional exports of consumer durables. However, in general, the Inter-American Development Bank is mainly concerned with refinancing credits on intra-regional exports.(58)

The Latin American Export Bank (BLADEX), established in

---

56. Ibid., p.7.

57. A.Tran-Nguyen, 'Export Financing in Developing Countries', in: Dragoslav Avram,ovic, op.cit., p.140.

58. Ibid., p.140.

1979, specialises in promoting Latin American exports. However, because it may finance any transaction generating foreign exchange, it may also extend credit for imports required as inputs into export projects. According to a recent study,

> 'non-traditional exports account for approximately 60 percent of the transactions financed by BLADEX; about 73 percent of total financed exports are destined to markets outside the region'.(59)

Finally, the Andean Trade Financing System, established in 1974, provides credit for non-traditional exports of goods and services. The exports financed are mainly to other countries within the sub-region.

----
59. Ibid., p.141.

4.3 Production finance

Another financial constraint affecting the ability of developing countries to expand and diversify their exports of manufactures, in addition to the postshipment credit difficulties discussed immediately above, relates to the availability and cost of obtaining finance for preshipment production and investment purposes generally. Interest rates in developing country money markets tend to be higher than those prevailing in the North. Some form of subsidisation is thus required if South exporters are to successfully compete with North suppliers.

The majority of manufactured goods exported by developing countries are characterised by short production cycles, and thus pre-shipment credits with maturities of up to six months are usually sufficient to finance working capital requirements. As with short-term post-shipment credit, preshipment short-term finance is generally obtained from the commercial banking system. To ensure that such credit is readily available at reasonable cost, government refinancing facilities at concession rates are required. A number of developing countries operate such facilities which ensure that credit is available to exporters at interest rates below those prevailing in domestic money markets.

Long-term credits or loans for investment purposes are not generally available from the commercial banking sector in developing countries. Many countries within the South have established government-sponsored development finance institutions to ensure a supply of longer-term credit at reasonable cost.

Limited financial resources in general, and at concessional rates in particular, will obviously constrain the ability to (a) produce goods for export, and (b) to produce such goods at competitive prices. It is not clear, however, that the inadequacy of existing financial institutions to finance preshipment production and investment necessarily constitutes an obstacle to South-South trade, rather than trade in general. Inadequate post-shipment export financing facilities may generate a specific bias against South-South trade due to the importance of supplier credits from the point of view of South importers. Whether or not inadequate preshipment working capital and investment finance facilities for export industries generate a specific direction bias to trade flows will depend upon the criteria governing access to such finance.

5. Information, Distribution and Marketing Constraints on South-South Trade in Manufactures

One self-evident factor necessary for the expansion of South-South trade is that the relevant actors be in possession of the relevant information. If developing country importers are not aware that their needs could be met from South suppliers, nor South suppliers aware of the potential markets for their goods in other developing countries, trading opportunities will obviously continue to be unexploited. Given that neither potential importers nor exporters may have the necessary resources, in terms of both finance and manpower, to undertake the information gathering activities required, national or international institutions are needed to gather and disseminate information.

At the international level the activities of institutions such as the GATT/UNCTAD International Trade Centre are to meet this need, although its attention is not primarily focussed on the identification of trading opportunities in manufactures among developing countries. At the national level, individual developing countries might increasingly establish Trade Commissions or overseas offices of their State Trading Organisations in other countries within the South. Joint government cooperation in the organisation of regional and inter-regional trade fairs may also have a role to play here. It should be noted, however, that if information is to be useful it must be up-to-date and, in addition to institution building, investment in physical infrastructure, in particular telecommunications, may well be required if information is to be efficiently communicated and acted upon.

However, even if trade information and market intelligence were to be freely available, industrial organisation may be such that potential importers and exporters, on an individual basis, are not in a position to act upon it. As with information gathering, there are economies of scale to be reaped also in marketing. From the point of view of a potential export industry, if manufacturing production is undertaken by large numbers of small and medium-sized enterprises, the exploitation of export potential may only prove feasible if umbrella institutions to coordinate and promote their activities are established. The functions of such institutions may include the identification of export markets, the undertaking of quality control, the provision of various management services and the marketing of the product. In addition to the constraint the lack of such umbrella institutions places upon potential export industries, the lack of large- scale importers/wholesalers and retail distribution networks in potential importing countries may constitute a further obstacle to South-South trade.

It is interesting to note that many successful indigenous exporting firms in the NICs in the field of consumer goods, owe much of their success to the efforts of the large retailing organisations and importers/wholesalers in the developed countries. A study by Wortzel and Wortzel(60) of

---

60. Laurence H. Wortzel and Heidi Vernon Wortzel, 'Export Marketing Strategies for NIC and LDC-Based Firms', <u>Columbia Journal of World Business</u>, Spring 1981.

three major export industries (consumer electronics, athletic footwear and clothing) in five Asian countries (Republic of Korea, Hong Kong, Taiwan province of China, Thailand and the Philippines) found that the major impetus to exports originally came from the manufacturers' customers themselves. Local firms within these countries were originally sought out and used as contract manufacturers by large retailers or importers/wholesalers located in the North. The customers originally take major responsibility for product specification, external design, including appearance and packaging, quality control, shipping, distribution and marketing. As the manufacturing enterprises gain in experience, they may internalise some or all of these functions. It is to be expected that the main markets for manufactured goods such as consumer electronics and athletic footwear will continue to be predominantly in the North, and that major scope for trade diversification to markets in the South does not exist. However, in respect of clothing, the evidence does suggest that developing country exporters who gain experience in this way are relatively more disposed to venture into new, emerging markets in the South such as the Middle East and Latin America.(61)

Be that as it may, what these experiences do strongly suggest is that if manufacturing industries in developing countries are to successfully break into new export markets, they may well require external support in the form of various

----

61. G. Paulsson, 'The Impact of Marketing Factors on the Pattern of Manufactured Exports from Developing Countries', 198; attached as Appendix 2, below.

technical, managerial and marketing services. One kind of institution capable of providing this type of umbrella support to an industry is the State Trading Organisation (STO).

5.1 State Trading Organisations (STOs)

The importance of STOs in their foreign trade differs considerably between developing countries and across commodities. STOs engage in both import and export activities; they may enjoy monopoly/monopsony rights, or they may operate in competition with, or act as complementary to, private sector trading activities. To date, the majority of STOs have concentrated their activities on primary commodities and foodstuffs; this is presumably more a reflection of the prevailing production and consumption structures within developing countries, than of any inherent unsuitability of these organisations to engage in trade in manufactures.

The promotion of STOs and the institution of cooperation among STOs in developing countries as a means of expanding their mutual trade has been called for in the Caracas Programme of Action and has been the subject of a series of regional studies by UNCTAD.(61) In addition to identifying areas where cooperation could result in an expansion of reciprocal trade on a regional basis, these studies by UNCTAD also identify areas where cooperation in the procurement of

---

61. See UNCTAD doc. nos. TD/B/C.7/16; TD/B/C.7/17; TD/B/C.7/18, TD/B/C.7/ 18/Add.1, TD/B/C.7/Add.2 and Corr.1; and TD/B/C.7/37, dealing with cooperation among STOs in Latin America, Asia, sub-Saharan Africa and the Arab countries respectively.

joint imports and the marketing of joint exports may be pursued. However, they do not concentrate on identifying potential sources of these joint imports in the South, or potential export markets in the South.

In Latin America commodities for which there are existing opportunities for increasing reciprocal trade are foodstuffs, fertilisers, iron and steel products, and ferrous and non-ferrous minerals. In Asia potential areas for trade expansion among STOs on an intra-regional basis are identified as vegetable oils and other edible fats, rice and allied cereals, sugar, timber, raw cotton, raw jute, pig-iron, steel and allied products, newsprint, cement, iron and coal. In English-speaking sub-Saharan Africa a large number of products are identified where there exists potential for mutual trade, including not only foodstuffs and raw materials, but diverse manufactured goods such as motor tyres, bicycles and bicycle parts, textiles, footwear, ceramics, furniture parts and various other miscellaneous manufactures. In respect of the Arab countries, it was found that cooperation among STOs was already highly developed and that little scope for further trade expansion by this means existed. Areas of possible cooperation with STOs in other developing countries were also considered, but concern mainly foodstuffs and raw materials.

Thus, in general it would appear from the above studies that the impetus to South-South trade from increased cooperation among existing STOs would not have a significant impact on such trade in manufactures. However, this may be due to the regional nature of the studies. The exchange of information among STOs in developing countries on an inter-regional basis might lead to the identification of trading opportunities in manufactures. For a number of STOs do exist which are responsible for the export and/or import of certain categories of manufactures.

For example, in India not only do STOs account for a significant proportion of its total trade, they also specialise in the marketing of manufactures. The Handloom and Handicrafts Export Corporation, which is a wholly-owned subsidiary of the State Trading Corporation of India (STC), is the single largest exporter of Indian carpets and rugs, and exports all items in the handloom and handicraft fields, produced by millions of artisans dispersed throughout the country.(63) Another wholly owned subsidiary of STC, the Projects and Equipment Corporation, exports equipment, machinery and advanced technology products primarily to developing countries in Asia and Africa, and to Eastern Europe. This organisation is also engaged in the promotion of turn-key projects through the formation of consortia of local manufactures.

---

63. UNCTAD doc. no. TD/B/C.7/17, op.cit., p.13.

6. Conclusions

Since 1973 South-South trade in manufactures has been the most dynamic element in world trade. This fact, together with economic recession and rising protection in the industrialised countries of the North, has led to increased attention being given to the role South-South trade could play in maintaining growth rates and fostering industrialisation in developing countries.

However, closer analysis of the trends in South-South trade in manufactures over the last 10-12 years does not support unqualified optimism concerning South-South trade as the 'engine', or for that matter, the 'handmaiden' of growth for the majority of countries within the South. The boom in South-South trade in manufactures is in large part accounted for by the activities of a small number of NICs, which have been trading intensively with themselves, and exporting to all other developing countries, in particular, to the capital surplus oil exporting nations. Given current developments in world oil prices, it seems unlikely that the rates of growth of exports to this latter group attained in the 1970s will be maintained. Thus, although South-South trade may be expected to continue to grow, it should be remembered that: (a) its growth may not be sustainable at the rates experienced immediately following 1973/4; and (b) the majority of developing countries have not benefitted to any great extent from this rapid expansion of South-South trade.

Having said that, potential for the expansion of South-South trade in manufactures does exist, although its full realisation will require the overcoming of various policy and institutional constraints. The restrictive trade policies pursued by many developing countries would appear to constitute a major obstacle to the expansion of South-South trade. The strengthening or establishment of trade facilitating institutions in the areas of international payments, clearing and credit arrangements, production and export finance and insurance, information, marketing, distribution, transport and communications would also contribute to the expansion of South-South trade.

The policy and institutional obstacles to South-South trade expansion, reviewed in this paper, have long been identified. Previous attempts to overcome them within various arrangements established among developing countries have not been unqualified successes. Significant expansion of intra-group trade would appear to require member countries to engage in a high degree of cooperation and coordination of domestic policies, often to an extent greater than participating governments are willing to agree to. Further, if left to market forces alone, the benefits of any trade expansion tend to accrue to the most industrially advanced countries within any grouping. In the absence of adequate redistributive mechanisms, these polarisation effects can generate conflicts and tensions which hamper progressive trade liberalisation and economic integration efforts.

From this one may conclude the following. Isolated attempts to remove or alleviate individual constraints on South-South trade are unlikely to significantly affect either the participating countries' structure of trade or their structure of production. This is not to say that such measures should not be taken, but merely to point out that the incremental effects on South-South trade may be minor. But the kind of cooperation among countries required for significant changes in their production and trade structures, however feasible in theory, would appear to be difficult to attain in practice. For example, given the difficulties encountered in many regional groupings in simply negotiating the exchange of tariff preferences among a relatively small number of countries, the prospects for the successful negotiation of a Global System of Trade Preferences, encompassing tariff and non-tariff barriers, among all developing countries must be viewed with some skepticism. Similarly, the coordination of investment, monetary and exchange rate policies required for substantial trade expansion has proved difficult to achieve in regional groupings, as has agreement on the location of new productive enterprises. There is no reason to believe that these problems will be any easier to solve if more, rather than fewer countries are involved in negotiations.

Further, the fact that the most successful South exporters to the South, also tend to be the most successful exporters to the North, raises the question as to whether the unilateral adoption of more outward looking economic policies in general may not be the best way to stimulate South-South trade, rather than concentrating on mutual cooperation to expand trade. True, such policies may well result in the decline of the relative share of South- South trade in total South exports. However, a simultaneous expansion of the volume of South-South trade may also be generated.

APPENDIX ONE

Review of Trade Liberalisation Attempts and Their Effects on Inter-Developing Country Trade

Over the years developing countries have formed a number of organisations, which include among their objectives the promotion of intra-member trade, at the subregional, regional and inter-regional level. These organisations vary in their objectives from the simple promotion of trade through the granting of preferential tariff concessions, as with the GATT Protocol, to more ambitious attempts at economic integration, incorporating economic cooperation in a number of areas, as with the Central American Common Market.

Given limitations of space, all these movements cannot be discussed at any length here. The various arrangements are simply listed below, and very briefly commented upon. Experiences vary, but generally speaking they reveal that tariff reductions alone are unlikely to significantly affect the volume and direction of trade; reductions in non- tariff barriers, e.g. the abolition of quotas and the relaxation of import licensing procedures are also required.

Substantial increases in intra-trade would also appear to require economic cooperation among member countries not only in respect of production, the development of infrastructure, and monetary and financial arrangements, but also in respect of the harmonisation of their domestic and external economic policies. Given that it is the more advanced countries within the various groupings which invariably appear to benefit most from schemes of trade and economic cooperation, conflicts of interest and tensions concerning the distribution of the costs and benefits of trade liberalisation tend to arise. In the case of the now defunct East African Community, for example, it is generally accepted that Kenya's relative gains were largest, while it is argued by some that Tanzania and Uganda not only gained less, but were in fact net absolute losers.(1) Whether or not this latter conclusion is correct, distributional imbalances were a contributing factor to the break-up of the Community.

----

1. See Constantine V. Vaitsos, 'Crisis in Regional Economic Cooperation (Integration) among Developing Countries: A Survey', World Development, Vol. 6, No. 6, June 1978,, p.749 for references.

1.1 Inter-regional Trade Liberalisation Attempts

1.1.1 Tripartite Agreement

The Trade Expansion and Economic Cooperation Agreement between Egypt, India and Yugoslavia was signed in December 1967 and came into force in April 1968. The Agreement is not concerned solely with the promotion of intra- member trade, but also with industrial cooperation, and scientific and technical cooperation.

In respect of trade, each member country accords preferential tariff treatment to trade in those products which originate in the other two participating countries and which are specified in the Common List. Originally the Common List contained 77 items; 57 more products were included in September 1969, and it was decided in March 1973 to add a further 26 items to the List.(2) A recent study by Mitre Kolisevski of the trade flows among the signatories to the Tripartite Agreement found that 'the actual impact of the lowered tariffs on their trade was much less than initially expected'. (3)

---

2. UNCTAD doc. no. TD/B/C.7/51(Part III): 'Economic Cooperation and Integration among Developing Countries: A Review of Recent Developments in Subregional, Regional and Inter-regional Organisations and Arrangements', Report by the UNCTAD Secretariat, Vol. III, 18 May 1983, p.80.

---

3. Mitre Kolisevski, 'Development of Economic Cooperation among Egypt, India and Yugoslavia in the Framework of Preferences on the Basis of the Tripartite Agreement', paper presented at an Informal Symposium on South-South Trade: Obstacles to its Growth, UNCTAD, Geneva, 26-29 June 1985, p.20.

Intra-member trade constitutes a small fraction of members' total trade, and trade in products on the Common List, i.e. those goods subject to preferential treatment, a smaller fraction yet. Both the absolute value and the relative shares of intra-member trade in total trade of participating countries has also been erratic over the years. For example, Yugoslav exports to India in 1975 accounted for 3.0 percent of total Yugoslav exports, and were valued at US dollars 120,987. By 1982 the value of Yugoslav exports to India had fallen to US dollars 34,309, accounting for only 0.3 percent of Yugoslavia's total exports. However, whereas in 1975 the share of preferential exports in total Yugoslav exports to India was 1.2 percent, in 1982 it was 29.7 percent. Although fluctuations in total intra-member trade have been experienced, Koliveski concludes, however, that the Agreement has been successful in maintaining intra-member flows of goods subject to concessions.

Kolisevski considers the disappointing performance of intra-member trade may be attributable to the following. Even where tariffs were lowered, numerous non-tariff barriers restricting imports remained, some of which were introduced following the signing of the Agreement. Balance of payments difficulties, expecially in Yugoslavia and Egypt, are also cited as factors inhibiting intra-member trade development. The author also points out that the closure of the Suez Canal, by raising transportation costs, may have inhibited the development of trade between Yugoslavia and India.

1.1.2 The GATT Protocol

The GATT Protocol relating to Trade Negotiations among Developing Countries was signed in December 1971. The Protocol is concerned only with trade liberalisation measures. The contracting parties to the Protocol are currently: Bangladesh, Brazil, Chile, Egypt, India, Israel, Mexico, Pakistan, Peru, Republic of Korea, Roumania, Spain, Tunisia, Turkey and Uruguay. Greece withdrew from the Protocol on 28 June 1980 prior to its admission to full membership of the European Economic Community as of 1 January 1981.(4) The terms of the Protocol do provide for concessions on non-tariff, as well as tariff barriers but, thus far, negotiations have been confined to the securing of reductions in customs duties. Of the approximately 740 products on which concessions have been exchanged, about two-thirds constitute processed products and manufactures.(5) Despite this fact, trade in finished products does not constitute a significant proportion of intra-member trade in goods subject to concessions; a much larger proportion of preferential trade is accounted for by agricultural products and raw materials.(6) Both the product coverage and scope of the preferential concessions granted

----

4. UNCTAD doc. no. TD/B/C.7/51(Part III), op.cit., p.90.

----

5. UNCTAD doc. no. TD/B/C.7/49: Mahmoud Abdel-Bari Hamza, 'Review of the preferential arrangements established under the GATT Protocol relating to trade negotiations among developing countries', UNCTAD, Geneva, 27 October 1981.

----

6. Ibid.

vary from one member country to another.

As with the Tripartite Agreement, the effects on trade among the contracting parties to the GATT Protocol have been disappointing. Intra-member trade in products covered by the concessions did indeed grow; intra-member trade constituted 4.5 percent of total imports of goods subject to concessions in 1972; this proportion rose to 6.3 percent in 1974, and to 9.0 percent during the period 1976-78. However, as a percentage of members' total imports from the world as a whole, imports subject to concessions from members amounted to less than 0.2 percent during the period 1976-78.(7) Further, 60 percent of the total trade carried on under the Protocol during the period 1975-77 was accounted for by the Mediterranean countries (viz.: Greece, Spain, Tunisia, Turkey and Yugoslavia). This regional bias may be partly accounted for by the fact that there is a relatively high number of tariff items in the schedules of concession of the countries concerned. The trade of the least developed signatory countries would appear to be least affected by the preferential concessions granted under the Protocol.(8)

Among the reasons proffered for the lack of success of the GATT Protocol in promoting intra-member trade have been the following. First, the fact that negotiations have been confined to tariff reductions, while non-tariff barriers such as import quotas and licensing requirements constitute the

---

7. UNCTAD doc. no. TD/B/C.7/51(Part III), op.cit., p.92.

---

8. Mahmoud Abdel-Bari Hamza, op.cit., pp.36-7.

major obstacles to imports, has limited the Protocol's effectiveness. The self-selection product-by-product principle on which tariff negotiations were conducted is also thought to have given rise to limited lists of concessional items and the preservation of traditional bilateral trade. The absence of any other coordinated trade promotion measures, e.g. in the areas of production, finance and transport, has restricted the ability to successfully exploit trading opportunities generated by the tariff concessions, especially on the part of the least developed countries.(9)

----

9. Ibid.

1.2 Regional Trade Liberalisation Attempts

1.2.1 Latin America(10)

Institutional arrangements to promote economic integration among countries within Latin America were first established in the early 1960s. In February 1960 the Latin American Free Trade Association (LAFTA) was established by the Treaty of Montevideo. Subsequently LAFTA was superceded by the Latin American Integration Association (LAIA, also known by the acronym ALADI), when a new Treaty of Montevideo was signed in 1981. Within LAFTA/LAIA a subregional grouping, the Andean Common Market (ANCOM) or the Andean Group, was established by the signing of the Cartagena Agreement in 1969. The Central American Common Market (CACM) was established up in 1961. The Caribbean Free Trade Association (CARIFTA), established in 1965, was subsequently superceded by the Caribbean Community and Common Market (CARICOM) in 1973. Within the Caribbean subregion the East Caribbean Common Market (ECCM), established

----

10. This section is based upon the following: Inter-American Development Bank, Economic and Social Progress in Latin America: Economic Integration, Inter-American Development Bank, Washington, D.C., 1984; Felix Pena, 'Review of experience to date with preferential measures in the context of Latin American integration schemes, in order to derive suggestions for a global system of trade preferences among developing countries', TD/B/C.7/22, UNCTAD, Geneva, 9 November 1978 and TD/B/C.7/22/ Add.1, UNCTAD, Geneva, 20 November 1979; J.C. Saigal, 'Economic Cooperation and Integration in Latin America: A review of historical experience', paper presented at the Conference on South Asian Regional Cooperation organised by the Bangladesh Economic Association, Dhaka, 21-23 January 1985; and UNCTAD, 'A review of recent developments in subregional, regional and inter-regional organisations and arrangements: Vol. I, Latin America', TD/B/CV.7/51 (Part I), UNCTAD, Geneva, April 1982.

in 1968 and later superceded by the Economic Organisation of East Caribbean States (EOECS) in 1981, have been instituted to promote the economic development of the less developed countries within the region.

LAFTA/LAIA

The original signatories to the Treaty of Montevideo establishing LAFTA were Argentina, Brazil, Mexico, Paraguay, Peru and Uruguay. In 1962 Ecuador and Colombia acceded to the Treaty, as did Venezuela in 1966, and Bolivia in 1967.

It was the original intention when LAFTA was established to remove the majority of barriers to trade among member countries over a twelve year period. Negotiations were to be conducted on a product by product basis and guided by the principle of reciprocity and the 'most favoured nation' clause, although provisions were made for the granting of preferential concessions to the less developed countries. The first negotiating rounds, covering mainly traditional trade products went relatively smoothly and agreement was reached on the concessions to be granted. And initially at least, LAFTA appears to have been successful in promoting intra-trade. Over the period 1961 to 1974 total inter-member trade grew six-fold, while inter-member trade in manufactures grew twenty-fold. The relative share of manufactures in total intra-LAFTA trade increased from 27 percent in 1965 to 50 percent in 1974. Inter-member trade accounted for 7.4 percent of total exports of member countries in 1960, and 9.6 percent of total imports. By 1977 such trade accounted for 13.4

percent of total exports and 13.5 percent of total imports.(11)

However, difficulties arose in later negotiating rounds, when non-traditional trade items, mostly manufactured products, came up for negotiation and many member countries proved unwilling to dismantle the barriers protecting their domestic industries, and finally negotiations stagnated in the late 1960s. Despite this, as can be seen from the figures above, intra-member trade continued to grow. However, the proportion of that trade subject to LAFTA concessions fell. Thus in 1964 the share of negotiated commodity trade in total intra-member trade was 88.7 percent, whereas by the end of the 1970s this proportion had fallen to 40 percent.

> 'In other words, intra-regional imports not subject to LAFTA concessions grew faster than those that enjoyed negotiated tariff preferences'.(12)

The breakdown in trade liberalisation negotiations can be attributed to a number of factors. No mechanisms existed under the Treaty establishing LAFTA to ensure that the costs and benefits resulting from intra-regional trade liberalisation would be equally distributed. In the absence of redistributive mechanisms, or of regional industrial planning, the benefits of trade liberalisation mainly accrued to the larger, more industrially advanced nations. Lack of coordination among member countries in respect of their

----

11. UNCTAD doc. no. TD/B/C.7/22/Add.1, op.cit., pp.36-39.

----

12. J.C. Saigal, op.cit., p.6.

economic policies in general, and their exchange rate and monetary policies in particular, also hindered mutual trade expansion.(13)

In 1980 LAFTA was replaced by LAIA, and trade liberalisation negotiations were placed on a different footing. The principle mechanism for multilateral negotiation is now the 'regional tariff preference', and the most favoured nation clause, by which regional preferences had previously been generalised within LAFTA, has been abandoned. Thus, under the new Treaty of Montevideo partial, including bilateral, agreements are provided for, and third parties may negotiate their inclusion in such agreements. Although these trade liberalisation negotiation arrangements may have overcome the stalemate experienced in LAFTA over the 1970s, the new approach to such negotiations under LAIA, which

> 'makes the regionalisation of preferences, under the new Treaty, a non- binding and negotiated process...seems to imply a weaker commitment of some countries to regional economic integration'.(14)

It is too soon to draw any conclusions concerning the efficacy of this new institution in promoting intra-member trade. Also the special circumstances of several of LAIA's members over the years since its inception do not allow an evaluation of the impact of any intra-regional trade liberalisation attempts among member countries.

---

13. Ibid.

---

14. J.C. Saigal, op.cit., p.7.

Andean Common Market (ANCOM) or Andean Group

The problems experienced with LAFTA were in part responsible for the formation of ANCOM, although the Andean Group was not set up as a substitute for LAFTA, but rather to strengthen it. The original signatories to the Cartagena Agreement establishing ANCOM were Bolivia, Chile, Colombia, Ecuador and Peru. Venezuela joined in 1973, while Chile left in 1976. The objectives of ANCOM were basically to speed up the process of economic integration among member states beyond that achievable through LAFTA alone. Unlike LAFTA, the basic mechanism for economic integration within the Andean Group is joint industrial planning rather than trade liberalisation only. By the use of such a mechanism, it was hoped to achieve a more equitable distribution of the costs and benefits of increased economic cooperation. However, a programme of intra- regional trade liberalisation and the establishment of a common external tariff also constitute parts of ANCOM's integration efforts, as does the coordination and harmonisation of members' development plans and policies.

The major mechanism for tariff liberalisation within the Andean Group is one of automatic liberalisation, as opposed to the product-by-product approach of LAFTA. The liberalisation programme has been implemented by dividing all products into four categories, two of which have already been freed from duties, charges and restrictions of all kinds. The other two categories of products are subject to a programme of liberalisation, and although the dates by which complete liberalisation is to be achieved have been postponed, major problems with trade liberalisation within the region have not been encountered. Where difficulties have increasingly been experienced is in the establishment of a common external tariff. Conflicts have arisen between countries according to the extent of their respective industrial sectors. The industrially more advanced countries favour a lower common external tariff, while the less advanced would prefer a higher tariff and the continuation of substantial protection for their nascent industries.

The integration and trade liberalisation efforts of the Andean Group have had a positive impact not only on the volume of inter-member trade, but also on the kind of goods traded. Thus intra-Andean Group trade in non- traditional products grew by 67 percent during the period 1977-79, whereas trade in traditional products (excluding oil and its byproducts) grew at a rate of 19 percent. By 1979, the relative share of non-traditional exports and manufactures in total intra-Andean trade was 74 percent.(15)

Central American Common Market (CACM)

The CACM, comprising Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, was established in 1961. The preferential trade system operating within CACM is based on the principle of free trade for products originating within the subregion, and the establishment of a common external tariff. By May 1969, approximately 95 percent of trade had

---

15. UNTAD, TD/B/C.7/22/Add.1, *op.cit.*, p.38.

been liberalised and the common external tariff protected 97.5 percent of tariff items. Imports of liberalised goods were exempt from quantitative restrictions.(16)

Intra-member trade has grown substantially over the years, both in terms of absolute value and as a proportion of total exports of the region, despite the various difficulties encountered within the subregion, such as the conflict between El Salvador and Honduras in 1969, and the closing of the border between Costa Rica and Nicaragua in 1980.

Preceding the establishment of CACM in 1960, intra-subregional trade had been growing at an annual rate of 14.9 percent. Over the period 1960-70 the annual growth rate of such trade rose to 24.8 percent. Whereas in 1960 inter-member trade accounting for only 7.5 percent of members' total trade, this proportion rose to 26.9 percent in 1970, although by 1980 it had fallen slightly to 24 percent. The structure of inter-member trade has also changed over the years, especially in respect of manufactures. In 1960 manufactures accounted for 19 percent of total intra-subregional trade; by 1974, the relative share of manufactures had risen to 37.7 percent, in 1977 it achieved 78 percent, and in 1978 86 percent.(17)

Despite the success of CACM in increasing and diversifying trade among member countries, it is increasingly

---

16. UNCTAD doc. no. TD/B/C .7/51 (Part I), op.cit., p.48.

---

17. Ibid.

being recognised that without new initiatives this momentum cannot be maintained over the longer term. What appears to have happened is that the CACM has been engaged in a process of import substitution at the subregional level, a strategy which is now nearing the limits of its potential. Also relations between members in respect of trade liberalisation have not been without problems, nor has the principle of free trade within the subregion been strictly adhered to. Following the 1969 crisis, Honduras suspended its free trade regime, and this was only restored following the reaching of bilateral agreements with three of the four other members. Disputes among member countries have also arisen concerning the origin of goods, the granting of franchises and the application of sales taxes, and these have also lead to the suspension of free trade at various times. The inability of CACM to achieve a balanced distribution of the benefits of integration has also posed problems, with Honduras incurring chronic deficits vis-a-vis other CACM members.(18)

CARIFTA/CARICOM

CARIFTA, founded in 1965, had as its objective the establishment of a free trade area among its members. CARICOM, which superceded CARIFTA in 1973, and which comprises Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and Trinidad and Tobago, constitutes a more ambitious economic

----

18. UNCTAD doc. no. TD/B/C.7/Add.1, op.cit., pp.26-7, 48.

integration effort. In the five years following the establishment of CARIFTA, intra-member trade increased considerably. However, once again, the reliance on trade liberalisation measures and market forces only to promote economic integration, resulted in the more developed countries within the subregion gaining most. It was these countries that were largely responsible for the increase in trade, while the relatively less developed economies were unable to expand their exports. The recognition of this fact lead CARIFTA members to reformulate their integration arrangements in an attempt to ensure that all member countries benefitted. The result was the establishment of CARICOM by the Treaty of Chaguaramas in 1973. CARICOM has three basic objectives: (i) the creation of a Common Market; (ii) functional cooperation in areas such as transport, health, education, etc.; and (iii) coordination of foreign policy.

As the Inter-American Bank succinctly notes, CARICOM has faced a number of particular obstacles:

> 'The integration process in the Caribbean ran into problems right from the start owing to the relatively small size and populations of the member countries, which limit the possibility of achieving significant economies of scale. Moreover, because these countries are scattered over a wide geographic area, intra-regional transportation and trade are extremely difficult. If to these structural factors is then added the fact that the production of goods and services in the CARICOM countries is often more competitive than complementary, the outcome is a situation that is not in itself favourable for integration, while these negative characteristics are aggravated at the present time by the adverse influence of the world economic crisis'.(19)

----

19. Intra-American Bank, op.cit., p.53.

Be that as it may, some progress was achieved in the areas of trade liberalisation and promotion. At the time of the establishment of CARICOM, over 90 percent of the intra-regional imports of the more advanced countries, and 80 percent of the less developed, faced no barriers to intra-trade.(20) And up to 1977 intra-trade increased considerably, before the emergence of balance of payments difficulties in a number of member countries led to the application of quantitative restrictions on intra-trade.(21)

East Caribbean Common Market (ECCM)

The ECCM, comprising Antigua, Dominica, Grenada, Montserrat, St. Kitts- Nevis-Anguilla, St. Lucia and St. Vincent, was established in 1968. Its overall aim was to promote the more rapid economic development of the less developed countries of the Caribbean, thus reducing the disparities among countries within the region. The Agreement establishing ECCM provided, in respect of trade, for free trade among members and the adoption of a common external tariff and trade policy. In 1972 negotiations were successfully concluded among members concerning the common external tariff and trade policy, and subsequently the relevant instruments were enforced in all member countries, although at different dates.(22) In 1981 the ECCM was transformed into the Economic Organisation of the East Caribbean States (EOECS).

---

20. J. C. Saigal, op.cit., p.53.

21. Ibid.

22. UNCTAD doc. no. TD/B/C.7/51 (Part I), op.cit., p.79.

Very little trade data for these countries exists, and it is, therefore, not possible to comment upon the impact of trade liberalisation within these organisations.

1.2.2 Africa(23)

A number of organisations have been founded within the African continent at a subregional level, which include among their objectives the promotion of inter-member trade through the adoption of trade liberalisation measures. Considered here are the following: the Permanent Consultative Committee of the Mahgreb (CPCM), the West African Economic Community (CEAO or ECWA), the Economic Community of West African States (ECOWAS), the Mano River Union (MRU), the Central African Customs and Economic Union (UDEAC), the Economic Community of the Great Lakes Countries (CEPGL), the Eastern and Southern Africa Preferential Trade Area (PTA), and the Customs Union Agreement between South Africa, Botswana, Lesotho and Swaziland. All these arrangements have attempted plurisectoral trade liberalisation measures. Arrangements such as the Council of Entente States, which are concerned with unisectoral trade liberalisation, in this case with trade in livestock and meat only, are not discussed.

The Permanent Consultative Committee of the Mahgreb (CPCM)

The original members of CPCM, which was established in 1964, were Algeria, Libya, Morocco and Tunisia. Libya withdrew in

----

23. This section is based on UNCTAD doc. no. TD/B/C.7/32: Mеclhiade Yadi, ' The Trade Preferences of the African Economic Cooperation and Integration Groups', UNCTAD, Geneva, 16 January 1979; and UNCTAD doc. no. TD/B/C.7/51 (Part II): 'Economic Cooperation and Integration among Developing Countries: a review of recent developments in subregional, regional and inter-regional organisations and arrangements', Report by the UNCTAD Secretariat, Vol. II: Africa, UNCTAD, Geneva, 29 June 1982.

1970, while Mauritania subsequently joined. The CPCM includes among its objectives the promotion of trade among its members through the implementation of a multilateral programme of trade preferences. To date, however, despite the submission of two drafts, agreement has not been reached among members on such a programme, and reciprocal tariff and quota concessions have been negotiated and implemented through a series of bilateral trade agreements. In 1980, total inter-member trade in goods subject to preferential treatment under these bilateral agreements amounted to US dollars 65.8 million, accounting for 3 percent of total exports of member countries.(24)

West African Economic Community (CEAO or ECWA)

Established in 1974, the CEAO comprises the Ivory Coast, Mali, Mauritania, Niger, Senegal and Burkina Faso. It is the third organisational arrangement to promote economic cooperation and integration to be established by the countries which, in the colonial period, formed the French West African Federation. The first, the West African Customs Union (UDAO), was set up in 1959; the second, the Customs Union of West African States, replaced UDAO in 1966. Both these previous arrangements dissolved due to crises engendered by the unequal distribution of the costs and benefits of economic integration.

In respect of trade, CEAO's objectives are as follows. All quantitative restrictions on products originating in

---

24. UNCTAD doc. no. TD/B/C.7/51 (Part II), op.cit., p.28.

member countries are to be eliminated; all restrictions on trade in raw materials originating in member countries are to be removed; a preferential regime for certain industrial products is to be established; and a common external customs tariff is to be adopted by 1986.(25) Trade in agricultural and unprocessed products has been liberalised, and such goods are generally free of quantitative restrictions and subject to only those charges which are applied to similar locally produced goods. In respect of industrial products, by the end of 1981 410 products or groups of products were eligible for preferential treatment, and inter-member trade in food and textiles in particular have benefitted from the special preferential regime. In 1978 trade in such products accounted for 30 percent of intra-CEAO trade.(26) In 1980, however, total intra-CEAO trade accounted for only 6.9 percent of the total exports of member countries, and 4.2 percent of their imports.(27) Thus the proportion of intra-CEAO trade to total trade has not yet recovered its 1970 level when it stood at 9.1 percent, having grown rapidly over the previous decade from an initial 2.4 percent in 1960.(28) The Community continues to experience the structural imbalances that characterised its predecessors, with the landlocked countries

---

25. UNCTAD doc. no. TD/B/C.7/32, op.cit., p.8.

---

26. UNCTAD doc. no. TD/B/C.7/51 (Part II), op.cit., p.32.

---

27. Ibid., p.29.

---

28. UNCTAD doc. no. TD/B/C.7/32, op.cit., p.19.

of the region maintaining permanent deficits, and the coastal countries permanent surpluses.(29) The preferential trade regime has benefitted the relatively industrially advanced member states more than the less developed, the latter group having achieved no significant change in the share of intra-Community trade.(30)

Economic Community of West African States (ECOWAS)

ECOWAS comprises Benin, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Burkino Faso, and was established in 1975. The long term objective of ECOWAS is to establish a Common Market; the establishment of a free trade area is envisaged as a first step towards this aim. The Treaty establishing ECOWAS provided for

> 'the complete liberalisation of tariff barriers, quantitative restrictions, quotas, prohibitions and equivalent restrictions affecting inter-state trade within a period of 10 years from the entry into force of the Treaty. This programme will begin in 1979 with a freeze on customs duties and charges applicable to products originating within the Community. The detailed liberalisation programme...will begin two years later'.(31)

Progress towards the achievement of these trade liberalisation measures has, however, not been made in accordance with this schedule. Although,

---

29. *Ibid.*, p.20.

30. UNCTAD doc. no. TD/B/C.7/51 (Part II), *op.cit.*, p.32.

31. UNCTAD doc. no. TD/B/C.7/32, *op.cit.*, p.12.

> 'Since 28 May 1979 ECOWAS has been consolidating Customs duties, other similar levies and non-tariff barriers affecting products originating in the Community [and] has also been introducing a common Customs nomenclature, a common Customs statistical nomenclature and common Customes documents' (32),

the implementation of the planned trade liberalisation programme did not commence in 1981. Originally scheduled to commence on 28 May 1981, the programme was initially postponed until May 1982 but, to the best of our knowledge, it has still not been implemented at the time of writing.

However, even prior to the initially planned trade liberalisation programme, intra-Community trade grew. It rose from US dollars 490 million in 1974 to US dollars 616 million in 1978, when it accounted for 3.5 percent of member states' total exports.(33)

Mano River Union (MRU)

The main objective of the MRU, founded in 1973 and comprising Guinea, Liberia and Sierra Leone, is the establishment of a Customs Union to foster economic development by stimulating trade and the creation of new productive capacities. In October 1977 a common external tariff was introduced, and in May 1981 inter-member trade in goods originating within the Union was liberalised. Data on the effects of these trade liberalisation measures on intra-trade are not available. However, even if such measures were to successfully raise the

---

32. UNCTAD doc. no. TD/B/C.7/51 (Part II), op.cit., p.39.

---

33. Ibid.

rate of growth of intra-trade, it appears highly unlikely that such trade will come to constitute a significant proportion of members' total trade. In 1974 intra-Union trade was valued at US dollars 2 million, and accounted for 0.4 percent of members' total exports. In 1978 the value of intra-trade still stood at US dollars 2 million, but its share in total exports by the Union had fallen to 0.2 percent.(34)

Central African Customs and Economic Union (UDEAC)

UDEAC was originally established in 1966 and then comprised the Central African Republic, Chad, Congo, Gabon and Cameroon. By 1968 UDEAC was already encountering difficulties stemming from the emergence of structural imbalances in intra-Union trade and the inability of the organisation to ensure an equitable distribution of the benefits of integration among its members. The Central African Republic and Chad withdrew from UDEAC in April 1968, although the Central African Republic reversed this decision in December the same year. More recently, in December 1981, Chad has expressed an interest in re-entering UDEAC after a transitional period of one year.(35) Initially UDEAC's efforts were directed towards the establishment of a customs union. Following the signing of a revised treaty which entered into force in 1975, UDEAC's objective has been the establishment of an economic union,

---

34. UNCTAD doc. no. TD/B/C.7/51 (Part II), op.cit., p.47.

---

35. UNCTAD doc. no. TD/B/C.7/51 (Part II), op.cit., p.65.

although little progress towards this end has been achieved thus far.(36)

Intra-UDEAC trade in non-processed agricultural products originating in member countries is not subject to any restrictions. Industrial and processed agricultural products originating and destined for markets in the Union are subject to a 'single tax' regime. This regime initially proved successful in stimulating inter-member trade. Over the period 1965-72 total intra-UDEAC trade grew at an annual average rate of 25 percent, while members' trade with the rest of the world grew at an annual average rate of 8-9 percent over the same period. Intra-UDEAC trade in products subject to the single tax grew at an annual average rate of 21.3 percent over the period 1968-72, while extra-Union trade in such products experienced a growth rate of only 8.9 percent per annum. This situation was reversed in the period 1972-76, when intra-UDEAC trade in products subject to the single tax grew at 10 percent per annum on average, while the annual average growth rate of extra-UDEAC trade in such products was 30.1 percent.(37) Trade in industrial products subject to the single tax dominates intra- UDEAC trade. In 1967 such trade accounted for 71 percent of inter-member trade; in 1970 this proportion rose to 75 percent; it achieved 98 percent in 1973 before declining to 93 percent in 1975.(38) Over the period 1960-73 the proportion

---

36. Ibid., p.71.

---

37. Ibid., p.68.

---

38. UNCTAD doc. no. TD/B/C.7/32, op.cit., p.17.

of intra-UDEAC trade in members' total exports increased from 1.7 to 7.4 percent.(39)

Economic Community of the Great Lakes Countries (CEPGL)

The CEPGL was set up in 1976 by Burundi, Rwanda and Zaire. Its objectives are: to establish a free trade area through the gradual reduction of trade barriers; to institute monetary cooperation among members; to establish joint services and multinational enterprises; and to jointly develop subregional transport and communications networks. To date a multilateral trade liberalisation programme has not been implemented, and a free trade area has yet to be established. Intra-CEPGL trade is large neither in absolute terms not as a proportion of members' total exports. In 1974 intra-Community trade was valued at US dollars 8 million, and accounted for 0.5 percent of total exports. In both 1976 and 1978, intra-trade was valued at US dollars 3 million, accounting for 0.1 percent of total exports in both years.(40)

Eastern and Southern Africa Preferential Trade Area (PTA)

The PTA, comprising Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Somalia, Swaziland, Uganda and Zambia, was established in December 1981. It is concerned with the promotion of economic cooperation and development in a number of areas. In respect of trade, it is envisaged that

---

39. *Ibid.*, p.16.

---

40. UNCTAD doc no. TD/B/C.7/51 (Part II), *op.cit.*, p.74.

all customs duties and non-tariff barriers will be eventually eliminated, and a common external tariff implemented. To the best of our knowledge, however, a trade liberalisation agreement has yet to be implemented.

1.2.3 Asia and the Arab States(41)

The experience with preferential trade agreements of the following arrangements are briefly discussed below: the Association of South East Asian Nations (ASEAN), the Arab Common Market (ACM), the Regional Cooperation for Development (RCD), and the First Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific (Bangkok Agreement).

Association of South East Asian Nations (ASEAN)

Established in 1967, ASEAN comprises Indonesia, Malaysia, Philippines, Singapore, Thailand, and Brunei Darussalam, which joined in 1984. ASEAN's objectives concern the overall economic, social and cultural development of the subregion, and include the promotion of inter- member trade through the adoption of trade liberalisation measures. However, it was not until 1977 that agreement was first reached on a preferential trading arrangement. Under this Basic Agreement on Preferential Trading Arrangements, provision is made for the adoption of various trade promotion measures, including:

---

41. This section is based on the following reports: UNCTAD doc. no. TD/B/C.7 /19: Fasih Uddin, 'Preferential trade measures within the integration and cooperation schemes in the regions of ESCAP and ECWA', UNCTAD, Geneva, 29 September 1978; and UNCTAD doc. no. TD/B/C.7/51 (Part III): 'Economic Cooperation and Integration among Developing Countries: A Review of Recent Developments in Subregional, Regional and Interregional Organisations and Arrangements', Report by the UNCTAD Secretariat, Vol. III: Asia and the Pacific, Arab States, Interregional, UNCTAD, Geneva, 18 May 1983.

'the extension of tariff preferences, the liberalisation of non-tariff measures, long term quantity contracts, purchase finance support at preferential interest rates, preferences in ASEAN Government procurement and other measures that may be mutually agreed upon'.(42)

To date trade concessions have mainly been granted in relation to tariff preferences, with negotiations being conducted on either a bilateral product-by-product basis with subsequent multilateralisation among all ASEAN members, or on an across the board basis, with a linear reduction rate being set

'for the most favoured nation (MFN) tariffs applicable to products whose imports originating from other ASEAN countries into a particular ASEAN country do not exceed a certain import value'.(43)

The first set of trade preferences, covering 71 products, came into force in January 1978. Trade preference negotiations are conducted quarterly, and each member country gives 100 preferences at each negotiating round. However, the fact that,

'preferences are given at the 6- or 7-digit classification [and] concessions are usually for only 10 per cent discounts on the existing tariffs'(44)

has lead to the conclusion that,

---

42. UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.6.

---

43. Ibid.

---

44. Amado A. Castro, 'ASEAN Economic Cooperation', in: Ross Garnaut (ed.), ASEAN in a Changing Pacific and World Economy, Australian National University Press, Canberra, 1980, p.64.

'many of the concessions are merely cosmetic'.(45)

Data on recent trends in intra-ASEAN trade in goods subject to tariff preferences are not available. Over the years, intra-ASEAN exports in total have been expanding. In 1960 such exports were valued at US dollars 839 million, in 1976 at US dollars 3,700 million, and in 1980 at US dollars 11,918 million.(46) However, prior to 1978 the share of intra-ASEAN trade in the total exports of ASEAN countries had been declining. In 1960 it stood at 21 percent, in 1969 at 18.1 percent, in 1976 at 13.3 percent and in 1977 at 13.45 percent. By 1980 this proportion had recovered and stood at 18 percent.(47)

Regional Cooperation for Development (RCD)

RCD was established by Iran, Pakistan and Turkey in 1964. Among its objectives, RCD includes cooperation in the areas of transport and communications, education and training, insurance, and industrial production. In respect of trade, the Istanbul Summit establishing RCD agreed to the freer movement of goods among member countries. In 1966 the RCD

---

45. Ibid.

---

46. Figures for 1960 and 1976 from UNCTAD doc. no. TD/B/C.7/19, op.cit., p.20; figure for 1980 from UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.4.

---

47. Figure for 1960 from UNCTAD doc. no. TD/B/C.7/19, op.cit., p.20; figures for 1969, 1974 and 1977 from Amado A. Castro, op.cit., p.63; and figure for 1980 from UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.4.

Trade Agreement was signed, providing for

> 'most favoured nation treatment vis-a-vis new commitments towards third countries, excluding preferences and advantages resulting from the future admission of any of the countries in a customs union, free trade area or regional scheme'.(78)

In 1977 the Treaty of Izmir provided for the establishment of a free trade area among RCD member countries. However, the Protocol on Trade, drafted in 1976, detailing a programme of measures to reduce customs tariffs, quantitative restrictions and other non-tariff barriers had not entered into force by the beginning of 1983, and to the best of our knowledge has still not been implemented.

Despite the fact that a preferential trade arrangement has not been agreed, inter-member trade has increased since RCD's inception. Intra-RCD exports have risen from US dollars 36 million in 1960, to US dollars 144 million in 1974, US dollars 266 million in 1979, and US dollars 500 million in 1980.(49) The share of intra-RCD exports to total exports of the region remains, however, below 3 percent.(50)

---

48. UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.14.

---

49. Figures for 1960 and 1964 are from UNCTAD doc. no. TD/B/C.7/19, op.cit., p.20; figures for 1979 and 1980 are from UNCTAD doc. no. TD/B/C.7/ 51 (Part III), op.cit., p.15.

---

50. UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.12.

First Agreement on Trade Negotiations among Developing Member Countries of ESCAP (Bangkok Agreement)

The Bangkok Agreement was signed by Bangladesh, India, the Republic of Korea, Lao People's Democratic Republic, the Philippines, Sri Lanka and Thailand in July 1975. The Agreement entered into force in June 1976. Its objective is to promote trade among member countries. Trade negotiations are conducted on a product by product basis and in principle cover both tariff and non-tariff concessions, although the first round of negotiations resulted in a list of tariff preferences only. The Bangkok Agreement also makes provision for the granting of special concession to the less developed member countries.

The total number of products contained in the original national lists was 115; this was later reduced to 93. Of these 93 products, just under 60 percent are manufactures. The concessions granted including the binding of tariffs at prevailing levels (9 products), the reduction of ad valorem duties by an average of 29 percent (80 products), and reductions of between 10 and 67 percent in specific duties (4 products).(51) The Agreement appears to have been successful in raising the share of member countries in total imports of these products:

> 'In 1978 the total import value of the 93 products in the amended lists of the participating countries rose to US dollars 297 million, the Bangkok

----

51. UNCTAD doc. no. TD/B/C.7/51 (Part III), op.cit., p.22.

> Agreement countries' share of this total is about 5 percent or roughly US dollars 156 million. In 1979 the total import value of the 93 products rose to about US dollars 409 million while the share of the Bangkok Agreement countries increased to 11 percent or roughly US dollars 44.7 million'.(52)

However, in 1980 total intra-trade, which amounted to US dollars 517 million, still accounted for only 1.8 percent of member countries' total exports, and it would appear that,

> 'The arrangement is likely to help slightly improve intra-community trade but may not have a visible impact on the economies and pattern of production of member countries'.(53)

<u>Arab Common Market (ACM)</u>

The Arab Common Market was established in 1964 and originally comprised Egypt, Iraq, Jordan and Syria. Libya and Mauritania subsequently joined. Egypt's membership was suspended in 1979. A programme of trade liberalisation was first implemented in 1965 and substantial progress was made. All customs duties on inter-member trade in natural resources, agricultural and animal products, and the majority of manufactured products originating in member countries had been abolished by 1971. Tariff liberalisation on the remaining manufactured products was completed by 1973. According to the programme of trade liberalisation, non-tariff barriers to trade should also have been eliminated at the same time as tariff barriers. However, it appears that at various times member countries have resorted to quantitative restrictions to

---

52. <u>Ibid</u>.

---

53. UNCTAD doc. no. TD/B/C.7/19, <u>op.cit.</u>, p.21.

restrict their mutual trade.(54)

The impact of the ACM on inter-member trade has not been as great as initially expected. Following its formation in 1965 intra-Market trade grew at an annual average rate of 20 percent. Following the completion of the trade liberalisation programme in 1971,

> 'There has been no unprecedented rise in the volume of trade...The share of intra-community trade to global trade has remained around 2-3 percent'.(55)

In 1979 intra-ACM exported amounted to US dollars 641 million; in 1980 they amounted to US dollars 983 million.(56)

---

54. *Ibid*., p.19.

55. *Ibid*.

56. UNCTAD doc. no. TD/B/C.7/51 (Part III), *op.cit.*, p.43.

APPENDIX TWO

A Note on the Role of Marketing Factors in South-South Trade

by Gunnar Paulsson

In the following, an attempt is made to explore the role of marketing factors--notably the role of imported 'marketing entrepreneurship'--in trade among developing countries. On the basis of some empirical data, an attempt is in turn made to identify institutional factors and constraints with a bearing on the role of marketing in South-South trade.

A. 'Marketing Entrepreneurship' and Economic Development

In the presence of 'product differentiation', the individual firm's performance does not only depend on its costs of production, but also on its ability to (i) distinguish a given product from competing ones and making it appeal to a particular group of customers, and to (ii) influence the demand for the product in question, given the potential customer's imperfect knowledge of its features (1).

In the literature, the availability of product differentiation and marketing skills is closely related to the level of economic development (2). In low-income countries,

---

1. 'Product differentiation' first entered the economics literature in Chamberlin E., *The Theory of Monopolistic Competition* Cambridge, Mass. , 1946.

---

2. See, for example, Burenstam-Linder, S. *An Essay on Trade and Transformation*, Stockholm, 1961 and Vernon, R., "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, 1966.

the demand for, say, consumer goods is typically geared towards standardised or non-differentiated products, i.e. the kind of products meeting well-specified 'functional' needs of consumers.

In the process of economic development and rising levels of income, the nature of demand becomes more diverse. Consequently, incentives arise for allocating resources to the development of products satisfying a greater variation in wants typical for higher-income patterns of consumption. Often, this involves adding qualitative, 'non-functional' features to the product in question.

This process of meeting the requirements of an increasingly differentiated demand represents obviously an important source of product differentiation and marketing skills. In some cases, product differentiation activities also result in monopolistic advantages such as appropriable product technologies, trademarks, market contacts, etc. (3).

Compared to suppliers of homogenous products, firms specialising in more narrowly defined product varieties and market segments are presumably also more responsive to similar market opportunities abroad (4). This process of international expansion is in turn often reinforced by attempts to exploit monopolistic advantages in a 'larger'

---

3. See Bain, Barriers to New Competition, Cambridge, Mass., 1956.

---

4. This is a principal element in the Burenstam-Linder hypothesis.

market (5).

B. The Role of Imported 'Marketing Entrepreneurship' in South-South Trade

From this reasoning, 'marketing entrepreneurship'--an 'awareness' of market opportunities, marketing skills, market contacts, monopolistic 'marketing advantages'--is relatively more abundant in industrial than in developing countries. Yet, it may well be drawn on in production operations also in developing countries, notably in exports to markets with a differentiated demand.

Indeed, subsidiaries of multinational firms have often pioneered exports from developing countries in products for which product differentiation and marketing play an important role (6). More recently, foreign 'buyers' are identified as the prime vehicle in the marketing of exports. According to one estimate, at least 80 percent of all exports of consumer goods from developing countries are made to 'buyers' orders'

In South-to-South exports, the nature of the foreign firm's marketing involvement is of a somewhat different

---

5. See 'technology gap' theories of internati[illegible] trade, e.g. Posner, M., "International Trade an[illegible] [illegible]nical Change", Oxford Economic Papers, 1961.

---

6. See de la Torre, 'Marketing F[illegible]ors in Manufactured Exports from Developing Countries', Journal of International Business Studies, 1971.

---

7. Keesing, D., 'Linking up to Distant Markets: South-to-North Exports of Manufactured Consumer Goods', American Economic Review, Papers and Proceedings, 1983.

nature. In contrast to South-to- North exports, where it is conditioned mainly by the scope for servicing 'old' markets from more competitive locations, the foreign firm's involvement in South-to-South exports is geared rather towards penetrating 'new' markets.

In fact, from a survey of Swedish firms' licensing strategies in India, increasing attention is paid to the scope for penetrating other Asian markets from an Indian production location (8). Two factors seem to be crucial for the success of such strategies. First of all, it is obviously necessary that the production operations located in India are more competitive (regionally) than those located in, say, the firm's home country.

Another factor relates to the increasing Indian skills in areas such as R and D. Monitored by the Swedish firm's product development department, local efforts in adapting relevant parts of the Swedish firm's product programme to the prevailing market conditions at relatively low costs are often seen as a pre-condition for penetrating other regional markets from an Indian production location (9).

Beyond the direct contribution to export development, it is obviously necessary to consider here the learning effects

---

8. Paulsson, G., 'Exporting Industrial Technology to India: Strategies and Experiences of Swedish Firms', Economic and Political Weekly, India, (forthcoming).

---

9. The entry into other regional markets is supported also by the Swedish firm's well-established, international reputation.

on behalf of domestic management personnel that are likely to arise from a close interaction with imported 'marketing entrepreneurship'. In the developing countries where exports (mainly to the North) have played an important role for some time, a 'marketing learning' process is indeed reported in recent research.

According to one source, a few Asian exporting forms had, by the late 1970s, 'begun to take over (from the foreign 'buyer') some of the product design and some of the marketing functions themselves, and many other firms were considering whether they should shift to strategies involving taking on additional responsibility for production and marketing decisions' (10).

Similar findings are reported also in a study of Indian and Sri Lankan clothing exporters (11). In fact, it is found here that the more experienced exporters, demonstrating also a greater command of marketing matters, are relatively more disposed to venture into new, emerging markets, such as those in the Middle East and Latin America.

C. Institutional Factors and Constraints

In sum, it is argued here that inflows of 'marketing entrepreneurship' from industrial countries play an important

---

10. Wortzel, L.H., et al., 'Export Marketing Strategies for NIC and LDC- Based Firms', Columbia Journal of World Business, 1981.

---

11. Paulsson, G., 'The Impact of Marketing Factors on Patterns of Manufactured Exports From Developing Countries', 1985 (unpublished paper).

role--directly as well as indirectly--in the development of trade among developing countries. Correspondingly, any restrictions on the international mobility of 'marketing entrepreneurship' would indeed represent an impediment on South- South trade.

Moreover, it is necessary to acknowledge that South-to-South exports depend, to a relatively greater extent than South-to-North exports, on the allocation of resources to (including investments in) marketing by firms located in exporting developing countries. Independently of whether it is realised by firms of domestic or foreign origin, several factors affecting such allocations must be considered here.

Given the important econmies of scale usually accompanying export marketing activities, one factor impeding resource allocations to marketing may originate in restrictions on (or preferences with respect to) firm size. Another impediment is likely to originate in the distribution of export quotas on non-competitive terms, e.g. on a 'past-performance' basis, rendering marketing activities 'unnecessary' in order to, say, maintain a given market share.