South-South Trade: A Study of Growth Patterns in Three Regions

Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of
MASTER OF PHILOSOPHY

PANKAJ KUMAR JHA

CENTRE FOR ECONOMIC STUDIES AND PLANNING
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110 067
INDIA
1992

CENTRE FOR ECONOMIC STUDIES & PLANNING
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY

New Campus
NEW DELHI 110 067

DECLARATION

21st July 1992

This is to certify that this dissertation entitled SOUTH-SOUTH TRADE : A STUDY OF GROWTH PATTERNS IN THREE REGIONS submitted by Pankaj Kumar Jha, in partial fulfilment of the requirements for the award of the degree of M.Phil. of this university, has not been previously submitted for any degree of this or any other university. This is his own work.

We recommend that this dissertation may be placed before the examiners for evaluation.

Jayati Ghosh

(Dr. JAYATI GHOSH)
Supervisor

Satish K. Jain

(Prof. SATISH K. JAIN)
Chairperson

Phones: 667676, 667557 Ext: 266/249/207 Cable: JAYENU Telex: 031-73167 JNU IN

ACKNOWLEDGEMENTS

This study was carried out under the earnest supervision of Dr. (Mrs.) Jayati Ghosh. I wish to express my deep sense of gratitude and indebtedness to her for her constant guidance, invaluable advice and unfailing interest at all stages of work.

I am also indebted to my friends **Alok, Awadhesh, Praveen, Sanjay and Saumya** for very stimulating discussions.

Finally, but not least important, I am deeply grateful to my parents and other family members for providing me the much needed encouragement. And I also thank **Mr. Manoj Chhabra** of **M/s Sam Compucare & Graphics** for typing this dissertation.

Pankaj Kumar Jha.
(PANKAJ KUMAR JHA)

CONTENTS

INTRODUCTION

One of the least explored areas in the field of international trade is that of South-South trade, i.e., the trade among developing countries. However, the fear about the historical "engine of growth" of trade with the North losing its steam has naturally made the developing countries look into the possibilities of harnessing the potentially powerful engine of South-South trade. The two important questions that arise in this regard, one on the theoretical plane and the other on the empirical, are, first, whether there is an economic rationale for the expansion of South-South trade and second, whether the expansion is actually taking place or not, and if it is taking place then what are the factors that have helped in the expansion.

Many developing countries have tried to realise the benefits of economic cooperation by forming regional groupings or blocs, such as Latin American Integration Association (LAIA), Association of South-East Asian Nations (ASEAN), Caribbean Free Trade Association (CARIFTA), Central American Common Market (CACM), and South Asian Association for Regional Cooperation (SAARC).

One common point of emphasis in the strategies of all these associations is the trade among the member countries. This, thus, helps in dividing South-South trade into two parts. First, South-South trade in the form of intra-bloc trade. And second, South-South trade as trade between the member countries on the one hand and all the non-member developing countries on the other. Thus these regional blocs of developing countries for economic cooperation help in providing the important starting point for the empirical analysis of South-South trade at a disaggregated level.

The increasing importance of South-South trade has obviously altered the structure of international trade of the developing countries. However, all the aspects regarding this structural transformation can not be grasped fully unless we look into the changing patterns of trade within the North-South trade. Moreover, it is increasingly being discussed by the economists as well as in the international forums such as UNCTAD and GATT etc., that the international trade of developing countries is mainly taking place through the regional blocs which in turn are being led by either the USA or Japan or the EEC, the so called "triad".

However, before going into the details of empirical analysis, let us first of all discuss the economic rationale of South-South trade as well as the problems and constraints associated with it.

I

ECONOMIC RATIONALE

It is important to note at the outset that an oversimplified neo-classical model such as the Heckscher-Ohlin model, abstracts from many important aspects of trading reality. Particularly noteworthy are its neglect of such trade determinants as technology, scale, product differentiation, demand differences, and last but not least, the activities of transnational corporations.

The conclusions of researchers (Amsden, 1976, 1980; Hughes 1980; Lall, 1984; and Stewart, 1983 among others) who have tried to add a dynamic dimension to the discussion of South-South trade by including the above factors have not only lent much more realism to the analysis but in doing so have also shown that it is South-South trade where the dynamic elements in comparative advantage are to show up most strongly.

One of the main reasons why most south countries are anxious to protect their economies against more advanced countries can be found in the "cumulative causation" theory of Gunnar Myrdal which says that any initial competitive edge results in further increases in efficiency leading to a cumulative greater advantage. This makes an economy's current efficiency a product of its own past history. If the economies start from a position of inequality, then cumulative causation may work to prevent the less developed countries from developing. The dangers - for the less developed - of cumulative causation working to their disadvantage are greater, the more unequal the initial position.

Though there are considerable differences in the achieved level of economic development among the developing countries, they start much more nearly equal among themselves than countries of the South compared with those of the North. In other words, the intra-South inequality is much less than the North-South inequality. In so far this is true, it is argued, it provides a basis for the liberalization of South-South trade as this will allow the less developed countries to develop and reap the benefits of economies of scale, etc.

In so far as there is inequality within the South it can be said that the gains from more South-South trade might not only be unfairly distributed initially, but the dynamic gains might also be cumulatively unfairly distributed. Therefore, any system for promoting South-South trade needs to incorporate some means through which the losing areas can protect themselves against the gaining areas, and of securing a fair distribution of gains. For example Article 32 of the Montevideo Treaty of Latin American Free Trade Association (LAFTA) provided preferential treatment for the relatively less-developed members (Ecuador and Paraguay) giving them transitory advantages not applicable to other members and allowing them to follow a less taxing liberalization programme. Special financial arrangements can also be made to offset some of the adverse effects of trade-liberalization among the developing countries on the least developed ones.

In any case as Kolisevski argues that "in the present conditions, when the increased efficiency of domestic resources can be achieved not through import substitution but only with intensifying export efforts, while experiencing continuous tendency of strengthening protectionist measures on part of developed economies, the development of economic cooperation among developing countries is of particular importance. This is why we find collective self-reliance (among developing countries) a strategy of establishment of socially controlled open system of international economic relations, not rigid in its structure but adjusting according to conditions and achieved level of development of one's own economy as well as to the economies of partner countries, specifically to economies of other developing countries. In this sense the concept of collective self-reliance (among developing countries) denies possibility of any kind of domination as well as any kind of exploitation from foreign partners, but does not imply closing away from outside influences, or leads to autarchy" (Kolisevski, 1987, p. 38).

The virtual absence of innovation among the South countries has two implications for them. First, they pay a form of Schumpeterian profits to the innovators of North. And second, they have to accept the direction of technological change emanating from the North.

The South first imports the products of technological innovations from the North as in the initial phase of a new product prices are high enough for the entrepreneur to reap abnormal profits and to pay high wages prevalent in the developed countries. However, in the later stages when more producers enter the market the prices tend to fall. As the fallen prices are only sufficient to cover low less developed country wages but not the higher wages in the developed countries, the production is eventually transferred to these low wages countries and they might even re-export the product back to the North. However, while the South begins to export the product whose price has fallen, new products are developed in the North, which they sell to the South for prices high enough to cover their wages and to earn some Schumpeterian profits. Hence, an intrinsic aspect of the product cycle process is that the technology initiating high wage economy enjoys high prices for its products relative to the technology receiving low wage economy.

The second implication, as was mentioned, of the asymmetry in innovation is that the South has to accept the direction of technological change originating from the North. This tends to be inappropriate in both process and product dimensions, with the techniques being increasingly more capital intensive and the products embodying more high-income characteristics.

Thus, if South countries want to benefit from such a product cycle and avoid the adverse consequences at the same time, they would need to become innovators themselves. As the consumption patterns among the South countries are much more similar to each other than to those of the North, the goods developed for one country in the South should be obviously more appropriate, both for production and consumption, to other countries in the South than the North product they actually import (very broadly, appropriate techniques are techniques in line with resource availability and productive environment, while appropriate products are products whose characteristics correspond to the needs and incomes of the majority of consumers).

However, the point is that the South innovators need to be provided with a market. And this can be done only through a co-ordinated policy which encourages South-South trade. This follows from the fact that the developing countries individually are too small to be successful innovators across-the-board. But it is precisely the across-the-board innovation that is required to develop a system of appropriate products and techniques, to prevent the continued domination of North products, with their continuing changes in increasingly inappropriate direction. Such a policy might, therefore, in the end prove to be self-justifying. However, so long as innovation in the South remains potential rather than actual, then such trade of appropriate products will also remain potential and the north will continue its dominance.

The demand for differentiated products exists in the countries of the South also. The existence of economies of scale in the production of differentiated products means that each nation produces only a limited variety of the infinite possible combinations of product characteristics. Though the international trade in these products permits Southern consumers a wide range of choice of products produced in the North, all these products tend to have high income characteristics since it is among high income consumers that the main market lies. As Stewart (1983) rightly points out, one major difference for this type of trade in differentiated products, for North-South trade, as compared with the North-North for which the models have been primarily developed, lies in the different preferences of South consumers arising from different (lower) levels of income so that the combination of characteristics preferred in the North and embodied in most Northern products may differ from the preferred combination of the majority of South consumers.

Here comes the role of the South-South trade. If a developing country tries to produce all differentiated products by itself, it tends to do so on a small scale and hence fails to realise potential economies of scale. However, if different countries within the South produce differentiated products, with one country specializing in one type and the others in others, and then trade among themselves, it will not only help in the exploitation of economies of scale and in satisfying the consumers' preference for variety, but it will also be more aligned to the income level of developing countries.

This difference in preferences is not confined to consumer goods, but also applies to producer goods, where differences in conditions of production, notably in factor availability and scale of market, make for demand for different producer goods . Historical experience shows that growth has depended vitally on the local development of a capital goods sector which acts as a generator and transmitter of the technological change (Rosenberg, 1976). The growth of capital goods production in the South, with its need for specialization and scale, may be best promoted by increasing South-South trade. The growth of technology and capital goods exports by the industrially more advanced developing countries such as India, Singapore, Korea, Brazil, etc. shows that they have been able to master and adapt technologies to their needs. They have been successful in exporting capital goods to other developing countries because the goods appear to be both competitively priced as well as technologically appropriate. Since the production of capital equipment in many semi-industrialized countries is believed to be skill-rather than capital-intensive, the basis of comparative advantage in technological exports by semi-industrialized countries is provided by the low cost of skilled workers and the suitability of such technology for LDC buyers. The existence of local capital goods design capability increases the generation and dissemination of "South technology", and hence enhances the potential for self sustained growth (Amsden, 1980; Lall, 1985).

Any realistic assessment of the North-South and the South-South trade flows, Amsden argues, would require a sensitivity to future supply-price effects. Besides primary goods exports to the North are largely concentrated in clothing and electronics, while exports to the South involve a wide range of commodities which individually account for only a small share of any market. Under these conditions, and especially if restrictions on imports imposed in the North are not relaxed, it can be assumed that a deterioration in terms of trade will result if the South tries to increase its exports to the North while the "small country" terms of trade assumption will be valid for the South-South trade (Amsden, 1980). Thus, we can say that strengthening South-South trade will permit greater diversification and stability in export earning to the countries involved.

The increasing industrialization of developing countries will create increasing scope for trade in primary products within the South. Many of the fastest growing developing countries such as Singapore, have to rely heavily on imports of a wide range of raw materials and minerals, mainly from other developing countries. in turn they supply them with manufactured products and technologies. This growing interdependence is of obvious mutual benefit and can be further expanded to promote the industrialization of the primary goods exporting countries (on the basis of further processing of their natural resources). It can also strengthen the global terms of trade for primary product exports by creating additional sources of demand (Lall, 1985).

Thus we find that there is an excellent basis, especially when viewed in a dynamic context, for the South-South trade. However, there are also problems and constraints associated with South-South trade to which we move now.

II

LIMITATIONS/CONSTRAINTS/DIFFICULTIES

The fuller development of South-South trade has been constrained by a number of historical, infrastructural, commercial and informational factors. Historical factors have biased the whole pattern of trading routes and links towards North-South trade. The deficiencies in transport and communication, banking, insurance, and marketing infrastructure have accentuated this bias. Commercial policies in the developing world, seeking to promote industrialization across a broad spectrum behind protective barriers, have prevented the growth of efficient specialization in similar industries being set up in the various countries. The financing of trade has always heavily favoured suppliers in the North. Information gaps on the exporting and importing sides reduce the extent of South-South trade. Finally, the third world suppliers' lack of established brand names presents a serious obstacle to their entry into the developing countries markets (Stewart, 1976, Lall, 1985).

Now a few things in detail. Critics of the South-South trade argue that because of the technological dominance of the north and its ability to exploit economies of scale any move by the developing countries to change over to South-

South trade from North-South trade may involve a switch to less efficient products and processes. However, any resulting cost is likely to be short run, because as has been argued above, the switch to South-South trade should enable the developing countries to develop efficient and more appropriate products and processes. In any case, for many countries there may be short run gains to offset the short run losses, in the form of market outlets for their products in other developing countries.

Another problem is posed by the different stages of development of developing countries. Just as in the case of North-South trade, it is argued, if the backward areas have no way of protecting themselves against the faster developing areas, it is likely that development will tend to polarise in the case of South-South trade. However, as we saw in greater detail while discussing effects of "cumulating causation", South-South trade can cater to the needs of developing countries in a manner which would be far more acceptable to and consistent with the needs of the politico-economic systems of the newly emerging nations than the exploitative postures of the multinational enterprises of the developed countries (Modwel, 1987). In any case, any system for promoting South-South trade must provide a more preferable treatment for the least developed countries on a non-reciprocal basis.

Historical trading conditions have been responsible for the growth of North-South transport, communication and marketing arrangements that do not exist on a South-South basis. However, if the absence of routes is taken as an argument against developing trading ties, then the status quo trading situation will always be seen to be justified (Setwart, 1976).

Such has been the dominance of the North-South connection over South countries that it is really very difficult for the developing countries to break out. For example, in many countries marketing and production franchise have been given to firms from the advanced countries. Technology purchase agreements include clauses restricting exports to third countries and tying imports to the developed countries. Export credits are available for imports from the North. Tied aid requires purchases from the North. Moreover, links with advanced country firms have created powerful vested interests in the South among politicians, civil servants, businessmen, and the army, which are likely to resist any change in direction. Apart from the specific vested interests, the pattern of development arising from trade, capital and technology flows with the advanced countries has been responsible for an oligopolistic market structure and an inegalitarian income distribution which together reinforces North-South ties.

Thus to establish a market for advanced country products it was helpful to establish an unequal income-distribution; such an income distribution in any case tended to emerge from the type of technology adopted. Any major change in the pattern of development towards more appropriate products would require a major change in domestic income distribution, which will naturally be resisted. The existing market structure and income distribution generate demands for the latest products and technology from the North, all of which makes an appropriate, local technology difficult to establish. Thus, even in those countries which have technological resources and which have developed some viable technologies, foreign technology continues to be imported. This happens in the following way. Even if one country reorients exports and imports towards other Third World countries but the other South countries continue to use the latest technology and produce the latest products, this orientation would change neither the nature of the imported products nor that of imported technology. Similarly, if the other countries continue to import freely from the North, then the country which had readjusted trade will have to compete with goods from the North, in a consumer market that generates demand primarily for the latest North-type products. Hence to be successful, the country will have to import north technology, and will not be able to use appropriate technology or sell appropriate products. What is therefore required is that the policy needs to be adhered to quite widely and rigorously for the major gains to be realized (Stewart, 1976, pp. 101-102).

Intra-industry trade is the most dynamic aspect of international trade. However, South-South trade of this type has been limited by both institutional deficiencies and trade barriers - both tariff and non-tariff (Greenaway, D., et. al. 1986, Stewart 1984). Specialization and trade within an industry across national frontiers is difficult to organize without institutions which operate easily across nations. However, South-based multinationals as well as trading agencies can be of immense help in providing the much needed institutional base for this type of trade on a South-South basis.

An important drawback of the South-South trade, it is argued, is that South-South trade has "greater physical and human capital intensity" than the South's exports to the North. In other words, South-South adversely affects employment generating capacity of the South countries. Alice Amsden (1980), however, found that differences in capital intensity of exports from 10 selected developing countries (Argentina, Brazil, Colombia, Mexico, Hongkong, Singapore, Republic of Korea, Thailand, India and Pakistan - all belonging to either of the three regional blocs that we have studied) to the advanced capitalist countries, and other developing countries were not statistically significant. It has been argued by Amsden that exports of standardized products to the North may lend themselves to simple assembly line production techniques which are quite capital intensive, although still requiring significant labour inputs. There is also the fact that foreign firms are located in developing countries to produce not only the entirety of a labour intensive commodity but also a labour intensive component of a relatively capital intensive product. Another point that has been put forward by Amsden is that non-tariff barriers erected by developed countries against the labour intensive exports of developing ones may serve to divert such exports to Third World markets. Thus, relatively labour intensive, rather than high cost import substitution industries may find an export outlet in other developing countries.

However, the empirical studies done by Anne Krueger (1978), Diaz-Alejandro, Havrylyshyn and Wolf (1983) support the theoretical prediction of the Heckscher-Ohlin model according to which countries which are accumulating physical and human capital will tend to move up the ladder of comparative advantage, and so will export more capital intensive goods to countries less well endowed with these factors.

Thus, we find that the empirical findings are far from clear. In any case, it has been some what positively argued by Sanjay Lall (1985) that to jump from this theoretically predicted finding to the conclusion that South-South trade is undesirable is unwarranted. In the mould of Chenery, he argues that a healthy pattern of industrial development must incorporate capital intensive industries as the industrial structure grows, and it is over all growth which will solve unemployment problems, not an 'enforced and exaggerated' reliance on labour intensive activities.

The discussion suggests that if viewed in a dynamic context, promotion of South-South trade would assist both exporting and importing countries, as well as strengthen the position of the South as a whole. However, to do so effectively would require :

(a) improved South-trading infrastructure, including transport, payment systems, financial services and information network;

(b) organizational ties which would make it easier to exploit the economies of specialization in intra-industry trade;

(c) the creation of an effective innovatory capacity for the development of more efficient products and techniques suitable to South conditions and preferences; and last but not least

(d) liberalization of trade restrictions - both tariff and non-tariff - within the South. However, it should always be kept in mind that there can be dangers in "over-promoting" South-South trade, if it detracts from the capability to compete in the North or if it involves a costly process of protecting inefficient activities in the South.

III

PURPOSE, SCOPE AND METHODOLOGY

It is increasingly being believed that, of late, internatioal trade of developing nations is taking place through regional trade blocs or integration groupings led by the economic superpowers such as the USA, Japan and the EEC. It is also being investigated whether this type of trade-pattern facilitates market acccess for some countries, while making access more difficult for others. For example, UNCTAD 1989 Trade and Development Report examined "tripolar trade blocs", while the 1990 GATT trade report dealt with trade blocs and trade centres. Japan is supposed to be playing the role of "economic locomotive", in the case of East and Southeast Asian nations, just as the USA and the EEC are supposed to be doing it for Latin American and South Asian countries respectively. Geographical proximity, historical and traditional ties, foreign direct investment etc. are supposedly some of the most important determinants of this type of trading pattern.

Another general belief regarding the international trade of developing countries is that the trade among developing nations (i.e. South-South trade) cannot expand unless a conscious effort is made in this direction because, as we saw in greater detail in the previous section, there are a number of historical, infrastructural, commercial and informational constraints which prohibit the proper development of the South-South trade. For example, the desire of developing countries to industrialize across a broad spectrum has resulted in commercial policies being followed which favour the erection of protective barriers, both tariff and non-tariff. As a consequence, developing countries have established similar industries, thereby effectively reducing complementarity which could have played an important role in South-South trade. Liberalization of trade restrictions within the South, with privileged treatment for the least developed countries, it is thought, will help in the establishment of efficient industries according to comparative advantage. This will reduce the duplicity of industries among developing countries and thereby will increase complementarity amongst them.

Even at the cost of repetition, as it serves our purpose of show that why it is generally believed that a conscious effort is needed for South-South trade to expand at a reasonable pace, it is important to note that the historical trading conditions have been responsible for the growth of North-South transport, communication and marketing arrangements that do not exist on a South-South basis. Technology purchase agreements, it is pointed out, include clauses restricting exports to third countries and tying imports to the advanced countries. Then the financing of trade discriminates heavily against suppliers in the Third World as exports credits are mainly available for imports from the North. Again, tied aid also requires purchases from the North, and so on. Therefore, what is needed is an improvement in South-trading infrastructure, including transport, payment systems and financial services.

Information gaps on the exporting and importing sides also reduce the extent of South-South trade. Exporters lack knowledge of market opportunities and selling networks and importers lack knowledge of alternative suppliers in developing countries. Thus, it is agrued that the development of information network would also go a long way in promoting South-South trade.

It is precisely because of the desires of developing nations to remove these barriers to South-South trade that many regional blocs for economic cooperation have been formed. Preferential trading arrangements, industrial complementation schemes, clearing union and swap arrangements, etc. within a bloc, all tend to support this view. Therefore, on the basis of this we can consider the intra-bloc trade as the conscious effort of the developing countries to increase South-South trade.

Therefore, in order to capture the different aspects of the international trade of the developing countries the empirical analysis has been done on several levels. To begin with a synoptic view of the oveall South-South trade at disaggregated level bloc-wise analysis has been done. Broadly speaking,attention has been given to the following :

i) Intra-bloc trade versus trade between member and non-member countries (called "rest of the developing countries" throughtout the following analysis);

ii) bloc's trade with the non-member developing countries versus bloc's trade with the rest of the world (excluding all developing countries);

iii) bloc's trade with the USA, Japan and the EEC.

The three regional blocs that we have chosen to study are the Association of Southeast Asian Nations (ASEAN), Latin American Integration Association (LAIA) and South Asian Association for Regional Cooperation (SAARC). ASEAN was selected because it is the fastest growing region in the developing world. Not only that they have also been able to promote South-South trade at a rate faster than any other region.

One of the reasons for the selection of LAIA (previously Latin American Free Trade Association, LAFTA) was that it is one of the oldest organisation of the developing countries. Althogh most of the LAIA nations belong to the 'middle-income' category, the rates of growth of most of the economies in this region have considerably slowed down after the onset of debt crisis in 1982. And as such it provides an important variation. SAARC was chosen because it provides a contrasting picture in so far as all its member belong to the 'low income' category besides it being of recent origin as well. India being one of the members of SAARC was an added attraction. Besides the selection of these three also facilitated the study of the aforementioned leadership pattern in so far as Japan had the largest share in ASEAN's, USA in LAIA's and EEC in SAARC's trade at the beginning of our period.

Our period of analysis is 1973 to 1988. The period includes both the oil shocks of 1970s, besides fall in both oil and non-oil primary commodities prices in the 80s, the debt-crisis in developed countries growth rates and the resultant growing tendency toward protectionism in the developed world. However, we could not extend the period of analysis until 1990 because of the changes made in the estimation procedures in our source book, namely Direction of Trade Statistics (DOTS) Year book (published by IMF), after 1989. And as the 1989 yearbook gives data only uptill 1988, we had to restrict our period to this year only.

Some ncessary adjustments have been made in the cases of non-reporting of data for some trading partners. For example,if country B has not reported data from its own records but country A has, A's data for improts from B have been taken as an estimate of B's exports to A and A's data for exports to B have been taken as an estimate of B's imports from A. To allow for costs of freight and insurance, the figures derived in this manner have been adjusted by a uniformly applied percentage for such costs, assumed to be 10 per cent of the f.o.b. value of imports. Country A's exports to B have been thus multiplied by a factor of 1.1 when shown as imports of B from A, and country A's import from B have been divided by the same factor when shown as exports from B to A.

It is also important to note that the DOTS yearbooks include Hungary, Poland, Romania and Vietnam in the category of developing countries although they were members of CMEA. However, the inclusion of these countries do not affect the quality of our analysis as for all practical purposes they are in similar stage of development as any other developing countries.

An attempt has been made to include the latest-revised figures for every year. For example, if 1985, 1986 and 1987 yearbooks all provide data for 1980, we have taken the data mentioned in the 1987 yearbook. While doing analysis of shares of different trading partners three year averages have been taken. This has been done in order to remove the effects of abnormal years.

So far the calculation of rates of growth are concerned we have taken the following log-lin model for this purpose

$$\ln Y_t = \alpha_1 + \alpha_2 T_t + u_t$$

where Y can be either exports, imports or total trade and T is time. Rates of growth were calculated by taking the antilog of α_2, then subtracting 1 from it and finally multiplying the difference by 100. This method takes all observations in a period into account. Therefore, the resulting growth rates reflect trends that are not unduly influenced by exceptional values.

IV

OVERALL SOUTH-SOUTH TRADE

After examining the economic basis for and problems associated with the expansion of South-South trade, let us move over to the empirical analysis of the overall South-South trade. In order to see the increasing importance of South-South trade we have taken data for all developing countries (including OPEC countries) as well as separately for the non-oil exporting developing countries. The period of our analysis is 1973 to 1988.

At the beginning of the period industrial countries accounted for the lion's share of the total foreign trade of the developing countries. Taking the average share between 1973 to 1975, the industrial countries accounted for 67.91 per cent of the total trade of the South countries (Table 1). Though the developed countries were still the dominant partner at the end of the period, their share had fallen to little more than 62 per cent during 1986-88. And as one would expect this fall in the share of the developed countries was accounted for by the rise in the South-South trade from 24.36 per cent during 1973-75 to 30.03 per cent during 1986-88, a rise of about 6 per cent.

The pattern remains similar when we consider the non-oil exporting developing countries only. In fact the performance of the non-oil developing countries, so far the

South-South trade is concerned, was even more spectacular. In contrast to all developing countries (including OPEC) taken together which achieved a rate of growth of 12.13 per cent of South-South trade, the non-oil developing countries achieved a rate of growth of 15.06 per cent for the same (Table - 3). As against the performance of the South-South trade in the case of non-oil developing countries, the trade with the industrial countries could grow at only 11.17 per cent (Table -3).

One of the most important factors for the declining share of the North-South trade can be found in the increasing tendency towards protectionism in the developed world. According to the UNCATD, the number of export restraints grew from about 50 in 1978 to 263 in 1989. These protective policies were introduced mainly by developed countries and applied mainly against developing countries.

Besides the increasing trend towards protectionism, the other factor that seems to have affected North-South trade is the slower rate of growth of real output in the developed world. The IMF estimates show that for the industrial countries the growth rate of real output was 2.7 per cent during 1980s against 3.3 per cent during 1970s and for developing countries the respective growth rates were 3.2 per cent and 5.6 per cent. Thus we see that in both the decades the developing countries were growing faster than the developed ones and as the growth of output is an important determinant of international trade, the developing countries trade was geared more towards themselves than in the direction of the developed countries.

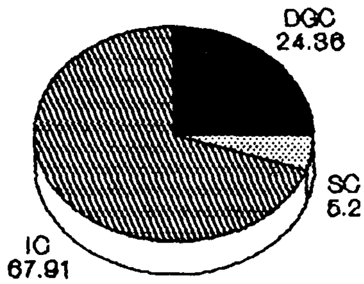
Another factor that seems to have facilitated South-South trade is the growing importance of manufactures in the exports of some of the more developed developing countries. It seems to have increased the complementarity among the developing countries.

Some of the developing countries, especially the newly industrializing countries (NICs), have also started to invest in other South countries. And in so far as these investments are trade-generating this has resulted in increased South-South trade.

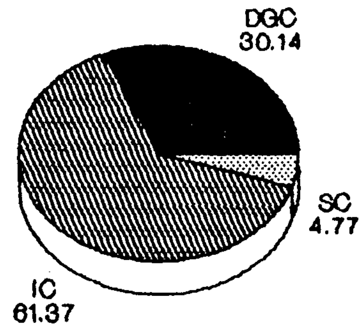
However, the high growth rate of South-South trade over the whole period conceals one very important point. As we can see from the Table 1, the share of South-South trade has stagnated after 1980-82. This stagnation can be explained in terms of the fall in oil-prices during the 80s and the debt crisis after 1982. Even the prices of non-oil primary commodities declined at an annual rate of 0.5 per cent during 1980s against an annual increase of over 11 per cent during the seventies. However, an actual fall in the share of the developing countries was averted by the strong performance of the intra-non-oil exporting developing countries trade as is clear from the fact that it continued to grow even after 1980-82 (Table -2).

The above brief analysis of the South-South trade during 1973-88 shows that even though the growth of the South-South trade has slowed down after the early 80s, it has gained a momentum of its own as is clear from the performance of non-oil developing countries. In view of the continuing recession and protectionist environment in the developed world, it becomes even more important for the developing countries, if they want to sustain a high growth rate, to encourage South-South trade. In so far as they have tried to do so by forming various regional blocs, it is important to analyse the performance of these blocs in terms of South-South trade.

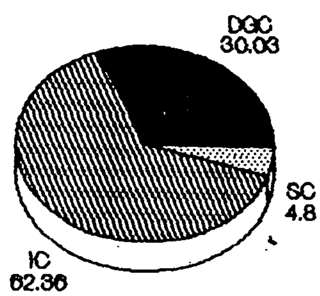
SHARES IN DEVELOPING NATIONS' TRADE



1973\75



1980\82



1986\88

DGC :DEVELOPING COUNTRIES
IC :INDUSTRIAL COUNTRIES
SC :SOCIALIST COUNTRIES

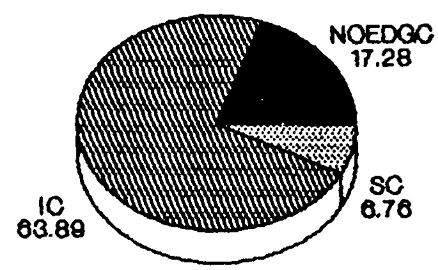
TABLE 1

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN DEVELOPING COUNTRIES TRADE
(IN PERCENT)

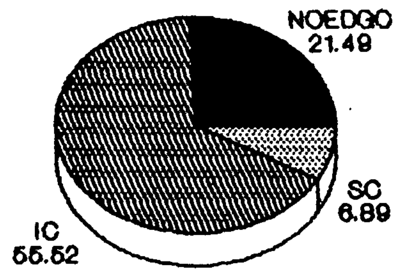
	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
DEVELOPING COUNTRIES	23.70	25.15	24.36	30.08	30.26	30.14	30.18	29.88	30.03
INDUSTRIAL COUNTRIES	68.60	67.07	67.91	61.26	61.42	61.37	61.45	63.24	62.36
SOCIALIST COUNTRIES	4.60	5.86	5.20	4.62	4.94	4.77	4.83	4.78	4.80

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS,IMF.

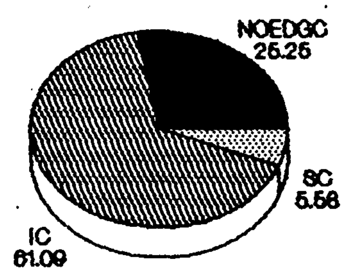
SHARES IN NON-OIL EXPORTING COUNTRIES' TOTAL TRADE



1973\75



1980\82



1986\88

NOEDGC:NON OIL EXPORTING DEVELOPING COUNTRIES; IC:INDUSTRIAL COUNTRIES SC:SOCIALIST COUNTRIES.

TABLE 2

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN NON-OIL EXPORTING DEVELOPING COUNTRIES
(IN PERCENT

	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
NON-OIL DEVELOPING COUNTRIES	20.59	14.85	17.28	25.18	18.57	21.49	26.29	24.27	25.25
INDUSTRIAL COUNTRIES	62.94	64.60	63.89	54.82	56.07	55.52	60.33	61.80	61.09
SOCIALIST COUNTRIES	7.67	6.10	6.76	7.98	6.03	6.89	5.81	5.37	5.58

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS, IMF.

TABLE 3

DEVELOPING COUNTRIES' RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO, FROM AND WITH THE BLOCS MENTIONED IN THE STUB DURING 1973-88 (IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
DEVELOPING COUNTRIES	12.03	12.23	12.13
INDUSTRIAL COUNTRIES	8.54	9.63	9.06
SOCIALIST COUNTRIES	10.25	8.88	9.54

SOURCES: COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS, IMF

TABLE 4

NON-OIL EXPORTING DEVELOPING COUNTRIES' RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO, FROM AND WITH THE BLOCS MENTIONED IN THE STUB DURING 1973-88 (IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
NON-OIL EXPORTING DEVELOPING COUNTRIES	15.06	15.06	15.06
INDUSTRIAL COUNTRIES	12.30	10.24	11.17
SOCIALIST COUNTRIES	10.41	9.80	10.10

SOURCES: COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS, IMF

CHAPTER I

ASEAN

In order to see the changing patterns of ASEAN trade during the period 1973-88, let us first of all see what was the situation in the beginning of the period. Taking the average share between 1973-75, Japan with 27.8% was the largest trading partner for ASEAN. Japan was followed by the USA with a share of 17.23 per cent. Rest of the developing countries and the EEC occupied the third and the fourth portion with shares of 16.17 and 15 per cent respectively (Table 1).

However, in its trade with ASEAN Japan could achieve a rate of growth of only 10 per cent which was lower than the overall rate of growth of ASEAN's trade at 11.91 per cent. As a result its share in ASEAN's total trade fell from 27.8 per cent between 1973-75 to 21.58 per cent between 1986-88. Even the EEC could not keep pace with ASEAN's overall trade growth. Its rate of growth at 10.75 per cent, though faster than that achieved by Japan was not good enough to even maintain its share in ASEAN's total trade and it fell to 14.18 per cent between 1986-88 (Table 1 and 2).

In contrast to Japan and the EEC, USA was able to increase its share in ASEAN's trade from 17.23 per cent between 1973-75 to 18.54 per cent between 1986-88 by achieving a rate of growth of 12.38 per cent p.a. in its trade with ASEAN. However, it was the rest of the developing countries which replaced the declining share of Japan in ASEAN's trade by achieving a rather fast rate of growth of 14.55per cent and in doing so it also broke the monopoly of Japan at the top by having an equal share of 21.63 per cent at the end of the period (Table 1 and 2).

Moreover, when we include the two East Asian newly industrializing countries (NICs), namely, Hongkong and South Korea to have a broader framework, the pattern remains the same. In this case Japan's share declined from 26.37 per cent to 19.8 per cent, EECs from 14.71 to 13.4 per cent whereas the USA was able to increase its share from 19.58 per cent to 21.51 per cent and as in the previous case the rest of the developing countries registered the highest increase from 15.47 per cent to 23.11 per cent (Table 3). Thus, if anything the rate of growth of the rest of the developing countries in East and South-east Asia's trade becomes even more spectacular (Table 4).

Thus we see that in both the cases (ASEAN with or without Hongkong and Korea), trade was increasingly being directed towards the developing countries. Indeed by the end of the period the rest of the developing countries had become more important than either the USA or Japan.

The openness of the ASEAN countries makes them vulnerable to external conditions and therefore, for them the international trading environment is a crucial aspect of any development strategy. Commercial policies of advanced industrial countries have substantial effect on the ability of less developed nations to expand exports. Therefore, the general trend toward protectionism in more developed countries has restricted their demand for the goods produced in ASEAN countries, and has served to divert such exports to the rest of the developing countries. It is important to mention here that even more dangerous for ASEAN countries than direct legislation in the industrial countries against imports from ASEAN could be the indirect consequences of trade friction between industrial nations. The handling of the US-Japan trade conflict has serious implication for ASEAN (Seiji Naya,1987). It is feared that if Japan fails to open its market substantially, US would impose wide-ranging restrictions. This kind of protectionist approach to settling trade imbalances between the US and Japan would not only restrict ASEAN's export to the US, but its exports to Japan would also probably decrease as the pressure on Japan to open its market disappears. Thus, we see that the actual and the potential tendencies toward protectionism in the developed nations have made the South-South trade really very important for the ASEAN countries in maintaining their high rates of growth.

It is not only the increasing trend toward protectionism in the more developed countries that has restricted the market for ASEAN's exports, it is also that the more developed countries are not growing as rapidly. By contrast, the growth performance of the developing nations was much better which meant an expansion of the market for ASEAN and the East Asian nations. Growth plus a very skewed distribution of income, which is the general norm in a developing nation, makes the demand for imported goods even faster than if the growth factor alone in considered.

A very high rate of growth of East and Southeast Asian nations itself meant a very important market for the rest of the developing countries. Besides this, the two oil shocks (both of which occurred during the period under consideration) left their impact on ASEAN countries imports. Though because of the slackening of oil prices during the 80s, the rates of growth of imports of ASEAN countries from Saudi Arabia over the whole period 1973-88 are not much (except in the case of Indonesia for which it was 42.34 per cent, p.a), in view of the fact that three out of the six ASEAN countries viz., Brunei, Indonesia and Malaysia are substantial producers of oil, the very presence of Saudi Arabia in ASEAN's top ten trading partners (in its imports) is the proof of high demand for petroleum in these countries (Table 5). Increased industrialization and rapid growth of demand for automobiles seems to have sustainted the high demand for petroleum.

Complementarity is one of the most important factors that determines trade between two countries. In this context the countries of ASEAN are complementary to other developing countries in natural resources. For example, India, an important trading parnter for ASEAN countries (Table 6), is rich in resources like iron ore and coal whereas Malaysia is bountiful in rubber, tin and palm oil.

Increasing industrialization in these countries has also resulted in further complementarity among the East and South-east Asian nations, and between them on the one hand and the rest of the developing countries on the other. The share of the industrial sector in the GDP has increased in all these East and South-east Asian nations and in turn the share of manufactures has also increased in their exports. They have started exporting iron and steel, transport equipment, electrical and electronic equipments, telecommunications equipments etc. to the rest of the developing countries, which clearly shows maturity in their industrial production. It also reflects their competitiveness in these sectors because otherwise it would not have been possible for them to divert the rest of the developing countries' import demand for these goods from the traditional North-South trade.

The high rate of growth of trade between ASEAN and the rest of the developing countries can, in so far as they are trade augmenting, also be explained by the increasing investment in ASEAN countries by other developing countries like India, Hongkong, Taiwan etc. For example, as of July 31,1986 out of the total of 156 Indian Joint Ventures in production around the globe, 42 per cent were located in ASEAN. In terms of equity participation, nearly 55 percent of the total equity of all Indian Joint Ventures was held in Industrial ventures in ASEAN. Indian ventures in ASEAN countries have covered a vast range of production involving low level of technolgy to high tech. ventures (Wadhwa, 1987). This kind of investment helps in exporting machinery, raw materials, spares and components from the home country and are thus trade augmenting.

It is not only that the other developing countries are investing in ASEAN, even the ASEAN countries are investing in rest of the developing countries. For example, in Bangladesh alone three of the ASEAN countries, namely Singapore, Thailand and Malaysia had direct foreign investment in such diversified fields as ready -made garments, mechanical engineering and electrical engineering industries etc. These direct foreign investments in and from ASEAN countries have certainly helped in furthering complementarity between ASEAN and the rest of the developing countries.

Analysis of the strategies of Japanese Transnational Corporations (Direct Foreign Investment) in ASEAN also provides certain explanation for the changing patterns of ASEAN trade. There has been a steady growth of foreign direct investment in the ASEAN region both by the US and Japan, and though the growth of US investment has been noteworthy, the growth of Japanese investment has been sepctacular (Palmer, et.al., 1987). And as a result there has been a clear decline in the relative position of the US as the largest investor in five East and South-east Asian host economies (Hongkong, Taiwan, Thailand, Singapore and Korea). In nearly all cases, the loss in share was in favour of Japan, which either increased its share to hold a comparable to that of the US, or replaced the latter altogether as the single dominant home country (World Investment Report, 1991).

It is important to analyse the strategies of Japanese transnational corporation in the East and South-east Asian nations not only because of its rapid growth as mentioned above but also because they are mainly geared for export-markets. The high export ratio of the affiliates in this region points to the more mature phase of Japanese investments here. One of the components of the original strategy of the transnational corporations has been to export to third country which goes beyond the traditional pattern linking home and host countries.

Transnational corporations are attracted to ASEAN countries not only by low cost base for their affiliates, but they are increasingly motivated to invest in this region because of the rapid demand growth here. For example, of the total sales of Asian affiliates of Japanese transnational corporations in electrical and electronics industries, which is by far the most-important sector for Japanese foreign affiliates, 59 per cent went to the Asian developing countries which clearly demonstrates the importance of these countries as markets. Lack of intra-firm sales in this industry (only about one-quarter) shows that most of the trade of Japanese affiliates is likely to be made up of final products. This brings us to the fact that unlike the earlier period when the foreign affiliates used to export components to Japan and in turn Japan used to export final products to these nations, now these affiliates are increasingly becoming supplier of final products, thus increasing the value added and therefore the value of exports of both ASEAN's trade with the rest of the developing countries as well as intra-ASEAN trade.

Japanes transnational corporations have also helped in increasing intra-industry trade by investing in complementary operations in different ASEAN countries and thereby increasing the intra-ASEAN trade. Besides serving as the site for the most sophisticated manufacturing operations, Singapore often serves as the regional headquarter and information-and-distribution centre, with plants in Thailand, Malaysia and the Philippines performing a range of discreet manufacturing operations. This type of strategy helps in achieving plant specialization, regional economies of scale and intra-firm trade for transnational corporations and furthers regional economic cooperation and trade among the ASEAN countries.

However, though the ASEAN countries were conducting an aggregate foreign trade of more than $200 billion annually, only 18.40 per cent of it was of intra-ASEAN nature in 1988, i.e. after 21 years of active cooperation. And even though the rate of growth of intra-ASEAN trade has really been high (13.70 per cent p.a.) -higher than that of ASEAN's trade with either the USA or Japan or the EEC and second only to ASEAN's trade with the rest of the developing countries- it seems it is more apparent than real. If Singapore is excluded, intra-ASEAN trade amounts to no more than 5 per cent of the total. This is due to Singapore's role in enterpôt trade and also due to the complementarity between Singapore and Other ASEAN countries. This leads us to ask why intra-ASEAN trade has not developed as fast as it was hoped for.

Industrial cooperation was one of the instruments which was supposed to increase intra-ASEAN trade considerably. All the instruments within the industrial cooperation, such as ASEAN Industrial project (AIP), ASEAN Industrial complementation scheme (AIC) and ASEAN Industrial Joint-Ventures (AIJV) enjoyed tariff concessions within the ASEAN. However, the implementation of projects under the above schemes take inordinately long time. The unwillingness to share markets under the above schemes has also adversely affected intra-ASEAN trade.

An AIC package is defined as consisting of organized complementary trade exchanges of specified processed or manufactured products of ASEAN origin, allocated to a particular country as its participation in an AIC pakcage. Such a product enjoys "exclusivity" privileges. Exlusivity means that no other country can set up a new production facilities or expand existing facilities to make the same product as that of an allocated country, unless 75 per cent of its production is for exports outside the ASEAN region. Exclusivity is an important clause for intra ASEAN trade in the sense that if a country starts producing a product that was allocated to another country even though the former was expected to import it from the latter under the exclusivity clause, the production in the former removes the very potential of trade between the two. And a loophole that allows "firmly planned projects" in ASEAN nations to proceed, even if the product has been allocated to another country precisely does this. It is also important to note that so far only the automobile sector has come under the AIC scheme.

The keystone for increasing intra-ASEAN trade is, however, the Preferential Trading Arrangement (PTAs). Specified arangements cited in the agreement are long-term quantity contracts, financial support for purchases at preferential interest rates, preference in procurement by government entities, extension of tariff preferences, liberalization of non-tariff measures on a preferential basis, and unspecified "other measures". However, from the very beginning PTA is exclusively concentrated in the field of exchange of tariff preferentials. And therefore, the prevalence of non-tariff measures make the tariff concessions ineffective.

So far as the tariff cuts are concerned the traditional product by product approach under the tedious and cumbersome "matrix" negotiation has been very inefficient and time consuming. Even the across-the-board tariff cuts, which was adopted to complement the earlier approach has also met with the problem of the definition of "sensitive items", which in some country's lists has virtually eliminated all potential tradable items. This has happened mainly because most of the ASEAN governments have tended to protect their private sectors by declaring a broad range of items to be sensitive. Again, as all ASEAN governments except Singapore are dependent in greater or lesser degree on customs revenue, items put forward for PTA treatment have tended to be those with the least effect on the maintenance of customs revenue. As a result only 2 per cent of intra-ASEAN trade is covered by PTA tariff benefits (Palmer, 1987). Thus we clearly see that PTA will not succeed unless there is sufficient political will, engendered by a willingness to compromise among the domestic interests in ech country, in favour of some regional goals.

So far we have seen that ASEAN's tade was increasingly being directed towards the South-South trade. However, as mentioned earlier some important changes were taking place within the ASEAN's trade with the developed countries. Whereas the share of both Japan and the EEC declined in ASEAN's trade, it increased in the case of the USA. However, the overall growth performance conceals one very important aspect. When we see the rate of growth of exports and imports separately then we find that it was only in the case of ASEAN's trade with Japan that ASEAN's imports were growing at a faster rate than its exports. In all the other cases, viz., its trade with the USA, the EEC and the rest of the developing countries it was ASEAN's exports that were increasing at a faster rate than its imports.

Another important point to be noted here is that both the rates of growth of ASEAN's exports to and imports from Japan at 9.54 and 10.55 per cent p.a. respectively were lower than the rates of growth of ASEAN's exports to and imports from the USA which were growing at 12.77 and 11.91 per cent p.a. respectively (Table 2).

Thus the overall decline in Japan's share in ASEAN's trade from 27.8 per cent during 1973-75 to 21.58 per cent during 1986-88 is explained more by its decline in the share of ASEAN's exports which came down from 31.3 per cent to 21.35 per cent rather then in ASEAN's imports which declined by only about 3 percentage points (Table 1). Whereas the overall increase in the USA's share of ASEAN's trade is mainly explained by its increase in the share of ASEAN's exports from 18.91 per cent to 21.41 per cent between 1973/75 to 1986/88 rather than by the change in its share in ASEAN's imports which in fact was more or less stagnant at 15.5 per cent during the same (Table 1).

However, the overall decline in the EEC's share in ASEAN's trade is explained, in contrast to Japan, by its declining share in ASEAN's imports rather than exports (Table 1).

Thus we see that there is considerable variation among the developed countries in their trade with ASEAN. The higher rate of growth of ASEAN's imports from Japan than its exports to Japan is understandable as Japan's is a one of the most protected economies among the developed world, the recent slight opening up notwithstanding. This gets reflected in the difficulty that manufactured exports, from both developed and developing countries, face in penetrating Japanese markets. This when seen together with the fact that the ASEAN countries are trying to reduce their dependence on primary commodity exports by increasing the share of manufactured exports, exaplains the declining share of Japan in ASEAN's exports over time. One of the consequence has been the typical "North - South" pattern of trade between ASEAN countries and Japan, with Japan importing energy and raw materials and exporting manufactures. In 1981, for instance, Japan purchased slightly less than 7 per cent of ASEAN's manufactured exports which was only one fourth as much of USA's share in the same. Even in the case of Korea and Taiwan this patterns is very much evident.

As we have already noted, Japanese foreign direct investment has increasingly become more important for ASEAN countries, and the strategies of Japanese transnational corporations have, therefore, become an important factor in explaining the changing patterns of ASEAN's trade.

One of the original components of the original strategy of the Japanese transnational corporations has been to export to third country which goes beyond the traditional patterns linking home and host countries. One important reason for this type of strategy is to insulate Japanese transnational corporations from the threat of protectionism against Japanese exports to the USA and Europe and to reduce Japan's trade surplus with its major trading partners.

The higher exports growth to the EEC has also resulted because the affiliates in East and South-east Asia have been able to substitute, to some extent, for direct investment in the EEC which is relatively new as a host area for Japanese transnational corporations. Most of the exports to the US and the EEC are of the intra-firm nature with Asia being used as the low cost supplier of semi-finished goods for final manufacture or assembly by another affiliate in the US or the EEC, or low cost finished goods to be sold by an affiliate in the US or the EEC. For example, in the automobile industry, North America (largely the US) accounts for three quarters of third country exports, with nearly all of these being intra-firm sales (WIR, 1991). These, to some extent, help in explaining the higher growth of exports from this region to the US and the EEC than to Japan.

There is evidence that Japanese transnational corporations are building regionally integrated, independently sustainable networks of overseas investments. For example, Toyota integrated its ASEAN subsidiaries so that they can supply one another, rather than import components from the Japanese parent company. This kind of strategy which was adopted to take advantage of tariff concessions within the region as well as to benefit from their treatment as "domestic content", helps in explaining the reduced share of Japan in ASEAN imports.

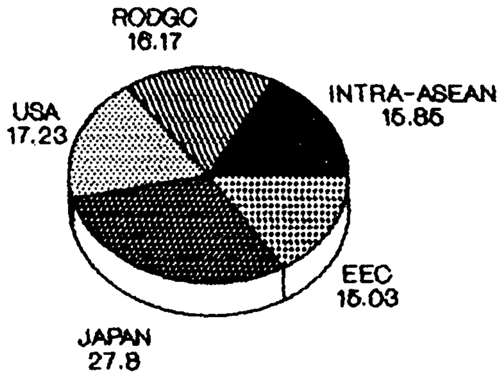
There has been a sectoral shift in the direct foreign investment from Japan in those East and South-east Asian nations where labour costs have risen. For example, in countries such as Hongkong, Korea, Singapore and Taiwan manufacturing investments are giving way to investments in finance and other services, where low labour costs are less of a consideration, by the foreign investors. And as we know in services non-tradability is an important issue, this sectoral change in Japanese investment has effectively reduced the Japanese trade with East and South-east Asian nations, which would have increased if this investment had rather gone to primary or manufacturing sector.

Another aspect of Japanese foreign direct investment, as noted by the World Investment Report 1991, that Japan's role as a supplier of its Asian affiliates' inputs far exceeds its role as a market of their goods goes a long way in explaining the higher rate of growth of ASEAN's imports from Japan than its exports to Japan.

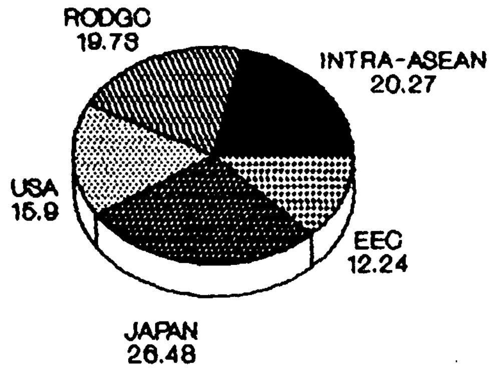
Thus we see that in ASEAN's case South-South trade in the form of both the intra-bloc trade as well as its trade with the rest of the developing countries was growing faster than its trade with the rest of the world (excluding all the developing countries). Though the South-South trade in the form of intra-bloc trade was growing at a slower rate than that in the form of ASEAN's trade with the rest of the developing countries, still it was faster then ASEAN's trade with any of the three most important components of the rest of the world, i.e, the USA, Japan and the EEC. The growing tendency toward protectionism in the developed countries together with their comparatively slower rate of growth of income and output than the developing countries, increasing complementarity between member and non-member developing countries, and the intra-developing countries direct foreign investment, among others seem to provide explanations for the increasing tendency towards the South-South trade.

And so far ASEAN's trade with the developed world concerned, it was not Japan with which its trade was growing the fastest. Indeed among the triad it was the USA with its comparatively open economy and a fast deficit driven import demand, with which ASEAN's trade grew the fastest. Even the rate of growth of ASEAN's trade with the EEC was higher than that with Japan. And as we saw the strategies of Japanese transnational corporation provide important explanations for this type of trading pattern of ASEAN with the developed world.

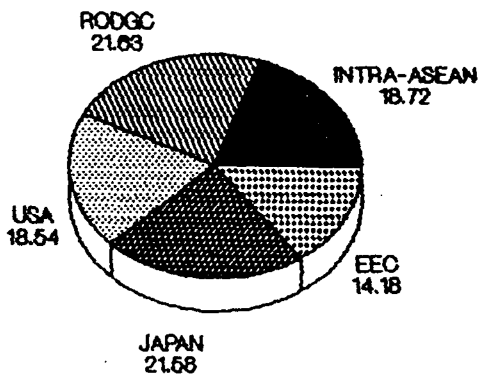
SHARES IN ASEAN'S TOTAL TRADE



1973\75



1980\82



1986\88

RODGC : REST OF THE DEVELOPING COUNTRIES

TABLE 1

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN ASEAN'S TRADE (IN PERCENT)

	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-ASEAN	17.64	14.18	15.85	21.41	19.20	20.27	18.87	18.56	18.72
REST OF THE DEVELOPING COUNTRIES	14.53	17.70	16.17	17.14	22.24	19.73	20.92	22.36	21.63
U.S.A.	18.91	15.65	17.23	16.70	15.10	15.90	21.41	15.54	18.54
JAPAN	31.30	24.50	27.80	30.86	22.20	26.48	21.35	21.82	21.58
E.E.C.	13.60	16.38	15.03	11.83	12.61	12.24	13.99	14.39	14.18

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS, IMF.

TABLE 2

ASEAN'S RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO, FROM AND WITH THE COUNTRIES OR BLOCS MENTIONED IN THE STUB DURING 1973-88 (IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-ASEAN	14.33	14.00	13.70
REST OF THE DEVELOPING COUNTRIES	15.58	13.69	14.55
REST OF THE WORLD (EXCLUDING ALL DEVELOPING COUNTRIES)	10.91	10.35	10.63
U.S.A.	12.77	11.91	12.38
JAPAN	9.54	10.55	10.01
E.E.C.	11.25	10.33	10.75
OVERALL	12.23	11.68	11.95

SOURCES: COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS, IMF

TABLE 3

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN EAST & SOUTHEAST ASIAN NATION'S TRADE
(IN PERCENT)

	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-EAST & SOUTH-EAST ASIAN NATIONS	17.62	10.38	13.77	21.49	13.35	17.26	17.10	11.00	14.13
REST OF THE DEVELOPING COUNTRIES	11.63	18.87	15.47	15.36	27.15	21.47	17.30	29.25	23.11
U.S.A.	22.45	17.04	19.58	20.78	15.97	18.28	27.56	15.13	21.51
JAPAN	26.67	26.10	26.37	23.17	22.74	22.95	16.03	23.79	19.80
E.E.C.	15.44	14.07	14.71	13.78	11.42	12.56	14.16	12.61	13.40

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS, IMF.

TABLE 4

EAST &SOUTHEAST ASIAN NATIONS' RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO,FROM AND WITH THE COUNTRIES OR BLOCS MENTIONED IN THE STUB DURING 1973-88(IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-EAST & SOUTHEAST ASIAN NATIONS	14.71	15.11	15.36
REST OF THE DEVELOPING COUNTRIES	19.05	17.26	17.91
REST OF THE WORLD (EXCLUDING ALL DEVE-LOPING COUNTRIES)	13.74	12.09	12.92
U.S.A.	16.21	12.99	14.91
JAPAN	10.81	12.36	11.66
E.E.C.	12.92	12.46	12.69
OVERALL	14.79	13.61	14.82

SOURCES:COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS,IMF

TABLE 5

EAST & SOUTHEAST ASIAN NATIONS' RATES OF GROWTH OF IMPORTS FROM IMPORTANT DEVELOPING COUNTRIES TRADING PARTNERS DURING 1973-88

	BRUNEI	INDONESIA	MALAYSIA	SINGAPORE	THAILAND	HONG KONG	KOREA	SAUDI ARABIA	KUWAIT
INDONESIA	N.A.	-----	N.A.	14.13	N.A.	N.A.	N.A.	42.34	N.A.
MALAYSIA	N.A.	N.A.	-----	18.22	10.69	13.17	28.53	N.A.	N.A.
PHILIPPINES	N.A.	N.A.	18.43	N.A.	N.A.	20.46	28.06	-4.68	5.07
SINGAPORE	N.A.	N.A.	13.50	-----	13.60	12.80	23.79	8.50	N.A.
THAILAND	24.61	N.A.	34.68	26.69	-----	N.A.	24.45	3.81	N.A.
HONG KONG	N.A.	N.A.	N.A.	14.87	N.A.	-----	20.53	N.A.	N.A.
KOREA	N.A.	11.30	18.87	N.A.	N.A.	N.A.	-----	5.99	N.A.

N.A.= NOT APPLICABLE
SORCES:ESTIMATED FROM DATA TAKEN FROM DIRECTION OF TRADE STATISTICS,IMF

TABLE 6

EAST & SOUTHEAST ASIAN NATIONS' RATES OF GROWTH OF EXPORTS TO IMPORTANT DEVELOPING COUNTRIES TRADING PARTNERS DURING 1973-88

	MALAYSIA	SINGAPORE	THAILAND	HONG KONG	KOREA	INDIA	SAUDI ARABIA	TRINIDAD & TOBAGO
INDONESIA	N.A.	9.72	N.A.	28.18	26.95	N.A.	N.A.	-13.1
MALAYSIA	-----	12.58	24.13	18.51	24.00	23.82	N.A.	N.A.
PHILIPPINES	28.60	19.07	N.A.	18.02	15.07	N.A.	N.A.	N.A.
SINGAPORE	14.28	-----	19.97	14.78	N.A.	25.57	N.A.	N.A.
THAILAND	10.93	14.04	-----	10.10	N.A.	N.A.	20.09	N.A.
HONG KONG	N.A.	12.41	N.A.	-----	23.38	N.A.	N.A.	N.A.
KOREA	N.A.	25.93	N.A.	22.78	-----	45.58	26.63	N.A.

N.A.= NOT APPLICABLE
SORCES:ESTIMATED FROM DATA TAKEN FROM DIRECTION OF TRADE STATISTICS,IMF

CHAPTER II

LAIA

In contrast to ASEAN's changing patterns of direction of trade, the overall position of LAIA's important trade partners remained the same over the period 1973/75 to 1986/88. Taking the average share between 1973-75, USA with 32.14 per cent of LAIA's total trade, was the largest trading partner for LAIA. The EEC with 23.33 per cent, the rest of the developing countries with 13.48 per cent , Japan with 6.57 per cent occupied the second, third and fourth position respectively. Intra-LAIA trade accounted for 11.6 per cent of the total LAIA trade (Table 1).

As against the performance of Japan in the case of ASEAN where it failed to hold to its position at the top and had to give way to the rest of the developing countries as the largest trading partner, the USA, with a rate of growth of 9.86 per cent p.a. which was much above the average rate of growth of 7.85 per cent p.a. of LAIA's total trade, was able to consolidate its position at the top in the case of LAIA's foreign trade. Indeed, it was because of the USA's performance that the "rest of the world" (excluding all developing countries) was able to achieve a better rate of growth (8 per cent p.a.) than the rest of the developing countries (7.6 per cent). It is also clear from the fact that the EEC and Japan, the other two important trade partners of LAIA which together with the USA form the core of the rest of the world, with rates of growth of 6.9 per cent and 7.2 per cent p.a respectively failed to achieve even the rate of growth of LAIA's trade with the rest of the developing countries(Table 2).

However, we should not read much into the performance of the rest of the world or for that matter the USA on two accounts. Firstly because , as we shall see later , the higher rate of growth was mainly a result of their performance in the last six years of our period. And secondly, this impressive performance was achieved on the basis of USA's trade with Mexcio.

Many of LAIA countries, especially the larger ones, have been able to develop relatively important industrial sectors. Though primary commodities still play a central role in the export pattern of many Latin American countries, exports of manufactures have increasingly become important for same of them. This kind of economic diversification has helped in increasing the complementarity among the LAIA nations and between LAIA and the rest of the developing countries. Indeed, the increasing participation of manufactures has been associated with the opening of new markets, na tably in developing nations.

This is brought out clearly when we take the sub-period between 1973 to 1982, the initital 10 years of our period.

Whereas during 1973-75, on an average, the rest of the developing countries accounted for 13.84 per cent of total LAIA trade , during 1980-82 their share had increased to 17.35 per cent, an increase of 3.5 per cent in 10 years. The rise was more dramatic in the case of LAIA's imports from the rest of the developing countries than exports to the rest of the developing countries,with the former increasing by 5.5 per cent while the latter increased by 1.5 per cent only (Table 1).

Even the intra-LAIA trade was gorwing during the initial 10 years of our period, though the magnitude of increase was smaller than that achieved by the rest of the developing countries. In any case intra-LAIA trade which accounted for 11.6 per cent of its total trade between 1973-75, increased its share by 1.6 per cent to reach 13.27 per cent between 1980-82. Meanwhile whereas the shares of the USA and Japan were more or less stagnant, the share of the EEC in fact declined by 2 per cent (TAble 1).

Besides the intra-bloc trade, the other most important region for LAIA trade was the Middle East. Latin America's economic complementarity with this region was strong and Middle Eastern markets were expanding faster than markets elsewhere during this sub-period. In 1977 the Arab Latin American Bank (Arlabank) was established which further strengthened the ties. By 1982, the bank had grown rapidly to establish a presence throughout the region.

However, the diversification of LAIA's trade towards the rest of the developing countries as well as intra-bloc trade was abruptly halted in the wake of 1982 debt crisis. Unfortunately, the momentum of regional integration was lost and the debt-crisis even dirupted many purely bilateral exchanges between Latin American countries. For example, Brazil's exports drive was hampered by the collapse of major markets in Argentina and Chile. Desite Mexico and Venezuela's sale of oil on concessionary terms to some of the oil importing countires, there were delays in payments and interruptions of supply. Liquidity shortages even hampered trade relations between the major Latin American economies (e.g. Brazil and Mexico) as they were forced to rely upon unsatisfactory barter exchanges.

The situation was similar in the case of LAIA's trade with the rest of the developing countries after the onset of debt-crisis. For example, Nigeria, which was Brazil's most important trading partner in the Sub-Saharan Africa, was one of the most adversely affeted member of OPEC hit by the oil glut. As a consequence, Brazil's efforts at increasing its exports to Nigeria could result only in bad-debts.

Even the Arlabank which could have provided the much needed trade credit for LAIA's trade with the developing countries began to withdraw from Latin American markets and moved its headquarter from Peru to Bahrain. Prolonged Iran-Iraq war crippled the Iraqi trade arrangements with Brazil. Subsequently, there were signs of frictions between Brazil and Libya, which had purchased several hundred million dollars worth of Brazilian exports (mostly armaments). Many LAIA nations tried to enter into barter arrangements with various oil suppliers, offering commodities and manufactured goods as payments in lieu of dollars. However, these agreements could not make much headway because of factors such as insistence of oil suppliers (e.g.Iran) on the requirement of confirmed letters of credit from western banks before they would dispatch the oil.

Thus we see that the economic crisis of the early 1980s pushed the diversification of LAIA's international trade ties, which was moving towards the developing countries, into the background. Reversal of the diversification was in part, because of the economic and political (e.g. in the Middle East) crisis afflicting the rest of the developing countries.

At the onset of debt-crisis all the LAIA countries found themselves abruptly compelled to generate exports surpluses of great magnitude to repay capital to their industrialized country creditors. The net resource transfer from Latin America to the industrialized countries (in fact, overwhelmingly to the United States) was estimated at $ 20 billion in 1982 and $ 30 billion in 1983. These totals did not include unrecorded capital flight, which was probably of comparable dimensions. Thus, most Latin American countries started judging their external policies in terms of their urgent need for foreign exchange. It was at this point that the exports to the countires other than the developing ones picked up, and helped LAIA record impressive rates of growth of exports especially to the USA and Japan over the whole period.

Though the rate of growth of exports to the USA at 12.63 per cent p.a. was most impressive, exports to Japan was not less significant at 11.67 per cent p.a considering the fact that Japan is a much more protected economy. Japan as a capital-rich but land-and- natural resources scarce economy is higly complementary with the economies of LAIA nations. Moreover, Japan has also come up as an alternative source of credit for the LAIA countries on the basis of its gorwing financial strength. A fairly high rate of growth of exports to Japan during the 1980s it seems, was mainly due to the rise in the yen and a shift in the Japanese economic policy from reliance on exports to an emphasis on the domestic market as the major source of demand expansion (TDR, 1989).

The debt crisis abruptly forced many Latin American countries to revaluate their relations with the United

States. Because of the USA's strong influence over major international financial institutions based in Washington D.C. such as the IMF, and as the US government economic policies concerning such issues as interest rates and trade policy significantly affect the economic situation in Latin American countires, the USA assumed a very important role in the region's economic and financial crisis. Moreover, LAIA's foreign debt was denominated in dollars.

However, it was not a one way dependence. The Latin American difficulties also impinged on powerful domestic interests in the US such as banks as the US based commercial banks hold approximately 38 per cent of Latin American countires total outstanding debt. The US steel industry provides another example of a powerful domestic interest in the US which was hurt in the wake of the Latin American crisis. Even the Economic Report of the President (Washington, D.C.) transmitted to Congress in February 1984 stated, "Mexico alone accounted for 7.6 per cent of US exports in 1981. Seven of the most indebted Latin American countries together accounted for 13.9 per cent of US exports..... The US bilateral trade balance with Mexico alone.... registered a decline of $12 billion between 1981 to 1983. The US loss in net exports to Latin America was about $21 billion.... Exports of US industries such as farm and construction machinery have been particularly hard hit" (p.47). In view of this the US government had to accord a high priority to the Latin American problem, unlike any other goveronment in the developed world.

The growth of exports to the US was also facilitated by the fact that US was the only strongly demand driven major economy in the later period, i.e. during the 80s. Even when we take the whole period i.e, 1973 to 1988, the rate of growth of imports of the USA at 11.9 per cent p.a. was much higher than either Japan's (8.86 per cent p.a.) or the EEC's (9.28 per cent p.a.). The rate of growth of imports of the EEC which actually mattered for the LAIA nations comes down to 8.09 per cent p.a. when we subtract the intra-EEC imports, which was growing at 10.34 per cent p.a., from the total EEC imports. And this effective imports growth rate of the EEC is lower than that of even Japan's. This ,thus, also helps in explaning the lower rate of growth of exports to the EEC.

In any case, even though the number of trade disputes involving Latin American products increased and protectionist rhetoric became louder, the actual erection of trade barriers in the US were not great (Odell, 1986). Even Feinberg (1986) reached at the same conclusion that all things considered, the US market remains one of the most open in the world. The rapid growth of LAIA's exports to the US tends to support their argument.

Another reason for the high growth rate of exports to the USA seems to be the strategies of US based transnational corporations. Some of their investment strongly suggests that United States transnational corporations are building regional core network (WIR, 1991). For example, in Mexico the affiliates of the "Big Three" United States car-makers - General Motors(GM), Ford and Chrysler had a much higher share of exports in their total shares than the affiliates of the non-US transnational corporations in automobile industry. The affiliates of the US transnational corporations not only had a very high exports to sales ratio but their exports were also mainly geared to the USA. For example, in 1987, the affiliates of GM, Ford and Chrysler exported 60,100 and 100 per cent of their total exports to the USA respectively (Table 3). In contrast, most non-US automobile transnational corporations were more geared towards selling in the Mexican market, and the majoritry of their exports were destined for Latin American markets.

However, one important point to be noted here is that the high rates of growth achieved by the USA in LAIA's exports and imports were mainly on account of its trade with Mexico. Indeed, if we remove the USA-Mexico trade from the picture, LAIA's rates of growth of exports and imports to and from USA come down from a relatively very high 12.63 and 6.84 per cent p.a. to a modest 8.79 and 3.89 per cent p.a.

respectively. As a result the rate of growth of the total trade also comes down from 9.86 to 6.55 per cent p.a.

In the 1970s and early 1980s, United States transnational corporations were attracted by Mexico's geograhpical position, its low wage rates and the free export zones (maquiladoras) on the US-Mexican border. Since 1983, several transnational corporations are increasingly responding to favourable real exchange rate and other fiscal incentives by increasing investment in that country. This rapid growth of direct foreign investment from the USA, together with the above mentioned transnational corporations strategy was in large part responsible for the high rate of growth of Mexican exports to the USA.

In contrast to LAIA's exports performance to the USA and Japan which actually picked up during the 80s, its exports actually slowed down in the case of EEC during the same. Actually, it was this poor performance of the EEC as an export market for LAIA during the 80s which brought down the LAIA's exports rate of growth to the EEC to 9.38 per cent over the whole period 1973-88 which, though higher than that achieved in the case of the rest of the developing countries, was lower than the overall exports rate of LAIA (Table 2). Consequently, the share of the EEC in LAIA's exports market declined from 23.3 per cent during 1980-82 to 21.3 per cent during 1986-88.

One of the reasons for a comparatively lower growth of exports to the EEC has been the fact that the EEC countries have organised their foreign trade on a principle of differentiation more than any other developed country. Besides the fact that about 50 per cent of EEC foreign trade is directed towards the internal market (which is exempted from tariffs and quotas) only one-third of the EEC imports from nonmember states is under the Most-Favoured Nation (MFN) regime. With the developing countries, the EEC has formed a 'pyramid of privileges'. The 66 members of the African, Carribbean and Pacific (ACP) group benefit from prefernces over other developing countries. They are followed in the hierarchy by the Mediterranean countries. These two groups of countries represent about 40 per cent of EEC imports from the developing countries. Thus we see that the differentiation scheme in fact discriminates against the LAIA countries.

The diversification of exports from basic commodities to semi-manufactured or manufactured goods has not been favoured by the EEC. For example, in the wake of the first oil shock when the EEC steel production fell by about 20 per cent between 1974 and 1977 and third countries were able to increase their market share in the community from 5 per cent to 10 per cent, the community steel policy became very much interventionist. From 1977 onwards, EEC steel policy combined adjustment subsidies with unilateral and contractual measures to limit imports. The unilateral measures concerned surveillance of imports and introduction of anti dumping and countervailing duties. As a result the share of steel imports in total consumption fell from 11 per cent in 1977 to 9 per cent in 1981-85. This is low compared with US imports of steel which represent 22 per cent of its consumption. This affected the exports of steel from countries such as Brazil for which steel exports had increased from negligible share in the 70s to 33 per cent of its total exports in 1983 (Pochet, et.al., 1988).

As mentioned earlier the manufactured and semi-manufactured goods were the most dynamic elements in the LAIA export performance. Thus the stifling of this diversification trend by the actions of the EEC has reduced the rate of growth of LAIA's exports to the EEC. This point is clearly brought about by the table 4 which compares the role of EEC with that of the USA and Japan in the composition of exports of Brazil, which represents LAIA's biggest and most dynamic supplier to the EEC, accounting for 37 per cent of the Latin America's exports to the community in 1985. While the share of basic goods recorded a fall of 17.1 per cent in Brazil's exports to the EEC, the magnitude of this fall was much more in the case of exports to the USA and Japan at 33.4 and 33.6 per cent respectively (Table 4).

The exports to the EEC of textiles and clothings which are important for some of the LAIA nations such as Peru have been hampered in so far as the EEC market for these items are considerably more protected than either the US or the Japanese markets for the same.

Then there is this Common Agricultural Policy (CAP) of the EEC which cushions West European farmers from world market conditions and therefore gives stimulus to over productions and the stockpiling of food surpluses. These surpluses not only exclude LAIA from potential West European outlets for its food exports, but they also force down prices in third country markets when surpluses are dumped at loss.

Thus we see that the protectionist aspect of EEC policies indeed go a long way in explaining the relatively slower rate of growth of LAIA's exports to the EEC.

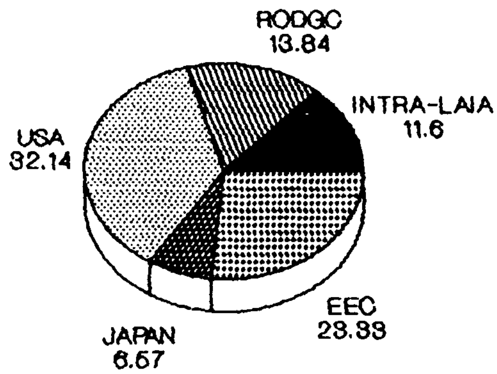
One last point to be noted here is that while the developed countries have performed well as exports markets for the LAIA, the developing countries have done much better as the suppliers (6.35 per cent p.a) compared to LAIA's overall growth of imports at 5.72 per cent p.a. In the case of LAIA's imports even the above average performance by the USA (6.84 per cent p.a) could not lift the rest of the world (excluding all developing countries) beyond the performance of the rest of the developing countries (Table 2).

It is plausible to assume that LAIA's imports were limited less by tariffs, licensing and quotas than by the lack of foreign exchange. Trade distortions were responsible more for the change in the import mix rather than the total amount of imports. Indeed the outer bounds on LAIA's import capacity was set by the financial constraints rather than trade policy.

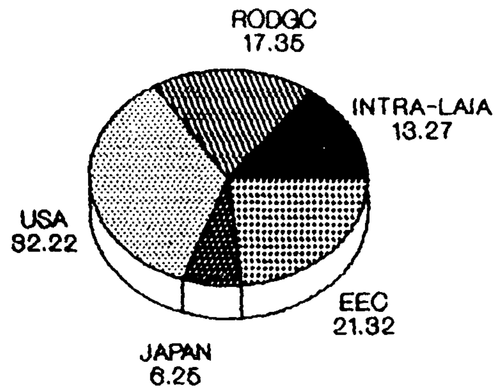
In view of the growing share of oil in total imports and the very serious balance of payments difficulties, manufactured imports were the prime target of import cuts. Increasing import-substitution of capital goods in the 1970s, as more sophisticated goods began to be produced (often by affiliates of the transnational corporations), together with a decrease in the rate of investment in the 80s were also bound to affect this category of imports. And as the imports from the EEC and Japan consisted basically of manufactured products and in particular of machinery, LAIA's rates of growth of imports from them were obviously lower than that from the USA and the rest of the developing countries.

Thus we find that though the LAIA's trade with the rest of the world was increasing at a faster rate than with the rest of the developing countries, it was mainly because of the US-Mexican trade. The rapid growth of deficit driven imports demand of the US, its relatively open market, the strategies of US based transnational corporations together with the pressure of powerful domestic interests facilitated the rapid growth of US-LAIA trade after the early 80s. Another important point that emerges from the above analysis is that though the LAIA's exports to the US was growing the fastest, its exports to Japan was also not lagging far behind. However, during the better part of our period, it was the South-South trade which was growing faster than LAIA's trade with any of the triad members. And it took the emergence of a very serious debt crisis with its attendant payments problem to put a stop on the rapid expansion of South-South trade in the case of LAIA.

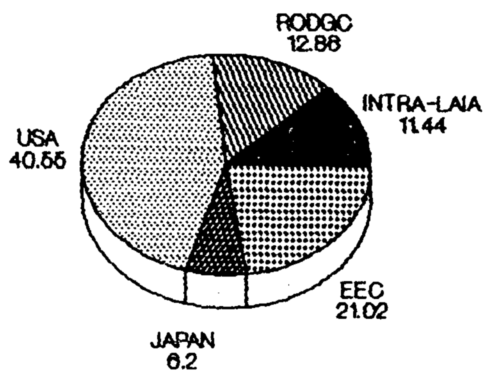
SHARES IN LAIA'S TOTAL TRADE



1973\75



1980\82



1986\88

RODGC : REST OF THE DEVELOPING COUNTRIES

TABLE 1

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN LAIA'S TRADE
(IN PERCENT)

	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-LAIA	12.13	11.19	11.60	13.26	13.36	13.27	10.06	13.26	11.44
REST OF THE DEVELOPING COUNTRIES	15.99	11.78	13.84	17.46	17.35	17.35	13.75	11.69	12.86
U.S.A.	29.32	34.74	32.14	29.62	34.86	32.22	40.66	40.42	40.55
JAPAN	4.98	8.04	6.57	5.48	7.05	6.25	5.88	6.62	6.20
E.E.C.	22.30	24.24	23.33	23.30	19.22	21.32	21.30	20.64	21.02

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS, IMF.

TABLE 2

LAIA'S RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO, FROM AND WITH THE COUNTRIES OR BLOCS MENTIONED IN THE STUB DURING 1973-88 (IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-LAIA	7.02	7.35	7.19
REST OF THE DEVELOPING COUNTRIES	8.56	6.35	7.59
REST OF THE WORLD (EXCLUDING ALL DEVELOPING COUNTRIES)	10.30	5.31	8.00
U.S.A.	12.63	6.84	9.86
JAPAN	11.67	3.61	7.23
E.E.C.	9.38	3.98	6.94
OVERALL	9.67	5.72	7.85

SOURCES: COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS, IMF.

TABLE 3

AUTOMOBILE EXPORTS FROM MEXICO, BY COMPANY, 1987

	SHARE OF EXPORTS IN TOTAL SALES (PERCENT OF VALUE)	SHARE OF EXPORTS TO NORTH AMERICA	INTRA-FIRM EXPORTS (PERCENT OF VALUE)
G.M	48.4	60	80
FORD	68.4	100	80
CHRYSLER	81.5	100	100
V.W.	34.3	20	80
NISSAN	20.35*	-----	------

* Estimated

Source : ECLAC/UNTC JOINT UNIT ON TRANSNATIOAL CORPORATION (QUOTED FROM WORLD INVESTMENT REPORT, 1991).

TABLE 4

COMPOSITION OF BRAZIL'S EXPORTS BY BROAD PRODUCT CATEGORIES (PERCENTAGE OF TOTAL EXPORTED WITH EACH BLOC OR COUNTRY)

YEAR	BASIC			SEMI-MANUFACTURED			MANUFACTURED		
	EEC	USA	JAPAN	EEC	USA	JAPAN	EEC	USA	JAPAN
1975	71.8	50.3	86.1	7.1	7.3	2.2	21.1	42.3	11.7
1980	59.2	40.0	65.6	10.4	12.3	12.3	30.4	47.7	22.1
1984	54.1	16.9	52.5	7.9	8.4	18.3	38.0	74.6	29.2

Source : Pochet,P., et.al. (1988).

CHAPTER III

SAARC

Compared to either ASEAN or LAIA, SAARC (estabished in 1985) is still in a nascent stage. Therefore, we should not expect much from SAARC as an integration assocation, especially as the terminal year of our analysis is 1988. To an extent the very low rate of growth at 5.25 per cent p.a of intra-SAARC trade reflects the infant stage of SAARC as a body of economic cooperation. As a result of this low rate of growth the share of intra-SAARC trade in SAARC's total trade has come down from 4.51 per cent during 1973-75 to 2.35 per cent during 1986-88 (Table 1).

Though it is sincerely hoped that in the best interest of all cooperation at the economic front would help in facilitating cooperation at the political front, it is a fact that the not so good political relations among the countries of South Asia have acted as a big hurdle in the path of regional economic cooperation.

Another reason for the very slow rate of growth of intra-SAARC trade can be found in the apprehensions of other member countries about economic domination by India in any scheme of regional cooperation. It is pointed out that India's GDP and its population are more than three times the size of all the other six SAARC countries put together. It possesses more than 72 per cent of the total land area of the region. Further it has almost 100 per cent of the aggregate resources of the SAARC region in terms of iron ore, gold, lead, silver, zinc and diamonds, among others. But most importantly India is the most industrially developed country in the region. It is feared that economic relationship may develop into a pattern where the less developed produce raw materials which were processed by the industries of more devloped and reexported as manufactures to flood the markets of less developed. In other words, given the unequal levels of industrialization within SAARC countries on economic union may lead to a pattern of specialization which is unacceptable. Therefore, smaller countries could fear the traditional "dependency" pattern of economic cooperation rather than that of interdependency (ESCAP, 1983; Rao 1987; Agrawal, 1987; and Pant 1991).

The land-locked countries of South Asia such as Nepal and Bhutan have not been able to expand their trade with SAARC countries other than India because of the lack of adequate transit facilities. Besides transportation costs are vey high for these countries, adding between 50 to 100 per cent of cost of items being transported. Another reason for the little trade diversification of Nepal within the SAARC is the preferential tariff arrangement that India has with Nepal. For example, in 1983-84 the average effective rate of protection on imports from countries other than

India was 14.2 per cent against 4 per cent on non-oil imports from India which makes Indian goods coming into Nepal far cheaper than from any other SAARC country.

A huge information gap regarding the trade opportunities that exist among the SAARC countries is yet another reason for the slow growth of intra-SAARC trade.

Except Sri Lanka which has very low tariff walls, all the other SAARC members have rather high tariff and non-tariff barriers. This when viewed in conjunction with the fact that there was no preferential trading arrangement on a multilateral basis anything like South Asian Preferential Trading Arrangement (SAPTA), helps in providing yet another reason for the rather low growth of intra-SAARC trade.

Although the weight of agriculture in GDP has been declining overtime, the countries of South Asia are still essentially agrarian in nature. The development strategy that they have followed in the form of import substitution industrialization, has resulted in competitive economic strcutures within SAARC. India proves to be an exception in this regard in so far as even following the import substitution strategy it emphasized capital goods sector as against Pakistan and Sri Lanka where consumer goods industries were emphasized. As Mohanty (1991) points out, competitive agarian economies do not lend themselves as easily to trade as competitive industrial economies as agriculture does not allow for the kind of product differentiation that industry (and more specifically manufacturing) does and which is the motive force behind trade between competitive economies. And even in countries where manufacturing sectors are competitive-Pakistan ans Sri Lanka-intra-industry compatitiveness is not high enough to allow for trade (Mohanty, 1991).

Although South-South trade in the form of intra-SAARC trade grew at a very slow pace (5.25 per cent p.a.) compared to SAARC's overall trade growth rate (11.13 per cent p.a.), the South-South trade in the form of SAARC's trade with the rest of the developing countries grew faster than SAARC's trade with the rest of the world (excluding all developing countries). This is similar to the case of ASEAN. However, in contrast to ASEAN's case where the performance of both exports to and imports from the rest of the developing countries were above average, in the case of SAARC it was only the imports from the rest of the developing countries which boosted the rate of growth of the SAARC's total trade with them. The better performance of imports was mainly due to the increased share of fuels in the imports of both India and Pakistan. For India it increased from 13.9 per cent in 1973 to 26.4 per cent in 1985 and for Pakistan it increased from 7.9 per cent in 1973 to 17.5 per cent in 1987. This increased share of fuels totally replaced the declining share of food and beverages (Table 5). As India together with Pakistan accounts for more than 80 per cent of SAARC's total trade it also meant an increased share of fuel and a decreased share of food and beverages in the total imports of SAARC as well. And as fuel is typically imported from the developing countries and food from the developed, (e.g. in 1988 North America together with the W.Europe accounted for 79 per cent of the value of world cereal exports), it resulted in an increased share of the developing countries and a decreased share of the developed ones in the SAARC imports. The rate of growth of exports to the rest of the developing countries at 8.42 per cent p.a. was below the growth rate of SAARC's total exports at 9.76 per cent p.a.(Table 2).

However, the rates of growth over the entire period 1973 to 1988 conceals two very important points. First, the low rate of growth of exports to the rest of the developing countries at 8.42 per cent p.a was due to the poor performacne after the early 80s. And second, the high rate of growth of imports from them was mainly due to the good performance in the 70s and the early 80s. These two points get reflected in the fact that the rest of the developing countries were able to increase their share in SAARC's imports as well as exports during 1973/75 to 1980/82. Their share in SAARC's exports increased from 30.25 per cent between 1973-75 to 35.58 per cent between 1980-82 whereas in their share increased 27.15 per cent during 1973-75 to a massive 42.51 per cent during 1980-82, really a magnificent increase (Table 1). However, their share in exports and imports decreased to 25.37 and 31.07 per cent respectively between 1986-88 (Table 1).

The lower rate of growth of imports during the 80s partly reflects the lower prices of petroleum during the 1980s as opposed to the 1970s when the petroleum prices rose very rapidly which in turn is reflected in the declining share of fuel in the imports of India and Pakistan during the 80s (Table 5). The importance of POL in SAARC's imports gets reflected in the fact that for India all the developing countries that figured in the top ten trading partners list (imports) even during the 1980s when the oil prices were declining, were OPEC countries, for Pakistan three out of four developing countries that figured in the top ten were OPEC countries and for Sri Lanka 2 out of 5 were OPEC countries (Table 3).

The rapidly growing incomes of the OPEC countries during the 1970s provided important export markets for the SAARC countries (Table 4). SAARC countries were not only able to export more to OPEC nations because of the increased demand there but also because of their, especially India's participation in activities such as construction and civil engineering projects, etc. which can be quite import intensive. However, during the 80s, as noted by Economic Survey, 1988-89 (Government of India), fall in oil revenue of OPEC members, intense competition in Gulf and African countries, the prolonged conflict between Iran and Iraq and foreign exchange problems faced by many African countries led to a decline in the construction projects. It has, as a result, adversely affected exports to these countries from India.

The rapid growth of imports from the developing countries besides reflecting the increased oil prices during the 1970s also reflects the increased competitiveness of the newly industrializing countries of East and South-east Asian nations. This is brought out by the fact that besides Middle East-Countries, they were the only developing countries outside the South Asian region that figured in the SAARC members top 10 trading partners list (Table 3). More importantly, on an average they had a much better rate of growth than the OPEC countries. To some extent, as we saw in greater detail while dealing ASEAN, it reflects besides their competitiveness, their increasing investment in South Asian countries such as Bangladesh and Sri Lanka .

As has already been mentioned, the rate of growth of SAARC's trade with the rest of the world (excluding all developing countries) at 11.01 per cent p.a. was lower than that with the rest of the developing countries which grew at 12.08 per cent p.a. However, the rest of the world was able to perform much better than the rest of the developing countries as export market for SAARC countries. SAARC's exports to the rest of the world grew at 10.68 per cent p.a. whereas to the rest of the developing countries it could grow at 8.42 per cent p.a. only.

As in the case of ASEAN and LAIA, exports to the USA grew the fastest of all at 15.41 per cent p.a. and as a result it was able to increase its share in total SAARC exports from 10.73 per cent during 1973-75 to 18.79 per cent during 1986-88. The rate of growth of exports to the EEC was the lowest at 9.91 per cent p.a., being slightly lower than that to Japan at 10.12 per centp.a. (Table 2). This high rate of growth of exports to the developed world was especially due to its better performance as export markets during the 1980s (Table 1).The rapid growth of exports of clothing from South Asian region which grew at the rate of 18 per cent p.a. during the 80s seems to provide the explanation, as the main market for clothing lies in the developed world. Even the declining share of textiles in Indian exports started picking up after reaching a low of 23.3 per cent in 1982 to reach 28.6 per cent in 1985. For Pakistan textiles share in its total exports increased from 42.2 per cent in 1980 to 66.5 per cent in 1987 (Table 6).

Again, as in the case of ASEAN and LAIA the rapid growth of deficit driven import demand of the USA besides it being the one of the most open economy among the developed countries seems to explain the rapid expansion of exports to the USA from SAARC.

The lower rate of growth of exports to the EEC, though it picked up in the last two years, i.e., 1987 and 1988 and which in turn explains its relatively higher average share during 1986-88, besides refelcting its higher base than ei-ther the USA or Japan, can also be explained by the fact that the EEC market is considerably more protected than either the American or the Japanese market for textiles and clothings which were the most dynamic components of the South Asian exports, especially so during the 80s.

However, both Japan and the EEC were able to perform much better than the USA as suppliers to the SAARC countries. It is clear from the fact that whereas the rate of growth of imports from Japan and the EEC were 14.86 and 13.91 per cent respectively, it was only 6.63 in the case of the USA (Table 2). Again their performance was much better in the 1980s.

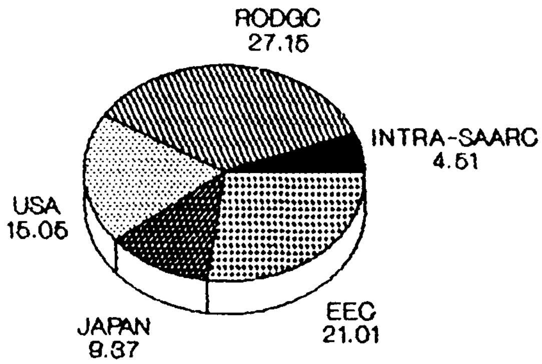
Perhaps the better performance of Japan and the EEC reflects, to some extent, their growing importance during the 80s as bilateral source of foreign assistance which invariably, directly or indirectly, is tied to imports from the creditor countries.

Another reason can be the growing importance of capital goods in the total imports of SAARC countries. For example, in India's total imports the share of capital equipments increased from 9.1 per cent in 1980 to 14 per cent in 1985 and in Pakistan's case it increased 11.6 per cent to 17.3 per cent during the same (Table 5). And as the capital goods exports from the EEC countries and Japan had a competitive edge over the USA, it showed in the increased importance of the EEC and Japan as suppliers to SAARC.

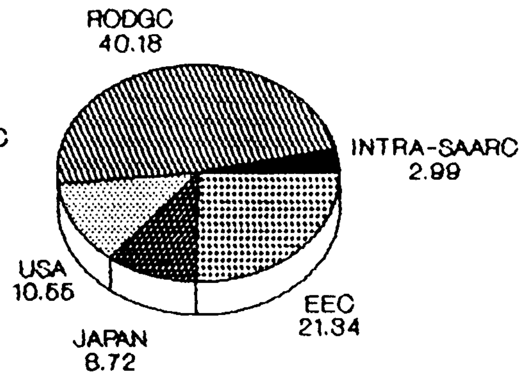
Thus we see that in a way a very low rate of growth of intra-SAARC trade reflects SAARC's infant-stage as an organisation. The prevalent political situation, fear of an Indian domination,problems of land locked countries such as lack of transit facilities, information gap, lack of any preferential trading arrangements and similar economic structure of member countries provide some specific reasons for the slow growth of intra-SAARC trade. However, complementary export-structure between member and non-member developing countries resulted in the rest of the developing countries having the higher rate of growth of trade with SAARC than the rest of the world. This complementarity was especially strong with both the OPEC and East and Southeast Asian nations. However, it was the rapid growth of imports from the rest of the developing countries which was mainly responsible for the high rate of growth of SAARC's total trade with them.

So far SAARC's trade with the developed world is concerned, it was exports to the developed countries that was more important than imports from them. A remarkable feature was a fairly low rate of growth of imports from the USA. However, it provided the most rapidly growing exports market for SAARC supplies. The rapid growth of import demand of the USA together with the fact that it has one of the most open economies explains the rapid growth of exports to the USA. Though, both Japan and the EEC performed very well as suppliers, it was Japan which achieved the highest rate of growth of total trade with SAARC. A higher base and a relatively more protected market for clothings and textiles in the EEC seem to have brought down the rate of growth of SAARC's trade with the EEC below that achieved in the case of Japan.

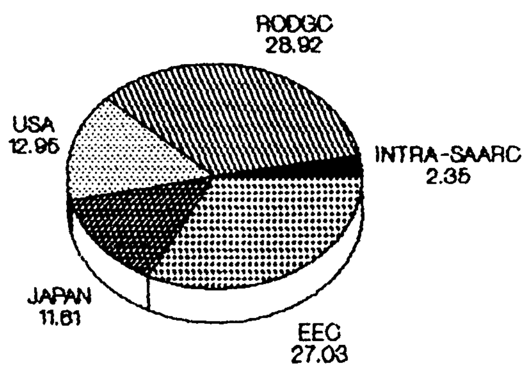
SHARES IN SAARC'S TOTAL TRADE



1973\75



1980\82



1986\88

RODGC : REST OF THE DEVELOPING COUNTRIES

TABLE 1

SHARE OF THE COUNTRIES OR BLOCS MENTIONED IN THE STUB IN SAARC'S TRADE
(IN PERCENT)

	1973-75			1980-82			1986-88		
	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-SAARC	5.44	3.85	4.51	4.48	2.24	2.99	3.20	1.84	2.35
REST OF THE DEVELOPING COUNTRIES	30.23	25.14	27.15	35.58	42.51	40.18	25.37	31.07	28.92
U.S.A.	10.73	18.05	15.05	11.00	10.32	10.55	18.79	9.45	12.95
JAPAN	9.71	9.04	9.37	8.24	8.95	8.72	10.23	12.42	11.61
E.E.C.	20.94	21.12	21.01	21.13	21.41	21.34	24.07	28.78	27.03

SOURCES:ESTIMATED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATITICS, IMF.

TABLE 2

SAARC'S RATES OF GROWTH OF EXPORTS, IMPORTS AND TOTAL TRADE TO, FROM AND WITH THE COUNTRIES MENTIONED IN THE STUB DURING 1973-88 (IN PERCENT)

	EXPORTS	IMPORTS	TOTAL TRADE
INTRA-SAARC	5.39	5.13	5.25
REST OF THE DEVELOPING COUNTRIES	8.42	14.42	12.08
REST OF THE WORLD (EXCLUDING ALL DEVELOPING COUNTRIES)	10.68	11.28	11.01
U.S.A.	15.41	6.63	10.20
JAPAN	10.12	14.86	12.94
E.E.C.	9.91	13.91	12.36
OVERALL	9.76	12.06	11.13

SOURCES: COMPUTED FROM DATA TAKEN FROM VARIOUS ISSUES OF DIRECTION OF TRADE STATISTICS, IMF

TABLE3

SAARC NATIONS' RATES OF GROWTH OF IMPORTS FROM IMPORTANT DEVELOPING COUNTRIES TRADING PARTNERS DURING 1973-88

	INDIA	IRAN	IRAQ	KUWAIT	SAUDI ARABIA	U.A.E.	HONG KONG	KOREA	MALAYSIA	SINGAPORE
BANGLADESH	-1.10	N.A.	N.A	N.A	N.A.	N.A.	N.A.	33.80	N.A.	26.84
INDIA	------	5.10	3.14	N.A.	10.06	7.40	N.A.	N.A.	N.A.	N.A.
NEPAL	2.76	N.A	N.A	N.A	N.A	N.A.	10.80	21.47	N.A.	27.21
PAKISTAN	N.A.	N.A.	N.A.	16.61	11.81	25.44	N.A.	N.A.	20.58	N.A.
SRI LANKA	11.40	14.75	N.A.	N.A.	-0.08	N.A.	37.44	N.A.	N.A.	21.71

N.A.= NOT APPLICABLE
SORCES:ESTIMATED FROM DATA TAKEN FROM DIRECTION OF TRADE STATISTICS,IMF

TABLE 4

SAARC NATIONS' RATES OF GROWTH OF EXPORTS TO IMPORTANT DEVELOPING COUNTRIES TRADING PARTNERS DURING 1973-88

	INDIA	PAKISTAN	SRI LANKA	IRAN	IRAQ	SAUDI ARABIA	U.A.E.	HONG KONG	SINGAPORE
BANGLADESH	N.A.	18.20	N.A.	10.78	N.A.	N.A.	N.A.	N.A.	14.42
INDIA	---	N.A.	N.A.	N.A.	N.A.	13.24	N.A.	N.A.	N.A.
NEPAL	8.08	N.A.	4.86	N.A.	N.A.	N.A.	N.A.	N.A.	3.08
PAKISTAN	N.A.	N.A.	N.A.	7.85	N.A.	14.23	14.13	0.44	N.A.
SRI LANKA	N.A.	-1.48	N.A.	N.A.	12.38	12.82	N.A.	N.A.	14.83

N.A.= NOT APPLICABLE
SORCES:ESTIMATED FROM DATA TAKEN FROM DIRECTION OF TRADE STATISTICS,IMF

TABLE 5

IMPORTS BY BROAD ECONOMIC CATEGORY(PERCENT OF TOTAL VALUE)

	INDIA			PAKISTAN		
	1973	1980	1985	1973	1980	1987
FOOD, BEVERAGES	19.5	7.9	8.2	23.9	12.3	12.9
INDUSTRIAL SUPPL.	40.9	33.9	41.1	46.1	32.4	36.4
a. PRIMARY	9.0	7.7	11.5	5.9	3.7	5.9
b. PROCESSED	31.8	26.1	29.6	40.2	28.7	30.4
FUELS	13.9	43.6	26.4	7.9	26.8	17.5
MACHINERY	19.5	11.4	18.9	12.2	13.3	19.5
a. CAPITAL EQIP.	15.0	9.1	14.0	10.5	11.6	17.3
b. PARTS	4.5	2.3	5.0	1.8	1.8	2.2
TRANSPORT	4.5	2.0	3.2	6.3	12.4	9.2
CONSUMER GOODS	1.4	1.2	1.9	3.5	2.8	4.3
GOODS nes.	0.3	0.0	0.3	0.0	0.0	0.3

SOURCE:VARIOUS ISSUES OF INTERNATIONAL TRADE STATISTICS YEARBOOK,VOLUME1,UNCTAD

TABLE 6

EXPORTS BY INDUSTRIAL ORIGIN(PERCENTAGE OF TOTAL VALUE)

	INDIA			PAKISTAN		
	1973	1980	1985	1973	1980	1987
AGRICULTURE	26.6	25.1	22.3	13.6	23.7	16.5
MINING QARRY	11.4	14.9	21.3	0.7	2.5	0.4
MANUFACTURING	62.0	60.0	56.4	85.6	73.7	83.1
a. FOOD, BEV., TOB.	11.7	7.8	5.9	20.7	19.2	9.3
b. TEXTILES	35.9	29.5	28.6	56.9	42.2	66.5
c. WOOD&WOOD PROD.	0.1	0.3	0.1	0.0	0.0	0.0
d. PAPER&PAPER PRO	0.3	0.2	0.2	0.1	0.3	0.1
e. CHEMICAL INDUST	2.9	5.2	9.2	1.4	5.9	1.3
f. NON METAL MINE.	0.6	0.7	0.4	1.4	0.2	0.3
g. BASIC METAL	2.7	1.4	0.9	0.1	0.0	0.4
h. METAL MANUFACT.	6.1	12.1	8.4	2.9	4.9	3.1
i. OTHER MANU. IND.	1.7	2.8	2.7	2.1	1.1	2.1

SOURCE:VARIOUS ISSUES OF INTERNATIONAL TRADE STATISTICS YEARBOOK,VOLUME1,UNCTAD

CONCLUSION

Our analysis of changing patterns of trade of developing countries during 1973-88 clearly demonstrates that there is an unmistakable tendency towards increased South-South trade, slackening of this tendency after early 1980s notwithstanding. The share of South-South trade in the total trade of all the developing countries taken together increased from 24.36 per cent during 1973-75 to little more than 30 per cent during 1986-88. The increase was even more dramatic in the case of non-oil developing countries. The share of non-oil developing countries (i.e excluding OPEC) in their total trade increased by 8 percentage point from 17.28 per cent during 1973-75 to 25.25 per cent during 1986-88. The higher rate of growth of intra-non-oil developing countries trade at 15.06 per cent p.a. allays the fear expressed during the early 1980s that the increasing tendency towards the South-South trade observed during the 70s might not be sustained once the OPEC countries growth slows down. This shows the robustness of South-South trade.

Even the bloc-wise analysis showed that the South-South trade was either increasing at a faster rate than or at an almost equal rate as trade with the rest of the world (excluding all the developing countries). The rate of growth of bloc's trade with the rest of the developing countries was clearly higher than the bloc' trade with the rest of the world in the cases of both ASEAN and SAARC. And in so far the former was growing at a slower pace than the latter in the case of LAIA, it was mainly, as we saw, due to the rapid growth of the USA's trade with Mexico.

One disconcerting feature has been the slow down in the growth of South-South trade after early 1980s. The problem has been specially acute in the case of LAIA. After the onset of the debt crisis in 1982, the LAIA nations had to devote most of their time and energy in earning desired foreign exchange. And as the other developing countries were also having a non-too happy foreign exchange situation, these countries had to look forward to the developed country markets to earn foreign exchange so as to service their debt in the face of drying up of foreign capital supply. Even the OPEC countries were hit hard by the oil glut and the consequent decline of oil prices. However, even in these abnormal circumstances, these countries tried, albeit not so successfully, to maintain the tempo of South-South trade. The biggest hurdle perhaps proved to be the lack of credit and payment arrangements among the developing countries on a sound basis. This was true for both the intra-regional and inter-regional developing countries trade.

Another important point that emerges from the analysis of changing patterns of trade of developing countries is that the conscious efforts at increasing the South-South trade in the from of intra-bloc trade have not been as successful as the bloc's trade with the rest of the developing countries.

Regional economic cooperation is not usually considered as a variable when individual member countries formulate their economic policies. National priorities come before regional priorities.

Cooperation in industry and trade has been slow to materialize because the industrial output of member countries is similar. And this in turn has happened because most of the member countries have followed indiscriminate import-substitution policies resulting in competitive rather than complementary economic structure. Since protected domestic market is the most important variable in the investment decisions, any attempt to lower the protection level to allow competition from other member countries is generally resisted by the domestic producers. Schemes such as the ASEAN industrial complementation (AIC) were not so sucessful because of the lack of desire of sharing markets with other member countries. Most of the countries are dependent in greater or lesser degree on customs revenue and therefore the goods put forward for tariff cuts are those which have the least effect on the maintenance of customs revenue rather than those which would augment trade.

The heterogeneity in the achieved level of development among the member countries and also the heterogeneity of the structure of the economies, derived from different level of development, puts different countries in different positions in respect of their ability to use the the advantages of preferential treatment. The fear of domination by others has, therefore, made the less developed members reluctant to join any preferential trading arrangements or trade augmenting industrial cooperation whole heartedly.

In any case perferential trading arrangements generally concentrated on tariff cuts though the non-tariff measures were also on the agenda. In the absence of any concrete steps to overcome non-tariff barriers, it was therefore only natural that lowering of import tariffs failed to impart sufficient impulse to mutual trade flows.

Thus we see that the conscious efforts at increasing South-South trade in the form of intra-bloc trade existed more in the form of policy pronouncements than at the level of reality. But in so far as the policy pronouncements translated themselves into reality they certainly helped in increasing intra-bloc trade, as is clear form the ASEAN experience where it grew at a faster rate than its trade with either the USA, Janpan or the EEC. This is brought out in an even more stark form by the fact that the very lack of any effort at increasing intra-bloc trade in SAARC-perhaps because of its infant-stage resulted in the intra-bloc trade having the lowest rate of growth of all. This is a pointer to the fact that the conscious effort is very much needed. And in so far it could not lift intra-bloc trade above the inter-regional form of South-South trade it was because of it not getting translated into practice.

The analysis of bloc's trade with the USA, Japan and the EEC does not provide any evidence of the generally believed leadership pattern. In the case of ASEAN, among the developed countries it was not Japan which had the highest rate of growth of trade, instead it was the USA which outstriped Japan in the growth rates of both exports and imports to and from ASEAN.In fact even the EEC had higher rate of growth of trade with ASEAN than that achieved by Japan. However, if we include the developing countries also then it was the rest of the developing countries which had the highest rates of growth of exports and imports to and from ASEAN. And in the case of SAARC it was not the EEC but Japan which had the highest rate of growth of total trade. However, it was the USA which acted as the fastest growing market for the SAARC. But again the rest of the developing countries had a better rate of growth of total trade with SAARC than any of the triad member. It is only in the case of LAIA that any clearcut leadership pattern emerges and which matches the general perception as well. In LAIA's trade USA had a better rates of growth of both exports and imports than either Japan or the EEC or for that matter, if we include developing countries, even the rest of the developing countries. But even in LAIA's case the leadership pattern is more apparent than real. As we saw while dealing with the LAIA trade, if we take the US-Mexician trade away then LAIA's rate of growth of trade with the USA comes crashing down. And even if we include the Us-Mexican trade, it was only after the onset of the debt crisis in 1982 that the USA's trade with LAIA gained momentum. Otherwise it had a more or less stagnant share during the better part of our analysis. And indeed it was the trade with the rest of the developing countries that was growing the fastest till 1982 when the debt crisis put the brakes on the South-South trade expansion.

Thus we see that the analysis of the changing patterns of trade of the three regional blocs, namely, ASEAN, LAIA and SAARC during 1973-88 brings out results which do not entirely match the general presupposition regarding international trade of developing countries. However, the empirical findings point in the direction of some of the theoretical findings put forward in the favour of South-South trade, though we must concede that they are more in the nature of conjecture as we have not gone into the details of the types of products, etc. needed for this kind of analysis.

The high rate of growth of non-oil exporting developing countries trade points towards the growing importance of manufactures. The fact that the share of the intra-non-oil exporting countries trade in thier own total trade continued to grow even during the 80s when the prices of non-oil primary commodiate were falling supports the above view. South-South trade seems to have played a big hand in the increased competitiveness of developing countries in manufactured exports by helping them realize economies of scale. Besides increased cmopetitiveness, the rapid growth of export of manufactures, especially that of capital goods points towards the appropriateness of products as well. However, as the rapid growth of exports of manufactures was mainly due to the performance of newly industrializing countries(NIG), especially East and Southeast-Asian countries, the benefits also mainly accrued to them.

Exports of capital goods, together with joint-ventures, industrial project exports and civil construction projects by the NIG point towards the technologiacal advancements and increasing innovational capacity of the developing countries. However, it must be said that whatever they have achieved so far is too small compared to the potential that they have.

The finding that in all the cases it was the bloc's trade across all the developing countries which was growing faster than the intra-bloc trade provides a strong temptation to suggest that the establishment of a global system of trade preferences among the developing countries should be pursued more vigourously. While dealing with the trading patterns of different trading blocs we found that an important factor inhibiting the growth of intra-bloc trade was the lack of complementarity among member countries. In contrast to this we saw that there is very strong complementarity of export structure between bloc-member on the one hand and non-member developing countries on the other. So, the potential for reaping the benefits of complementarity among developing countries on a global basis, it seems, is more than that on a regional or sub-regional basis. In any case, besides greater complementarity, any scheme of global preferential arrangement, by widening the area of assured markets beyond those avaiable in each particular region or sub-region to include the developing world as a whole would greatly enhance the scope for economies of scale and for trade expansion.

Of course this is not to suggest that the regional economic cooperation should not be pursued because in so far as it increases complementarity it is very much welcome. However, the point is that an overemphasis on regional cooperation would mean foregoing of the immense benefits that can be derived by pursuing a vigorous policy of removal of impediments to trade across all the developing countries.

BIBLIOGRAPHY

Admas, Nassau A., "Trade Among Developing Countries : Trends, Patterns and Prospects", Pavlic, B., et.al., in The Challenges of South-South Cooperation, Westview Press, Colarado, 1983.

Agrawal, Govind R., "Economic Dimensions of South Asian Regionnal Coopeartion, in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Akrasanee, N., "ASEAN Economic Cooperation" in Martin, Linda G. (ed.), The ASEAN success story, East-West Centre, Hawaii, 1987.

Amsden, A., "Trade in Manufactures between Developing Countries", Economic Journal, 1976.

--------, "The Industry Characteristics of Intra-Third World Trade in Manufactures", Economic Development and Cultural Change, 1980.

Andic, F., Andic, s. and Dosser, D., "A Theory of Economic Integration for Developing Countries", George Allen and Unwin, London, 1971.

Asai, M., "Japan" in Martin, Lind G.(ed.), The ASEAN success story, 1987.

Banerji, K., "Financial Cooperation For Trade Expansion, in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Bonzas,R.,US-Latin American Economic Relations : Perspectives for the 1980s", in Middlebrook, Kevin J. et.al (ed), The United States and Latin America in the 1980s, University of Pittsburgh Press, 1986.

Carlesson, J, "The Emergence of South-South Relations in a changing World Economy", in Carlsson, J. (ed), South-South Relation in a changing world order, 1982 Uppsala; Scandinavian Institute of African Studies, 1982.

Direction of Trade Statistics, Year book(s), 1980, 1983, 1984, 1985, 1986, 1987, 1988, 1989, IMF, Washington D.C.

Feinberg, Richard E., "Debt and Trade in US- Latin American Relations, in Middlebrook (ed.), The United States and Latin America in the 1980s, University of Pittsburgh Press, 1986.

Forrest, T., "Goepolitics in the South Atlantic : Brazil, Nigeria and Africa", in Carlsson (ed.), South-South Relations in a changing world order, 1982.

Fritsch, W., "Latin America's Export-Growth Imperative in the 1980s : Can the United States Help Achieve it ?", in Middlebrook (ed). The United States and Latin America in th 1980s, University of Pittsburgh Press, 1986.

GATT : International Trade 1988-89, Vol.I, Geneva, 1989.

GATT : International Trade 1989-90, Vol.I, Geneva, 1990.

Green, R., "International Banks, Foreign Debt, and the Third World Quest for A New Order", in Grabendorff, W., Roett, R. (ed.), Latin America, Western Europe and the US, Praegr Publishers, New York 1985.

Greenaway, D. and Milner, C., "The Economics of Intra-Industry Trade", Basil Blackwell, New York, 1986.

Havrylyschyn, D. and Wolf, M., "Recent Trends in Trade among Developing Countries, European Economic Review, 1983.

Hoffmann, H., "Towards Africa ? Brazil, and the South-South Trade", in Carlsson, J. (ed), South-South Relation in a changing world order, 1982 Uppsala; Scandinawian Institute of African Studies, 1982.

International Trade Statistic Yearbook(s), Vol.I, 1978, 1986, 1990, UNCTAD, United Nations, New York.

Kolisevski, M., "GSTP : An Instrument for Intensification of ECDC", in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Krueager, A., "Alternative Trade Strategies and Employment in LDC, American Economic Review, 1983.

Lall, S., "Third World Multinationals : The Indian Case", in Carlsson, J. (ed), South-South Relation in a changing world order, 1982 Uppsala; Scandinawian Institute of African Studies, 1982.

Lall, S., "Trade Between Developing Countries", Trade and Development, an UNCTAD Review, Number 6, 1985.

Lall, S.,"Exports of Technology by Newly-Industrializing Countries : An Overview", World Development, Vol12, 1984.

Laszlo, E., Regional Cooperation Among Developing Countries : The Operational Modality of ECDC", in Pavlic, B., et.al. (ed.), The Challenges of South-South Cooperation, Westview Press, Colorado, 1983.

Massad, C." External Financing in Latin America : Development Problems, and Options", in Middlebrook, K and Rico, C. (ed.), The United States and Latin America in the 1980s, University of Pittsburgh Press, 1986.

Medina, T.F., "Monetary and Payments Arrangements Among Developing Countries", in Pavlic, B., et.al. (ed.), The Challanges of South-South Cooperation, Westview Press, Colorado, 1983.

Middlebrook, K. and Rico, C., "The United States and Latin America in the 1980s : Change, Complexity, and Contending Perspective", in Middlebrook, et.al. The United States and Latin America in the 1980s, University of Pittsburgh Press, 1986.

Modwell, S.K., "GSTP : Some Issues in Implementation" in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Mohanty, M., "The Potential for Trade Liberalisation Between Major SAARC Countries and the Impact on output and Employment", ILO, New Delhi, 1991.

Naya, S., "Economic Performance and Growth Factors of the ASEAN Countries", in Martin,Linda G., The ASEAN Success Story, 1987.

O'Brien, R., "External Debt and Capital Flows in Latin America", in Middlebrook, K and Rico, C. (ed.), The United States and Latin America in the 1980s, University of Pittsburgh Press, 1986.

Palmer, R.D and Reckford, T.J., "Building ASEAN : 20 years of Southeast Asian Cooperation", Centre for Strategic and International Studies, Praeger Publishers, New York, 1987.

Pant, Y.P., "Trade and Cooperation in South Asia : A Nepalese Perspective", Vikas Publishing House, New Delhi, 1991.

Pochet P. and Praet, P., "Trade Relations Between Brazil and the European Community", in Coffey, P. and Do Lago, L.A.C. (ed.), The EEC and Brazil : Trade, Capital Investment and the Debt, Problem, Printer Publishers, London, 1988.

Raipuria, K.M., "South-South Trade Cooperation : The Conceptual Basis", in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Rao, V.L., "South Asian Regional Cooperation : Problem and Prospects", in Panchamukhi, V.R., et.al., South-South Economic Cooperation, Radiant Publishers, New Delhi, 1987.

Stewart, F., "The Direction of International Trade : Gains and losses for the Third World, in Helleiner, G.K. (ed.), A World Divided, Cambridge University Press, Cambridge,1976.

Stewart, F., "Recent Thesis of International Trade : Some Implication for the South", in Kierzkowski (ed.) Monopolistic Competition and International Trade Clarendon Press Oxford, 1984.

Trade and Development Report, 1983, 1986, 1987, 1988 and 1989, UNCTAD, United Nations Publishers, New York.

Wadhva, C.D., et.al., "Regional Economic Cooperation in Asia: Bangladesh, India, Pakistan and Srilanka", Allied Publishers, New Delhi, 1987.

Wadhva, C.D., "Economic Cooperation Among the Countries of ASEAN and SAARC", mimeo, Centre for Policy Research, New Delhi, 1987.

World Development Report, 1988, 1989, 1990, World Bank, Oxford University Press, USA.

World Investment Report, 1991 : The Triad in Foreign Direct Investment, United Nations, New York, 1991.

1935