

The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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4. South-South trade

Sheila Page

The EU, US, and other developed countries have repeatedly insisted that the advanced developing countries should offer preferences to the Least Developed (and possibly others) as part of any Doha deal. In particular, they suggest this as offering compensation for preference erosion (see paper *Preference erosion: helping countries to adjust*) or in return for better access to developed countries.* The demands have been directed particularly at the G20, the negotiating group of major developing countries. This suggests that the targets are China, India, and Brazil, although these are not the highest income countries in the developing category. To exclude China and India from some preferences could be justified because their size increases the 'cost' (in mercantilist terms) of offering access to them. It is possible, if they consent, that even arrangements which impose costs on them (through trade diversion by favouring other low income countries) would be acceptable, if their size makes external markets less important to them. But asking them to open their markets is justifiable only if this would be a significant benefit to other developing countries.

Some estimates (notably those by the World Bank) of effects of trade liberalisation do emphasise the impact of liberalisation by developing countries towards other developing countries. If barriers in other developing countries are a major part of the problem for developing countries, then proposals in the Doha Round to allow reduced and no liberalisation, by developing and Least Developed countries respectively, could backfire. But in fact the principal markets for Least Developed countries' exports (both agriculture and non-agriculture) are the developed countries. Least Developed countries themselves take less than 1% of total Least Developed exports. Table 1 shows that most LDC exports go to developed countries in particular to the US and the EU; within this the EU share has fallen, although it recovered in 2001 and 2002. (EBA, Everything But Arms, duty free

entry for all LDCs, began in March 2001.) None of the other areas approaches these shares. Exports to China, although low until the 1990s, rose rapidly in the late 1990s, but the peak of 11% was about half the level to the US. India began to rise in the 1980s, and overtook the share to Japan in the 1990s, but is still only 4%. Brazil is not a significant market for LDCs. The regional markets are important; even Africa shows a high share, but much of this trade already takes place on low-tariff terms, under regional arrangements. For all developing countries, China, Korea, and Thailand are the most important developing country markets. Total south-south trade has risen from just over 6% in 1990 to under 11% in 2001. The share of developing countries in developing countries' exports rose from 28% in 1990 to 37% in 2001.

The data on trade barriers do not suggest that these are a major barrier to LDCs, as only India has very high applied tariffs (around 30%). It is a major market for some developing countries (Kenya, Mauritius and Vietnam of those surveyed here), but not for LDCs. China is, actually or potentially, a major market for all developing countries, but its average applied tariff is only 12%. The countries which are in fact the advanced developing countries, e.g. Mexico, Chile and Singapore, do not have high tariffs, and many already offer preferences to the LDCs. The MERCOSUR countries as a group (Argentina, Brazil, Paraguay, Uruguay), Egypt, Korea, Mauritius, and Thailand offer preferential access, and Chile, Indonesia, Malaysia, and Morocco are reviewing the possibility. The UNCTAD XI conference, in June 2004, decided to revive the GSTP, Global System of Trade Preferences, which dates from 1989 and covers preferences among developing countries. These preferences are limited, however, and apply to low shares of trade.

Overall, about a third of South-South trade is agricultural, rather higher than the share of such trade in total. South-South trade is important in some manufactures (southern Africa into South Africa, for example) and in machinery and transport in Latin America and Asia. Here, however, regional arrangements have already lowered most tariffs below MFN (WTO registered) levels, so that there are no direct interests in the WTO nego-

* In renewing AGOA in 2004, the US Congress (US, AGOA 2004) said, 'some of the most pernicious trade barriers against exports by developing countries are the trade barriers maintained by other developing countries'.

Table 1 Least Developed Countries' exports by markets (1980–2002)

	US	EU	Japan	Other developed	All developed	India	Brazil	China, with Hong Kong
1980	9.0	49.6	5.9	2.1	66.6	1.5	0.4	2.1
1985	18.6	45.9	4.4	0.9	69.8	1.8	1.3	1.4
1990	20.7	43.2	5.0	5.9	74.8	2.1	0.6	1.9
1991	21.8	43.7	5.4	3.3	74.2	2.8	1.2	1.8
1992	23.8	40.7	5.7	1.5	71.7	2.1	0.5	2.3
1993	23.6	33.1	6.5	1.2	64.4	2.4	0.9	3.8
1994	22.3	36.6	5.7	1.0	65.6	2.5	0.8	2.9
1995	19.8	35.2	5.8	1.5	62.3	2.8	1.6	5.2
1996	20.6	32.9	5.7	1.9	61.1	2.6	2.7	5.3
1997	22.5	32.5	4.2	2.4	61.6	2.6	1.2	7.7
1998	23.2	35.4	3.5	1.7	63.8	3.4	0.6	4.0
1999	21.9	30.2	3.1	1.7	56.9	3.8	0.4	6.2
2000	23.7	29.1	3.0	1.4	57.2	4.2	0.8	11.1
2001	22.9	31.7	2.6	1.2	58.4	4.4	0.7	7.7
2002	21.2	31.4	3.7	1.3	57.6	4.2	0.1	9.3

tiations. (There are a few examples of extra-regional trade, but here there are often bilateral agreements, for example between several of the southern and eastern African countries and India.)

South-South trade is most important in Asia, which accounts for two thirds of it, although this was hit by the Asian financial crisis. This is higher than the share of GDP accounted for by developing Asia (about a half) reflecting the faster growth in that region. The leading traders are China, Korea, Singapore, Taipei, and Malaysia. As was found for the Uruguay Round (completed in 1993), therefore, liberalisation by developing countries, and in particular by the more advanced East Asian economies, is likely to be important for the Asian countries, not for African or Latin American, and liberalisation by African and Latin American countries is unlikely to have a major effect even in their own regions, partly because of low trade shares and partly because of the existence of regional arrangements.

There was some interest in India and Brazil in early 2004 in developing the G20 from a negotiating group into a trading area (see papers *Poverty impact of Doha: Brazil* and *Poverty impact of Doha: India*). This was partly influenced by the preparations for the UNCTAD XI conference, which brought South-South trade to policy makers' attention (UNCTAD has always supported it, and the EU suggested it as a priority for 2004, as part of its effort to divert UNCTAD's attention from the WTO agenda). It was also part of a general search for alternative trading arrangements after the failure of Cancún.

The G20 was in its inception a clear example of a group formed only for negotiations, cutting across income levels, from several regions, both formal and geographical, and including countries with very different approaches to trade policy and different positions, even on agriculture its nominal focus. Since Cancún, however, the principal members, Brazil, China, India, and South Africa, have been emphasising their common interests, their extensive trade among themselves, and thus their potential to become more than a negotiating alliance (see paper *Poverty impact of Doha: India*). All four began discussing trade agreements with each

of the others and exchanging official visits; in January 2004, India and MERCOSUR agreed a framework to negotiate trade preferences; and Brazil has proposed a G20 trade agreement. Their trade among themselves has increased in the last 20 years, but this is principally because the trade of each of the others with China has increased. China is now Brazil's second export market, or third if the EU countries are counted together, and it is important for both India, at 9%, and South Africa. The other three, however, take less than 1.8% of China's exports. The highest observed share, however, Brazil's exports to the sum of the other three, is only 6% of its trade. The G20 as a whole takes about a quarter of Brazil's exports and imports, but this is because of the weight of other Latin American countries. The G20 accounts for under 10% of the trade of India and South Africa. These developments are interesting if they reflect a belief that negotiating alliances 'ought' to be more substantial than that, but it is difficult to see them becoming real, unless there is a severe breakdown in developed-developing country relations. The difficulties of ensuring that groups formed for other purposes, with other administrative arrangements, are also 'good' negotiators suggest that such integration might weaken the G20, not strengthen it, as may have been the objective.

India is the only developing country which both is an important market for other developing countries and has high tariffs, but it remains a poor country which would not normally be expected to lead in taking on obligations to help other countries. China is becoming an important market for all developing countries, but its tariffs are already relatively low. Other developing countries may be important markets within their own regions, but usually trade on favourable terms already. There seems no reason yet to alter the assumption that the principal gains for developing and Least Developed country exports will come from opening US and European markets.

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For further information contact Sheila Page (s.page@odi.org.uk)