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## South-South Trade: An Asian Perspective

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## ADB Economics Working Paper Series



### South–South Trade: An Asian Perspective

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Prema-chandra Athukorala

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# **South–South Trade: An Asian Perspective**

**Prema-chandra Athukorala**

July 2011

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## **Abstract**

The purpose of this paper is to inform the contemporary policy debate on promoting trade among developing countries (South–South trade) by analyzing trade patterns of developing Asian economies from a comparative global perspective. The paper begins with a stage-setting historical overview of the policy debate on South–South trade. It then examines trends and patterns of South–South trade in Asian economies, with emphasis on the implications of the growing importance of global production sharing and the rise of the People’s Republic of China, followed by an econometric analysis of the determinants of South–South trade flows within the standard gravity modeling framework. As far as developing Asian countries are concerned, there is no evidence to suggest that growth of their trade with the Southern trading partners has lagged behind what we would expect in terms of the standard determinants of trade potential. The findings also suggest that South–South trade is largely complementary to, rather than competing with, South–North trade.





# I. Introduction

In response to the recent resurgence of interest in South–South trade as part of the global trade policy debate, a number of studies have examined the extent, patterns, and determinants of that trade from a wider global perspective.<sup>1</sup> The purpose of this paper is to complement this literature by undertaking an in-depth analysis of the experience of developing Asian economies. The central issue of focus is whether there is untapped potential in South–South trade, or more specifically, if trade among developing countries is too little compared to what we would expect in terms of the standard determinants of trade flows. Clearheaded thinking on this issue is needed to avert a messy two-tier or multi-tier international trading system emerging out of political motives and/or ideological predilections. A close look at the Asian experience is particularly important because, as is evident from the previous studies, Asia has been the driving force of recent increase in South–South trade.

The paper covers all developing member countries of the Asian Development Bank (ADB), that is, countries in Northeast Asia (excluding Japan), East Asia, South Asia, Central and West Asia, and the Pacific, while paying attention to commonalities within subregions and differences among them. In analyzing the Asian experience compared to developing countries in other regions, particular attention is placed on the implications of the ongoing process of global production sharing (international production fragmentation), or the geographic separation of activities involved in producing a good (or service) across two or more countries for Asia’s engagement in South–South trade. While the cross-border exchange of parts and components is now a global phenomenon, there is clear evidence that it is far more important for economic growth and structural transformation in East Asia than elsewhere. Intraregional and extraregional patterns of fragmentation trade and trade in related final goods (referred to as “final trade”) are unlikely to follow the same geographic patterns. Among other issues canvassed, we also pay special attention to the implications of the People’s Republic of China’s (PRC) rise in world trade for South–South trade relations.

For the purpose of this study, “developing countries” (or the South) is defined to encompass developing Asia (henceforth “Asia” for brevity), Latin America, Africa, and the Middle East. This is consistent with the country classification used in the official publications on this subject of the WTO (2003) and UNCTAD (2005).<sup>2</sup> The data for all

<sup>1</sup> See in particular WTO (2003), UNCTAD (2005 and 2008), OECD (2006), and IADB (2010).

<sup>2</sup> Recent OECD studies (OECD 2006, Kowalski and Shepherd 2006) have used the World Bank’s income-based country classification according to which all low- and middle-income countries (countries with per capita gross national income [GNI] of \$ 11,905 as of 2008) are grouped as developing (Southern) countries. This definition excluded the four high-performing East Asian economies (Hong Kong, China; the Republic of Korea; Singapore; and Taipei,China; ) whereas they are covered in our definition.

countries other than Taipei,China are compiled from the United Nations' (UN) trade data system, the UN Comtrade database, based on Revision 3 of the Standard International Trade Classification (SITC, Rev. 3). Data for Taipei,China (used in Section V) are obtained from the trade database of the Council for Economic Planning and Development. The time coverage is from 1990 to 2009.

The paper is organized as follows. Section II provides a historical overview of the policy debate on South–South trade in order to set the stage for the ensuing analysis. Section III examines trends and patterns of South–South trade, encompassing trade flows over time in aggregate, by major partners, and by major commodity groups. This section also examines geographic patterns of trade, with emphasis on the implications of the growing importance of global production sharing. Section IV undertakes an econometric analysis of the determinants of trade flows within the standard gravity modeling framework. The final section summarizes the main findings and draws out some general inferences.

## II. The Debate on South–South Trade: A Historical Perspective

The policy debate on promoting South–South trade is not new. It dates from the late 1940s when development of the countries emerging from the colonial era (which were then called *underdeveloped* or *less developed* countries) began to gain importance as a global policy objective. Many influential participants of the development debate at the time regarded promotion of commercial and financial links among developing countries, if necessary (or, some would say, preferably) at the expense of such links with the Northern (developed) countries as a necessary condition for balanced, equitable, and self-reliant growth. Some even argued in favor of delinking (decoupling) the economies of these countries from that of the Northern economies a precondition for self-sustained growth.<sup>3</sup>

In the negotiations held in Geneva (1947) and Havana (1948) for drafting the charter of the International Trade Organization and the General Agreement on Trade and Tariffs (GATT), developing countries led by Australia,<sup>4</sup> Brazil, Chile, and India sought authorization of specific exceptions to commercial policy including regional trade preferences to safeguard their plans for economic development (Gardner 1980, 365–6). Ten years later, economic integration among underdeveloped countries in order to expand their markets and established industrial production on a more rational basis was among

<sup>3</sup> For a comprehensive survey of the relevant literature, see Diaz-Alejandro (1978).

<sup>4</sup> At the time, and well into the 1970s, Australia was a staunch supporter of developing country interests in international trade policy dialogues.

the four major proposals<sup>5</sup> made by Raul Prebisch, the founding Secretary General of the United Nations Conference on Trade and Development (UNCTAD) and its leading ideologist, at the inaugural meetings of UNCTAD in 1963. Prebisch proposed that “[T]he developing countries should also form their own groupings in order to plan and develop their industries in wider markets. In the course of time, the more advanced developing countries should be able to produce a market for exports of manufactures from the countries which are embarking on the first stages of industrialization by according them preferential treatments” (Prebisch 1964, 18).

In the 1950s and early 1960s, the UN regional economic commissions in Africa and Latin America made attempts to promote regional and subregional integration schemes (Greenaway and Milner 1989). Other than these attempts—most of which never went beyond the drawing board stage, and those that were implemented had short active lives—the decoupling ideology remained dormant during the ensuing decade or so. This was because the Bretton Woods system provided a congenial setting for smooth economic relations among the developing countries and between them and the developed countries (Bhagwati 1996). Until the early 1970s, world trade turned out to be much more buoyant than Prebisch and his followers had expected. In this tranquil economic setting, the developed countries conceded to developing countries’ quest for preferential treatments in global trade and also provided financial support for the implementation of the development effort in these countries. Consequently a benign attitude toward the international trade regime prevailed among the developing countries.

In the early 1970s the decoupling ideology gained prominence under the new label of achieving “collective self reliance” in the UN’s call for a New International Economic Order (NIEO) in the early 1970s (Stewart 1976). The rationale for NIEO, an attempt to restructure by accommodating developing country interests, grew out of the strong perception of “commodity power” based on the remarkable success of the Organization of Petroleum Exporting Countries in quadrupling oil prices in the early 1973. The move toward NIEO was agreed upon at the Algiers summit of the Non-aligned Nations in 1973 and formally ratified by the UN General Assembly in the same year. In the proposed policy package, promoting South–South exchange was emphasized as a means of unleashing growth potentials of developing countries by redressing colonial and neocolonial distortions of trade patterns. Paul Streeten, a leading proponent of NIEO, summed up the case for promoting South–South trade prevalent at the time as follows:

The existing strong North–South orientation is partly the colonial heritage and the legacy of the network of communication, credit, transports. This has been reinforced by aid-tying and the investment by multinational enterprises.... [T]he encouragement of intra-third world trade is a sensible way to ensure against

<sup>5</sup> The other three proposals related to duty free entry for manufactured products of the underdeveloped countries. Commodity agreements designed to raise and stabilize the prices of poor countries’ food and raw material exports, and compensatory finance that would provide international stability for countries whose export earnings, lags behind the developmental needs.

future loses. Even if buying in the North may be cheaper, lack of foreign exchange make it impossible. A more poverty-oriented strategy of development will show that poor countries are more likely to produce for one another what they consume and consume what they themselves produce. The strong North–South orientation of the past is partly built on the consumption patterns of a small Southern elite and the dual development this has implied. Once the alternative infrastructure has been erected, incentives for greater South–South trade will emerge. Not only the oil exporters but also the growing newly industrializing countries presented expanding markets, but they were hardly captured by low-income countries in the region (Streeten 1982, 168).

The case for promoting South–South trade received added impetus from economic slowdown in the South that began in the mid-1970s (following the oil shock) and precipitated by the Volker-Regan macroeconomic policies in the early 1980s. The collapse of commodity prices resulting from the economic slowdown devastated many developing countries. At the same time, the threat of protectionism became worrisome. In the face of domestic economic slowdown, many developed countries started turning to administrative protection and voluntary export restraints, halting and even reversing the liberalizing trends set in successive rounds of tariff reduction under the GATT. In this context, opening up new markets in the South as a cushion against possible contraction in demand in the tradition Northern markets gained prominence in the global development policy debate.

The most cited support for this new policy emphasis came from the 1979 Nobel Prize lecture of Sir Arthur Lewis (Lewis 1980). Based on an analysis of growth trends in the world economy previous past century, Lewis argued that “the prosperity of 1950s-73 was special and non-repeatable” and the “only way” to maintain growth dynamism in less developed countries (LDCs) lies in trade among them, which he asserted can “take up the slack left by MDCs (more developed countries) as MDCs slow down” (Lewis 1980, 558). As regards the strategy for achieving this goal, Lewis argued that “In the situation where world trade decelerates, customs unions, with LDCs giving preferential treatment to imports from other LDCs would be more highly praised and would be made more effective, especially in regard to large-scale industries with region-wide economies of scale” (Lewis 1980, 560).

The NIEO-propelled enthusiasm for South–South economic exchange was rather short-lived, however. By the late 1970s the case for decoupling and collective self-reliance had rapidly become out of fashion because of the dismal outcome of import substitution development strategy vigorously pursued by most developing countries in the first 3 decades of the postwar era, and the remarkable economic success of the few countries that embarked on an export-oriented strategy. Following the slow growth decade of the 1980s, the world economy also entered a rapid growth phase in the early 1990s that continued, with only minor hiccups, well into the new millennium (until the onset of the

global financial crisis in 2008). The world trading system became more liberal relative to expectations in the 1980s following the successful conclusion of the Uruguay Round trade negotiations. The quantitative relationship Lewis believed to have remained the same over a hundred years proved to be wrong as countries that embarked on an export-oriented growth path continued to prosper through global economic integration (Riedel 1984). Contrary to the pessimistic view that developing countries have limited room for export of manufactured goods to developed countries, in substitute for primary products, these countries achieved export success through rapid penetration of manufactured exports in developed country markets. Thus global economic integration, rather than decoupling from the North turned out to be the prime focus of development policy.

The latest resurgence of interest in South–South trade coincided with the launching of the Doha Development Agenda at the Fourth World Trade Organization Ministerial Meeting held in November 2003. Unlike in previous occasions when it was primarily a policy slogan of the South, this time the voice came from the developed country (Northern) participants of the global policy debate, as a bargaining point in market access negotiations with the Southern counterpart. The Northern participants argue that, notwithstanding significant tariff cuts and dismantling of nontariff barriers under the WTO commitments, the levels of trade protection in Southern countries still remain much higher than those in developed countries and hence there is considerable untapped potential for expanding South–South trade through further trade liberalization.

This interesting twist in the case for promoting South–South trade through further trade liberalization gained added impetus from the onset of the global financial crisis in 2008 and the subsequent developments in the world economic scene. The initial fear that the crisis could usher in the Second Great Depression did not materialize and the crisis-affected developed economies have recovered better than expected from about late 2009. However, the economic forces unleashed by the crisis, will probably run rampant for years. The recovery has so far been driven largely by unprecedented fiscal and monetary stimulus, with considerable downside risk to its sustainability because of widespread fiscal fragility. Over the medium term, the US and other crisis-affected developed countries will have to save more and spend less in order to wind down their massive accumulated household and public debts. By contrast, the major economies in the South, in particular Brazil, the PRC, and India have withstood the trade and financial shocks of the crisis remarkably well and have continued to maintain their precrisis growth momentum, consolidating their presence in the world economy. These countries now account for a substantial (and rapidly expanding) share of world output and have become major drivers of global trade expansion. In this context, the old case for promoting South–South trade as a means of maintaining growth momentum in developing countries in the face of lack-luster economic prospects in the North has become a prime focus of the international development policy debate.

### III. Trends and Patterns of South–South Trade

This section begins with an overview of trends and patterns of South–South trade with emphasis on experience over the past 2 decades. The following subsection examines the role of developing Asian countries in South–South trade in the global context, comparing the Asian experience with that of countries in Africa, Latin America, and the Middle East. The next two subsections look at the commodity composition and directions of South–South trade from a comparative regional perspective. The final subsection deals with the implications of global production sharing for understanding Asian’s role in South–South trade.

#### A. South–South Trade in World Trade

The debate on NIEO spawned a sizeable literature on South trade in the late 1970s and early 1980s.<sup>6</sup> The data on South–South trade presented in these studies, however, are not comparable because of significant differences relating to time and country coverage. Among the available data series, the one that provides the longest time coverage of South–South trade on a consistent basis is reproduced in Table 1. The data reveal erratic time patterns in South–South trade over the 3 decades up to the mid-1980s. There was a mild, but continued increase in both the value (in current \$) and share in total world trade during 1970 to 1982, followed by a mild contraction during the ensuing 3 decades. In 1985, South–South trade amounted to 7.8% of total world trade and about a third of total exports of developing countries. According to data compiled by the GATT Secretariat, this declining trend, which largely reflected the lingering effect of the debt crisis that erupted in the 1982, seems to have continued in the second half of 1980s.<sup>7</sup>

Data on the value of South–South trade and its share in world trade and trade of developing countries for the period 1990–2009 are summarized in Table 2. In this table, data are reported for both total merchandise trade and merchandise trade net of fuel (henceforth nonfuel trade) in the tables to see the sensitivity of the observed patterns to periodic swings in oil trade.

<sup>6</sup> These studies include Amsden (1976 and 1987), Havrylyshyn (1985), Havrylyshyn and Cican (1985), Havrylyshyn and Wolf (1983), Greenaway and Milner (1990), Lall (1984), and Ventura-Das (1989).

<sup>7</sup> According to GATT data, the South–South share in total world trade reached a historical low of 5.1% and increased marginally to 5.4% in 1989. These estimates are not comparable with UNCTAD data reported in Table 1, rather, they are compiled using importer records with the trade of centrally planned economies included as part of world trade.

**Table 1: South–South Trade in World Trade, 1955–1985 (selected years)<sup>a</sup>**

	<b>Total (\$ billion)</b>	<b>Share in World Trade</b>	<b>Share in Developing Country Trade</b>	<b>Developing Country Share in World Trade</b>
1955	5.8	7.1	25.3	28.0
1960	6.1	5.7	23.6	24.0
1965	7.5	4.9	22.7	21.4
1970	10.9	4.1	21.5	19.1
1975	49.1	6.7	24.9	26.7
1979	101.1	7.2	25.6	28.0
1980	138.7	8.1	26.1	30.9
1981	149.0	8.9	28.8	30.7
1982	144.5	9.3	31.7	29.2
1983	132.9	8.8	31.7	27.8
1984	131.5	8.2	30.3	27.2
1985	126.1	7.8	30.2	25.8

<sup>a</sup> Based on exporter records. Only transactions between industrial and developing countries are included.

Source: Ventura-Dias (1989) (based on UNCTAD database).

**Table 2: South–South Trade in World Trade, 1990–2009****(a) Total Merchandise Trade**

	<b>Exports</b>				<b>Imports</b>			
	<b>Total (\$ billion)</b>	<b>S-S Share in Total Developing Country Exports</b>	<b>S-S Trade in World Trade (%)</b>	<b>Developing Country Share in World Exports</b>	<b>Total (\$ billion)</b>	<b>S-S Share in Total Developing Country Exports</b>	<b>S-S Trade in World Trade (%)</b>	<b>Developing Country Share in World Exports</b>
1990	208.5	35.54	7.4	20.71	200.9	33.92	6.7	19.77
1991	237.6	35.38	8.1	22.77	225.5	33.00	7.3	22.14
1992	269.1	35.60	7.7	21.73	260.1	32.58	7.3	22.30
1993	296.6	35.80	8.6	23.89	286.1	31.93	8.2	25.64
1994	360.5	37.05	9.1	24.60	333.1	32.28	8.3	25.82
1995	450.6	37.96	9.5	25.08	417.0	32.70	8.7	26.57
1996	480.0	37.40	9.5	25.51	460.7	33.95	9.0	26.55
1997	526.7	39.00	10.1	25.90	504.9	35.20	9.5	26.99
1998	474.5	35.83	9.1	25.52	455.6	34.74	8.6	24.86
1999	492.7	33.73	9.1	27.11	501.7	36.06	9.1	25.15
2000	629.9	33.67	10.3	30.45	671.8	38.63	10.6	27.49
2001	623.7	35.10	10.5	29.91	666.3	39.23	10.8	27.64
2002	690.6	35.97	11.1	30.75	725.2	40.21	11.3	28.14
2003	903.0	39.39	12.4	31.44	896.1	42.28	12.0	28.36
2004	1,097.9	37.97	12.4	32.74	1,180.2	44.10	13.0	29.49
2005	1,429.8	41.31	14.3	34.72	1,456.8	46.46	14.2	30.50
2006	1,764.7	41.48	15.2	36.55	1,805.8	48.52	15.2	31.32
2007	2,027.2	42.58	15.3	35.96	2,166.7	49.70	15.9	32.07
2008	2,443.8	42.46	16.0	37.63	2,722.7	51.48	17.3	33.70
2009	2,020.9	45.94	17.3	37.76	2,084.2	50.72	17.7	34.83

*continued.*



**Table 2:** *continued.***(b) Nonfuel Trade**

	Exports				Imports			
	Total (\$ billion)	S-S Share in Total Developing Country Exports	S-S Trade in World Trade (%)	Developing Country Share in World Exports	Total (\$ billion)	S-S Share in Total Developing Country Exports	S-S Trade in World Trade (%)	Developing Country Share in World Exports
1990	191.3	37.59	7.2	19.16	156.0	29.36	5.9	20.00
1991	217.5	39.20	8.0	20.32	178.8	28.78	6.5	22.48
1992	243.6	39.20	7.5	19.21	208.8	28.57	6.4	22.48
1993	269.4	38.55	8.3	21.62	232.6	28.20	7.3	25.92
1994	332.4	39.56	9.0	22.62	279.3	29.05	7.6	26.10
1995	419.0	40.24	9.4	23.32	348.7	29.42	7.8	26.66
1996	440.0	40.24	9.4	23.48	375.1	30.09	8.0	26.68
1997	476.9	40.06	9.8	24.44	410.5	31.27	8.4	27.01
1998	439.8	37.46	9.0	23.97	388.2	31.75	7.9	24.77
1999	444.8	35.84	8.9	24.77	411.2	32.14	8.0	24.93
2000	553.4	36.98	10.0	27.12	530.8	34.14	9.4	27.39
2001	556.7	38.42	10.4	26.97	539.8	35.34	9.8	27.59
2002	621.0	38.96	10.9	28.09	603.6	36.97	10.4	28.12
2003	780.2	41.07	11.8	28.81	743.3	39.06	11.1	28.36
2004	990.2	41.67	12.5	30.02	966.3	40.65	12.0	29.50
2005	1,206.0	43.42	13.8	31.82	1,163.6	42.77	13.1	30.66
2006	1,459.4	44.32	14.5	32.78	1,389.2	43.55	13.7	31.40
2007	1,781.7	46.40	15.4	33.19	1,680.3	44.91	14.4	32.00
2008	2,084.9	47.72	16.3	34.07	1,999.2	45.74	15.4	33.74
2009	1,805.7	49.69	17.7	35.62	1,624.4	46.21	16.1	34.79

S-S = South–South.

Source: Compiled from UN Comtrade database.

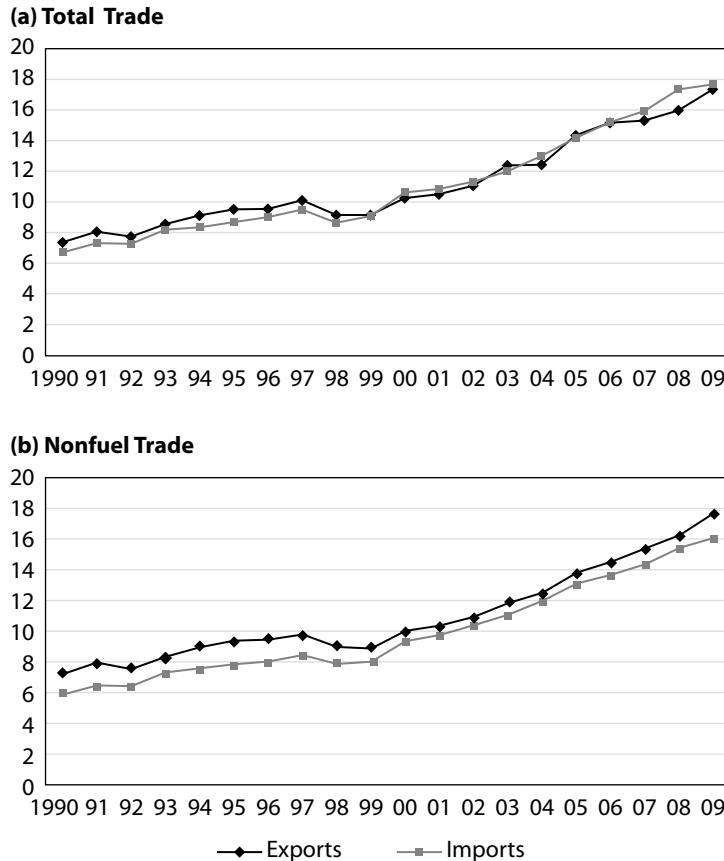
In a significant departure from the patterns in the 1980s, South–South trade has grown faster than total world trade (measured on either import or export side) since the early 1990s, with the differentials in growth rates widening over the past decade or so. The average annual growth rate (in current US dollar terms) of South–South trade increased from 14% during 1990–2007 to 16% during 2000–2009. By comparison the rate of growth of total world trade was much slower during both periods, at 5.5% and 6.0%, respectively.<sup>8</sup> Consequently, the Southern share in world trade increased from 7.4% in 1990 to 10.3% in 2000 and then to 15.3% in 2007 (Figure 1). Throughout 1990–2009, the Southern share in world imports continued to be slightly lower than in world exports (about 0.3 percentage point) in the 1990s, but has followed closely the export share during the ensuing years.

A comparison of the alternative data series Figure 1a and 1b shows that inclusion or exclusion of fuel (products that come under category 3 of the International Standard Trade Classification (SITC 3) does not significantly alter the overall patterns. The only

<sup>8</sup> Data reported in this paper, unless otherwise stated, have been compiled from the UN Comtrade database.

notable difference is that, when fuel is excluded, the Southern share in world exports has continued to remain about 1 percentage point higher than the Southern share in imports.

**Figure 1: South–South Trade in World Trade (percent)**



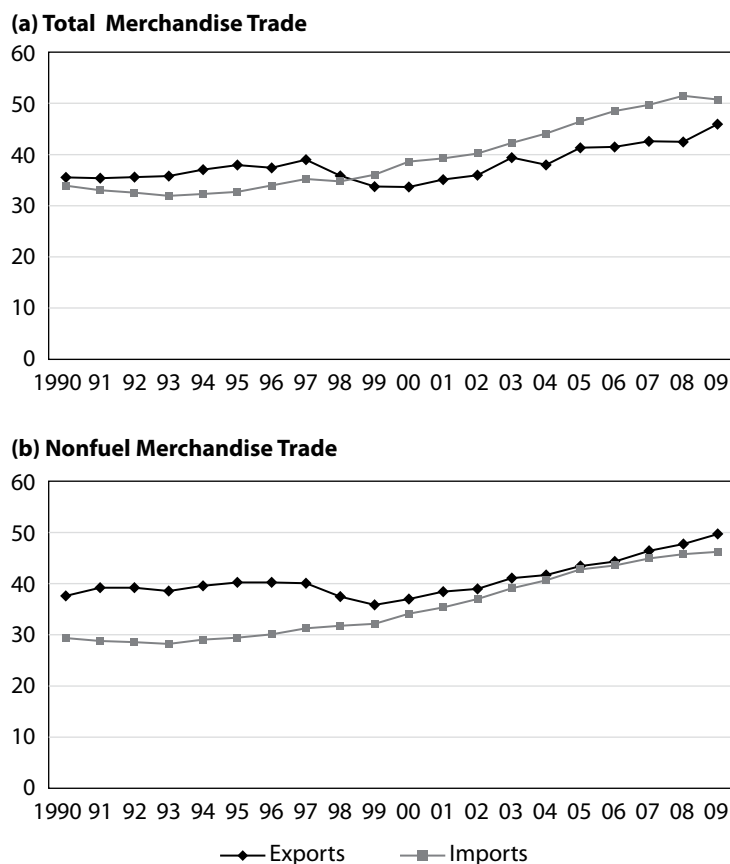
Source: Based on data compiled from UN Comtrade database.

During the 1990s, the share of South–South exports in total merchandise exports of developing countries varied in the range of 33.7% to 39.0% without showing any clear trend (Figure 2). But it has increased steadily since then, from 33.6% in 2000 to 46% in 2009. On the import side the increase has been even faster, from 38.6% to 50.7%. The overall patterns are similar for nonfuel trade, but the magnitudes of the trade shares are slightly smaller, reflecting the fact that fuel is relatively more important in overall Southern trade compared to world trade.

Three main factors seem to have contributed to the rapid expansion in South–South trade since the early 1990s. First, during this period world economy was rapidly expanding, with developing countries experiencing faster growth. The annual average rate of growth (in constant US dollars) of per capital gross national income (GNI) in developing countries increased from 1.7% during the 1980s to 3.2% during 1990–2006 compared to an increase in growth rate in developed countries from 1.3% to 1.5% between the two

periods. The share of developing countries in total world GNI increased from about 20% in the early 1990s to nearly 30% in 2006. Based on purchasing power parity adjusted GNI, the increase was even sharper, from 42% to 89%.<sup>9</sup>

**Figure 2: Share of South–South Trade in Developing Country Trade (percent)**



Source: Based on data compiled from UN Comtrade database.

Second, the ongoing process of global production sharing (international production fragmentation) was opening up new opportunities for developing countries to participate in international production and trade. At the formative stage, global production sharing involved locating small fragments of the production process in a low-cost country and reimporting the assembled components to be incorporated in the final product. Subsequently, production networks began to encompass many countries engaged in the assembly process at different stages, resulting in multiple border crossings by product fragments before they were incorporated in the final product. As international networks of parts and components supply have become firmly established, producers in advanced countries have begun to move the final assembly of an increasing range of consumer durables (e.g., computers, cameras, TV sets, and automobiles) to overseas locations in

<sup>9</sup> The data reported in this paragraph are computed from the World Bank's World Development Indicators database.

order to be physically closer to their final users and/or to take advantage of cheap labor. While the cross-border exchange of parts and components is now a global phenomenon, there is clear evidence that it is far more important for both global and regional economic integration in East Asia than elsewhere. In particular, following the emergence of the PRC as the premier final assembly center of electronics and electrical goods since the mid-1990s, intraregional trade flows of both parts and components and final goods in East Asia have recorded phenomenal growth (Athukorala 2009 and 2010).

Third, over the past 2 decades, most developing countries have significantly dismantled trade barriers (both tariffs and various forms of nontariff protection), both unilaterally and as part of their WTO commitments. Although tariffs are still high by developed country standards, trade regimes across the developing world have become increasingly liberal during this period (Table 3). Most noteworthy in this context is the PRC's reduction of tariffs and nontariff barriers since the mid-1980s. The Information Technology Agreement (ITA) of the WTO that came to effect in 2006 has made significant contributions to further liberalization of trade in electronics and related information technology products, which account for nearly 20% of total world merchandise trade. The open regime for IT products favored the inflow of foreign direct investment (FDI) and establishment of production networks in Asia (WTO 2003).

**Table 3: Trends in Average Applied Tariff Rates<sup>a</sup> in Developing and Industrial Countries, 1980–2007 (percent)**

Economy/Group	1980–1984	1985–1989	1990–1994	1995–1999	2005–2007
Japan	—	7.0	6.3	2.8	2.7
Korea, Rep. of		17.5	9.7	9.3	7.1
Taipei, China	26.5	16.8	12.5	8.4	5.3
China, People's Rep. of	49.5	39.3	40.0	18.8	11.2
Indonesia	—	13.7	13.4	6.4	8.5
Malaysia	—	14.9	14.3	6.9	7.6
Singapore	—	0.5	0.4	0.3	0.2
Philippines	29.3	27.8	23.7	13.3	5.9
Thailand	41.2	40.3	37.2	19.6	8.9
Cambodia	—	—	—	—	16.1
Lao PDR					10.3
Myanmar	—	—	—	4.8	4.6
Viet Nam	—	—	13.4	13.7	14.2
India	74.3	93.5	57.0	33.7	24.0
Nepal	22.1	21.6	19.1	15.8	14.6
Pakistan		66.7	58.5	41.6	18.6
Sri Lanka	31	27.6	25.5	16.3	9.5
Australia	—	14.2	10.7	6.5	5.2
New Zealand	—	—	8.0	5.4	3.6
Memo Items					
Developing Countries	45.4	42	34.0	19.7	13.2
Low-Income	73.3	64	46.7	23.1	15.9
Middle Income	32.9	28.9	27.3	15.0	9.5
High Income	22.9	9.1	0.4	3.6	2.8

<sup>a</sup> Simple averages of MFN rates.

— means data not available.

Source: World Development Indicators Database, World Bank.

## B. Country/Regional Profile

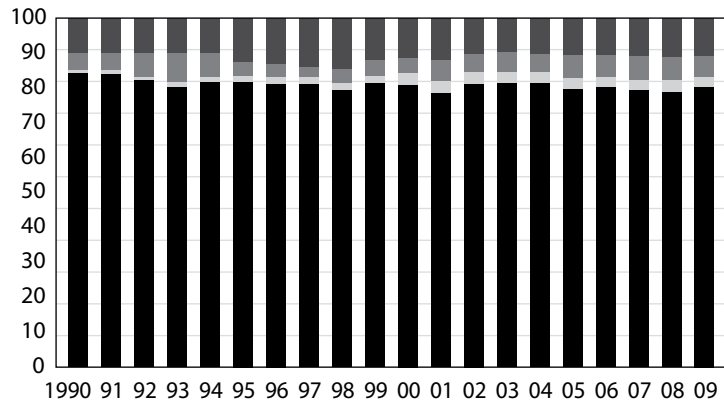
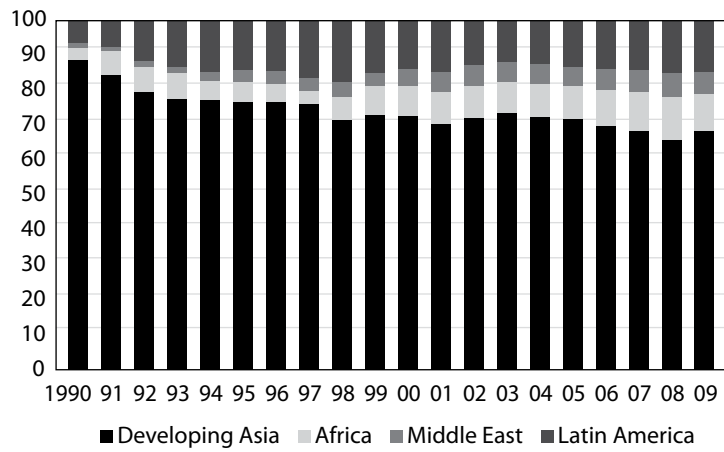
Data summarized in Table 3 help understand the relative position of Asia compared to the other three major geographic regions in the South. In order to ensure interregional comparability we focus solely on nonfuel trade.<sup>10</sup> In 1990/1991 Asia accounted for 84.2% of total South–South exports and 86.8% of total South–South imports. These shares declined to 79.8% and 69.3% respectively in 2006/2007.<sup>11</sup> As we will see below, Asia’s dominance in South–South import trade reflects the PRC’s importance as a manufacturing assembly center within global production networks. The PRC’s imports from the other Southern regions have increased rapidly in recent years, but the PRC’s manufacturing exports to these regions have increased much faster. The mild decline in Asia’s export share shares mirrors market share gains of Latin American countries. On the import side, the counterpart increases are equally shared by the Middle East and Latin America, with Africa’s share remaining rather small (Figure 3).

A common pattern observed in the studies conducted in the 1980s was that the South–South share in total exports of developing countries was generally higher than that on the import side (Amsden 1976, Lall 1984). The usual interpretation was that these countries relied disproportionately on developmental imports coming from developed countries in the growth process while directing their exports to “easy” markets in other southern countries. This asymmetrical pattern is observable across all four regions<sup>12</sup> even during our period of study (columns 2 and 6 in Table 4; Figure 4). But, interestingly, the gap has narrowed rapidly over the years as a result of faster increase in the Southern share in imports. For instance, in 1990–1991, South–South trade accounted for 42.0% of total exports and 33.7% of total imports in Asia. The comparable figures in 2006/2007 were 49.6% and 48.6%, respectively. One obvious explanation seems to be the increase in import demand resulting from faster growth of Southern economies (WTO 2003). Another, and perhaps more important, reason is the growing trade complementarity among Southern economies as their production structures become diversified over time. In Asia, intercountry division of labor within production networks has contributed significantly to strengthening trade complementarity among countries in the region.

<sup>10</sup> Excluding fuel from the commodity coverage is the standard practice in trade flow analysis, for two reasons: (1) unlike other commodities fuel is heavily concentrated in a particular region (Middle East) and a few countries within the other regions (Malaysia and Indonesia in Asia, a few countries in Africa) and hence the average share estimated using total merchandise trade as not representative; second, fuel is subject to periodic sharp price fluctuations and hence comparison of shares estimated using total trade between two given time points is problematic.

<sup>11</sup> In order to minimize the effect of possible random shocks and measurement errors, 2-year averages are used in intertemporal comparison. 2008 and 2009 are excluded here to allow for trade disruption caused by the global financial crisis.

<sup>12</sup> For the entire region of Latin America, South–South share in exports was consistently lower than that on the import side throughout the period. This is because of exports from Mexico (a NAFTA member) are primarily destined for the Canadian and the US markets. When Mexico is excluded, the Latin American patterns are consistent with the general patterns of the other Southern regions.

**Figure 3: Regional Composition of South–South Nonfuel Trade, 1999–2009 (percent)****(a) Exports****(b) Imports**

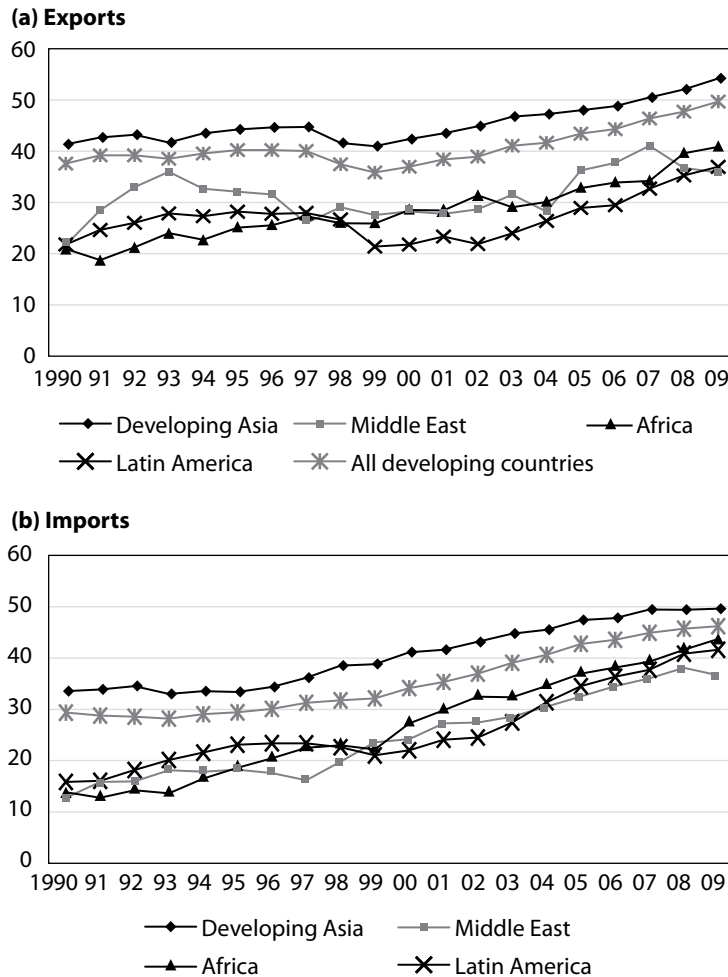
Source: Based on data compiled from UN Comtrade database.

**Table 4: South–South Trade by Major Regions (nonfuel trade), 1990–2001\*, 2000–2001\*, 2006–2007\*, 2008 and 2009**

		Exports				Imports			
		Total (\$ billion)	Share in Exports (%)	Geographic Composition (%)	Intra-Asian Share (%)	Total (\$ billion)	Share in Imports (%)	Geographic Composition (%)	Intra-regional Share (%)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Developing Asia	1990–91	180	42.0	84.2	84.7	145	33.7	86.8	89.8
	2000–01	443	42.9	79.8	82.1	383	41.4	71.6	90.0
	2006–07	1,293	49.6	79.8	80.1	1,063	48.6	69.3	88.4
	2008	1,646	52.1	78.9	76.8	1,319	49.4	66.0	85.8
	2009	1,450	54.2	80.3	77.2	1,113	49.6	68.5	84.9
Middle East	1990–91	7	25.1	3.6	38.2	9	14.3	5.0	29.2
	2000–01	29	32.5	5.3	38.6	47	25.7	8.7	26.6
	2006–07	108	39.4	6.6	42.3	163	35.3	10.5	21.2
	2008	134	36.8	6.4	41.1	241	38.1	12.0	21.8
	2009	110	35.9	6.1	35.8	171	36.6	10.5	18.4
Africa	1990–91	2	19.8	0.8	62.4	2	13.3	1.1	26.5
	2000–01	18	28.5	3.2	54.8	28	28.6	5.3	35.5
	2006–07	46	34.0	2.8	56.3	92	38.7	6.0	24.9
	2008	70	39.6	3.4	51.2	137	41.6	6.9	21.8
	2009	48	40.9	2.6	48.4	100	43.8	6.2	21.4
Latin America	1990–91	16	23.2	7.6	61.7	12	16.0	7.1	77.9
	2000–01	65	22.6	11.7	71.7	77	23.1	14.4	61.8
	2006–07	174	31.1	10.7	58.9	217	37.0	14.1	49.3
	2008	235	35.3	11.3	58.7	302	40.9	15.1	47.2
	2009	199	37.0	11.0	51.2	240	41.6	14.8	45.1
Latin America excluding Mexico	1990–91	14	27.8	6.7	53.2	10	22.8	5.7	76.6
	2000–01	58	41.4	10.5	63.7	59	35.9	11.1	63.0
	2006–07	156	46.0	9.6	50.5	150	45.2	9.8	53.6
	2008	209	49.3	10.0	51.6	225	49.1	11.3	49.0
	2009	179	52.8	9.9	45.1	175	48.6	10.7	48.2
Total South	1990–91	204	38.4	100.0	100.0	167	29.1	100.0	100.0
	2000–01	555	37.7	100.0	100.0	535	34.7	100.0	100.0
	2006–07	1,621	45.4	100.0	100.0	1,535	44.2	100.0	100.0
	2008	2,085	47.7	100.0	100.0	1,999	45.7	100.0	100.0
	2009	1,806	49.7	100.0	100.0	1,624	46.2	100.0	100.0

\*Two-year average.

Source: Compiled from UN Comtrade database.

**Figure 4: Share of South–South Trade in Nonfuel Merchandise Trade by Region (percent)**

Source: Based on data compiled from UN Comtrade database.

The most important development in Southern trade over the past 2 decades is the PRC's meteoric rise (Table 5). Between 1990–1991 and 2009, the PRC's share in total South–South trade increased from 40% to 51.8% on the export side and from 45.8% to 50.6% to 56.0% on the import side. The share of South–South exports in total exports of the PRC increased from 37.0% in 1990–1991 to 49.7% in 2009. The South–South share in imports increased from 45.8% to 50.8%. The larger Southern share on the import side reflects the reliance of the PRC on other East Asian countries for parts and components used in final assembly and also its reliance on other Southern countries for primary inputs. The PRC's growing importance in South–South trade within the region was accompanied by a notable decline in Southern market shares of the Republic of Korea and Southeast Asian countries (Athukorala 2009). India's shares in both total South–South exports and imports have increased continuously, but still small; 6.1% and 8.5%, respectively, in 2006–2007. An increase in the Southern share in both exports and imports, albeit at varying rates, is a common feature observable across all countries in the Asian region.



**Table 5: South–South Trade in Asia**

		Exports				Imports			
		Total (\$ billion)	Share in Exports (%)	Geographic Composition (%)	Intra-Asian Share (%)	Total (\$ billion)	Share in Imports (%)	Geographic Composition (%)	Intra-Asian Share (%)
Northeast Asia	1990–91	127.6	45.9	58.7	86.3	89.0	38.1	58.2.4	92.5
	2000–01	261.7	43.6	59.1	81.9	210.6	42.7	59.7	92.0
	2006–07	840.4	48.3	64.9	79.7	597.5	49.3	63.4	88.7
	2008	1,083.6	50.3	65.8	76.2	695.4	49.5	61.6	85.6
	2009	966.2	52.2	66.6	77.2	609.4	49.2	64.5	85.0
China, People's Rep. of <sup>a</sup>	1990–91	107.9	37.0	40.2	80.1	82.0	45.8	50.6	95.0
	2000–01	194.9	43.5	44.0	85.4	184.3	47.0	51.6	93.2
	2006–07	662.6	46.8	51.2	81.1	518.6	51.6	54.6	89.4
	2008	859.2	48.5	52.2	77.5	590.7	51.1	52.2	85.8
	2009	751.0	49.7	51.8	78.0	529.7	50.8	56.0	85.1
Korea, Rep of	1990–91	19.7	29.1	19.7	65.7	8.7	17.1	8.3	75.3
	2000–01	66.9	43.9	15.1	71.6	26.3	27.2	8.1	84.4
	2006–07	177.8	54.5	13.8	74.4	78.9	38.7	8.8	84.1
	2008	224.4	58.5	13.6	71.4	104.7	42.2	9.4	84.8
	2009	215.2	63.3	14.8	74.3	79.7	40.9	8.5	84.3
Southeast Asia	1990–91	44.9	36.6	36.9	84.4	36.1	27.3	30.2	87.9
	2000–01	154.4	42.8	34.9	87.2	113.8	39.2	32.0	92.8
	2006–07	369.3	53.6	28.6	86.7	266.8	49.4	27.0	93.0
	2008	455.2	56.8	27.7	83.6	341.9	50.7	28.1	92.1
	2009	375.3	59.7	25.9	84.7	245.4	50.9	24.0	91.8
Indonesia	1990–91	5.9	36.1	3.3	80.8	3.8	22.2	3.3	79.0
	2000–01	19.0	43.0	4.3	79.0	8.6	37.7	2.6	86.2
	2006–07	40.1	50.6	3.1	81.2	20.8	49.6	2.2	88.7
	2008	53.2	54.7	3.2	80.0	47.6	53.9	4.0	89.7
	2009	46.4	55.6	3.2	82.0	39.7	56.6	4.0	90.2
Malaysia	1990–91	11.6	43.9	6.5	89.9	7.8	27.5	5.9	90.3
	2000–01	37.1	44.1	8.4	89.3	25.6	36.9	7.0	94.6
	2006–07	74.9	51.7	5.8	86.7	57.9	49.2	5.9	93.0
	2008	92.4	56.9	5.6	83.7	63.1	49.5	5.2	91.6
	2009	80.7	60.3	5.6	85.4	53.4	52.2	5.3	90.2
Philippines	1990–91	1.5	18.0	0.8	83.8	2.2	25.3	1.8	83.1
	2000–01	9.6	27.6	2.2	93.6	10.1	34.8	2.9	90.7
	2006–07	20.1	42.0	1.6	95.6	19.4	44.3	2.0	93.5
	2008	20.7	43.6	1.3	94.8	21.6	48.6	1.8	93.2
	2009	14.8	39.3	1.0	93.8	18.1	51.1	1.8	92.8
Singapore	1990–91	18.3	39.7	10.2	87.4	15.8	31.5	11.7	92.8
	2000–01	60.1	50.1	13.6	89.8	44.0	42.1	12.1	95.1
	2006–07	156.8	63.4	12.2	90.2	98.2	50.9	9.7	95.4
	2008	183.4	66.5	11.1	87.2	110.7	50.2	8.8	94.9
	2009	154.7	67.6	10.7	87.6	87.9	49.9	8.4	94.1

*continued.*

**Table 5:** *continued.*

		Exports				Imports			
		Total (\$ billion)	Share in Exports (%)	Geographic Composition (%)	Intra- Asian Share (%)	Total (\$ billion)	Share in Imports (%)	Geographic Composition (%)	Intra- Asian Share (%)
Thailand	1990–91	7.6	29.8	4.2	71.6	6.5	24.4	5.4	81.8
	2000–01	24.4	37.7	5.5	82.2	16.8	35.3	5.0	87.5
	2006–07	67.2	49.5	5.2	80.1	44.0	44.7	4.6	89.2
	2008	87.0	52.8	5.3	76.8	56.9	45.8	4.9	88.0
	2009	78.6	54.3	5.4	78.1	46.3	47.0	4.6	90.6
Viet Nam	2000–01	3.7	33.5	0.8	79.6	6.6	49.4	1.8	96.6
	2006–07	10.2	29.8	0.8	78.9	25.9	59.3	2.6	94.5
	2008	17.4	34.7	1.1	76.5	38.7	60.3	3.1	93.8
Other	2000–01	0.5	28.9	0.1	99.0	2.1	68.4	0.5	99.5
	2008	1.3	28.8	0.1	94.4	3.2	79.3	0.2	99.6
South Asia	1990–91	7.2	26.7	4.0	57.9	5.1	28.4	5.3	66.1
	2000–01	24.2	39.0	5.5	52.3	19.2	43.6	7.6	65.8
	2006–07	74.8	48.5	5.8	52.1	67.5	46.1	8.6	74.1
	2008	95.5	53.9	5.8	51.4	83.6	49.3	9.1	69.7
	2009	100.9	56.6	7.0	48.7	81.7	53.3	10.5	69.7
India	1990–91	4.4	25.2	2.4	57.8	1.5	20.8	2.6	49.2
	2000–01	17.5	42.2	3.9	51.8	8.1	21.8	2.3	45.6
	2006–07	60.0	53.1	4.6	52.4	42.5	38.3	3.4	61.6
	2008	83.0	55.7	5.0	51.6	63.4	47.2	7.1	67.2
	2009	88.9	58.2	6.1	47.9	63.6	51.7	8.5	67.0
Other	1990–91	2.8	29.4	1.6	58.0	3.6	37.2	3.0	81.6
	2000–01	6.7	32.7	1.5	53.6	11.1	49.2	4.2	69.3
	2006–07	14.8	35.3	1.2	51.2	25.0	48.4	2.9	82.7
	2008	12.4	44.2	0.8	50.3	20.2	59.1	1.9	79.1
	2009	12.0	47.0	0.8	54.2	18.1	61.3	2.0	81.2
Central and West Asia	1990–91	1.9	34.5	0.5	86.7	1.0	23.7	0.6	52.3
	2000–01	2.1	35.0	0.5	82.5	1.2	24.1	0.6	55.4
	2006–07	8.2	41.7	0.6	85.5	7.2	27.3	1.0	67.6
	2008	11.3	40.8	0.7	77.9	10.3	29.5	1.2	67.4
	2009	7.4	46.1	0.5	89.7	7.4	27.8	0.9	71.7
Pacific	1990–91	0.1	14.6	0.0	99.8	0.1	20.6	0.1	98.5
	2000–01	0.3	16.2	0.1	97.5	0.4	27.3	0.1	76.9
	2006–07	0.2	25.3	0.0	97.2	0.5	27.0	0.0	96.3
	2008	0.2	16.6	0.0	92.8	1.0	31.6	0.1	96.6
	2009	0.1	19.4	0.0	93.8	0.4	33.2	0.0	96.2
All Asian Countries	1990–91	179.7	42.0	100.0	84.7	130.3	33.7	100.0	89.8
	2000–01	442.7	42.9	100.0	82.1	345.2	41.4	100.0	90.0
	2006–07	1,292.9	49.6	100.0	80.1	939.5	48.6	100.0	88.4
	2008	1,645.8	52.1	100.0	76.8	1,132.1	49.4	100.0	85.8
	2009	1,449.9	54.2	100.0	77.2	944.4	49.6	100.0	84.9

<sup>a</sup> Including Hong Kong, China and Macao, China.

Source: Compiled from UN Comtrade database.

## C. Direction of South–South Trade

As can be seen in Table 6, the relative importance of South–South trade in total world trade (both on export and import sides) varies widely among regions/countries. However, South–South trade shares are uniformly higher in Asian countries compared to those in the other Southern regions. In a number of countries in the region, South–South share accounts for closer to, or more than, a half of total imports and exports. Within Asia, Southeast Asian countries are particularly notable for their high South–South trade shares. Singapore has the highest degree of South–South trade concentration among all countries in Asia.

A striking feature of Asia’s South–South trade is its heavy regional concentration compared to the Middle East, Africa, and Latin America. In the early 1990s, intra-Asian trade accounted for 84.7% and 89.8% Asia’s South–South nonfuel exports and imports respectively. These figures have declined to 77% and 85.3%, respectively, in 2008–2009 (Figure 5). In the other three regions, the shares of interregional shares are much lower, and also have declined faster over the years. At the individual country level, intraregional areas in both total exports and imports are much larger (column 1, Table 4) for Asian countries compared to figures for countries in the other regions. Within Asia, intraregional trade shares are much larger for the high-performing economies in East Asia compared to other countries in the region. This pattern is consistent with closer economic relations forged within regional production networks.

Table 6: Direction of Nonfuel Trade, 2006–2007

## (a) Exports

	DEA	NEA	PRC	SEA	SOA	CWA	Pacific	MEA	Africa	LACR	South3	North3	\$ billion
Developing Asia	39.8	24.0	21.0	11.7	3.4	0.6	0.1	4.0	2.6	3.3	49.7	47.8	2601
Northeast Asia	38.5	27.3	24.1	7.5	2.9	0.7	0.1	3.4	2.5	3.9	48.3	49.3	1738
China, People's Rep of <sup>1</sup>	38.0	27.3	23.4	7.0	2.8	0.8	0.1	3.2	2.4	3.3	46.9	51.1	1413
Korea, Rep. of	40.6	27.0	27.0	9.5	3.1	0.5	0.5	4.6	3.2	6.3	54.6	41.4	326
Southeast Asia	46.5	18.7	15.8	23.7	3.9	0.0	0.2	3.1	1.9	2.2	53.7	43.2	688
Indonesia	42.6	14.8	12.1	23.3	4.3	0.0	0.1	3.6	1.9	1.8	49.8	48.0	106
Malaysia	44.9	16.7	14.5	24.4	3.6	0.0	0.1	3.5	1.8	1.7	51.8	45.8	145
Philippines	40.3	23.7	20.4	15.8	0.7	0.0	0.1	0.8	0.3	0.8	42.1	53.7	48
Singapore	57.2	23.2	19.3	29.5	4.3	0.0	0.3	2.2	1.4	2.7	63.4	32.7	247
Thailand	39.7	16.7	14.8	19.5	3.4	0.0	0.1	4.6	2.9	2.5	49.6	47.7	135
Viet Nam	23.6	11.3	8.6	11.3	0.8	0.1	0.1	1.8	1.8	2.6	29.8	66.3	34
Other	28.6	18.6	18.5	9.8	0.2	0.0	0.0	0.4	0.2	0.9	30.2	69.7	2
Southern Asia	25.3	11.7	10.5	6.5	6.5	0.5	0.0	14.7	6.1	2.4	48.5	50.5	154
India	27.8	13.7	12.2	8.1	5.8	0.3	0.0	15.5	7.2	2.6	53.2	46.0	113
Other	18.4	6.5	5.8	2.3	8.3	1.2	0.0	12.7	3.1	1.6	35.7	63.0	41
Central and West Asia	35.8	20.4	19.1	0.3	4.9	10.2	0.0	4.9	0.9	0.4	42.0	57.7	20
Pacific	24.8	9.9	9.6	5.4	0.4	0.0	0.0	0.0	0.2	0.5	25.5	65.1	1
Middle East	15.8	3.8	3.2	2.0	8.3	1.7	0.1	16.7	6.0	1.0	39.5	44.6	272
Africa	9.1	4.4	3.4	2.0	2.7	0.1	0.0	4.4	19.2	1.4	34.0	61.7	134
South Africa	12.5	7.6	5.5	2.5	2.3	0.1	0.0	3.6	14.4	1.8	32.3	65.8	52
Other	6.9	2.4	2.1	1.6	2.9	0.0	0.0	4.8	22.3	1.1	35.2	59.1	82
Latin America <sup>2</sup>	9.3	6.6	5.2	1.4	1.3	0.1	0.0	1.4	2.1	18.3	31.2	66.6	559
Brazil	13.3	8.6	7.2	2.4	2.2	0.1	0.0	3.6	5.2	25.0	47.2	50.3	137
Mexico	1.6	1.2	1.0	0.3	0.1	0.0	0.0	0.2	0.2	6.1	8.2	91.6	220
Other	15.0	11.2	8.5	1.8	2.0	0.0	0.0	1.3	2.0	27.2	45.5	50.4	201
Developing countries (South)	32.0	19.0	16.5	8.9	3.4	0.6	0.1	4.6	3.4	5.4	45.4	51.0	3,567
Developed countries (North)	11.8	6.8	5.1	3.0	1.4	0.4	0.1	3.9	2.4	4.8	22.9	76.0	7,848
World	18.7	11.0	9.0	5.1	2.1	0.5	0.1	4.1	2.6	5.1	30.6	67.5	10,807

*continued.*

Table 6: continued.

## (b) Imports

	DEA	NEA	PRC	SEA	SOA	CWA	Pacific	MEA	Africa	LAC	South3	North3	\$ billion
Developing Asia (DEA)	43.0	26.7	20.1	14.0	2.0	0.3	0.1	1.6	1.1	3.0	48.7	42.8	2184
Northeast Asia (NEA)	43.7	30.4	22.7	11.2	1.7	0.4	0.1	1.0	0.9	3.7	49.4	41.2	1366
China, People's Rep. of (PRC) <sup>1</sup>	46.1	32.0	22.6	11.8	1.9	0.4	0.1	1.0	0.9	3.6	51.6	37.8	1124
Korea, Rep. of (KOR)	32.7	23.0	23.0	8.4	1.0	0.2	0.1	0.9	1.1	4.2	38.8	57.2	242
Southeast Asia (SEA)	46.0	21.6	16.2	22.5	1.7	0.0	0.1	1.1	0.7	1.6	49.4	44.1	580
Indonesia	44.5	21.0	15.6	21.6	1.8	0.0	0.0	0.8	1.0	2.1	48.3	45.7	81
Malaysia	45.8	22.4	16.8	22.0	1.4	0.0	0.0	0.7	0.9	1.9	49.3	44.0	126
Philippines	41.4	19.5	13.1	20.4	1.2	0.0	0.4	0.8	0.2	1.9	44.3	48.0	47
Singapore	48.6	20.9	15.7	26.3	1.4	0.0	0.0	1.1	0.4	0.8	50.9	42.4	202
Thailand	40.2	20.2	15.4	17.7	2.0	0.0	0.3	1.7	1.2	2.4	45.4	49.6	130
Viet Nam	56.2	32.5	23.8	21.0	2.7	0.1	0.0	0.8	0.5	2.0	59.6	30.5	46
Other	73.8	34.3	29.8	37.4	2.1	0.0	0.0	0.2	0.1	0.1	74.1	18.9	3
Southern Asia (SOA)	34.1	18.8	15.6	10.4	4.3	0.5	0.2	6.2	3.1	2.7	46.0	44.2	198
India	32.4	20.1	16.4	10.2	1.8	0.1	0.3	7.0	3.7	3.2	46.4	51.6	131
Other	37.4	16.2	14.0	10.9	9.2	1.1	0.0	4.5	1.7	1.7	45.3	29.9	67
Central and West Asia (CWA)	18.6	12.5	10.6	1.0	1.5	3.6	0.0	6.9	0.4	1.5	27.5	71.8	39
Pacific	26.0	8.3	7.1	11.4	2.3	0.0	4.0	0.1	0.5	0.4	27.0	70.9	2
Middle East (MEA)	22.9	12.3	9.2	4.3	5.7	0.6	0.0	7.5	2.8	2.2	35.4	58.3	459
Africa	20.1	12.6	10.6	4.0	3.3	0.1	0.0	4.8	9.6	4.3	38.8	58.2	238
South Africa	24.2	16.0	13.3	5.7	2.5	0.0	0.0	2.0	3.4	5.0	34.6	63.0	60
Other	18.7	11.5	9.7	3.4	3.6	0.1	0.0	5.8	11.7	4.0	40.2	56.6	178
Latin America (LAC) <sup>2</sup>	18.0	13.8	10.4	3.3	0.8	0.0	0.0	0.5	0.4	18.3	37.1	57.8	584
Brazil	22.3	16.2	12.5	4.9	1.1	0.0	0.0	1.0	1.3	17.9	42.5	55.2	86
Mexico	20.4	15.5	10.9	4.4	0.6	0.0	0.0	0.3	0.2	5.4	26.3	71.5	252
Other	13.9	11.3	9.1	1.7	0.9	0.0	0.0	0.4	0.2	31.7	46.2	44.7	246
Developing countries (South)	34.6	21.6	16.4	10.2	2.4	0.3	0.1	2.4	1.8	5.6	44.3	48.4	3466
Developed countries (North)	19.1	13.5	11.6	4.1	1.3	0.2	0.1	1.8	1.4	5.4	27.7	71.0	8046
World	24.2	16.2	13.1	6.2	1.6	0.2	0.0	2.0	1.5	5.6	33.3	63.2	10926

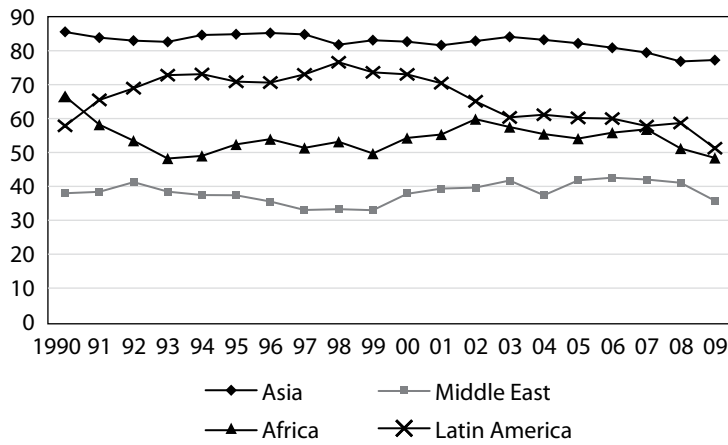
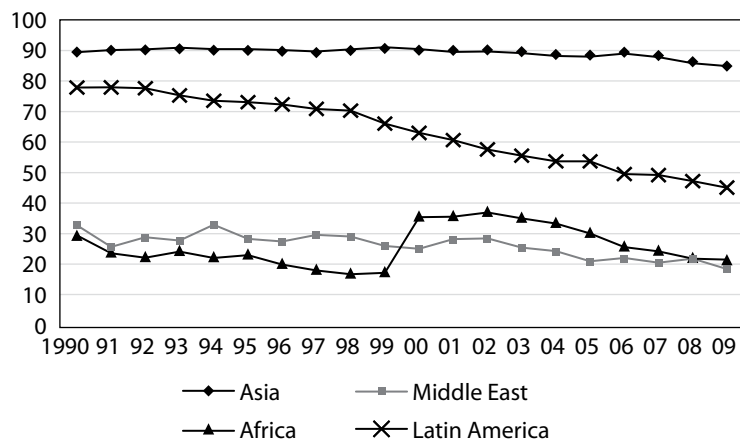
CWA = Central and West Asia, DEA = Developing Asia, KOR = Republic of Korea, LAC = Latin America and the Caribbean, MEA = Middle East, NEA = Northeast Asia, PRC = People's Republic of China, SEA = Southeast Asia, SOA = Southern Asia.

<sup>a</sup> Including Hong Kong, China and Macao, China.

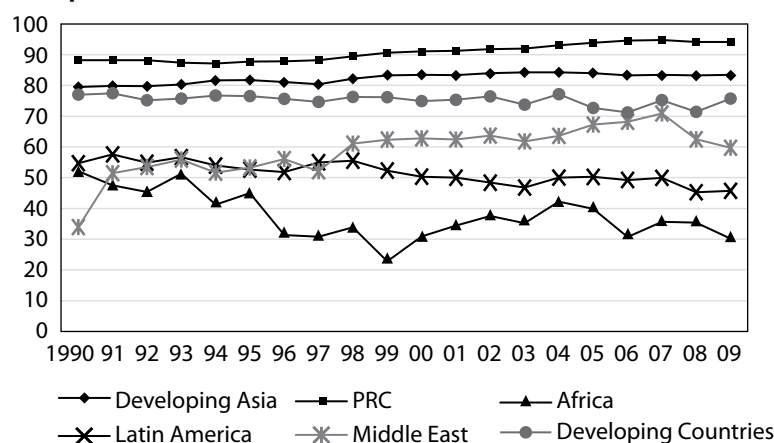
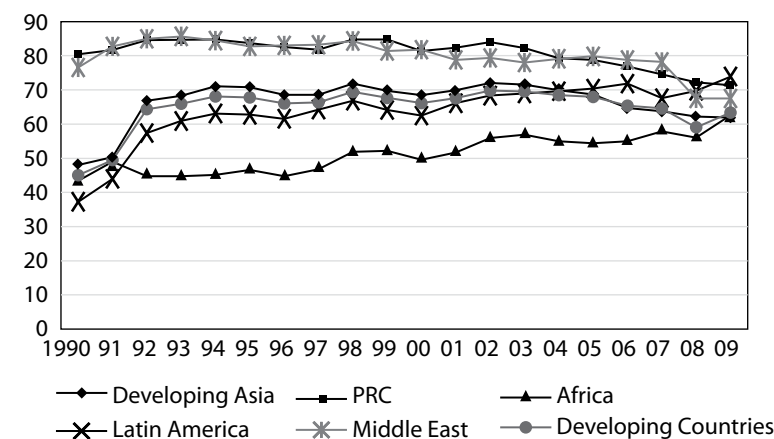
<sup>b</sup> Including the Caribbean.

Note: Figures do not add up to 100 because the total includes data for unclassified countries.

Source: Compiled from UN Comtrade database.

**Figure 5: Intraregional Shares in South–South Nonfuel Trade (percent)****(a) Exports****(b) Imports**

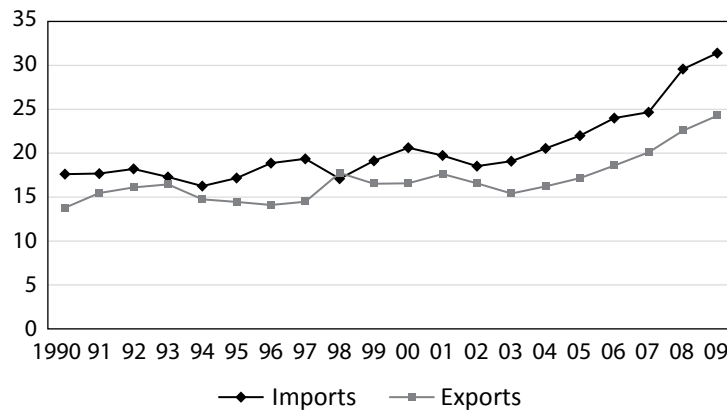
Source: Based on data compiled from UN Comtrade database.

**Figure 6: Share of Manufactures in South–South Trade (percent)****(a) Exports****(b) Imports**

Source: Based on data compiled from UN Comtrade database.

The disaggregated data (not reported here for brevity) indicate a mild decline in the intra-Asian share in Asia's total South–South trade. This is largely accounted for by growing extraregional trade (both exports and imports), albeit from a low base (Figure 7). Asia's exports to extraregional markets increased from \$28.5 billion (14.6% of total South–South exports) in 1990–1991 to \$382.5 billion (22.3%) in 2008–2009. The increase on the import side was even faster, from \$32.8 billion (17.7% of South–South imports) to \$486 billion (28.5%). Until about the late 1990s, both imports and exports moved closely together. However, since then imports have surpassed exports and, with the gap widening over time, mostly reflecting rapid increase in fuel and other primary products by the PRC (see below).

**Figure 7: The Share of Extra-regional Trade in Asia's South–South Trade, 1990–2009 (percent)**



Source: Based on data compiled from UN Comtrade database.

The bulk of Asia's extraregional imports from the southern countries come from the Middle East, reflecting the heavy dependence of the countries in the region on fuel imports. However, the Middle Eastern share has recorded a mild, but steady, decline over the past decade as new trade links are forged with resource-rich countries in Africa and Latin America. By 2008–2009, 57% of total Southern imports to Asia came from the Middle East, with Africa and Latin America accounting for 24% and 19%, respectively (Table 8a). On the export side, the share of Middle Eastern countries in total Asian Southern exports has varied during the last 2 decades in the range of 40%–45% (Figure 8b). The share of Africa has increased continuously from about 20% in the mid-1990s to 25.5% in 2008–2009. The share of Latin America, which remained closer to that of Middle East in the mid-1990s, declined over the next decade and recorded a mild increase over the past 5 years.



**Table 8: Parts and Component Share in Developing-Country Manufacturing Trade, 1996–2007, 2000–2001, 2006–2007, 2008 and 2009**

		Exports				Imports			
		South–South	Intra-regional <sup>a</sup>	South–North	World	South–South	Intra-regional <sup>1</sup>	South–North	World
Developing Asia	1996–7	22.8	24.9	20.7	21.9	22.4	38.0	26.1	24.6
	2000–1	42.3	47.0	32.7	38.1	42.8	71.2	43.2	43.4
	2006–7	42.3	47.7	30.4	37.4	48.3	76.0	39.4	45.1
	2008	38.7	44.5	28.2	34.8	45.3	71.3	36.6	42.1
	2009	39.9	45.8	27.7	35.6	47.6	75.1	37.3	44.0
Eastern Asia	1996–7	24.8	24.3	21.8	23.6	24.1	21.2	34.2	29.8
	2000–1	34.6	38.1	26.3	30.9	36.2	32.9	40.9	39.1
	2006–7	39.9	50.8	26.9	34.2	50.2	53.9	37.6	45.5
	2008	37.2	52.0	25.7	32.6	49.6	55.3	36.1	44.3
	2009	38.5	54.4	24.9	33.3	50.9	58.1	36.2	45.5
China, People's Rep. of	1996–7	24.5	0.0	16.4	20.6	23.3	0.0	32.8	28.0
	2000–1	36.9	0.0	21.9	29.2	37.4	0.0	40.6	39.3
	2006–7	40.1	0.0	25.4	33.3	52.4	0.0	39.6	47.7
	2008	38.0	0.0	23.8	31.8	52.6	0.0	37.9	46.8
	2009	40.2	0.0	22.9	32.8	52.9	0.0	37.9	47.5
Southeast Asia	1996–7	21.6	24.3	22.1	22.0	21.1	40.1	18.6	19.2
	2000–1	58.6	66.7	56.2	58.6	56.2	100.3	53.9	54.9
	2006–7	55.4	56.7	48.8	53.7	51.2	53.4	49.7	51.5
	2008	49.5	49.9	44.0	48.5	43.7	42.5	45.2	45.0
	2009	51.8	51.2	46.3	51.3	49.2	48.3	46.5	48.9
Southern Asia	1996–7	7.3	2.0	4.5	5.3	11.1	0.4	19.4	15.5
	2000–1	8.2	2.0	4.6	5.9	17.9	0.9	22.1	20.3
	2006–7	8.4	2.1	8.0	8.2	24.6	1.0	24.3	24.4
	2008	9.8	2.8	11.3	10.6	22.1	0.6	19.8	20.9
	2009	10.9	1.9	10.9	10.9	23.1	0.8	23.8	23.5
Central and West Asia	1996–7	1.0	0.9	0.5	0.7	1.0	0.0	2.0	1.8
	2000–1	4.8	3.4	5.5	5.3	20.7	6.4	22.5	22.1
	2006–7	2.4	1.7	4.7	3.8	15.2	1.1	18.2	17.5
	2008	1.8	1.6	4.2	3.3	13.8	0.7	18.5	17.1
	2009	2.1	1.6	4.5	3.4	16.7	0.7	20.3	19.3
Pacific	1996–7				0.0	0.5	2.6	1.2	1.1
	2000–1	1.3	0.5	10.0	8.5	5.0	0.3	9.1	8.0
	2006–7	20.5	12.4	38.8	32.5	12.0	1.1	20.9	18.0
	2008	22.5	15.4	30.2	26.7	15.7	1.0	22.9	20.4
	2009	21.5	13.8	34.8	28.6	12.5	1.1	24.8	20.7
Middle East	1996–7	11.4	2.0	15.8	15.2	7.8	1.1	17.8	15.6
	2000–1	13.5	5.3	17.0	16.5	8.8	4.8	21.6	18.4
	2006–7	10.4	13.1	13.2	12.9	13.5	5.0	22.8	19.5
	2008	43.4	48.5	31.5	38.4	49.0	77.3	40.0	45.8
	2009	114.0	114.0	114.0	114.0	114.0	114.0	114.0	114.0

*continued.*

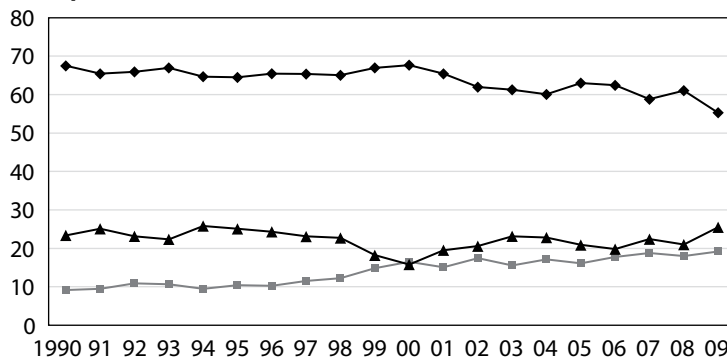
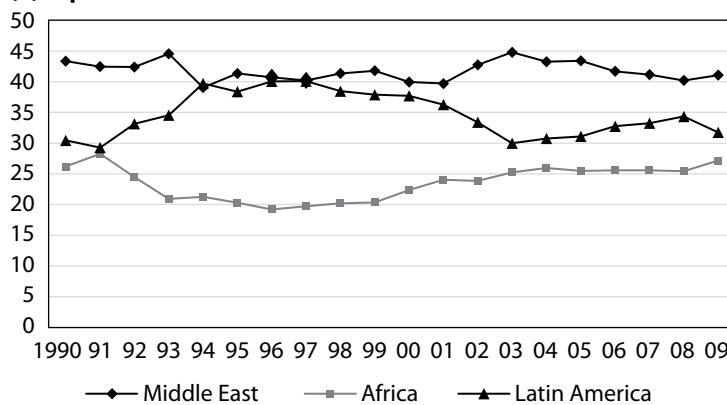
**Table 8:** *continued.*

		Exports				Imports			
		South–South	Intra-regional <sup>a</sup>	South–North	World	South–South	Intra-regional <sup>1</sup>	South–North	World
Africa	1996–7	0.4	1.2	0.3	0.3	2.9	0.8	5.6	4.8
	2000–1	7.9	24.9	8.4	8.2	12.1	14.8	17.8	16.3
	2006–7	9.1	26.2	12.8	11.4	16.4	8.6	22.3	20.0
	2008	9.5	22.9	13.2	11.8	17.6	6.9	22.7	20.6
	2009	11.2	27.1	16.5	14.7	18.4	6.3	24.0	21.6
Latin America	1996–7	10.5	10.7	30.9	24.9	15.1	34.7	29.5	26.3
	2000–1	16.2	15.0	36.2	32.4	24.7	30.0	39.9	36.8
	2006–7	17.7	17.6	33.2	28.6	29.8	18.8	32.3	31.7
	2008	16.4	16.9	31.6	26.5	28.9	16.3	30.7	30.4
	2009	15.3	16.7	33.3	27.3	31.8	14.7	30.7	31.6
Developing countries	1996–7	41.8	41.8	44.0	43.4	40.5	40.5	50.2	46.7
	2000–1	36.9	36.9	33.0	35.4	35.5	35.5	38.4	37.7
	2006–7	38.0	38.0	29.1	34.1	40.6	40.6	34.0	38.1
	2008	34.9	34.9	27.2	31.7	37.8	37.8	32.1	35.7
	2009	36.0	36.0	27.5	32.8	40.3	40.3	32.2	37.3

<sup>a</sup> Trade within given regions (Developing Asia, Middle East, Africa and Latin America and developing countries)

Note: 1996–2007, 2000–2001, and 2006–2007 are 2-year averages.

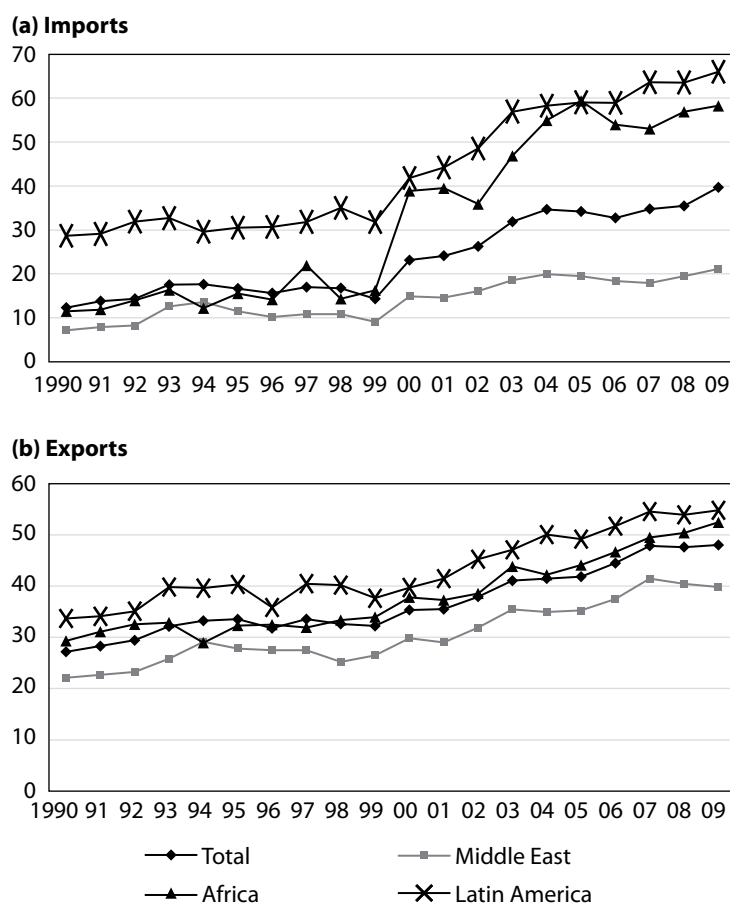
Source: Compiled from UN Comtrade database.

**Figure 8: Regional Composition of Asia's Extraregional South–South Trade, 1990–2009****(a) Imports****(b) Exports**

Source: Based on data compiled from UN Comtrade database.

Recent developments in Asia's extra-regional Southern markets have been closely associated with the PRC's rise as a world trading power house (Broadman 2007, IADB 2010). The PRC's share in the region's total imports from extraregional developing countries increased from about 15.1% in 1990–1991 to 37.6% by 2008–2009 (Figure 9a). The PRC accounted for almost 80% of the total increment in the region's imports from these countries during this period (Figure 10a). On the export side, the PRC's share in regional extra-South exports increased from 28.9% in 1990–1991 to 47.8% in 2008–2009, predominantly driven by rapid growth of manufacturing exports. The PRC's trade ties have grown rapidly across all three regions, fastest particularly with Africa and Latin America. In 2008–2009, the PRC accounted for 57.6% and 64.8% of the region's total imports from Africa and Latin America, respectively. The comparable figures on the export side were 51.4% and 54.3%.

**Figure 9: PRC's Share in Total Asian Extraregional South–South Trade by Region, 1990–2009 (percent)**



Source: Based on data compiled from UN Comtrade database.

The PRC emerged as Africa's largest trading partner in 2009, outpacing the European Union and the US. According to Broadman (2007) and Hanson (2008), 85% of Africa's exports to the PRC come from five oil-rich countries (Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan). In 2010, total trade between the PRC and Latin America reached \$140.0 billion, a new record and a 40.3% increase from 2007. This was more than three times the increase in Latin America's trade with Europe and the US. Approximately 90 percent of the region's exports to the PRC come from just four countries: Brazil (41%), Chile (23.1%), Argentina (15.9%), and Peru (9.3%) (IADB 2010).

## D. Commodity Composition of South–South Trade

Commodity composition of overall South–South trade is strikingly similar to that of total world trade and trade of Northern (developed) countries (last four rows in Table 7). However, there are notable differences among Southern countries/regions, reflecting differences in resource endowments, the stage of development, and the nature/patterns of integration within global production networks.

**Table 7: Commodity Composition of Developing Country Nonfuel Trade, 2006–2007**

### (a) Exports

	South–South				South–North			
	Fuel	Non-fuel Primary	Manufactures	Total (\$ billion)	Fuel	Non-fuel Primary	Manufactures	Total (\$ billion)
Developing Asia	8.6	8.0	83.3	1414.8	7.3	7.0	85.7	1,340.9
Northeast Asia	3.0	3.1	93.9	866.6	1.8	3.6	94.7	872.0
China, People's Rep. of	1.9	3.4	94.7	675.5	0.8	3.8	95.4	728.3
Korea, Rep. of	6.7	1.9	91.4	174.4	6.4	2.6	91.0	137.4
Southeast Asia	15.9	14.1	70.0	438.8	11.4	14.8	73.8	335.9
Indonesia	9.3	19.4	71.3	36.7	7.2	10.2	82.6	37.3
Malaysia	16.6	14.9	68.5	89.7	10.5	9.8	79.7	74.0
Philippines	4.4	7.7	87.9	21.0	1.1	10.0	88.8	25.9
Singapore	15.6	7.5	76.8	185.8	8.9	9.3	81.8	88.7
Thailand	7.6	18.1	74.3	72.6	1.6	19.5	78.9	65.6
Viet Nam	24.4	27.9	47.7	53.0	27.5	26.3	46.2	51.8
Other	95.9	0.5	3.6	3.6	96.7	0.3	3.0	4.0
Southern Asia	19.4	22.8	57.8	92.8	16.7	9.0	74.3	94.8
India	21.2	21.3	57.6	76.1	7.0	10.9	82.0	55.8
Central and West Asia	49.5	22.7	27.8	16.4	70.1	11.2	18.8	37.7
Pacific	19.0	61.7	19.3	0.3	0.0	69.9	30.1	0.5
Middle East	43.7	12.5	43.8	195.3	58.5	6.3	35.2	292.2
Africa	43.8	23.0	33.2	81.3	54.6	14.2	31.2	182.6
South Africa	14.2	20.8	65.0	19.8	7.3	16.3	76.4	37.2
Latin America	15.0	35.4	49.6	204.6	18.5	25.2	56.4	456.6
Brazil	10.0	34.4	55.6	72.0	6.4	44.9	48.7	73.8
Mexico	15.9	12.1	72.0	21.4	15.6	9.0	75.4	238.9
Total South	14.7	12.1	73.2	1,896.0	19.9	11.1	68.9	2,272.3
Memo items:								
Developed Countries	5.0	15.2	79.8	1,895.5	9.2	16.1	74.7	6,575.4
World	10.0	13.6	76.4	3,667.2	12.2	14.2	73.6	8,304.0

*continued.*

**Table 7: continued.****(b) Imports**

	South–South				South–North			
	Fuel	Non-fuel Primary	Manufactures	Total (\$ billion)	Fuel	Non-fuel Primary	Manufactures	Total (\$ billion)
Developing Asia	25.1	10.7	64.2	1418.7	4.3	14.2	81.5	977.1
Eastern Asia	20.5	10.4	69.1	847.4	4.2	14.1	81.7	587.5
China, People's Rep. of	13.7	10.6	75.7	672.7	3.3	14.3	82.5	438.8
Korea, Rep. of	48.1	9.4	42.4	161.7	6.3	12.9	80.7	138.3
Southeast Asia	27.8	9.1	63.1	397.2	3.2	11.1	85.7	264.2
Indonesia	7.7	16.3	76.0	26.8	0.2	10.0	89.8	46.6
Malaysia	15.9	12.4	71.7	74.0	0.9	11.5	87.6	56.1
Philippines	28.4	10.6	61.0	29.0	1.1	9.6	89.3	22.8
Singapore	28.1	6.5	65.4	143.3	5.8	7.0	87.3	91.1
Thailand	32.8	7.8	59.4	73.4	3.0	10.7	86.4	56.7
Viet Nam	46.1	11.2	42.7	43.4	1.8	22.8	75.3	22.9
Other	2.4	24.3	73.3	1.0	0.4	8.3	91.3	0.6
Southern Asia	43.2	16.0	40.8	161.0	4.5	24.9	70.6	91.6
India	48.3	14.3	37.4	118.3	5.0	25.8	69.2	71.1
Central and West Asia	11.5	14.9	73.6	11.9	14.8	10.7	74.5	32.4
Pacific	56.8	11.0	32.1	1.2	4.9	32.8	62.3	1.4
Middle East	10.4	20.1	69.5	181.2	6.4	15.1	78.5	285.9
Africa	26.4	17.1	56.4	125.2	5.4	19.1	75.5	146.6
South Africa	36.8	13.6	49.7	33.1	3.4	17.2	79.5	39.4
Latin America	17.0	13.2	69.7	261.1	7.1	11.0	81.9	363.8
Brazil	30.9	16.3	52.9	52.9	6.6	6.1	87.4	51.0
Mexico	4.6	12.9	82.5	69.5	7.0	11.8	81.2	193.9
Developing Countries	22.8	12.3	65.0	1,986.2	5.3	14.1	80.6	1,773.5
Developed Countries	23.0	11.8	65.2	2,898.4	10.7	15.9	73.5	6,394.6
World	22.7	11.9	65.5	4,702.7	9.0	14.9	76.1	7,591.6

Source: Compiled from UN Comtrade database.

Manufactured goods account for the lion's share of Asia's Southern exports, 83.3% in 2006–2007, compared to 43.8% in the Middle East, 33.2% in Africa, and 49.6% in Latin America. Interestingly, in all Asian countries, manufacturing share in exports to developed countries (South–North exports) is generally higher than that in exports to the Southern countries. A similar pattern can be observed in Latin America as well. In Africa we see the reverse pattern, but the differences in manufacturing shares in South–South and South–North flows are very small. Overall these patterns run counter to the hypothesis that developing countries have a tendency to rely heavily on “easy” regional markets for manufacturing export expansion.

On the import side manufactures also account for the largest share in Asian South–South trade but it is relatively smaller than in exports (64.2% compared to 83.3% in 2006–2007). Primary products (dominated by fuel) account for a much larger share of Southern imports to the high-performing Asian economies compared to other Southern countries. The share of primary products in the PRC's Southern imports is still smaller than the regional average (PRC: 24.3%; regional average: 35.8%). Primary imports to the PRC from Southern countries have recorded nearly a three-fold increase between 1990–1991 and 2006–2007 (from \$52 billion to \$163 billion).<sup>13</sup> But manufacturing imports have increased much faster (from \$123 billion to \$509 billion), reflecting the heavy reliance of the PRC's fast growing manufacturing industry (which is heavily involved in final assembly within global production networks) on parts and components imports from other countries in the region.

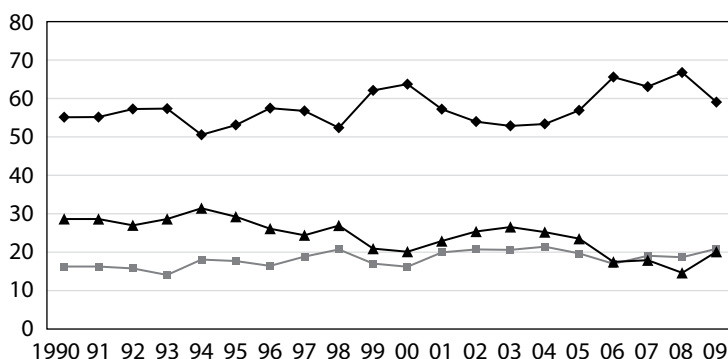
Fuel accounts for the bulk of Asia's imports from extraregional developing countries; the share of fuel in total Southern imports increased from an average level of a little over 50% in the 1990s to about 60% by the end of the first decade in the new millennium. Nonfuel primary products and manufactured (mostly resource-based) products account for roughly equal shares of about 20% (Figure 10a). Manufactured goods account for the lion's share (over four fifths) of Asia's exports to these markets (Figure 10b). The PRC's share in Asia extraregional South–South imports has increased rapidly across all subcategories of imports (fuel; nonfuel primary products; and manufactured goods, mostly resource-based products), with the share of nonfuel primary products showing the sharpest increase (from 32.7% in 1990–1991 to 61.3% in 2008–1999). Asia's exports to extraregional Southern markets are dominated by manufactured goods (Figure 11).

Trade between the PRC and with Africa and Latin America is built on the sheer complementarity of their resource endowments. The PRC has a scarcity of natural resources while Africa and Latin America have an abundance. Much of the growth was due to increased imports from the PRC of oil from Sudan and other African nations, but PRC firms also import a significant amount of non-oil commodities such as timber, copper, diamonds, processed food, and other agro-based products and household consumer goods. Fuel and fuel and mineral exports to the PRC are bound to increase rapidly in the years to come as the PRC's massive investment project in these sectors in countries like Angola, Ghana, Nigeria, South Africa, Sudan, and Zambia become operational.

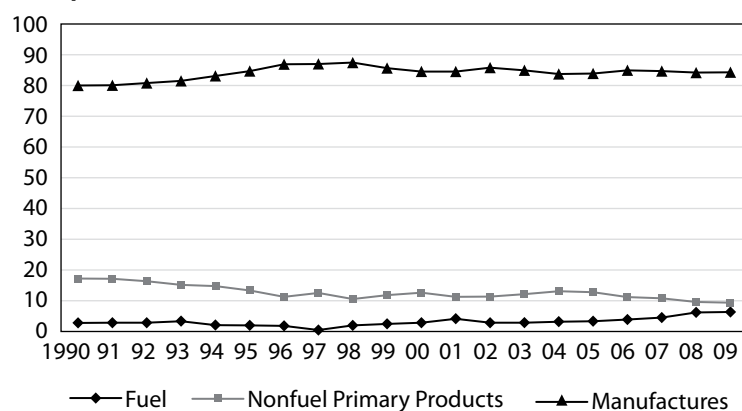
<sup>13</sup> Data reported in the paper, unless otherwise indicated, are from the UN Comtrade database.

**Figure 10: Commodity Composition of Asia's Extraregional South–South Trade: Imports, 1990–2009 (percent)**

**(a) Imports**



**(b) Exports**



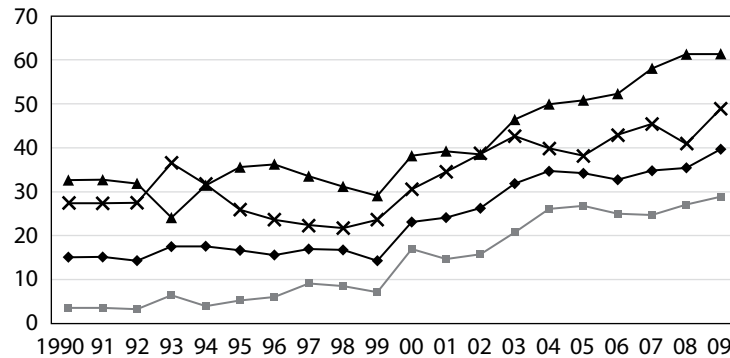
Source: Based on data compiled from UN Comtrade database.

As in the case of PRC–Africa trade, the PRC’s trade with Latin America and the Caribbean (LAC) is a classical exchange of manufacturing goods for primary products (IADB 2010). Manufactured goods, ranging from consumer to intermediate to capital goods, account for over 95% of the PRC’s exports to LAC. This highly diversified export side of the relationship is complemented by an import stature heavily concentrated in primary products. Mining products account for nearly half of LAC exports to the PRC, followed by agriculture commodities with a 35% share. The top 10 products (identified at the 6-digit level of the Harmonized System), all of which belong to the primary category, account for nearly 80% of total PRC imports from the region (Table 11). While the PRC’s manufactured goods are rapidly penetrating markets in all Latin American countries, still a large number of countries in the region are not rich in natural resources, which the PRC is looking for. Consequently, only the resource-rich four Southern Cone countries (Argentina, Brazil, Chile, and Peru) have been experiencing relatively well-balanced trade

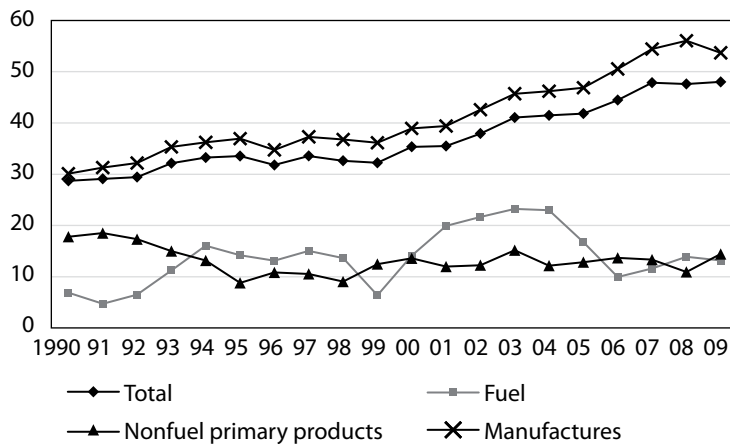
with the PRC, even with modest surplus. Most of the other countries in the region have been running massive trade deficits in bilateral trade with the PRC (IADB 2010, Figure 5).

**Figure 11: The PRC's Share in Total Asian Extraregional South–South Trade , 1990–2009 (percent)**

**(a) Imports**



**(b) Exports**



Source: Based on data compiled from UN Comtrade database.



**Table 11: Share of Top 10 LAC Exports to the PRC in Total LAC Exports, 2008–2009**

Product (HS 6 digit)	Share in Total LAC Exports	Accumulated Share in Total LAC Exports
Soya beans	19.4	19.4
Refined copper and alloys: cathodes	14.7	34.1
Iron ore and concentrates	13.7	47.8
Copper ore and concentrates	10.0	57.8
Petroleum oils	5.8	63.7
Crude oil, whether or not degummed	4.9	68.6
Paper pulp	2.4	71.0
Flour, meals, and pellets, of fish	2.4	73.4
Iron ore and concentrates	2.1	75.4
Copper waste and scraps	1.8	77.2
Lead ore and concentrates	1.4	78.6

LAC = Latin America and the Caribbean.

Source: IDB (2010) based on UN Comtrade data.

## E. Global Production Sharing and South–South Trade

We have seen two important structural features of growth of South–South trade over the past 2 decades: growth has been heavily concentrated in Asia and commodity composition of Asia’s South–South trade is dominated by manufactured goods.

As has been well documented in a number of recent studies, rapid growth of manufacturing trade in the region has been underpinned by the ongoing process of global production sharing.<sup>14</sup> A striking feature of trade within production networks in the region is the rapid growth of cross-border trade in parts and components (Figure 7). Between 1996–2007 and 2006–2007, the share of parts and components in South–South trade increased from about 20.2% to nearly 39.0% on the import side and from 20.9% to nearly 35.4% on the export side. These shares are much larger in Asia compared to that in countries in the other Southern regions.

Trade in parts and components within global production networks naturally leads to double counting of trade flows as reported in the standard (official) trade data, because each country is engaged in a particular segment (task) in the production process and consequently, the production process involves multiple border crossing of components before they get embodied in a specific final product. An important issue pertinent to our analysis is, therefore, how robust are the inferences we have made about the degree and patterns of South–South trade based on an analysis of the standard trade data. More specifically, does the relatively large and growing share of parts and components in manufacturing trade give an exaggerated picture of growth in South–South trade in world trade and Asia’s dominance in South–South trade?

<sup>14</sup> See Ando and Kimura (2001) and Athukorala (2005 and 2010) and the work cited therein.

To shed light on this issue we recalculated the share of South–South trade in world nonfuel manufacturing trade and the geographic profile of South–South nonfuel trade after removing parts and components from the readily available trade data (Tables 9 and 10). The parts and component list used for this purpose comes from Athukorala (2010). The data cover the period 1996–2009 (the UN trade database does not permit systematic delineation of parts and components for reported trade data for many countries prior to 1996).

A comparison of data reported in Tables 2b and 9 does reveals that the South–South share both in exports and imports tends to be systematically smaller once parts and components are netted out from the trade data, but the differences are not very large. For instance, in 2006–2007, the South–South share in total world exports based on unadjusted and adjusted data are 15.3% and 13.5%, respectively. The difference between the two respective figures (15.6% and 10.9%) is much larger on the import side. This asymmetry between the import and export trade reflects the relative importance of parts and components in intra-Asian import trade. These differences notwithstanding, the overall trends in South–South shares are remarkably insensitive to the inclusion/exclusion of parts and components in our calculations.

At the individual country/region level, there are notable differences between the two estimates (compare Tables 4 and 10). For instance, according to the unadjusted (original) data, in 2006–2007, Asia accounted for 79.8% and 69.3% of total South–South nonfuel exports and imports, respectively. These figures come down to 72.7% and 61.7% when adjusted data are used. On the import side, the two shares are 84.9% and 77.0%. However, the overall country/regional rankings in a given year or over time remain unchanged.

In sum, global production sharing seems to infuse an upward bias into the estimates of both the share of South–South trade in world trade and in particular into Asia's share in South–South trade. However, the general inference relating to growth of South–South trade in world trade over the past decade or so and Asia's dominance in South–South trade still remain valid.

**Table 9: South–South Nonfuel Trade Net of Manufacturing Parts and Components, 1996–2009**

	Exports			Imports		
	Total (\$ billion)	Share in Total Southern Exports	Share in World Exports	Total (\$ billion)	Share in Total Southern Imports	Share in World Imports
1996	388	40.6	10.7	335	29.9	8.5
1997	369	40.2	10.1	319	29.1	8.0
1998	340	37.7	9.4	301	29.7	7.5
1999	322	35.7	8.8	304	29.4	7.3
2000	377	36.5	9.6	371	30.0	8.1
2001	386	37.7	9.9	382	30.9	8.5
2002	415	37.1	10.0	411	30.7	8.6
2003	517	38.9	10.7	494	31.4	8.9
2004	657	39.6	11.3	642	32.2	9.5
2005	796	41.0	12.4	758	33.0	10.2
2006	972	42.0	13.1	898	32.9	10.4
2007	1,215	44.1	13.9	1,126	34.9	11.3
2008	1,476	45.9	15.0	1,392	36.5	12.5
2009	1,255	47.5	16.0	1,092	35.5	12.5

Source: Compiled from UN Comtrade database.

**Table 10: South–South Trade by Region: Nonfuel Trade Net of Manufacturing Parts and Components**

		Exports				Imports			
		Total (\$ billion)	S–S in Exports	Region's Share in Total S–S Exports	Intra-regional Share in S–S Exports	Total (\$ billion)	S–S in Exports	Region's Share in Total S–S Exports	Intra-regional Share in S–S Exports
Asia	1996–07	297.9	44.4	78.7	83.1	243.1	32.7	74.3	88.0
	2000–01	279.2	41.7	73.3	76.4	245.4	33.0	65.2	86.1
	2006–07	795.1	46.4	72.7	73.6	623.6	33.3	61.7	82.1
	2008	1,077.7	49.7	73.0	70.7	830.0	35.8	59.6	79.0
	2009	925.1	51.2	73.7	70.6	672.8	34.6	61.6	77.0
Northeast Asia	1996–07	171.0	46.2	45.3	82.2	136.5	35.1	41.8	90.5
Asia	2000–01	176.3	41.5	46.3	77.7	155.3	35.0	41.3	89.2
	2006–07	517.1	44.3	47.2	73.4	380.1	32.0	37.6	81.9
	2008	693.7	47.0	47.0	70.0	479.1	33.4	34.4	77.4
	2009	607.3	48.2	48.4	70.9	409.9	32.2	37.5	75.8
China, People's Rep. of	1996–07	123.6	44.2	32.7	86.6	118.0	40.1	36.1	93.1
	2000–01	130.6	39.6	34.3	81.6	135.3	37.9	35.9	90.9
	2006–07	407.0	42.2	37.1	74.9	314.0	32.0	31.1	82.6
	2008	544.7	44.4	36.9	71.2	389.7	33.0	28.0	76.7
	2009	460.2	44.4	36.7	71.2	344.8	32.1	31.6	75.2
Southeast Asia	1996–07	108.6	43.5	28.6	87.9	88.2	29.1	26.9	89.6
	2000–01	77.8	43.8	20.4	80.3	61.9	26.9	16.4	88.5
	2006–07	199.3	52.3	18.2	80.9	158.7	33.8	15.7	89.3
	2008	283.6	56.5	19.2	78.0	234.9	38.6	16.9	88.8

*continued.*

**Table 10:** *continued.*

		Exports				Imports			
		Total (\$ billion)	S–S in Exports	Region's Share in Total S–S Exports	Intra- regional Share in S–S Exports	Total (\$ billion)	S–S in Exports	Region's Share in Total S–S Exports	Intra- regional Share in S–S Exports
	2009	217.9	59.1	17.4	78.2	155.9	36.1	14.3	88.0
Southern Asia	1996–07	16.4	35.8	4.3	59.5	16.7	34.9	5.1	63.5
	2000–01	22.7	38.4	5.9	52.1	25.8	42.3	6.8	63.6
	2006–07	70.3	48.8	6.5	52.7	75.0	41.3	7.4	70.1
	2008	89.0	54.7	6.0	52.1	101.5	45.0	7.3	65.5
	2009	92.5	56.7	7.4	49.1	97.8	48.1	9.0	64.8
Central and West Asia	1996–07	1.9	34.4	0.5	86.8	1.7	26.0	0.5	48.1
	2000–01	2.1	35.1	0.5	82.6	1.9	24.2	0.5	55.9
	2006–07	8.1	42.1	0.7	85.5	9.2	26.9	0.9	67.6
	2008	11.2	41.2	0.8	77.8	13.5	29.2	1.0	67.8
	2009	7.3	46.4	0.6	89.8	8.9	27.2	0.8	72.0
Pacific	1996–07	0.0	67.2	0.0	100.0	0.0	24.9	0.0	99.2
	2000–01	0.3	16.4	0.1	97.5	0.5	27.5	0.1	76.9
	2006–07	0.2	26.9	0.0	97.1	0.5	27.6	0.0	96.2
	2008	0.2	16.3	0.0	92.1	0.9	31.2	0.1	96.9
	2009	0.1	19.3	0.0	93.3	0.4	34.1	0.0	96.4
Middle East	1996–07	14.0	30.0	3.7	36.9	16.3	18.0	5.0	29.8
	2000–01	26.2	33.7	6.9	41.1	43.7	27.3	11.6	26.9
	2006–07	98.6	39.8	9.0	41.6	145.0	35.5	14.3	21.8
	2008	119.2	36.5	8.1	41.4	215.3	37.6	15.5	22.2
	2009	102.5	36.6	8.2	35.9	159.1	36.4	14.6	18.8
Africa	1996–07	8.4	26.4	2.2	52.6	13.9	21.7	4.3	19.1
	2000–01	17.0	28.6	4.5	53.7	25.9	28.8	6.9	35.6
	2006–07	43.3	34.8	4.0	55.8	80.7	37.7	8.0	25.4
	2008	66.3	40.4	4.5	50.6	119.0	40.1	8.6	22.7
	2009	44.5	42.0	3.5	47.0	85.5	41.9	7.8	22.6
Latin America	1996–07	58.1	31.0	15.4	70.9	53.7	25.6	16.5	74.5
	2000–01	59.6	26.7	14.9	67.1	61.2	25.3	15.5	67.9
	2006–07	156.4	34.2	14.3	56.9	162.9	33.2	16.0	57.2
	2008	213.2	38.4	14.4	56.5	227.4	36.3	16.3	54.3
	2009	182.9	40.5	14.6	48.9	174.8	35.5	16.0	33.2
Total South	1996–07	378.4	40.4	100.0	100.0	327.0	29.5	100.0	100.0
	2000–01	381.1	37.1	100.0	100.0	376.6	30.4	100.0	100.0
	2006–07	1,093.4	43.0	100.0	100.0	1,012.2	33.9	100.0	100.0
	2008	1,476.5	45.9	100.0	100.0	1,391.8	36.5	100.0	100.0
	2009	1,254.9	47.5	100.0	100.0	1,092.2	35.5	100.0	100.0

S–S = South–South.

Source: Compiled from UN Comtrade database.

## IV. Determinants of Trade Flows

This section reports the results of an econometric exercise undertaken to examine whether there is significant difference between South–South and North–North trade in terms of the key determinants. In particular, we aim to shed light on the issue of whether South trade is “too little” compared to what one would expect in terms of the standard determinants commonly believed to be important in determining trade flows.

The analytical tool used for this purpose is the gravity model, which has become the “workhorse” for modeling bilateral trade flows. The standard gravity model postulates that trade between two countries, like the gravitational force between two masses, is a function of their economic size and the geographic distance between them.<sup>15</sup> After augmenting the basic model by adding a number of explanatory variables that have been found in previous studies to improve the explanatory power, the estimation equation is specified as

$$\begin{aligned} \ln TRD_{ij} = & a + \beta_1 \ln GDP_i + \beta_2 \ln GDP_j + \beta_3 \ln PGDP_i + \beta_4 \ln PGDP_j \\ & + \beta_5 \ln DST_{ij} + \beta_6 ADJ_{ij} + \beta_7 CLN_{ij} + \beta_8 \ln TRF_{ij} + \beta_9 \ln RER_{ij} + \beta_{10} RTA_{ij} + \\ & + \beta_{11} DAFC + \beta_{12} DGFC + g T + \varepsilon_{ij} \end{aligned} \quad (1)$$

where the subscripts  $i$  and  $j$  refer to the reporting country (the US) and the partner country, and  $\ln$  denotes natural logarithms. The variables are listed and defined below, with the postulated sign of the regression coefficient in parentheses.

*TRD* Bilateral trade (export or import) between  $i$  and  $j$

*GDP* Real gross domestic product (GDP), a measure of the economic size (+)

*PGDP* Real GDP per capita, a measure of the stage of development (+)

*DST* Distance between the economic centers of  $i$  and  $j$  (–)

*ADJ* A binary dummy variable assuming the value 1 if  $i$  and  $j$  share a common land border and 0 otherwise (+)

*CLN* A dummy variable that is unity if  $i$  and  $j$  a common language (a measure of cultural affinity) (+)

*LPI* An index of the quality of trade-related logistics (*LPI*)

<sup>15</sup> For an introduction to the gravity model and recent methodological and theoretical advances in its applications to trade flow modeling, see Bergeijk and Brakman (2010).

- TRF* Trade-weighted most-favored nation tariff rate (-)
- RER* Bilateral real exchange rate (export: +; imports : -)
- RTA* A dummy that is unity if both *i* and *j* belong to the same referential trade agreements (*RTA*) (+)
- DAFC* A binary dummy variable for the Asian financial crisis, 1997–1998
- DGFC* A binary dummy variable for the global financial crisis, 2008
- $\alpha$  A constant term
- T* A set of time dummy variables to capture year-specific fixed effects
- $\varepsilon$  A stochastic error term, representing the omitted other influences on bilateral trade

The above equation is the benchmark model of our analysis; the estimated coefficients give the average relationship between each of the explanatory variables and the dependent variable. To test whether the relationship is statistically different between developed-country and developing-country trading partners, the model is reestimated with intercept and slope dummy variables for the former.

The model is estimated using annual data over the period 1990–2008 on bilateral trade of the 12 major DEAs: the PRC; India; Indonesia; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. The data set covers trade with all trading partner countries for which data are available for at least five consecutive years during the period under study.

Trade data are compiled from the UN Comtrade database and converted into real terms using US trade price indices extracted from the US Bureau of Labor Statistics database. Data on real GDP and per capita GDP are extracted from the World Bank's World Development Indicators database. The nominal (US\$) trade data extracted from the Comtrade database are data on LPI from the newly developed Logistics Performance Index database of the World Bank (Arvis et al. 2007), which provides the first in-depth, cross-country assessment of trade-related logistic provisions. It covers 150 economies, including 28 in Asia. It is based on a worldwide survey of global freight forwarders and express carriers, complemented by a number of qualitative and quantitative indicators of the domestic logistics environment, institutions, and performance of supply chains. The data on bilateral distance come from the trade patterns database of the French Institute for Research on the International Economy (CEPII). The CEPII distance measure is a composite measure of the bilateral great-circle distance between major cities of each economy compiled by taking into account the trading significance of each city in each

economy. Export shares for 2000 are used in compiling the distance measure for each economy. For a complete listing of variables and data sources see Table 12.

**Table 12: Variables Construction and Data Sources for Gravity Model Estimation**

Label	Definition	Data Source/Variable Construction
$X, M$	Value of bilateral trade (imports and exports) in US\$ measured at constant (2000) price	Exports (at CIF price, US\$): compiled from importer records of UN Comtrade, online database ( <a href="http://www.bls.gov/ppi/home.htm">www.bls.gov/ppi/home.htm</a> ). Exports and import values are deflated by US import and export price indices extracted from the US Bureau of Labor Statistics database.
$GDP, GDPP$	Real GDP, and real per capita GDP (at 1995 prices)	World Development Indicators database, World Bank
$ADJ$	A binary dummy: 1 for countries that share a common land border and 0 otherwise	French Institute for Research on the International Economy (CEPII) database
$DIST$	Weighted distance measure of CEPII, which measures the bilateral great-circle distance between major cities of each country	CEPII database
$LPI$	World Bank logistic performance index (Arvis et al. 2007)	LPI database, World Bank
$RER$	Real exchange rate: $RER_{ij} = NER * \frac{P_j^W}{P_i^D}$ <p>where <math>NER</math> is the nominal bilateral exchange rate index. (US\$ price of foreign currency), <math>P^W</math> in price level of country <math>j</math> measured by the producer price index, and <math>P^D</math> is the domestic price index of country <math>i</math> measured by the GDP deflator. An increase (decrease) in <math>RER_{ij}</math> indicates a deterioration (an improvement) in country <math>j</math>'s competitiveness in traded goods production in <math>i</math> (the US, in this case).</p>	Constructed using data from World Development Indicators database, World Bank. Following Soloaga and Winters (2001), mean-adjusted RER is used in the model. This variable specification assumes that countries are in exchange rate equilibrium at the mean.
$TRF$	Trade-weighted MFN tariff rate (the same average tariff rate is applied to all bilateral trading partners)	World Development Indicators database, World Bank
$LNG$	A dummy variable that is unity if $i$ and $j$ have a common language and zero	CEPII database
$ADJ$	A binary dummy variables that takes the value 1 for countries sharing a common land border and 0 otherwise	CEPII database

Of the three standard panel data estimation methods (pooled OLS, random effects, and fixed-effects estimators), the fixed effect estimator is not appropriate in this case because the model contains a number of time-invariant explanatory variables that are central to our analysis. In experimental runs, we used both pooled OLS and random effects estimators. The Bruesch-Pagan Lagrange multiplier test failed to reject the null hypothesis of random effects, favoring the use of pooled OLS estimator.

The preferred (pooled OLS) estimates for manufacturing trade and total nonfuel trade are reported in Table 13. For each commodity category, the first equation is the benchmark model showing the average relationship for trade with all countries. The second is the “dummy variable” regression estimated to test if the hypothesized relationships between the dependent variable and the set of explanatory variables varies between trade with developed (Northern) and developing (Southern) trading partners. (The variable *ST* takes the value 1 for bilateral trade with Southern trading partners and 0 for trade with Northern trading partners.)<sup>16</sup> Note that in each case the coefficient for “original” variable is what we would have obtained by estimating the regression assuming that there is no difference between the Northern and Southern partners relating to the particular relationship, and the coefficient of the “dummy-interaction” variable measures the difference in the slope estimate for trade with the Southern partners, relative to the Northern partners.  $PGDP_i$  and  $PGDP_j$  could not be retained in the final estimates because of their high correlation with the counterpart *GDP* variables. The common border dummy was also dropped because of its high (negative) correlation<sup>17</sup> with the distance variable.

<sup>16</sup> In experimental runs we also tested slope intercept and slope dummies for intraregional (intra-Asia) South–South bilateral trade and extraregional South–South bilateral trade. There were no statically significant differences in the estimated coefficients.

<sup>17</sup> This is to be expected given the heavy regional concentration of Asian trade.



**Table 13: Determinants of Bilateral Trade Flows between Asian Countries, 1990–2008<sup>1</sup>**

Explanatory Variables <sup>2</sup>	Manufacturing Trade			
	Exports		Imports	
	Benchmark Model	With ST Dummy	Benchmark Model	With ST Dummy
<b>(a) Exports</b>				
Ln GDP, reporter	1.147*** (0.011)	1.018*** (0.017)	0.624*** (0.015)	0.603*** (0.002)
Ln GDP, partner	0.799*** (0.009)	0.946*** (0.014)	0.904*** (0.111)	0.941 (0.017)***
Ln distance ( <i>DST</i> )	−0.793*** (0.019)	−0.445*** (0.056)	−1.068** (0.023)	−0.772*** (0.069)
Tariff rate ( <i>TFR</i> )	−0.011*** (0.001)	−0.040*** (0.009)	−0.044*** (0.001)	−0.035*** (0.002)
Regional trading agreement (RTA)	1.012** (0.314)	1.055*** (0.221)	0.675*** (0.134)	0.675** (0.242)
Ln real exchange rate ( <i>RER</i> )	0.093*** (0.010)	0.097*** (0.15)	−0.065* (0.014)	−0.116*** (0.018)
Common language (CLN)	0.687*** (0.034)	0.319*** (0.015)	0.377*** (0.041)	0.055 (0.063)
Logistic performance (LPI)	0.616** (0.030)	0.688*** (0.057)	0.855** (0.034)	1.497*** (0.068)
ST*LnGDP, reporter		0.245*** (0.022)		0.053* (0.029)
ST*LnGDP, partner		−0.277*** (0.018)		−0.086 (0.023)
ST* Ln distance ( <i>DST</i> )		−1.396*** (0.061)		−0.223*** (0.074)
ST*TFR		−0.027*** (0.009)		−0.013*** (0.002)
ST*RTA		−0.107 (0.268)		−0.046 (0.289)
ST*RER		0.024 (0.021)		−0.118*** (0.029)
ST*CLN		0.264*** (0.070)		0.387*** (0.084)
ST*LPI		0.210*** (0.073)		−0.481 (0.087)
ST		12.737*** (0.916)		5.682*** (1.176)
Constant	−25.956*** (0.392)	−37.869*** (0.772)	−14.110*** (0.486)	−20.069*** (0.074)
Observations	13339	13339	11463	11463
Adjusted R <sup>2</sup>	0.74	0.075	0.70	0.71
FRoot MSE	1.314	1.257	1.406	1.380

continued.

**Table 13:** *continued.*

Explanatory Variables <sup>2</sup>	Nonfuel Trade			
	Exports		Imports	
	Benchmark Model	With ST Dummy	Benchmark Model	With ST Dummy
<b>(a) Exports</b>				
Ln GDP, reporter	1.016*** (0.011)	0.946*** (0.014)	0.698*** (0.014)	0.607*** (0.022)
Ln GDP, partner	0.798*** (0.009)	0.982*** (0.014)	0.721*** (0.011)	0.854 (0.017)***
Ln distance ( <i>DST</i> )	−0.934*** (0.019)	−0.351*** (0.055)	−0.958** (0.022)	−0.745*** (0.071)
Tariff rate ( <i>TFR</i> )	−0.001 (0.001)	−0.001 (0.001)	−0.041*** (0.001)	−0.037*** (0.002)
Regional trading agreement (RTA)	0.941*** (0.125)	0.820*** (0.213)	0.910*** (0.138)	0.858** (0.251)
Ln real exchange rate ( <i>RER</i> )	0.0843*** (0.010)	0.102*** (0.015)	−0.065*** (0.012)	−0.094*** (0.018)
Common language (CLN)	0.427*** (0.032)	0.183*** (0.055)	0.585*** (0.040)	0.492*** (0.065)
Logistic performance (LPI)	0.550*** (0.027)	0.515*** (0.054)	0.832** (0.033)	1.628*** (0.071)
ST*LnGDP, reporter		0.154*** (0.021)		0.152*** (0.028)
ST*LnGDP, partner		−0.324*** (0.017)		−0.203*** (0.021)
ST* Ln distance ( <i>DST</i> )		−1.458*** (0.059)		−0.180*** (0.074)
ST*TFR		−0.003* (0.002)		−0.037*** (0.002)
ST*RTA		0.043 (0.268)		−0.059 (0.296)
ST*RER		0.042** (0.020)		−0.094*** (0.018)
ST*CLN		0.058 (0.067)		−0.115* (0.082)
ST*LPI		0.302*** (0.070)		−0.463*** (0.087)
ST		16.576*** (0.871)		5.682*** (1.176)
Constant	−20.905*** (0.365)	−37.869*** (0.772)	11.670 (0.459)	−18.267 (1.004)
Observations	14062	14062	11159	11159
Adjusted R <sup>2</sup>	0.74	0.075	0.67	0.69
Root Mean Square Error	1.273	1.216	1.475	1.427

\*\*\*significant at 1%, \*\*5%, and \*10%, respectively.

Notes: Figures in parentheses are standard errors derived using the Huber-White consistent variance-covariance ("sandwich") estimator. Results for the time dummies are not reported.

Source: Author's estimates based on data sources detailed in the text.

In the benchmark regressions, the coefficients of the two standard gravity variables (*GDP* and *DST*) are statistically significant with the hypothesized signs in all cases. The coefficient of the distance variable is well within the range of 0.7 to 1.20 commonly found in various gravity model applications. The coefficient of *GDP* in pairs is consistently closer to unity. The *LPI* performs remarkably well in explaining both imports and exports, with statistically significant and positive coefficients in all cases. The coefficient of tariff rate carries the expected sign in all cases and is not statistically significant only in the case of total nonfuel exports. In terms of the overall fit all equations perform well (with adjusted  $R^2$ s of closer to 0.70 in all cases). The estimated equations for manufacturing trade and nonfuel trade are very similar. This is understandable given the dominance of manufacturing in Asian trade.

To comment on the results for the dummy variable regression, Asian countries' domestic economic activity (measured by *GDP*) has a much greater effect on intradeveloping country (South–South) trade (both exports to and imports from other Southern countries) than on their trade with the Northern trading partners, particularly on the export side. For instance, a 1% increase in Asia's *GDP* results in an increase in Asia's manufacturing exports to Southern markets by 1.26% compared to an overall average impact on exports of 1.01%. The comparable figures on the import side are 0.65% and 0.60%, respectively. The estimates for total non-oil trade are very similar (exports: 1.10% and 94%; imports 0.75% and 61%). By contrast, a given change in *GDP* in developing partner-countries seems to have a lesser impact on trade compared to trade with developed countries. These results are consistent with the view that trade performance of Asian countries is fundamentally supply-driven by their overall economic expansion. Also the results run counter to the view that Asian South–South trade has lagged behind their trade potential as measured by their economic expansion.

The result for the distance variable suggests that the magnitude of negative impact of distance-related trade cost is larger on South–South trade compared to South–North trade.<sup>18</sup> For instance, a 1% increase in bilateral distance is associated 1.80% reduction in nonfuel exports compared to an average negative impact on exports of 0.35%. On the import side the difference between these two figures is smaller in magnitude but is still significant (0.92% and 0.75%, respectively). There are two possible explanations of this finding. First, the volume of trade with Southern countries is relatively smaller compared to trade with developed countries, therefore, the per unit trade cost normally tends to be larger in the former case. Second, a large and increasing percentage of Asia's trade with developed countries (which accounts for nearly half of their total manufacturing trade) takes the form of air cargo. This is particularly the case with trade in electronics and electrical goods, which accounts for nearly half of total Asian manufacturing trade. This could have played a role in “taming the tyranny of distance” as far as trade with developed countries is concerned.

<sup>18</sup> This result is consistent with the findings of Coulibaly and Fontagne (2005) and Foroutan and Pritchett (1993) relating to intra-sub-Saharan African trade.

The tariff rate has a significant, but small, negative effect on trade (both imports and exports), with a relatively larger impact on South–South trade. A 1 percentage point cut in tariff in developing trading partners seems to bring about 0.07% increase in Asia's nonfuel exports to these markets, compared to a 0.04% increase in exports associated with a 1% percent cut in average tariffs of all trading partners. The estimates' effect on imports of Asian countries resulting in a 1% cut in their tariff is very similar in magnitude.

The results for the real exchange rate variable suggest that exchange rate change has a significantly larger effect on Asian manufacturing imports from Southern trading partners compared to the average impact on total manufacturing imports. On the export side there is no statistically significant difference between average impact on total exports and average on export to the Southern markets. The quality of trade-related logistics as measured by the World Bank logistic performance index is found to be a significant determinant of trade flows, with a significantly greater impact of South–South trade compared to South–North trade. The estimated impact on South–South trade is larger in magnitude on the export trade. The average impact of regional trading agreements of Asian trade is found to be positive and statistically significant. But there is no evidence from the dummy interaction term to suggest that RTA plays a especial role in promoting South–South trade.

Finally, the estimated coefficient of the dummy intercept variable (ST) suggests that after controlling for the other variables, the level of Asian exports to other developing countries is about 13% higher than the average level of trade with developed countries. On the import side the estimate is about 6%. Thus, overall, what we observe here is a significant bias in favor of, *not* against, South–South trade.

## V. Concluding Remarks

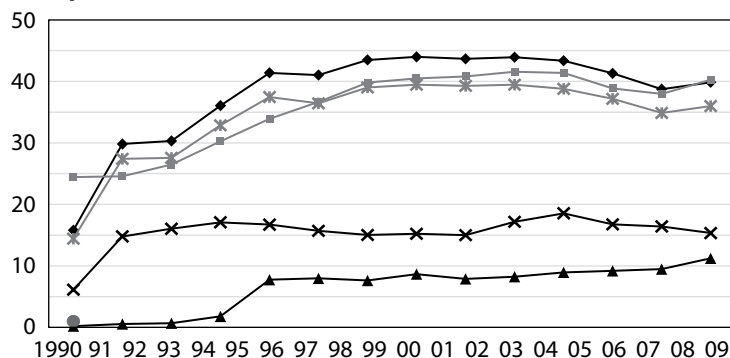
South–South trade has been a dynamic component of global trade expansion over the past 2 decades. There has been a clear upward trend since the early 1990s, particularly over the past decade. Asia, particularly East Asia, dominates the scene with the PRC playing a pivotal role, but there is clear evidence of expansion in South–South exchange in other parts of the world as well. The rise of the PRC has been a key factor behind Asia's growing trade ties with Africa and Latin American countries. East Asia's unique role within global production networks and the growing cross-border trade in parts and components seems to somewhat inflate Asia's relative position in South–South trade as measured by the readily available trade data. But netting out of parts and components does not seem to significantly alter either overall trends in South–South trade or Asia's preeminence in South–South exchange.

Recent expansion of South–South trade has been underpinned by natural economic forces associated with structural changes in trade and production structures of countries

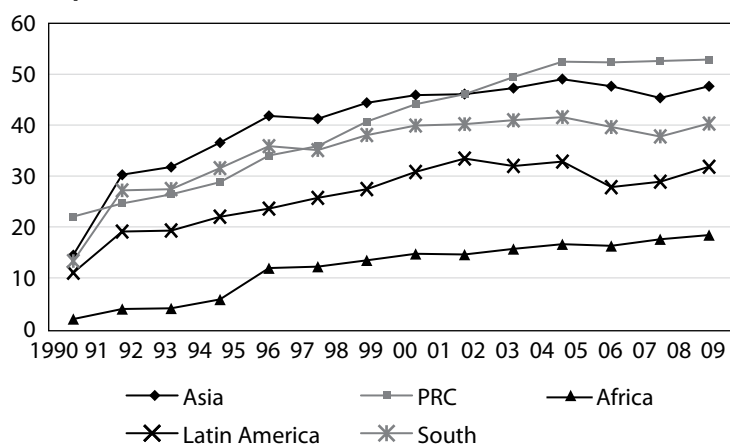
as part of their integration into the global economy. South–South trade seems to be complementary to, rather than competitive with, South–North trade. Growth of trade among the Southern countries has been much faster on the import side, and the degree of dependence of Southern countries on Northern markets for export expansion has increased over time.

**Figure 12: Share of Parts and Components in South–South Manufacturing Trade (percent)**

**(a) Exports**



**(b) Imports**



Source: Based on data compiled from UN Comtrade database.

As far as developing Asian countries are concerned, there is no evidence to suggest that growth of South–South trade has lagged behind the growing trading potential of these countries. The rate of change in both real exports to and imports from the Southern trading partners associated with a given degree of domestic income seems to be greater in magnitude compared to the average rate of change for overall trade. When controlled for the relevant variables, the level of Asian export to imports from Southern markets is 13% and 6% higher than the average level of exports and imports, respectively. In sum, there is no evidence to make a case for isolating South–South trade from global trade in

designing national development policy. Direct policy intervention to mould trade patterns is likely to hinder the ongoing mutually beneficial process of global integration.

Quality of trade-related logistics appears to be a key determinant of trade of both total and South–South trade. Further reduction in developing country tariffs would increase South–South trade, but the magnitude of the increase would be rather modest, given that tariffs have already come down to historically low levels, even though developing country tariff levels are still higher.

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### **About the Paper**

Prema-chandra Athukorala examines trends and patterns of South–South trade in Asian economies, with emphasis on the implications of the growing importance of global production sharing and the rise of the People’s Republic of China. His findings suggest that growth of South–South trade of Asian economies has not lagged behind what one would expect in terms of the standard determinants of trade potential, and that South–South trade is largely complementary to, rather than competing with, South–North trade.

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