

Straubhaar, Thomas

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## South-South Trade: Some Recent Trends

by Thomas Straubhaar, Berne\*

**Increased trade among the developing countries is often seen as a viable and more gainful alternative to their trade with developed countries. The following article examines trends in the volume, composition and direction of South-South trade since 1970 and addresses the question as to whether the many existing barriers to South-South trade have in fact led to a bias against it.**

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In his Nobel Prize lecture in 1979, Sir W. Arthur Lewis saw the "Engine of Growth" robbed from the less developed countries (LDCs). Assuming a period of chronic slow growth in the developed countries (DCs) and worldwide increased protectionism, he expected the slowing-down of the trade flows from the LDCs to the DCs. In looking for a replacement for this slowed "Engine of Growth" he ended up asking whether the trade among the LDCs could take up the slack left by DCs as DCs slow down. His answer was in the affirmative.

Lewis' argument that the LDCs' trade with the DCs should be replaced by inter-LDC trade was not new. Since Viner and Meade pushed forward the theory of Customs Unions in the fifties several attempts have been undertaken at greater co-operation among LDCs. Especially the Regional Commissions of the United Nations (CEPAL for Latin America, ESCAP/ECAFE for Asia, the Far East and the Pacific, ECA for Africa) supported regional co-operation among LDCs in the fifties and at the beginning of the sixties. Under the leadership of Raul Prebisch, CEPAL was the *spiritus rector* for the regional integration process in Latin America and ESCAP/ECAFE was the midwife for the ASEAN. In Africa the foundation of ECOWAS was stimulated by ECA.

In the absence of divergences between social and private costs and benefits, or of policy-induced distortions, there is no reason why LDCs should prefer trade among themselves to trade with the DCs. However, we do not live in such a perfect world. Given different degrees in divergence or distortion, there are many arguments that one direction of trade is likely to be more beneficial than another.

Besides the expected gains of an integrated area increased trade among the LDCs has been seen as a viable and more gainful alternative to their trade with the DCs for the following reasons:

- Assuming a period of chronic slow growth in the DCs and worldwide increased protectionism the LDCs cannot rely on the expansion of their trade with the DCs. Trade among themselves becomes therefore an instrument to geographically diversify their export markets.
- It is expected that under the protection of special (preferential) trade agreements among the LDCs a diversification in the traded products will take place. Goods not competitive in the DC-markets might become competitive in a protected LDC-market (the infant-industry argument).
- The countrywise and productwise diversification of the export markets reduces the risk of negative effects caused by instabilities in export earnings, and increases knowledge of production processes and technological skills within the LDC through "learning by doing".
- Trade among LDCs has been seen as fitting into the strategy of "collective self-reliance". It is viewed as the best way to escape from the "chronic disease of dependencia", with South-North trade patterns which have led to excessive specialization and consequent vulnerability, and to a loss of the dynamic benefits of trade among LDCs.
- Since LDCs are more similar to one another than to industrialized countries, trade among them might offer the opportunity of using the same technology in export products that was initially developed for the domestic market (Linder hypothesis) and for sharing technologies appropriate to the requirements of the LDCs with each other (labour-intensive rather than capital-intensive methods).<sup>1</sup>

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\* University of Berne.

□ Another argument that prefers trade among the LDCs to trade with the DCs is based on the expectation that the markets in other LDCs might serve as test markets (Morawetz hypothesis): before an LDC starts selling a product in a DC-market, it begins to export this new product to the market of another LDC. Only after the product has proved its competitiveness in a

(historically) relatively well-known market, similar to the home market, will it be exported to DC-markets. While there was some empirical evidence for the (Latin American) NICs in the sixties to support this export-product-cycle pattern, the export expansion of ASEAN in the seventies does not seem to correspond to the test-market hypothesis.<sup>2</sup>

**Table 1**  
**Destination and Growth**  
**of the Export Trade Flows from NOPECs**

1969-1983, in %  
(Values in parentheses: Annual Grow Rate of Exports in %)

|         | Destination    |               |                |        | Total         |
|---------|----------------|---------------|----------------|--------|---------------|
|         | DCs            | OPEC          | NOPECs         | Others |               |
| 1969-71 | 70.9           | 2.7           | 18.7           | 7.7    | 100           |
| 1972-74 | 70<br>(24.6)   | 3.9<br>(40.9) | 18.5<br>(24.7) | 7.6    | 100<br>(25.1) |
| 1975-77 | 67.3<br>(16.7) | 6.1<br>(37.0) | 18.7<br>(18.6) | 7.9    | 100<br>(18.3) |
| 1978-80 | 65.1<br>(18.4) | 6.7<br>(23.6) | 20.4<br>(23.3) | 7.8    | 100<br>(19.7) |
| 1981-83 | 61<br>(7.0)    | 8.1<br>(16.3) | 22.3<br>(12.6) | 8.6    | 100<br>(19.3) |

Source: UNCTAD: Handbook of International Trade and Development Statistics, New York, various years.

**Table 2**  
**Destination of the Export Flows from NOPECs**  
**1970 and 1982**

(Figures are shares of the total export values of this commodity group)

| Commodity            | Destination                                 |      |        |        | Total |
|----------------------|---|------|--------|--------|-------|
|                      | DCs   | OPEC | NOPECs | Others |       |
|                      | 1970  |      |        |        |       |
| All food items       | 74  | 2.5  | 13.1   | 10.4   | 100   |
| Agric. raw materials | 63.6  | 2.3  | 19.6   | 14.5   | 100   |
| Ores and metals      | 84.4  | 1.5  | 6.6    | 7.5    | 100   |
| Fuels                | 61.9  | 1    | 28     | 9.1    | 100   |
| Manufactured goods   | 62.6  | 5.3  | 27.9   | 4.2    | 100   |
| Total                | 70.9  | 2.5  | 17.5   | 9.1    | 100   |
|                      | 1982  |      |        |        |       |
| All food items       | 53  | 9.9  | 16.3   | 20.8   | 100   |
| Agric. raw materials | 55.5  | 4.6  | 26     | 13.9   | 100   |
| Ores and metals      | 68.2  | 7.9  | 16.6   | 7.3    | 100   |
| Fuels                | 65.4  | 4.1  | 25.6   | 4.9    | 100   |
| Manufactured goods   | 61.1  | 10.8 | 23.6   | 4.5    | 100   |
| Total                | 60.6  | 8.3  | 22.2   | 8.9    | 100   |
|                      | Changes in the shares between 1970 and 1982 |      |        |        |       |
| All food items       | -21   | 7.4  | 3.2    | 10.4   | 0     |
| Agric. raw materials | -8.1  | 2.3  | 6.4    | -0.6   | 0     |
| Ores and metals      | -16.2                                       | 6.4  | 10     | -0.2   | 0     |
| Fuels                | 3.5   | 3.1  | -2.4   | -4.2   | 0     |
| Manufactured goods   | -1.5  | 5.5  | -4.3   | 0.3    | 0     |
| Total                | -10.3                                       | 5.8  | 4.7    | -0.2   | 0     |

Source: See Table 1.

□ Finally, for the LDCs as a whole increased trade among themselves might improve their collective terms-of-trade position against the DCs. Assuming that trade among the LDCs is at least to some extent a substitute for trade with the DCs, its effect will be an upward shift in the export supply curves from the LDCs to the DCs. This will reduce the LDC export volume and improve the overall terms-of-trade against the DCs.

**Volume and Direction of Trade among LDCs**

We will turn now to the question as to how these expectations in the benefits of intra-trade have stimulated trade among the LDCs.<sup>3</sup> By looking at the direction of the export flows from the NOPECs, we can see (Table 1) that from an annual export value of US \$ 264.2 billion at the beginning of the eighties (average of the period 1981-83) about

- 3/5 have been earned in the markets of DCs,
- 1/5 in the markets of other NOPECs,
- 1/10 in the markets of the OPEC-countries and
- 1/10 in the markets of socialist countries.

Most of the trade flows from the NOPECs are, therefore, directed towards the DCs. However, since the economic problems appeared in the DCs at the end of the seventies and at the beginning of the eighties the share of the South-North trade flows has decreased from 70.9 % (1969-71) to 61 % (1981-83).

Since 1973 the OPEC-markets have become very large importers of products from NOPECs. With an

<sup>1</sup> The hypothesis that products with a relatively high labour-intensity are traded among LDCs rather than between the LDCs and the DCs, has no empirical support in the case of the Newly Industrialized Countries. R. J. Langhammer and D. Spinanger: Wirtschaftliche Zusammenarbeit zwischen den Entwicklungsländern (Chancen und Risiken), Tübingen 1984, pp. 68-69, have shown that for Malaysia, Singapore and Taiwan the domestic employment effect from products exported towards LDCs has been significantly smaller than from products exported towards DCs.

<sup>2</sup> Cf. U. Hiemenz: Die Außenhandelsverflechtung von Entwicklungsländern: Eine Analyse von Markterschließungsstrategien, in: H. Giersch (ed.): Probleme und Perspektiven der weltwirtschaftlichen Entwicklung, Berlin/Munich 1985, pp. 159-178.

<sup>3</sup> Following UNCTAD, we distinguish between: DCs (OECD, Yugoslavia, Israel and South Africa), Socialist Countries (Eastern Europe, PR China, PR Korea and Viet Nam) and LDCs = OPEC-countries and NOPEC-countries (all other countries not members of another grouping). All data if not stated otherwise are taken from UNCTAD: Handbook of International Trade and Development Statistics, New York, various years.

**INTERNATIONAL TRADE**

**Table 3**  
**Exports from NOPECs 1955, 1970, 1982 – Structure by Commodity Groups**  
(Shares in %)

|                    | 1955        |             | 1970        |             | 1982        |             |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                    | South-South | South-North | South-South | South-North | South-South | South-North |
| Food               | 28          | 40          | 28          | 38          | 19          | 19          |
| Raw Materials      | 57          | 55          | 33          | 42          | 38          | 42          |
| Manufactured Goods | 15          | 5           | 39          | 20          | 43          | 39          |

Source: See Table 1.

average annual growth rate of more than 30 % between 1973 and 1980 the OPEC-countries have increased three times their share of the NOPEC-exports from 2.7 % at the beginning of the seventies to 8.1 % at the beginning of the eighties.

The annual average value of trade among the NOPECs has reached US \$ 60 billion only, which corresponds to no more than 3 % of worldwide trade flows.

South-South trade has been less affected by the economic changes of the seventies and the beginning of the eighties than South-North trade. Until 1977 the former grew somewhat more rapidly than South-North trade. When the economic problems began in the DCs at the end of the seventies it grew much more rapidly. Correspondingly, its share increased from 18.7 % (1969-71) to 22.3 % (1981-83).

These patterns for overall trade in all commodities together differ somewhat from that for a single group of commodities (Table 2):

□ in 1982 South-South trade was more important for agricultural raw materials (26 %), fuels (25.6 %) and manufactured goods (23.6 %) than for ores and metals (16.6 %) and food items (16.3 %).

□ South-South trade had much more importance for manufactured goods than for other goods in 1970 (except fuel). In 1982 this importance of trade with other NOPECs had declined for manufactured goods by 4.3 % to 23.6 % and was only slightly higher than the overall weight of South-South trade in the exports of the NOPECs.

□ On the other hand other NOPECs have become more important for the exports of ores and metals (+ 10 %), agricultural raw materials (+ 6.4 %) and food items (+ 3.2 %).

**Composition of LDC Trade**

Table 3 shows that, today, trade in manufactured products represents the largest share of South-South trade. Compared to the South-South trade pattern in the mid-fifties manufactured goods have increased their

share almost three times. However, most of this increase had already taken place before 1970. Between 1970 and 1982 manufactured goods became more important by only 4 %.

At the beginning of the eighties, total South-South trade consisted of about

- 2/5 manufactured goods,
- 2/5 raw materials (incl. fuel), and of
- 1/5 food items.

While in the mid-fifties manufactured goods accounted for about 15 % of total trade among

**Table 4**  
**Composition of the Export Flows from NOPECs 1970 and 1982**

(Figures are weighted shares of the total export values)

| Commodity                                   | DCs   | Destination |        |        | Total |
|---|-------|-------------|--------|--------|-------|
|   |       | OPEC        | NOPECs | Others |       |
| 1970  |       |             |        |        |       |
| All food items                              | 26.8  | 0.8         | 4.8    | 3.9    | 36.3  |
| Agric. raw materials                        | 8.4   | 0.1         | 2.6    | 2.1    | 13.2  |
| Ores and metals                             | 16    | 0.3         | 1.2    | 1.4    | 18.9  |
| Fuels                                       | 4.8   | 0.1         | 2.2    | 0.7    | 7.8   |
| Manufactured goods                          | 14.6  | 1.2         | 6.5    | 1      | 23.3  |
| Total                                       | 70.9  | 2.5         | 17.5   | 9.1    | 100   |
| 1982  |       |             |        |        |       |
| All food items                              | 11.6  | 2.2         | 3.6    | 4.5    | 21.9  |
| Agric. raw materials                        | 2.7   | 0.2         | 1.3    | 0.6    | 4.8   |
| Ores and metals                             | 5.6   | 0.7         | 1.4    | 0.5    | 8.2   |
| Fuels                                       | 16.4  | 1           | 6.4    | 1.2    | 25    |
| Manufactured goods                          | 23.5  | 4.2         | 9.1    | 1.7    | 38.5  |
| Total                                       | 60.6  | 8.3         | 22.2   | 8.9    | 100   |
| Changes in the shares between 1970 and 1982 |       |             |        |        |       |
| All food items                              | -15.2 | 1.4         | -1.2   | 0.6    | -14.4 |
| Agric. raw materials                        | -5.7  | 0.1         | -1.3   | -1.5   | -8.4  |
| Ores and metals                             | -10.4 | 0.4         | 0.2    | -0.9   | -10.7 |
| Fuels                                       | 11.6  | 0.9         | 4.2    | 0.5    | 17.2  |
| Manufactured goods                          | 8.9   | 3           | 2.6    | 0.7    | 15.2  |
| Total                                       | -10.3 | 5.8         | 4.7    | -0.2   |       |

Source: See Table 1.

**Table 5**  
**Intra- and Interregional Trade among LDCs,**  
**Annual Average 1981-1983**  
 (Shares of total exports in %)

|                       | Intra-Trade | Inter-Trade | Other Trade |
|-----------------------|-------------|-------------|-------------|
| Latin America         | 20.2        | 6.9         | 72.8        |
| Africa                | 3.8         | 9.6         | 86.6        |
| West Asia             | 9.7         | 24.3        | 66.0        |
| South South-East Asia | 22.6        | 11.6        | 65.8        |

Source: See Table 1.

**Table 6**  
**Destination of the Export Flows from LDC-Regions**  
**1970 and 1982**  
 (Figures are shares of the total export values of manufactured goods)

| Area  | Destination |      |        |        | Total |
|---|-------------|------|--------|--------|-------|
|   | DCs         | OPEC | NOPECs | Others |       |
| 1970  |             |      |        |        |       |
| Latin America                               | 55.5        | 3.2  | 39.5   | 1.8    | 100   |
| Africa                                      | 47.1        | 4.7  | 33     | 15.2   | 100   |
| West Asia                                   | 33          | 32.2 | 17.3   | 17.5   | 100   |
| South South-East Asia                       | 66.8        | 4.3  | 23.6   | 5.3    | 100   |
| Total                                       | 62.6        | 5.3  | 27.9   | 4.2    | 100   |
| 1982  |             |      |        |        |       |
| Latin America                               | 52.2        | 10.3 | 35.6   | 1.9    | 100   |
| Africa                                      | 59          | 7.6  | 26.7   | 6.7    | 100   |
| West Asia                                   | 24.2        | 51.3 | 20.3   | 4.2    | 100   |
| South South-East Asia                       | 64.2        | 9    | 22     | 4.8    | 100   |
| Total                                       | 61.1        | 10.8 | 23.6   | 4.5    | 100   |
| Changes in the shares between 1970 and 1982 |             |      |        |        |       |
| Latin America                               | -3.3        | 7.1  | -3.9   | 0.1    | 0     |
| Africa                                      | 11.9        | 2.9  | -6.3   | -8.5   | 0     |
| West Asia                                   | -8.8        | 19.1 | 3      | -13.3  | 0     |
| South South-East Asia                       | -2.6        | 4.7  | -1.6   | -0.5   | 0     |
| Total                                       | -1.5        | 5.5  | -4.3   | -0.3   | 0     |

Source: See Table 1.

**Table 7**  
**Intra- and Interregional Trade among LDCs**  
 (Annual Average in US \$ billion, 1981-83)

| Origin                | Destination       |                  |                   |                   | Total |
|-----------------------|-------------------|------------------|-------------------|-------------------|-------|
|                       | LA                | AFR              | W-A               | S-A               |       |
| Latin America         | 21.9 <sup>a</sup> | 2.9              | 2.3               | 2.2               | 29.3  |
| Africa                | 3.7               | 2.6 <sup>a</sup> | 1.8               | 0.9               | 9.0   |
| West Asia             | 9.8               | 4.3              | 15.9 <sup>a</sup> | 25.7              | 55.7  |
| South South-East Asia | 4.1               | 4.4              | 8.7               | 34.7 <sup>a</sup> | 51.9  |
| Total                 | 39.5              | 14.2             | 28.7              | 63.5              | 145.9 |
| in %                  | 27.1              | 9.7              | 19.7              | 43.5              |       |

<sup>a</sup> Intraregional trade.

Source: See Table 1.

themselves, the NOPECs mostly exported food items and raw materials to the DCs (only 5 % of their exports to the DCs were manufactured goods).

In contrast to South-South trade patterns, manufactured products became much more important in South-North trade flows during the seventies and have doubled their share from 20 % to 39 %.

South-South trade patterns no longer showed large differences compared to South-North trade at the beginning of the eighties. In the South-South trade flows of 1982 trade in raw materials was only 4.3 % less important, and manufactured goods 4.6 % more important, than in South-North trade, while trade in food items had the same share in both directions.

Table 4 shows the shares of single trade flows in total NOPEC exports for five different commodity groups towards four different destinations. It allows us to answer the questions: which goods were exported by the NOPECs to which markets in 1970 and in 1982 and what has changed within this period?

□ At the beginning of the eighties the export of manufactured goods to the DC-markets was the most important single trade flow from the NOPECs. It contributed almost a quarter of their total exports, nearly 10 % more than in 1970.

□ On the other hand, the trade in manufactured products among themselves reflects less than 10 % (9.1 % in 1982) of NOPEC exports, which is only 2.6 % higher than in 1970.

□ While in 1970 the export of food items to the DC-markets represented more than one quarter (26.8 %) and the non-manufactured products together more than one half (56 %) of the trade flows from NOPECs these decreased to 11.6 % and 36.3 % respectively in 1982.

□ On the other hand, the importance of trade in non-manufactured products among NOPECs has not changed very much: as in 1970 (with 10.8 %) it reflects about 1/8 (12.7 %) of the NOPEC exports in 1982.

Summarizing, we can say that South-South trade is very similar in its composition to South-North trade, is

<sup>4</sup> The LDC-regions correspond more or less to their geographical areas, where *Latin America* means every American country except the United States and Canada, *West Asia* means the Arabian countries (incl. Turkey and Cyprus) and the LDC-Asian countries west of Pakistan, *South South-East Asia* means Pakistan and the LDC-Asian countries east of Pakistan and *Africa* means all African countries without South Africa.

<sup>5</sup> Because Halbach concentrates on the trade in raw materials, here we present only the data for trade in manufactured goods. Cf. A. Halbach: Processing and Marketing Raw Materials – Structures, Opportunities and Obstacles, in: INTERECONOMICS, Vol. 21, 1986, No.1, pp. 27-33.

increasing its share of total NOPEC exports, but is still in volume only 1/3 as important as South-North trade.

### Regional Trends

We will now look at the importance of the trade flows among LDCs from a regional point of view.<sup>4</sup> Table 5 shows which region has contributed what part to South-South trade and what part of the total trade among the LDCs has been either *interregional* (i.e. between two different regions) or *intra-regional* (i.e. within the same region). West and South South-East Asia have been more oriented towards LDC-regions than Latin America or Africa. They realized about 1/3 of their export earnings in LDC-markets; this share was about 27 % for Latin America and 13 % for Africa.

As to the direction of the trade flows in manufactured goods among different LDC-regions<sup>5</sup> Table 6 shows that South-South trade was more important for West Asia, with a share of about 3/4, than for Latin America, with a share of almost 1/2, and for Africa with about 1/3.

For manufactured products South South-East Asia is the least oriented towards LDC-regions. It exports only about 30 % of its traded manufactured goods towards LDC-regions.

Of the total trade among LDCs of US \$ 145.9 billion (annual average 1981-83), about 38 % had its origin in West Asia, 36 % in South South-East Asia, 20 % in Latin America, and 6 % in Africa (Table 7).

About 50 % (= US \$ 75.1 billion) of South-South trade has been intra-regional, where in absolute values the most intensive intra-regional trade has taken place in South and South-East Asia. Almost one quarter of their total exports has gone to markets in the same area.

In Latin America the share of intra-regional trade increased very rapidly in the seventies and reached about 20 % of total exports earnings at the beginning of the eighties.

In Africa the share of intra-regional trade has decreased continuously since the fifties and was only 4 % (= US \$ 2.6 billion) of total export earnings at the beginning of the eighties.

The volume of the interregional trade between LDC-regions has remained small and has reached no more than US \$ 70.8 billion. Even between the two most advanced regions, Latin America and South South-East Asia, it did not reach more than US \$ 6.3 billion in 1982 despite its having grown relatively rapidly in the seventies.

Between Africa and the other LDC-regions interregional trade was almost non-existent: US \$ 6.4 billion, or about 1/3 % of world trade (annual average 1981-83).

Table 8 shows the composition of export trade flows for individual LDC-regions. For Africa at the beginning of the eighties the share of manufactured goods in South-South trade was more than three times higher than in South-North trade and that of food items was twice as high. Food items and raw materials were the most important exports. Manufactured products were of importance only in export flows towards other LDC markets. However, the share of manufactured products in trade with LDCs has decreased tremendously between 1970 and 1982. More than ever Africa has become an exporter of raw materials and food items, not only to the DCs as was the case in 1970 but now also to other LDC regions.

**Table 8**  
**Export Flows from LDC-Regions – Structure by Commodity Groups 1970 and 1982**  
(Shares in %)

|                              | 1970 |               |                    | 1982 |               |                    |
|------------------------------|------|---------------|--------------------|------|---------------|--------------------|
|                              | Food | Raw Materials | Manufactured Goods | Food | Raw Materials | Manufactured Goods |
| <b>Africa</b>                |      |               |                    |      |               |                    |
| South-South                  | 29   | 43            | 29                 | 18   | 71            | 11                 |
| South-North                  | 29   | 66            | 5                  | 10   | 87            | 3                  |
| <b>Latin America</b>         |      |               |                    |      |               |                    |
| South-South                  | 20   | 59            | 21                 | 17   | 60            | 23                 |
| South-North                  | 43   | 50            | 7                  | 24   | 64            | 12                 |
| <b>West Asia</b>             |      |               |                    |      |               |                    |
| South-South                  | 9    | 81            | 10                 | 4    | 85            | 11                 |
| South-North                  | 4    | 94            | 2                  | 1    | 97            | 2                  |
| <b>South South-East Asia</b> |      |               |                    |      |               |                    |
| South-South                  | 23   | 36            | 41                 | 14   | 38            | 48                 |
| South-North                  | 20   | 36            | 44                 | 10   | 34            | 56                 |

Source: See Table 1.

In 1982, export flows from Latin America towards LDCs were characterized by a share of manufactured goods twice as high as in trade with the North, and a smaller proportion of food items. Manufactured goods have become more significant since the beginning of the seventies. However, in the exports towards other LDCs they increased their share of the total trade flows from Latin America much more slowly (from 21 % (1970) to only 23 % (1982)), while in the exports towards DCs their share increased from 7 % (1970) to 12 % (1982).

In West Asia fuel has dominated the export trade flows almost completely. In 1982, 95 % and 97 % of the trade with the LDCs and DCs respectively was the export of fuel and only 2 % fell to manufactured goods.

For South and South-East Asia the composition of the export flows was completely different from that of the other LDC-regions mentioned above. Here, manufactured goods determined export earnings: in 1970 they already contributed 44 % of the total export earnings of that region in trade with the LDCs, which was slightly more than the 41 % in the trade with the DCs. In 1982 these shares had increased even further to 48 % in the trade with the LDCs and even more rapidly to 56 % in the trade with the DCs.

All in all, however, despite the many good reasons why trade among themselves might be more beneficial to the LDCs than trade with the DCs, it has remained of small volume:

- Only about 3 % of world trade flows have consisted of South-South trade.
- The interregional trade between different LDC-regions has not reached 1 % of total world trade flows.

### Barriers to Trade

The barriers to the rapid growth of trade among developing countries are well known:

- Often transport and communication facilities are worse between different LDCs than between an LDC and a DC. Many LDCs have not connected their transport system or communications network to their (LDC-)neighbours for political reasons.
- Internationally operating transport companies from DCs can have negative implications on the trade among the LDCs because of their oligopolistic freight policies in favour of South-North trade flows.
- There is often a bias against trade among LDCs in financial networks and currency clearing arrangements: nearly every LDC has a separate currency. If Nigeria sells cereal to India for rupees, with which it buys machinery from Brazil, some kind of clearing agreement

becomes necessary. Otherwise LDC traders must do business in one or more DC currencies and are constrained by their relative scarcity.

Another important barrier is the lack of marketing channels in other LDCs. In many LDCs key institutions such as large retailers, specialized importers and wholesalers are absent. These missing marketing channels bias distribution costs against South-South trade because these institutions are much better developed in the case of South-North trade.

Many researchers have suggested that the principal constraint to more South-South trade might lie in the higher level of protection rather than in trade with the DCs. The relatively high similarity between the production patterns of LDCs leads to a similar capacity to produce and export the same goods. This results in a concentration in the protection of those goods which are very likely to be the most suitable for other LDCs to export. These biases against South-South trade have been especially strong in times of import-substitution policies (as was often the case in Latin America in the fifties and sixties). Here, protection has been biased against goods typically produced in other LDCs.

Finally, many LDCs tend to overvalue their exchange rates, which makes it difficult for their exporters to compete with exporters from DCs in the markets of other LDCs.

### Bias against Trade among LDCs

The fact that there are numerous barriers to trade among LDCs does not, however, necessarily mean that there are more barriers against South-South trade than against South-North trade. Our procedure for determining if there has been a bias in favour of or a bias against trade among the LDCs follows the well-known and frequently applied concept of (dis-)similarity in trade flows.

To put it simply, first the *expected* size of trade among LDCs given their *overall* import capacity is calculated. Then the *actual* trade flows among LDCs are compared with the expected flows. There is a bias in favour of (against) trade among LDCs if the actual trade flows are larger (smaller) than the expected flows.

In Table 9 the results of this procedure are presented for all NOPECs together and for every single LDC-area for the years 1970 and 1982. With our definition of the norm relative to which a bias can be measured the following results are obtained:

- For the NOPEC as a whole: the actual trade among NOPECs was higher (by 24 % in 1982) than expected.

Therefore there is a bias in favour of trade among NOPECs. This bias became larger in the seventies, increasing between 1970 and 1982 by about 10%. The bias in favour of trade among NOPECs has been especially large for agricultural raw materials (73%) and for raw materials (36%). It has become much larger between 1970 and 1982 for ores and metals but much smaller for fuels and manufactured goods. On the other hand, there has been a bias against trade among NOPECs for food items.

□ For Latin America, West Asia and South South-East Asia: The results are similar to the results for the NOPECs as a whole. However, the bias in favour of

trade from Latin America towards LDCs has been especially large for manufactured goods (105%), fuels (43%) and agricultural raw materials (37%), and has become larger between 1970 and 1982 for ores and metals but much smaller for manufactured goods, agricultural raw materials and fuels. The overall bias in favour of trade from West Asia towards LDCs was the highest of all LDC-areas and was especially large for fuels (because most of the LDCs imported their fuels from this area). The bias in favour of trade from South South-East Asia towards LDCs was large for every commodity group and especially large for agricultural raw materials (118%), but for manufactured goods it was the smallest for this area and decreased since 1970.

□ For Africa: The bias goes against trade with the LDCs. The actual trade between Africa and the LDC-markets is smaller than expected by almost 30% (1982). For fuels, food items, ores and metals the bias lies between 17% and 44% against trade with LDCs, but it has declined for all these commodities between 1970 and 1982. However, for manufactured goods and agricultural raw materials the African exports are biased in favour of LDC-markets by 53% and 11% respectively.

While we have shown why trade among LDCs might be more beneficial than trade with the DCs, we have also shown how many barriers work against a rapid increase of South-South trade. However, we have found that with the exception of Africa there has been no bias against trade among LDCs. Given their overall capacity, LDCs have imported more from other LDCs than from DCs.

Our procedure for analysing the trade flows among the LDCs has only enabled us to show how it was, but neither what might have been possible nor what would have been optimal.

In order to look more carefully at these neglected aspects of trade among LDCs, and focus on the potential and on further possibilities in trade among LDCs, we have first to concentrate on the questions of how the barriers against South-South trade can be eliminated and what effects this might have.

While very little can be done in the short run about many of the constraints on trade among LDCs, including transportation, finance and marketing, the dismantling of barriers created by trade policy seems to be a more viable option.

In a subsequent article we will show the expected and the actual effects of a preferential liberalization of trade among LDCs, and some reasons for their discrepancy.

**Table 9**  
**Dissimilarities in Trade Flows Among LDCs**  
**1970 and 1982**

(Figures are ratios between actual and expected trade flows)

| Region                       | 1970 | 1982 | Change |
|------------------------------|------|------|--------|
| <b>All NOPECs</b>            |      |      |        |
| Total                        | 1.14 | 1.24 | 0.10   |
| Food items                   | 0.90 | 0.98 | 0.08   |
| Agric. raw materials         | 1.63 | 1.73 | 0.10   |
| Ores and metals              | 0.70 | 1.20 | 0.50   |
| Fuels                        | 1.84 | 1.29 | -0.55  |
| Manufact. goods              | 1.68 | 1.36 | -0.32  |
| <b>Latin America</b>         |      |      |        |
| Total                        | 1.19 | 1.27 | 0.08   |
| Food items                   | 0.60 | 0.65 | 0.05   |
| Agric. raw materials         | 1.95 | 1.37 | -0.58  |
| Ores and metals              | 0.76 | 0.99 | 0.23   |
| Fuels                        | 2.16 | 1.43 | -0.73  |
| Manufact. goods              | 2.38 | 2.05 | -0.33  |
| <b>Africa</b>                |      |      |        |
| Total                        | .62  | 0.70 | 0.08   |
| Food items                   | 0.57 | 0.83 | 0.26   |
| Agric. raw materials         | 1.07 | 1.11 | 0.04   |
| Ores and metals              | 0.35 | 0.89 | 0.54   |
| Fuels                        | 0.47 | 0.56 | 0.09   |
| Manufact. goods              | 2.39 | 1.53 | -0.86  |
| <b>West Asia</b>             |      |      |        |
| Total                        | 1.14 | 1.59 | 0.45   |
| Food items                   | 1.21 | 1.10 | -0.01  |
| Agric. raw materials         | 0.89 | 0.59 | -0.30  |
| Ores and metals              | 1.24 | 0.75 | -0.49  |
| Fuels                        | 1.17 | 1.49 | 0.32   |
| Manufact. goods              | 1.04 | 1.17 | 0.13   |
| <b>South South-East Asia</b> |      |      |        |
| Total                        | 1.65 | 1.49 | -0.16  |
| Food items                   | 1.85 | 1.65 | -0.20  |
| Agric. raw materials         | 2.11 | 2.18 | 0.07   |
| Ores and metals              | 1.87 | 1.84 | -0.03  |
| Fuels                        | 2.55 | 1.76 | -0.79  |
| Manufact. goods              | 1.42 | 1.26 | -0.16  |

Source: See Table 1.