SOUTH-SOUTH REGIONALISM AND TRADE COOPERATION IN THE ASIA-PACIFIC REGION

Shafaeddin, Mehdi

UNDP

August 2008

SOUTH-SOUTH REGIONALISM AND TRADE COOPERATION IN THE ASIA-PACIFIC REGION

Asia-Pacific Trade and Investment Initiative
UNDP Regional Centre in Colombo

RCC Policy Paper Series

The Policy Paper Series explores topical, thematic or emerging issues in Asia Pacific with a view to identify key policy issues that are of relevance to RCC's two practice areas of Poverty Reduction and HIV/AIDS, with gender equality as a cross-cutting area. These papers present new ideas and research and are meant to offer critical pointers towards informed policy-making among stakeholders, including peers and the wider community of development practitioners.

SOUTH-SOUTH REGIONALISM AND TRADE COOPERATION IN THE ASIA-PACIFIC REGION

POLICY PAPER

Asia-Pacific Trade and Investment Initiative
UNDP Regional Centre in Colombo

Written by Mehdi Shafaeddin*

*Mehdi Shafaeddin is a development economist with a DPhil. degree from Oxford University, United Kingdom. He is currently an international consultant and is affiliated to the Institute of Economic Research, University of Neuchatel, Switzerland. He was formerly Head of the Macroeconomics and Development Policies Branch, Globalization and Development Strategies Division of the United Nations Conference on Trade and Development. He has written many articles on trade policy, industrialization and development policies for several international journals. His recent work includes *Trade Policy at the Crossroads: the Recent Experience of Developing Countries* (Macmillan, 2005).

First Published in August 2008

Asia Pacific Trade and Investment Initiative
UNDP Regional Centre in Colombo
23 Independence Avenue
Colombo 7
Sri Lanka.
Tel: +94 11 4526400
Fax: +94 11 4526410
rcc@undp.org
www.undprcc.lk

ISBN: 978-955-1416-22-5

Layout and design by Copyline (Pvt) Ltd.
Cover photo by Reuters/Stringer China

Contents

List of tables

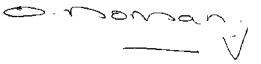
Preface

International trade has assumed a central role in economic growth and poverty reduction efforts in developing countries. Since its establishment in 2002, the Asia-Pacific Trade and Investment Initiative (APTII) at the UNDP Regional Centre in Colombo has contributed to developing approaches and strategies which help align trade dynamics with the objectives of poverty reduction and human development in the Asia-Pacific region. The APTII has promoted innovative research and policy advice that seek to clearly define the substantive linkages between trade and human development and is consistent with the objective of supporting the attainment of the Millennium Development Goals (MDGs).

Striving to build on its previous work and achievements, in its third and current phase of the work programme (2008-2011), the APTII aspires to make a significant contribution to policy dialogues by fostering regional trade and investment regimes that are consistent with human development goals in the region. A central challenge facing policy-makers in the region is to facilitate patterns of inclusive regional integration that enable them to address specific development priorities and goals, particularly with reference to the development needs of least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing states (SIDS). The focus, for APTII's current work programme therefore, will be on 1) enhancing trade competitiveness and capacity development to formulate employment- and gender-responsive trade policies; and 2) capacity strengthening to implement pro-poor regional integration strategies, including through key regional processes and/or mechanisms. In line with this focus, APTII will publish a series of studies and discussion papers which shall highlight the policy implications of the multifaceted dimensions of the current trade trends and patterns and their human development impacts in the Asia-Pacific region.

South-South trade and investment flows are becoming a key factor behind the growth processes in the Asia-Pacific region. The current study, *South-South Regionalism and Trade Cooperation in the Asia-Pacific Region*, by Mehdi Shafaeddin, offers a well rounded perspective on the economic rationale for South-South trade cooperation and regional integration while bringing out its nature and pattern in the Asia-Pacific region and its underlying main drivers. Based on extensive data analysis, the paper also identifies limitations and vulnerabilities for countries involved in the process of South-South trade. It identifies a wide array of policy measures with a potential for creating new synergies and enhancing the participation of low income countries in the rapid growth of intra-industry trade and product sharing arrangements.

We hope that the policy paper would be useful to the governments, UNDP country offices, research institutions, civil society and other stakeholders in the Asia-Pacific region in furthering the process of regional integration with a human development orientation.



Omar Noman
Chief of Policies and Programmes
UNDP Regional Centre in Colombo

Acknowledgements

This paper was written under contract with the Asia-Pacific Trade and Investment Initiative, UNDP Regional Centre in Colombo (RCC), Sri Lanka. The author wishes to thank Kamal Malhotra and Biplove Choudhary of UNDP and Professor Karshenas of the School of Oriental and African Studies (SOAS), London University, for their comments on an earlier draft of this paper. Professional editing by Praveen Bhalla is gratefully acknowledged. Additional editing by Bryn Gay and Chatrini Weeratunge is deeply appreciated. Editorial assistance provided by Randika Jayasinghe is noted with gratitude.

Abbreviations and acronyms

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
CGE	Computable General Equilibrium
c.i.f.	cost, insurance and freight prices
EA	East Asia
EC	European Community
ECLA	Economic Commission for Latin America
ECO	Economic Cooperation Organization
ESSEA	East, South and South-East Asia
EU	European Union
FDI	Foreign Direct Investment
f.o.b.	free on board
FTA	Free Trade Agreement
G77	Group of 77 developing countries signatories at the United Nations[1]
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GSTP	Global System of Trade Preferences among Developing Countries
ICT	Information and Communication Technologies
LDC	Least Developed Country
MERCOSUR	Southern Common Market (Mercado Comùn del Sur)
MDGs	Millennium Development Goals
MVA	Manufacture Value Added
NAFTA	North American Free Trade Agreement
NAM	Non-Aligned Movement
n.e.s.	not elsewhere specified
NIE	Newly Industrializing Economy
N-S	North-South
P&C	Parts and Components
R&D	Research and Development
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SITC	Standard International Trade Classification
S-S	South-South
TNC	Transnational Corporation
TRIMs	Trade-Related Investment Measures (also Uruguay Round Agreement on Trade-Related Investment Measures)
TRIPS	Trade-Related Aspects of Intellectual Property Rights (also Uruguay Round Agreement on Trade-related Aspects of Intellectual Property Rights, or TRIPS Agreement)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US/U.S.	United States
WTO	World Trade Organization

[1] Seventy-seven developing countries adopted the Charter of Algiers in 1967; now the number of signatories has increased to 130 countries.

Executive summary

This study of regional South-South (S-S) trade and cooperation in East, South and South-East Asian countries (ESSEA) aims to provide an economic rationale for S-S trade; shed some light on the extent and pattern of S-S trade in the ESSEA region; examine the dynamic forces behind the expansion of such trade, and its shortcomings and vulnerabilities; propose policies for enhancing and strengthening regional cooperation; and identify areas for further research.

The main conclusion of the study is that, while the rapid expansion of trade among ESSEA countries has been mainly the result of industrialization and industrial collaboration in the form of production sharing, it has not been driven through the operation of market forces alone. South-South trade can also be used as a policy-driven vehicle for industrialization in lower-income countries, and is linked to the principle of dynamic comparative advantage. The resultant expansion of supply capabilities and diversification of the structure of production and trade, in turn, potentially leads to further expansion of S-S trade and to the geographical diversification of trade for the countries involved, with a positive impact on their bargaining power. However, enhancing S-S trade requires proactive policy measures for cooperation that go beyond tariff reduction and trade agreements.

The paper begins by providing a rationale for S-S trade as a vehicle for promoting industrialization and development. It goes on to show that regional trade has expanded rapidly in ESSEA mainly through intra-industry trade in the form of production sharing in electrical and electronic products. The region has become not only the most dynamic area for S-S trade, but also a major force in international trade in general. Nevertheless, intraregional trade among ESSEA countries has led to three main developments that these countries need to consider collectively and address through joint policy initiatives in order to further promote industrialization and development.

These developments are:

(i) The concentration of intraregional trade among the relatively more advanced countries of the region, which suggests the need for better integration of the lower-income countries;

(ii) The dominance of production sharing in a limited number of parts and components (P&C) in trade among the second-tier NIEs, and the need for their technological upgrading; and

(iii) The increased vulnerability of the countries involved in production sharing (stemming from their dependence on external markets and on their own interdependence). This development suggests the need for countries to protect themselves against risks related to unforeseen events, external shocks and instability in the international financial markets, particularly because most countries in the region depend heavily on exports.

More specifically, the paper seeks to demonstrate that the neo-liberal argument against S-S trade is not justified, as it is based on a static version of the theory of comparative advantage. According to this theory, countries tend to specialize in exportation of what they already can produce, rather than in new products they

would like to produce and export in order to deepen their industrial structure and enhance their development. Yet opponents of this argument so far have not been able to provide a strong economic rationale in favour of proactive expansion of S-S trade. Developing-country policy-makers have paid lip services in support of S-S trade in various international forums, while scholars discussing the issue in the literature have often taken a defensive approach. S-S trade is favoured, for example, due to problems of, or limits to, trade with the North; weakness and asymmetries in the international trading system; or due to lopsided North-South (N-S) trade agreements. Geographical diversification to reduce risks of dependence of developing countries on markets in developed countries, and the resultant improvement in their bargaining power and terms of trade, are cited in the literature as some of the benefits of S-S trade. While such benefits are undeniable, tariff reductions and the operation of market forces alone are not sufficient instruments for promoting S-S trade; there is also a need for a dynamic mechanism for enhancing industrialization and development, which, in turn, would further boost such trade.

This study regards trade as a means to development, defines development as an "upward movement of the whole social system," and considers industrialization as an important requisite. Within this framework, it considers S-S trade as additional to N-S trade, and as a dynamic component of trade and industrial policy for enhancing industrialization, upgrading of the industrial structure and development through fuller utilization of unemployed and underutilized resources in developing countries. Such a rationale is based on a combination of three main elements: the theory of "vent for surplus"; the resource scarcity problem of developing countries; and division of labour and specialization. By arranging industrial collaboration and/or cooperation on research and development (R&D) through division of labour and specialization, developing countries could remedy their problem of scarcity of the complementary factors of production needed for the expansion of supply capacity and/or upgrading of their industrial structure. By sharing the additional markets created, they would also benefit from larger markets and internal and external economies of scale (i.e. increasing returns). The expansion of supply capabilities and S-S trade would in turn improve their bargaining position vis-à-vis developed countries in multilateral forums as well as in their bilateral trade relations.

Furthermore, to achieve such objectives, S-S cooperation for trade expansion should follow the principle of dynamic comparative advantage. This requires government intervention to correct and remedy market failures and deficiencies, as well as cooperation beyond international trade, covering not only industrial collaboration and R&D, as mentioned above, but also such areas as back-up services and adjustment assistance to lower-income countries, for instance in training and skills development.

Regarding the experience of S-S trade in ESSEA, it is shown that the region has increasingly become a dynamic source of S-S trade, and of supply and demand in international trade in general. The rates of growth of exports and imports of ESSEA well exceed those of S-S trade and world trade, particularly for manufactured goods. However, trade agreements and tariff reductions are not the main contributory factor. While it is true that trade agreements have increased trade among members of each regional trade bloc, particularly that of the Association of Southeast Asian Nations (ASEAN), some other factors seem to have been more important in expanding regional trade in ESSEA. The share of intraregional trade of each regional group is not in all cases greater than its trade share with a different group or groups. Demand and supply dynamism, policies of governments and transnational corporations (TNCs) for industrial collaboration through production sharing, as well as measures taken by some "demand dynamic countries" for the expansion of supply capabilities in lower-income countries are among the important contributory factors.

To explain further, the countries with strong industrial supply capabilities (indicated by the ratio of manufacture value added to gross domestic product – MVA/GDP ratio) are among the most dynamic in regional trade. This would imply that industrial capacity is an important factor in the expansion of regional trade. At the country level, China and India, as the most dynamic countries in terms of GDP growth, have also been the most dynamic sources of supply, thus boosting regional trade. Their rates of growth of exports, and particularly imports, well exceed the average for ESSEA, and they highlight trade deficits with the region.

By contrast, generally speaking, with the exception of Nepal, and to some extent Sri Lanka, the lower the per capita income, the lower is the average growth rate of exports to the region. While the lower-income countries of the region have acted as a market for exports of other countries, they have not benefited much from the market opportunities provided by the demand dynamic countries. The value of regional imports of non-fuel products from these countries has not been significant and the value of manufactured goods has been low. Some countries (e.g. Bangladesh and Pakistan, both of which are members of the South Asian Association for Regional Cooperation (SAARC)) and Cambodia (a member of ASEAN) exhibit no signs of growth in their regional exports. Indeed, the growth rates of exports of Bangladesh and Cambodia to the region have been negative. Further, for most of the lower-income countries, the rates of growth of exports to the region were negative or lower than the rates of growth of their total exports. In other words, despite the fact that, generally speaking, tariffs and non-tariff barriers are lower in the newly industrializing economies (NIEs) and the second-tier NIEs than in the lower-income countries of the region, regional agreements have not been able to provide a significant impetus to regional exports of the lower-income countries of the region. Various factors may be responsible for such discrepancies in the performance of the two groups of countries, but the lower-income countries' lack of supply capabilities in manufactured goods is definitely a crucial factor.

The exceptional case of trade between India, on the one hand, and Nepal and Sri Lanka on the other, reflects India's deliberate policy aimed at the expansion of supply capabilities in these countries rather than being the outcome of the operation of market forces alone. Generally speaking, India is not only the largest and most dynamic importer of non-fuel products, including manufactured goods, from the lower-income countries in the Asia-Pacific region, but also the structure of its imports of manufactured goods is diverse. Indeed, India's imports from the lower-income/small countries in the region are larger than the imports of the whole of ASEAN from those countries. India's manufactured imports consist of such diverse items as chemicals, textiles, processed ores and metals, paper and cement. Twenty-four items account for 24.2 per cent of its total non-fuel imports and for over 75 per cent of its imports of manufactured goods from these countries. Two neighbouring countries, Nepal and particularly Sri Lanka, enjoy important trade relations with India. They are the source of nearly 31 per cent and over 20 per cent, respectively, of India's imports from lower-income/small countries. India received over 60 per cent of Nepal's exports in 2004/05 compared to about 10 per cent in 1991/92. Apart from their membership in SAARC (a plurilateral trade agreement), these two countries also benefit from close proximity, cultural and political ties, as well as bilateral trade relations with India. Most importantly, India has actively contributed to the expansion of the supply capacity of its partners, *inter alia,* through FDI. By contrast, Bangladesh, Bhutan and other SAARC members have neither similar bilateral trade agreements with India nor do they receive similar levels of foreign direct investment (FDI) from that country.

Contrasting the case of India with the Republic of Korea is also an indication of the inefficacy of market forces alone in the expansion of S-S trade. The growth rate of imports of the Republic of Korea from low-income countries was negative during the period 1995–2005. Similarly, ASEAN's growth of imports of manufactured goods from these countries has also been negligible in the absence of production sharing.

The low industrial and skills capabilities of the lower-income countries, in particular, have prevented them from participating in the rapid expansion of intra-industry trade and production sharing in the region. Yet it was this rapid expansion of intra-industry trade and production sharing in a limited number of electrical and electronic products that was a particularly dynamic force behind the expansion of regional trade, which was concentrated among the first-tier Asian NIEs, and subsequently the second-tier Asian NIEs. For example, seven such products accounted for nearly 58 per cent of non-fuel imports and for about 66 per cent of imports of manufactured goods of China from six ASEAN countries. More importantly, only two categories of electrical and electronic products (thermion, cold and photo-cathode valves; and automatic data processing machines) accounted for over 50 per cent of total non-fuel imports and for about 60 per cent of manufactured imports by China from those countries. Their total value, which in 2005 amounted to US$34 billion, increased at an average annual rate of 63 per cent during the period 1995–2005. In the case of Malaysia, these two product categories constitute over 60 per cent and 69 per cent, respectively, of its imports of non-fuel products and manufactured goods from China. China, as the largest and most dynamic regional market, imports some

sophisticated electrical and electronic products from the NIEs. It is also a major regional market for parts and components used for the assembly of products that are exported mainly to Europe and the United States. Indeed, industrialized countries account for over half of China's exports.

There is a common misconception about the role of market forces in the rapid expansion of regional trade in ESSEA. Some believe such trade is driven by market forces. This paper argues that the main driving force has been production sharing, which is basically an inter-firm operation that was initially prompted by changes in the government policies of Japan and by Japanese TNCs, as well as by the governments of the participating East Asian countries themselves. The integration of lower-income countries in regional trade through intra-industry trade and/or production sharing has to be policy-driven, which requires regional cooperation, not only in trade but also in other areas.

The reliance on a limited number of products, the interdependence of the countries of the region and their heavy dependence on the markets of developed countries entail a number of risks. Such risks have increased over the last two decades because of the growing tendency of boom and bust cycles in developed countries, and an increase in the correlation of business cycles between economies across the ESSEA region since the mid-1980s. Sources of risk include bottlenecks in production, or the emergence of financial shocks in one country and their transmission to other countries, resulting in slow growth. In particular, the dependence of other countries on China increases their vulnerability to external shocks and business cycles.

The contagion effects of the Asian financial crisis of 1997-1998 is a reminder of weaknesses in the international financial architecture, and thus of the need for strengthening regional financial cooperation in order to reduce the risk of socio-economic losses. The sub-prime problem in the United States, leading to a crisis in the financial markets, is another reminder of this effect. Moreover, not only do trade and industrial policies pursued in one country affect prospects for trade and development in other countries of the region, but also other policies, such as the exchange rate, financial and macroeconomic policies, in one country may have an impact on the economies of others.

Therefore, this study suggests the need to enhance and strengthen regional cooperation in four areas. The first is industrial collaboration through division of labour and specialization for building the supply capacity of the lower-income countries. As the countries concerned have common production and export structures, they currently have little prospect for regional trade expansion. The idea is for them to develop complementarity through the division of labour and specialization in different products with the aim of creating supply capabilities based on the principle of dynamic comparative advantage. The cooperation experience of India with Nepal and Sri Lanka shows not only the importance but also the feasibility of industrial collaboration among lower-income countries.

Second, regional arrangements should also include establishing a facility for providing adjustment assistance to lower-income countries for building supply capacity and back-up services, as well as for training and skills development. The NIEs in particular, which are interested in seeking new markets, should contribute to such a facility, as the development of lower-income countries would provide them with additional market opportunities in the region. The third area for cooperation is in technological capacity building and R&D among the second-tier NIEs. Finally, there is a need for enhancing financial cooperation and control of capital movements to reduce the risks arising from interdependence and vulnerability to external factors. The paper proposes, *inter alia,* the establishment of a regional bank for the South, which could also incorporate the existing Asian bond market schemes of the Chiang Mai Initiative. Although not discussed in this study, the countries of the region may seriously consider development of a strategic energy reserve facility to reduce their vulnerability to possible interruptions in petroleum supplies.

A number of areas are identified for further research. These include the impact of the dynamics of economic changes in China and India on export opportunities and industrialization of lower-income/small countries; the evolution of the relationship between FDI and regional trade, particularly production sharing,

in the ESSEA region; modalities of adjustment assistance to lower-income countries; trade and supply capacity building of lower-income countries of the region to enable them to target the Chinese and Indian markets; feasibility and modalities of industrial collaboration by lower-income countries; modalities of cooperation on R&D among second-tier NIEs, China and India; regional cooperation in the services sector; the feasibility and modalities of a regional South Bank and modalities of capital control; and development of facilities for a strategic energy reserve.

1. Introduction

Over the past 25 years, South-South (S-S) trade has been expanding faster than international trade. For example, the average annual growth rate of exports of developing countries to other developing countries during the period 1995–2005 was more than 11 per cent, compared to 6.6 per cent for the world a whole[2]. Furthermore, intraregional trade in the East, South and South-East Asian region (ESSEA) has increased more rapidly than S-S trade as a whole (table 1). However, trade growth has been concentrated among countries with relatively better developed industrial capabilities. Therefore, the paper argues that this cannot be explained by regional trade agreements (RTAs) alone. Rapid trade growth in ESSEA has been due largely to the expansion of intra-industry trade, particularly production sharing in electrical and electronic industries. South-South trade has thus contributed to the development of the region through its positive cumulative effects. Nevertheless, it has had certain drawbacks as well.

First, intraregional trade has been concentrated mainly among China, the first-tier NIEs and the four second-tier NIEs[3]. The low-income countries have not benefited from intraregional trade as much as other countries in the region; indeed, some of them have benefited very little. An intensification of regionalism among the more advanced developing countries of the region as well as with developed countries may result in a further concentration of regional trade against low-income countries. Therefore, the dynamism behind the rapid expansion of regional trade in ESSEA, its concentration in certain countries/areas and the reasons for the sluggish performance of some of the regional blocs in Asia need to be explored more closely. Which factors explain the divergences in their performance? Is the expansion of S-S regional trade the result of development, or vice-versa? Does it take place sufficiently through the operation of market forces alone? Can it be used also as a tool for the development and industrialization of the lower-income countries? What measures need to be taken for this purpose? What policies/measures could be taken by the lower-income countries themselves? What could the more advanced country members of S-S regional agreements do to assist the low-income countries to enhance their regional trade as a means of development?

Second, the increased interdependence among the countries of the region that are heavily involved in intraregional trade has increased the vulnerability of each of them to economic and policy changes in the other countries of the region. What could be done to cushion this?

Finally, countries of the region are not homogeneous: They have different economic structures as well as different issues to tackle. While they have some common interests in intensifying regional cooperation, the main interests of different groups of countries vary. For the first-tier NIEs, market expansion and developing frontier technologies seem to be the main concerns; for the second-tier NIEs, on the other hand, the burning

[2] For non-fuel exports, the corresponding figures were over 10 per cent and 5.9 per cent, respectively (table 2 and its sources).

[3] The first-tier NIEs are Hong Kong (SAR, China), the Republic of Korea, Singapore and Taiwan (Province of China). The second-tier NIEs are Indonesia, Malaysia and Thailand. Most of these countries (Indonesia, Malaysia, Singapore and Thailand) are also members of ASEAN.

issue is upgrading their industrial structure; and the main preoccupation of the low-income countries is the expansion of supply capacity. What measures can be taken to respond to the needs and interests of each group?

The governments involved in regional cooperation in ESSEA need to address all of the questions that have been raised above. The study attempts to shed some light on these issues while presenting information about the expansion of regional trade in ESSEA. The following section provides a brief background on the expansion of regionalism in ESSEA. The third section is devoted to an analysis of the economic rationale for S-S trade. Section 4 explains the role of the ESSEA region as a market and source of supply in world trade and regional trade, and identify dynamic sources of supply and dynamic markets at the country level. The role of regional agreements is also examined. Subsequent sections explain the role and drawbacks of intra-industry trade and production sharing in the regional trade of ESSEA and examine the importance of China as an engine of regional trade. Reference is also made to the misconceptions about the role of market forces in the expansion of production sharing. Before concluding the study, policy initiatives propose what is needed for enhancing and strengthening regional cooperation, and this section identifies new areas for further research in the concluding remarks.

2. Background to regionalism and S-S trade cooperation in the ESSEA region

South-South cooperation was first formally introduced in 1958 with the agreement for the establishment of a Central American Common Market. Such cooperation was given further impetus by the success of the Organization of the Petroleum Exporting Countries (OPEC) in the early 1970s. Subsequently, with the beginning of negotiations for a North American Free Trade Agreement (NAFTA) in early 1990s (following approval of the United States Tariff and Trade Act of 1984, which authorized the Government to enter into regional trade agreements (RTAs)), RTAs became more fashionable in general. During the first half of 1990s, 19 new notifications on RTAs were received by the General Agreement on Tariffs and Trade (GATT), as compared with 25 for the entire period 1948–1989. There was a veritable explosion in the number of RTAs concluded after the Uruguay Round: during the second half of 1990s, the number of notifications received by the World Trade Organization (WTO) and remaining in force was 37, followed by 106 for the period between early 2000 and 24 September 2007[4]. According to the WTO, all member countries are party to one RTA or more (in some cases 20 RTAs), resulting in what is referred to as a "spaghetti- bowl" of RTAs. Developing countries are involved in RTAs with other developing countries as well as with developed countries and transition economies. One important difference between S-S trade agreements and N-S trade agreements is that the latter are dominated by free trade agreements (FTAs), while S-S agreements are mostly preferential, although FTAs among developing countries are also increasing[5].

In Asia, the Asian Development Bank (ADB) estimates that there are about 192 bilateral and subregional FTAs signed or under negotiation[6]. In East Asia, as on June 2007, out of 102 FTAs, 26 were plurilateral and 75 bilateral, 21 were intra-East Asian and another 80 were extra-East Asian (Kawai and Wignaraja, 2007: table 5). The main reasons for the rapid expansion of RTAs in East Asia include trade liberalization, growth of inward FDI and vertical production networks, development of logistic support services and the rapid economic growth of large emerging markets (*ibid:* 4-5).

Baldwin (2006) argues that East Asian regionalism is fragile because of the interdependence of these countries through intraregional trade, and a lack of discipline and of a mechanism for dispute settlement in the absence of bound preferential tariff cuts in their regional agreements. He proposes a binding of the region's tariff cuts in the WTO and an arrangement for "management effort" to discipline the member countries in implementing the regional agreements concerned. However, binding of tariff cuts in WTO may not be

[4] The data cover RTAs that were in force and active as on 24 September 2007. Otherwise, there were 256 new notifications for the period 1995 to 24 September 2007 (www.wto.org/).

[5] Out of 41 N-S agreements (on trade in goods), 40 are FTAs, as compared with 22 out of 45 S-S agreements. In the latter, another 18 are preferential agreements (based on Rollo, 2007, table 1).

[6] ADB in Brief, Regional Cooperation and Integration, available at: www.adb.org/Media/Articles.

in the interest of the countries of the region as it would limit their policy space and their room for manoeuvre vis-à-vis all other countries.

While the debate on whether RTAs are "building blocks" or "stumbling blocks" for multilateralism and for global free trade continues, the "spaghetti bowl" is becoming bigger and bigger. A discussion of whether or not RTAs are building blocks for achieving global free trade is not within the scope of this study. Those involved in this debate advocate universal free trade. However, neither universal free trade nor the expansion of trade, *per se,* should be an objective of development. We consider trade as a "means" to development – not an end. The end is development. Universal free trade might be advocated when all countries reach the same level of development.

Hence, the purpose of this study is to examine whether, and how, S-S regional trade and cooperation could be used as a vehicle for enhancing the development of developing countries in general, particularly in ESSEA. Expansion of regional trade among the more advanced developing countries of the region has helped their development, which in turn has led to growth of regional trade among them. But how are the lower-income countries of the region affected by this process? Most of the bilateral trade agreements in the region are those concluded between the more advanced developing countries, or between these countries and developed countries (UNDP, 2005a; Hufbauer and Schott 2007: 2-16). There are also attempts to intensify regional integration among the more advanced countries of the region. For example, ASEAN already has an FTA with China, Japan and the Republic of Korea (ASEAN+3); further ASEAN+3 is involved in a trade agreement with Australia, New Zealand and India (Kawai and Wignaraja, 2007). According to a study by Kawai and Wignaraja (2007) based on a computable general equilibrium (CGE) model, such a development will benefit the more advanced countries of the region, but will have less beneficial income effects on the lower-income members of ASEAN that have little to offer. It will also have detrimental (i.e. discriminatory) effects on lower-income countries that are not covered by the ASEAN agreement, such as Bangladesh, Pakistan, Sri Lanka and countries of central Asia (Kawai and Wignaraja, 2007: table 11).

Trade liberalization is regarded as *the solution* for the expansion of S-S trade (Kowaski and Shepherd, 2006; DAFT, 2004). However, tariffs alone do not necessarily explain the lack of participation in S-S trade by low-income countries. For example, even though the exports of low-income countries to upper-middle-income (developing) countries of the ESSEA region face more or less the same average tariff rates as imports from other groups (high- and middle-income countries) (Kowaski and Shepherd, 2006: table 14), they do not benefit from the same rate of growth of exports as those other groups (*ibid:* tables 10). It seems that low supply capacity is, *inter alia*, one of the major factors impeding regional trade expansion by the low-income countries.

Developing countries have collectively expressed their political will and desire for the expansion of S-S trade and cooperation in different forums, such as at meetings of the G-77 and non-aligned movement (NAM), particularly since the adoption of the Mexico City Programme of Action (1976). Yet, to the author's knowledge, they have not always provided a clear economic justification and rationale for S-S trade as against N-S trade, as explained in the following section.

3. The economic rationale for S-S trade

3.1 The controversy

Cooperation among developing countries for the expansion of S-S trade in general has been at the centre of controversy between neoclassical/neo-liberal economists and their opponents, as have RTAs. However, neither of the groups has been able to present a valid or strong argument to support their respective stands. The proponents of universal free trade have argued against discriminatory trade agreements, in general, and FTAs among developing countries for the expansion of S-S trade, in particular. For example, Viner (1950) argues that regional integration would result in diversion of some trade from low-cost producers (non-members of RTAs) to high-cost producers (members of RTAs). Even if some trade were to be created as a result of RTAs, the welfare costs of trade diversion would be higher than the benefits of trade creation. In some recent literature, RTAs are, in fact, considered to be undesirable. Greenaway and Milner (1990:1) argue that:

> The case for specific policies to promote South-South trade is not convincing…The expansion of South-South trade can be expected to continue in the context of multilateral trade expansion and the potential gains are likely to be greater if this process is allowed to evolve freely in a multilateral setting.

Corden (1993: 457, 459) goes even further, arguing that developing countries will be far better off if they liberalize their trade regime "unilaterally in a non-discriminatory fashion" rather than targeting markets in the South. According to him, for developing countries "…there is only the option of multilateral free or freer trade, i.e. GATT…"[7] According to the World Bank (2000) and Moen (1998), RTAs between the South and North are more advantageous than RTAs among developing countries themselves (see also Subramanian and Tamirisa, 2001).

An OECD study states that "…South-South trade does not clearly have a vast development potential"; the theory of comparative advantage would indicate that "North-South trade would achieve higher gains" (Kowaski and Shepherd, 2006:10). Further, it maintains that "…the potential for trade based on economies of scale among relatively small and poor countries of the South is uncertain" *(ibid)*.

However, inefficiency of regionalization has been disproved empirically, for example in East Asia and Latin America where economic gains from integration agreements have been considerable (Ng and Yeats, 2003; Baier, Bergstrand and Vidal, 2007). It has also been demonstrated that regionalism has trade creation effects not only for members but also for trade with third parties (Cernat, 2003).

The neo-liberal views against S-S trade are based on their ideological bias in favour of universal free trade, which is influenced by the static version of the theory of comparative cost advantage. This theory

[7] For a critique of this view, see Shafaeddin, 1997.

is, in turn, based on hypothetical and unrealistic assumptions. They are ideologically biased because they argue in favour of the expansion of trade for maximizing global welfare rather than for the development of developing countries. The theory of cost comparative advantage is based on a number of assumptions, including full employment of resources, availability of the same technology to all countries, independence of present and future costs of production, as well as the lack of influence of experience on the production cost, the lack of external economies, atomistic units of production, constant returns to scale and the lack of risk and influence of power in trade. They do not take into account the characteristics of developing countries, such as underemployment of resources, their lack of technological capabilities, existence of scale economies in many manufacturing industries, and the interdependence of present and future costs (i.e. the fact that present production may reduce future costs by gaining experience as well as reaping internal and external scale economies).

List (1856) was among the first to challenge the classical "theory of exchangeable value" (universal free international trade). While arguing that free trade could be an ultimate aim, he introduced his theory of "productive power" (which in modern economic terminology amounts to development or building of supply capacity). To him, trade was a means to enhancing "productive power" – not an aim *per se*. Kaldor (1972) suggested that developing countries should be concerned mainly with promoting "creative efficiency" (growth and development) rather than allocative efficiency (i.e. allocation of given and "fully employed" resources among different activities efficiently as argued in neo-classical theory). In other words, while allocative efficiency is the concern of the static theory of cost comparative advantage, developing countries are to be concerned with attaining dynamic comparative advantage for the sake of promoting "creative efficiency". However, dynamic comparative advantage will not be attained automatically through the operation of market forces alone; to attain it requires actions by the government (Cline, 1983; Amsden 1989; Shafaeddin, 2005a and 2005b).

List also introduced, *inter alia*, the idea of regional integration in his proposal for German unification and cooperation among European countries, which eventually led to the signature of the Treaty of Rome in 1957[8]. In the early 1950s, Raul Prebisch provided the strongest dynamic argument for regional integration in developing countries in the context of his theory, advocating import substitution and "collective import substitution" for a transitory period during the course of industrialization and development (ECLA, 1950; Prebisch, 1984). However, his theory is often misinterpreted. It is true that he took a "defensive" approach, but his vision was based on the internal conditions of developing countries and the international economic situation that prevailed in the early 1950s. It was a defensive approach in the sense that at the time he did not see significant prospects for the expansion of exports of manufactured goods from developing to developed countries. Developing countries did not have the necessary industrial infrastructure for producing goods for the markets of the North. Moreover, the protectionist policies of the governments of the "centre" and the strategies of their industrial firms were not conducive to industrial exports from developing countries. Therefore, preferential regional trade agreements, and eventually common markets, were seen as means for facilitating intraregional trade in order to promote industrialization. Prebisch modified his theory later on, first in 1958. At that time, he regarded both import substitution and export expansion as parts of a long-term dynamic trade policy (Prebisch, 1984; Shafaeddin, 2005a: 151–153). Yet he saw a place for regional integration for upgrading of the industrial structure, which required a larger market than the internal market of a single country.

For many years, following the initial ideas of Prebisch, arguments in favour of S-S trade centred mainly on the issues of small size of the domestic market, economies of scale, problems of access to developed-country markets (see, for example, UNCTAD, 1986:10–11 and Agatiello, 2007) or a slowdown in growth rates of developed-country economies and growing potential for S-S trade expansion (South Centre 1996: ix-xiii). Some elements of these arguments are no longer valid. For example, access to markets of the North has improved considerably. Moreover, S-S trade will not necessarily expand, even when regional preferential or free trade agreements are signed among a number of developing countries. Experience of a number of inte-

[8] The first attempt at regionalism was initiated in the 1660s by 12 provinces in the Paris Basin for political reasons (UNDP, 2005:18).

gration agreements in the 1960s and 1970s confirms this statement to the extent that their related treaties were sometimes referred to as dead letters (de Melo and Panagariya, 1993:14–15 and chapters 8 and 9). The Regional Cooperation Agreement for Development between Iran, Pakistan and Turkey is an example in Asia.

Scholars have provided other "defensive" arguments in favour of S-S trade. One is that trade among equal partners will have a positive influence on net barter terms of trade (Sarkar and Singer, 1991)[9]. Another is that too much reliance on trade with the North will increase vulnerability and risks of dependence on trade (Hirschman, 1968). Hence, there is a need for geographical diversification to reduce the related risks. Of course, geographical diversification would be possible to the extent that alternative sources of supply are available in the South. While both arguments seem reasonable, the question is "how" alternative sources of supply can be developed. In other words, what is the dynamic vehicle for the expansion of S-S trade as a means of promoting industrialization and development?

The "defensive" approach in favour of regionalization and S-S trade has not vanished in the recent era of globalization, although the arguments provided are different. Some have attributed the revival of regionalism in the 1990s to disappointment by the United States at slow progress in Uruguay Round negotiations (e.g. Bhagwati, 1993), and, more recently in the Doha Round, to the lack of development dimensions in multilateral institutions and to weaknesses in the international trading system (UNCTAD, 2007a: 40-45, and ch. VI; Kowai and Wingaraja, 2007: 8). Others regard regionalization as a possible option for countries that risk exclusion, or marginalization, from the growth dynamics of globalization (Oman, 1994).

Further, N-S plurilateral and bilateral agreements, it is argued, can limit policy space of developing countries by including clauses covering aspects that go beyond those imposed on them through multilateral trade rules. This is done by the inclusion of "WTO-plus" conditions and "Singapore issues"[10] in these agreements in areas such as tariffs, subsidies, trade-related aspects of intellectual property rights (TRIPS), government procurement, rules of origin,[11] performance clauses, trade-related investment measures (TRIMs)[12] and even competition policy. In fact, it has been noted that, although N-S trade agreements have put in place many policy-stabilizing mechanisms, they are unevenly applied, and "post-modern" hidden protectionist "backslidings such as antidumping practices are still present even in advanced North-South or East-West RTAs" (Cernant and Laird, 2007). Imposition of commitments to forgo performance requirements in investment agreements beyond the TRIMs Agreement is a clear example of "WTO-plus" conditions imposed on developing countries. Eleven developing countries have agreed to forgo such conditions in FTAs and bilateral agreements; among them eight have committed never to use them against any foreign investor. Another 27 developing and transition economies have made similar commitments in their investment agreements with the United States and 8 countries in their agreements with Canada (Baldwin et al., 2007: tables 1 and 2 and figure 6). S-S trade agreements are therefore preferred to N-S agreements because they do not limit policy space of the partners (UNCTAD, 2007a: 54–64 and chap. IX).

---

[9] Note, however, that products traded among developing countries are different from those traded between developed and developing countries. Exports of technology-intensive products by developed countries, in particular, are subject to patent and monopoly rights or oligopoly of the exporting firms, which, thus, carry premium prices.

[10] WTO-plus conditions are those included in bilateral or regional agreements in addition to, or more severe than, conditions covered in Uruguay Round (WTO) agreements. Singapore issues are those that were proposed by developed countries in the WTO Ministerial meeting in Singapore in 1996 for inclusion in the next round of trade negotiation. They included, for example, competition policy, trade-related environmental issues and labour standards.

[11] Rules of origin are criteria, laws and regulations used to define the country of origin of goods. Regional trade agreements may have different criteria than the rules of origin applied by WTO rules. Usually, a certain proportion of a product should be produced by the country that enjoys preferential treatment in a bilateral agreement, or by countries involved in RTAs in the case of regional agreements. The provision permits a final good for export by a country to contain a small quantity of the same kind of imported inputs from other countries not covered by the related trade agreement.

[12] TRIPS are rights given to individuals or companies to protect the creations of their minds for a specific period of time. They cover copyright and other rights related to copyright, and industrial property such as patents. TRIMs are investment measures that affect goods. TRIPS and TRIMs are two multilateral agreements that were signed by the WTO's contracting parties at the end of Uruguay Round of Trade Negotiations.

Unfulfilled expectations from N-S RTAs, is another reason provided. In this respect, the example of NAFTA is often cited because it did not enhance Mexico's industrialization and development. Some regard the *maquiladora* sector, which expanded fast due to its ease of access to the United States market, as an enclave with limited contribution to the internal development of the country (Gallagher and Zarsky, 2007; Shafaeddin and Pizarro, 2007)[13].

Although the points raised by those using the defensive approach about the existence of problems with the multilateral trading system and N-S RTAs are valid, they are not an argument in favour of S-S regionalism or S-S trade. Even if S-S trade is proved desirable theoretically, the question is what conditions and what kind of dynamic mechanism should be envisaged that would be beneficial to industrialization and development of the partner countries? It is true that developing countries that are at early stages of industrial development have benefited less from regional integration than those with a more diversified production structure (UNCTAD, 2007a: 41; xxi). Nevertheless, two points are worth emphasizing in this regard. First of all, this may not necessarily be the case, as is indicated by the example of the European Union (EU). Economies with relatively lower levels of development (e.g. Cyprus, Greece, Portugal and Spain) than other members of the EU benefited a lot more than their partners when they integrated into the EU. Much depends on the integration mechanism employed. Secondly, if economic development is the key objective, in order to benefit from regionalism and S-S trade should a country develop first before integrating regionally, rather than using regional integration and S-S trade as a vehicle for industrialization and development?

Some argue that when conditions for South-South intra-industry trade exist, it could offer opportunities for learning-by-doing, and external economies or economies of scale (Otsubo, 1998). However, it is not clear how such opportunities could be developed in lower-income countries that are at early stages of industrialization. Should they wait until they are developed and conditions for intra-industry trade prevail?

Hence, the "normative" aspect of S-S regionalism for the expansion of S-S trade as a means of industrialization and development should be based on more solid ground than on the analysis of the "positive economics" of S-S regionalism and trade.

3.2 An alternative conceptual framework and mechanisms for S-S trade

The paper's starting point is that trade is a means to development. Following Myrdal (1971), development is defined as a movement upwards of the whole social system, which includes, *inter alia,* the need for expansion of income, employment and social services and human development, which are also among the objectives of the United Nations Millennium Development Goals (MDGs). The experience of almost every developed country and NIE is that industrialization is an essential part of a strategy that aims at rapid development. "… [F]or the Asian Pacific region….a major rational for strategic and selective government intervention in the industrial policy context is to fashion a national trade policy which actively prioritizes both domestic industrialization and increasing the value [*sic*] of higher value added manufactured and services exports" (Malhotra, 2006:11; UNDP, 2003). Within such a policy framework, addressing supply-side capacity constraints for expansion of productive capacity and/or upgrading of the industrial structure play a key role (Malhotra, 2006: 9). So does market expansion.

Why and how can S-S trade and regional integration work as a vehicle for industrialization and development? The paper shows that expansion of S-S trade is needed to supplement N-S trade for a fuller utilization of unemployed resources of developing countries and for the expansion of their productive capacity and upgrading of their industrial structure. For achieving such objectives, S-S cooperation for trade expansion should follow the principle of dynamic comparative advantage, rather than static comparative advantage. Moreover, it requires government intervention to correct and remedy market failures and deficiencies, as the expansion of S-S trade cannot take place automatically through the operation of market forces alone. It also

[13] See also UNCTAD, 2007a: 65-79.

requires S-S cooperation in other areas than trade, including industrial collaboration. It is therefore argued in this section that the rationale for S-S trade in general can be based on a combination of four *main* elements: an extension of the "vent for surplus theory"; dynamic comparative advantage; scarcity of resources needed for industrialization and development; and "division of labour" and specialization. The paper postpones until section 6 the discussion on the modalities and a mechanism for the promotion of S-S cooperation for the expansion of supply capacity – particularly in low-income countries – and for the upgrading of the industrial structure.

To begin with, contrary to the neoclassical theory of international trade, resources of developing countries are not fully employed, production of agricultural goods and manufactured products are subject to diminishing and increasing returns, respectively, and resources are not fully mobile and flexible to be easily transferable from the production of one good to another. In technical terms, in comparative cost advantage theory, movement can take place along a static "production possibility curve". As resources are fully employed, any expansion of exports will be at the cost of production for the domestic market. The theory is concerned with reallocation of resources. Further, any adjustment from production for the domestic market to production for export, takes place easily as resources are assumed to be mobile and flexible.

In developing countries, resources are not, in fact, fully employed and the economy is below the production possibility curve, particularly at early stages of development. Labour, land and/or natural resources are often unemployed or underemployed. In addition, in many instances there is an army of unemployed labour. Even when land is fully cultivated, it may not be used efficiently if the yield is low; therefore the contribution of land does not realize its full potential. Primary commodities are also generally exported before processing, for increasing value added, or for use in the process of industrialization through "lateral diversification"[14]. In other words, a developing country possesses some potential surplus productive capacity, which can be mobilized for producing *additional* goods for export without shifting resources away from production for the domestic market (Myint, 1958). By providing effective demand, in theory, trade can provide opportunities for a fuller utilization of resources for the production of goods for which sufficient domestic effective demand is lacking. This is the essence of the "vent for surplus theory" (*ibid*). The argument can be extended by saying that production of goods for "additional" exports can take place without shifting resources away from production for domestic consumption and/or for *exports to the North*.

Nevertheless, in practice, this potential capacity cannot be realized unless two conditions are met: additional effective demand through international trade, and the existence of the complementary resources needed for production. In neoclassical theory, trade liberalization, in addition to trade with the North, could provide the necessary effective demand leading to specialization and division of labour. This is because the structure of production is assumed to be flexible and resources can easily move from one activity to another. Yet the experience of the last quarter century indicates that even when trade liberalization has led to export expansion in lower-income countries, it has often resulted in deindustrialization, unemployment and specialization based on natural-resource-based industries and/or assembly operations, rather than in industrial development and upgrading (and a shift upwards of the production possibility curve). This is because N-S trade is governed by the principle of static comparative cost advantage. A developing country can export to the North what it can produce cheaply. The North will not provide effective demand for high-cost new products of a developing country that is at the early stages of industrialization. The experience of successful industrializers indicates that creating supply capabilities is a prerequisite for export expansion and intra-industry and inter-industry trade (Amsden, 1989; Malhotra, 2006; and Shafaeddin, 2006).

Even if the markets in the North were to provide the necessary effective demand for new industrial products of lower-income countries, the potential surplus capacity of the latter countries would not be turned into actual production capacity. This is because of their scarcity of the complementary resources necessary for

[14] Lateral diversification (as distinct from horizontal and vertical diversification) is the process of combining various resources for production of a product – or products – based mainly, but not exclusively, on domestic inputs together with imported inputs.

production and the inflexibility of an unskilled labour force that prevents it from moving to new activities that require some skills. Complementary resources are scarce in the areas of finance, skills, technology, organization, entrepreneurship, "supply determined" factors such as some natural resources, and, more importantly, decision-making capabilities of the government machinery (Hirschman, 1958). This scarcity limits the realization of potential productive capacity for export and accelerated growth. Further, the lower-income economies lack the necessary flexibility to adjust their methods and factors of production easily.

Can TNCs contribute significantly to the process of expansion of productive capacity and upgrading to enable an increase in exports to the North? In this age of globalization, the power of TNCs in international trade, production and other economic activities is growing. By the turn of the twenty-first century, 1,000 companies accounted for 80 per cent of industrial production and 500 firms for 70 per cent of world trade. Since then, mergers and acquisition have accelerated, contributing to further concentration of economic activities in these companies. During the period 2000–2006, the number of cross-border mergers and acquisitions with values of over US$1 billion had reached over 813 with values amounting to nearly US$3 trillion (UNCTAD, 2007b: table 1.1)[15].

The large TNCs enjoy economies of scale not only in production, but also in marketing and distribution, and, more importantly, in R&D. In such a world, independent and newcomer firms to a particular field of production in developing countries are in a disadvantageous comparative position. The combination of the problem of scarcity and international market concentration renders their penetration into the world market, initiation of new competitive industries and/or upgrading of their existing industrial structure difficult.

Foreign direct investment by TNCs of the industrial countries can remedy some of the scarcity problems and act as a channel for exports to developed countries. However, the interests of TNCs – which is to earn profits - are different from those of a host developing country. Even when they contribute to export expansion, it is basically in assembly operations and resource-based activities that are governed by static comparative advantage of the host country (Lall, 2004). Their contribution to upgrading of the industrial structure of the host country is often limited. Further, FDI increases the vulnerability of the host country to external factors. Again, the experience of Mexico is telling. Despite extensive involvement of TNCs and the NAFTA Agreement, Mexico has had little success in upgrading its *maquila* industries. Further, in recent years, following the world economic recession, its average annual rate of growth of manufactured exports fell from 19.8 per cent during the 1990s to 5.7 per cent in the period 2000–2006 (UN COMTRADE database). In contrast to the interests of TNCs, the interests of a host developing country are, or are supposed to be, industrialization and development. Hence, TNCs' contribution to development of the host country would depend on the extent to which these firms are managed and regulated by the government of the host country. East Asian NIEs have managed to harness FDI to some extent. However, similar tools for controlling and regulating FDI are no longer easily available to developing countries due to the fact that their policy space has become limited by international trade and investment rules and bilateral trade agreements and arrangements. Moreover, the experience of the last quarter century demonstrates that lower-income countries in particular encounter difficulties in attracting FDI.

How can S-S trade contribute to remedying the scarcity problem? What is required in the context of lower-income countries is that, instead of trade leading to division of labour and specialization, it should be the other way round. That is, division of labour and specialization in production, along with provision of back-up services for S-S trade should help trade expansion. FTAs, or preferential tariff agreements, can facilitate, *inter alia,* the S-S flow of trade in products that are already being produced, provided the necessary back-up services and infrastructure are available. Yet preferential tariffs are insufficient because of similarities in the production structure of the lower-income countries, their lack of complementarities and scarcity of back-up services, infrastructure and institutions necessary for S-S trade. The operation of market forces and

[15] This is 55 per cent higher than the total number of mergers and acquisitions for the previous 13 years (i.e. 1987–1999) (based on UNCTAD, 2007b: table 1.1).

their contribution to remedying the scarcity problem for production of new products is limited, especially in countries at early stages of industrialization and development.

To overcome the scarcity problem for expansion of supply capacities, concerted policy measures for extending S-S regional cooperation to other areas than preferential trade agreements are needed. The first requirement is cooperation for supply capacity creation in accordance with dynamic comparative advantage; that is, for production of new "industrial" goods and/or upgrading of the industrial structure. One way is to make arrangements for the division of labour and specialization in the whole spectrum of the value chain for production and exports of various finished products and/or parts and components (P&C) through industrial collaboration. Division of labour and specialization in this case means that each country would be allocated the production of a particular manufacturing product, and parts and components for production of another product, the output of which would be exchanged with other countries or would be sent to another country for assembly. At the same time, each country may be engaged in assembly operations, or production of a product, and production of parts of that product or other products. The choice of products would have to be determined for the specific countries involved. In this way, both the scarcity problem and the "effective demand" constraint would be remedied. Although for a while high cost products would be exchanged, this would be only an accounting issue as long as bilateral trade or the trade balance of each country with its partners is balanced. The result would be the creation of employment and income. As industrialization proceeds, the cost of production would decline gradually due to learning-by-doing, experience, internal and external economies of scale and increasing return, which are characteristics of manufacturing (Young, 1928). Of course, in the meantime lower cost alternatives would be available on the international market, but the necessary purchasing power for acquiring the extra imports would be missing in this case. The type and specific arrangement needed would depend on the level of development and industrial capacity of the countries concerned, as explained in section 6.

The second requirement is cooperation in the provision of producer services, training and skills development, back-up services, including trade facilitation, export credit, insurance and infrastructure necessary for the expansion of regional trade and supply capacity and R&D, among others.

The third requirement is government intervention and a clear industrial policy, both by individual countries and collectively. As the market fails to provide the necessary skills, infrastructure, back-up services and institutions, collective arrangements are essential in these respects. Further, all countries should follow a dynamic industrial policy, with performance requirements in exchange for facilities and a collective market, provided that over time they improve their competitiveness in the international market. The advantage of this scheme over traditional import substitution, where protection was provided across the board to all industries, is selectivity in the use of scarce resources as well as benefiting from the larger size of the collective market. Its advantage over selective infant industry protection is the benefit of the larger market provided by the member countries.

Geographical diversification to reduce risks of dependence on markets in developed countries, and the resultant enhancement of bargaining power by developing countries in international forums and in their bilateral trade relations with developed countries are among additional benefits of such S-S cooperation arrangements.

The achievements and weaknesses of the ESSEA region in S-S trade provides clues as to the potential and possibilities for enhancing and strengthening S-S cooperation in the region, particularly through production sharing, which is a form of industrial collaboration. The paper follows with these issues below.

4. The role of ESSEA as a market and source of supply

Developing countries of ESSEA, constitute a major and growing source of supply as well as a market in world trade, and account for the bulk of international trade of developing countries. Furthermore, ESSEA intraregional trade accounts for the lion's share of their total trade and of S-S trade. The region encompasses a number of RTAs, but they are not the only force behind regional trade dynamism. Moreover, the low-income countries do not benefit from regional trade as much as the other countries of the region.

4.1 ESSEA in world trade and S-S trade

Table 1 provides data on the shares of developing countries and the main Asian regional trade groups in world trade in 2005. As only a limited number of countries export petroleum, fuel is put as a separate item and our analysis focuses on trade in non-fuel products. Further, SITC 9 (mainly armaments and special items) is excluded from non-fuel exports in order to concentrate on trade in commercial products. The trade data of Hong Kong, Special Administrative Region of China (hereafter referred to as Hong Kong [SAR, China]) and Singapore include re-exports[16]. Unfortunately, it is not easy to exclude the figures on re-exports from various product groups because of the lack of comprehensive data for all countries. Hence, the data slightly overestimate the role of the region as a source of supply and a market. With this caveat in mind, the table highlights that ESSEA countries are an important source of world supply of and demand for non-fuel exports. In 2005 they accounted for over a quarter of world exports of these products and three quarters of exports from developing countries, including China. Similarly, they accounted for over 21 per cent of the market for world imports and 75 per cent of the imports of developing countries[17].

[16] For example, re-exports constituted about 94 per cent of total exports of Hong Kong (SAR, China) in 2007, and re-exports of SITC 7 items alone constituted over 53 per cent of total exports (HKMDS: tables 3.1 and 3.8).

[17] The shares of West Asia in world exports and imports of non-fuel products (including SITC 9) are only 1.9 per cent and 3.4 per cent, respectively. The region is of course an important exporter of petroleum.

Table 1: Share of the South and ESSEA regional trade blocs in world trade, 2005 (%)

Region/regional bloc	Non-fuel commodities				Non-fuel commodities (SITC 0 to 8 less 3)	Fuel (SITC 3)	Total (SITC 0 to 9)	Non-fuel commodities (SITC 0 to 8 less 3)
	Food (SITC 0 + 1 + 22 + 4)	Raw materials		Manufactures (SITC 5 to 8 less 68)				
		Agriculture (SITC 2-22 and 27-28)	Minerals (SITC 27 + 28 + 68)					
	(%)							(US$ billion)
	Exports							
Asia excluding China	12.4	15.6	12.3	19.0	18.2	36.4	20.5	1 546
China	3.7	2.5	4.0	9.5	8.7	1.3	7.4	743
Asia including China	16.2	18.1	16.3	28.5	26.9	37.7	27.9	2 288
All developing countries excl. China	29.6	27.4	33.2	23.6	24.5	57.3	28.6	2 088
All developing countries incl. China	33.3	30.0	37.2	33.2	33.3	58.6	36.1	2 831
East, South and South-East Asia	14.1	17.5	14.4	27.1	25.4	14.4	23.2	2 161
East, South and South-East Asia excl. China	10.4	14.9	10.4	17.6	16.7	13.1	15.8	1 418
Main Asian economic groupings:								
ASEAN-10	6.9	9.5	4.1	6.5	6.5	6.6	6.4	551
SAARC-6*	2.0	1.3	2.3	1.3	1.4	0.9	1.3	120
India	1.4	1.0	2.2	1.0	1.1	0.9	1.0	90
SAARC excluding India	0.6	0.3	0.1	0.3	0.3	0.1	0.3	29
APTA-6	5.9	5.2	7.7	14.2	13.1	3.3	11.4	1 114
APTA excl. China	2.1	2.7	3.7	4.6	4.4	2.0	3.9	372
Total world trade at year end (US$ billion)	660	160	339	7 350	8 509	1 353	10 241	8 509
Share in total non-fuel commodity trade	7.8	1.9	4	86.4	100	15.9	120.3	100

Table 1: Share of the South and ESSEA regional trade blocs in world trade, 2005 (%) ***Contd.***

	Imports							
Asia excluding China	14.0	16.8	19.6	18.1	17.8	20.2	18.1	1 551
China	3.1	13.6	14.9	6.6	6.8	4.5	6.3	594
Asia including China	17.1	30.4	34.5	24.7	24.6	24.6	24.4	2 145
All developing countries excl. China	24.0	23.2	24.3	25.5	25.3	26.0	25.2	2 202
All developing countries incl. China	27.1	36.8	39.3	32.1	32.1	30.5	31.5	2 796
East, South and South-East Asia	13.0	27.5	30.6	21.6	21.4	22.7	21.2	1 865
East, South and South-East Asia excl. China	9.9	13.9	15.7	15.0	14.6	18.2	14.9	1 271
Main Asian economic groupings:								
ASEAN-10	3.9	4.6	4.3	5.7	5.4	6.6	5.5	474
SAARC-6*	1.5	2.9	2.3	1.4	1.4	4.1	1.9	126
India	0.7	1.6	1.9	1.0	1.0	3.5	1.4	87
SAARC excl. India	0.9	1.3	0.4	0.4	0.4	0.5	0.4	39
APTA-6	5.9	18.8	21.7	9.9	10.2	12.9	10.4	891
APTA excl. China	2.8	5.2	6.8	3.3	3.4	8.4	4.1	297
Total world trade at year end (US$ billion)	696	174	373	7 476	8 719	1 430	10 483	8 719
Share in total non-fuel commodity trade	8	2	4	86	100	16	120	100

Source: Author's calculations based on UNCTAD, 2007c.
Note:
ASEAN-10 comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
*SAARC-7 comprises Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. However, Bhutan is not included as a reporter, but is included as a SAARC member.
APTA-6 comprises Bangladesh, China, India, Lao People's Democratic Republic, the Republic of Korea and Sri Lanka.

Table 2: Average annual growth rate of trade of the South and ESSEA regional trade blocs, 1995-2005
(%)

Region/regional bloc	Non-fuel commodities				Non-fuel commodities (SITC 0 to 8 less 3)	Fuel (SITC 3)	Total (SITC 0 to 9)
	Food (SITC 0 + 1 + 22 + 4)	Raw materials		Manufactures (SITC 5 to 8 less 68)			
		Agriculture (SITC 2-22 and 27-28)	Minerals (SITC 27 + 28 + 68)				
	Exports						
Asia excl. China	2.4	1.4	7.6	6.8	6.5	11.7	7.5
China	7.0	3.5	15.5	18.6	17.6	12.0	17.5
Asia incl. China	3.3	1.7	9.1	9.4	8.9	11.7	9.3
All developing countries excluding China	3.3	2.0	7.8	7.1	6.6	12.1	7.7
All developing countries including China	3.7	2.2	8.5	9.3	8.5	12.1	9.1
East, South and South-East Asia	3.1	1.6	9.5	9.2	8.7	11.0	8.9
East, South and South-East Asia excl. China	2.0	1.4	7.8	6.5	6.1	10.9	6.5
Main Asian economic groupings:							
ASEAN-10	3.0	1.7	5.5	6.7	6.2	9.4	6.5
SAARC-6*	4.1	2.6	21.1	9.7	9.1	41.3	10.0
India	3.6	6.6	20.8	11.6	10.7	46.2	11.8
SAARC excl. India	5.4	-3.2	26.9	5.6	5.5	18.9	5.6
APTA-6	5.2	3.6	15.9	14.2	13.6	15.9	13.5
APTA excl. China	2.7	3.7	16.5	8.7	8.5	20.2	8.6
World	**3.2**	**1.8**	**6.2**	**6.3**	**5.9**	**12.2**	**6.6**
	Imports						
Asia excl. China	2.6	0.1	5.8	5.2	4.9	12.7	5.7
China	10.9	14.2	25.0	18.2	18.0	27.0	18.5
Asia incl. China	3.6	4.2	10.5	7.5	7.3	14.3	7.9
All developing countries excl. China	3.1	0.4	5.9	5.4	5.1	12.2	5.8
All developing countries incl. China	3.8	3.6	9.9	7.1	6.9	13.5	7.4
East, South and South-East Asia	3.3	4.2	10.5	7.3	7.1	14.5	7.7
East, South and South-East Asia excl. China	1.8	-0.6	5.0	4.6	4.3	12.7	5.1
Main Asian economic groupings:							
ASEAN-10	2.4	0.0	3.6	3.3	3.2	12.7	4.0
SAARC-6*	5.3	8.6	8.1	9.9	9.2	15.9	10.8
India	10.1	8.2	7.9	12.8	11.9	17.2	13.3
SAARC excl. India	2.5	9.1	8.6	5.2	5.0	10.3	5.6
APTA-6	7.8	8.2	16.1	13.3	13.0	16.6	13.2
APTA excl. China	5.3	0.4	7.3	7.1	6.7	13.4	7.9
World	**3.5**	**1.5**	**6.2**	**6.6**	**6.1**	**12.5**	**6.7**

Source: Same as table 1.
See table 1 for country composition of the regional blocs.
*Bhutan is not included as a reporter, but is included as a SAARC member.

The share of ESSEA in trade in manufactures, which accounts for the bulk of world trade in non-fuel products, is particularly significant (table 1). ESSEA also accounts for the bulk of both exports (over 80 per cent) and imports (67 per cent) of manufactured goods of developing countries. By contrast, for food and raw materials it is more of a market than a source of supply.

The ESSEA region encompasses a number of regional trade groups in which lower-income countries also have membership (as shown in the note to table 1). When large and dynamic countries, such as China, India and the Republic of Korea, are excluded from the economic groups, with the exception of ASEAN, the two other regional groups included in the table do not constitute an important market or sources of supply[18]. In other words, LDCs and some other lower-income countries in the region, as a group, are only minor sources of supply and markets.

ESSEA is also a major source of growth of international trade. During the period 1995–2005, the average annual growth rates of both exports and imports of manufactured goods and minerals of ESSEA exceeded those of the world as a whole (table 2). However, for agricultural goods, the region is more of a dynamic market than a dynamic source of supply. China, in particular, stands out in terms of the size and growth rate of its trade in various product groups, particularly its exports of manufactured goods and imports of primary products.

If China, India and the Republic of Korea are excluded from their respective regional blocs, the rates of growth of trade in non-fuel products, particularly manufactured goods, of the remaining countries in the regional blocs lag behind those of China as well as of ESSEA as a whole. The relatively high growth rate of exports and imports of the Asia-Pacific Trade Agreement (APTA), excluding China, is due to the Republic of Korea (table 9). Once again low-income country members of the trade blocs SAARC and APTA exhibit lower growth rates of both exports and imports than the average for the ESSEA as a group. In other words, involvement in RTAs does not necessarily lead to regional trade expansion.

4.2 Regional trade of ESSEA

The ESSEA region is the main sources of supply and the main market for S-S trade, particularly for non-fuel products, and manufactured goods dominate such trade (table 3). Therefore, this study examines the evolution of the regional trade of ESSEA in relation to S-S trade in manufactured goods and non-fuel primary products separately (tables 4 and 5).

In 2005, the magnitude of South-South trade in manufactured goods was more than 6 times higher than that of non-fuel primary commodities as a whole, while it was 7.5 times higher in ESSEA-South trade. Moreover, while growth of S-S trade exceeded that of world trade for both manufactured goods and primary products, manufactured goods were more dynamic in the expansion of S-S trade, to the extent that the share of S-S trade in manufactured exports of developing countries reached almost 47 per cent, approaching that of non-fuel primary products (which was over 47 per cent in 2005).

[18] If China and the Republic of Korea are excluded from APTA, the share of the group in world exports and imports falls to 2.2 and 1.2, respectively (sources same as table 1).

Table 3: S-S trade and the role of ESSEA, 2005*
(% Share)

Items	Total trade	Share of non-fuel items
Share of S-S trade in total trade of the South:		
Exports	44.4	51
Imports	51	54.8
Share of manufactures in S-S trade:		
Exports	68.9	84.5
Imports	69	83
Share of ESSEA in S-S trade:		
Exports	75	67.9
Imports	72.1	69.3

Sources: Based on UNCTAD, 2007c, table 2.2.D.
*Only merchandise goods.

Regarding trade in manufactures, the rapid growth of intra-ESSEA trade, has made it a major market for S-S trade. The ESSEA region accounted for the lion's share of S-S trade (nearly 36 per cent of over 46 per cent), and intra-ESSEA trade accounted for over 42 per cent of the market for its total exports of manufactured goods in 2005 (table 4). By contrast, the rest of the developing countries received less than 8 per cent of manufactured exports of the ESSEA region. Moreover, the growth of exports of ESSEA to China significantly exceeded that of its intraregional trade for the group, let alone South-South trade. This indicates once again the importance of China as a large, dynamic market for exports of manufactured goods from the region. In other words, China alone has been the most dynamic market for ESSEA exports. Of course, China is involved in APTA and has a bilateral trade agreement with ASEAN as well as with various individual countries in the region, but so have many other countries (UNDP, 2005).

As expected, the shares of intra-ESSEA non-fuel primary exports in total exports of ESSEA in 1995 and 2005 were considerably smaller than the corresponding figures for manufactured goods (tables 4 and 5). Furthermore, non-fuel primary exports experienced a lower growth rate over this period. The share of China as a market for exports of primary products of ESSEA was also smaller than its share of manufactured goods. While over half of China's imports of non-fuel primary products originated from developing countries in 2005, over 20 per cent of these imports originated from ESSEA, as compared to about 60 per cent for manufactured goods. In other words, primary products, which are the main export items of lower-income countries of the region, benefited less from dynamism in regional trade than from S-S trade in general. These countries' trade in primary products was sluggish, both with China and with the ESSEA as a whole.

Table 4: Matrix of South-South trade in manufactured goods, 1995 and 2005

	Destination									
	ESSEA		China		ESSEA (excl. China)		South (incl. China)		World	
Reporters	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Value (US$ billion)										
ESSEA	303.8	841.4	61.7	256.8	242.1	584.6	357.9	998	772.6	1 991.0
South	316.6	877.6	62.7	264.4	253	613.2	412.2	1 133.9	941.9	2 440.0
World	738.9	1 525.0	114.5	431	624.4	1 094.0	1 105.3	2 308.0	3 772.2	7 349.7
ESSEA	39.3	42.3	8	12.8	31.3	29.3	46.3	50.1	100	100
South	12.9	35.9	2.5	10.8	26.8	25.1	16.8	46.4	100	100
World	10.1	20.7	1.6	5.9	16.5	14.8	15.1	31.4	100	100
Share in total imports of the group (at f.o.b prices) (%)										
ESSEA	41.4	55.1	53.9	59.5	38.7	53.4	32.4	43.2	20.5	27.1
South	42.8	57.6	54.7	61.3	40	56.1	37.2	49.1	25	33.1
World	100	100	100	100	100	100	100	100	100	100
Average annual growth rates, 1995–2005 (%)										
ESSEA	10.7		15.3		9.2		4.2		9.9	
South	10.7		15.4		7.2		10.7		10	
World	7.5		14.1		5.7		7.6		6.7	

Source: Author's calculations, based on UNCTAD, 2007c, table 2.2.
Note: f.o.b = free on board.

Table 5: Matrix of South-South trade in non-fuel primary products, 1995 and 2005

	Destination									
	ESSEA		China		ESSEA (excl. China)		South (incl. China)		World	
Reporters	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Value (US$ billion)										
ESSEA	40.1	81.6	8.3	17.4	31.8	64.2	59.3	133.1	133	251.1
South	63.8	123	13.9	42.4	49.9	80.6	95	187.6	225	396.1
World	121.1	223.7	23.3	82.7	97.8	141	198.3	354.7	757.6	1 158.3
Share in total exports of ESSEA and developing countries to the world (%)										
ESSEA	30.1	32.4	6.2	6.9	67.6	60.7	44.5	53.3	100	100
South	28.3	31.1	6.1	10.7	67.1	65.7	42.2	47.3	100	100
World	15.9	19.3	3.1	7.2	67.2	63.1	26.2	30.6	100	100
Share in total imports of ESSEA and developing countries (at f.o.b prices) (%)										
ESSEA	33.1	36.4	35.6	21	33.5	32.3	29.9	37.5	17.6	100
South	52.6	54.9	9.6	51.2	53.8	54	47.9	52.8	29.7	100
World	100	100	100	100	100	100	100	100	100	100
Average annual growth rates, 1995–2005 (%)										
ESSEA		7.3		7.6		7.2		8.4		6.5
South		6.7		11.8		4.9		7.0		5.8
World		6.3		13.5		3.7		5.6		4.3

Source: Same as table 4.

4.3 The role of regional agreements

In order to differentiate between trade in the ESSEA region and that of the individual trade groups within ESSEA, this paper refers to the latter as blocs. Hence intrabloc trade refers to trade among members of the same trade group within ESSEA, while intraregional trade refers to trade among countries of the ESSEA region.

It is not easy to separate the impact of regional trade agreements from other factors on the expansion of trade among members of such agreements. Further, members of each trade bloc are also involved in bilateral trade agreements, sometimes even with other members of the same bloc (UNDP, 2005)[19]. Nevertheless, one may still examine the trade among members of a regional trade bloc and the intraregional trade of individual countries located in the ESSEA region as a whole. To do so, first this section examines the data on intrabloc trade of members of the main Asian regional trade blocs and then the trade between those blocs, or interbloc trade. This is followed by an examination of the intraregional trade of individual countries located in ESSEA.

Table 6 provides data on the evolution of intrabloc trade of the main Asian trade blocs. As comprehensive data on the direction of trade for the different SITC product groups are not readily available, the table covers all SITC groups based on IMF *Direction of Trade Database*. It exemplifies that, first of all, in all cases the share of intraregional exports in total exports has increased over time. Secondly, ASEAN is the most successful trading bloc in terms of its intrabloc trade, and SAARC (an agreement between low- and middle-income countries), is the least successful in the ESSEA region[20], perhaps partly because of political differences within the region. However, regional politics cannot be the only reason, as trade between India and Bangladesh is not particularly buoyant either. ASEAN is also the most successful among all the regional trade blocs of developing countries in terms of the intrabloc trade ratio: The share of intrabloc exports in total exports of the group was more than 26 per cent in 2005. The closest group to ASEAN was the Central American Common Market with a corresponding share of 18.9 per cent (UNCTAD, 2007c, table 1.4). The low intrabloc trade of the Gulf Cooperation Council (GCC) is mainly due to extreme similarities in the export structure of the member countries, all of which focuses mainly on oil exporting. The poor performance of the Economic Cooperation Organization (ECO) is mainly due to political factors.

Table 6: Intrabloc trade of Asian regional trade groups

Groups	Value (US$ bn)	Share in total exports of the group				Share of the group in regional exports
	(2005)	1980	1990	1995	2005	(2005)
ASEAN (1967)	165.1	17.4	18.9	24.5	26.2	41.7
APTA (1975)	127.3	1.7	1.6	6.8	11.0	22.1
ECO (1992)	14.0	6.3	3.2	7.9	7.6	22.8
SAARC (1985)	7.1	4.8	3.2	4.4	5.5	12.8
GCC (1981)	16.5	3.0	8.0	6.8	4.8	7.3

Source: UNCTAD, 2007c: table1.4.
Note: See Annex 1 for list of member countries of the regional blocs listed in this table.

Thirdly, and most importantly, the share of trade of each bloc with the ESSEA region, outside a formal plurilateral trade agreement, is greater than that of the intrabloc trade of each group. In other words, while RTAs have led to increased trade among members of each RTA, other factors seem to have been more impor-

[19] For example, China is a member of APTA and has trade agreements not only with ASEAN and its member countries, but also bilateral agreements with other members of APTA (UNDP, 2005a).

[20] For Asia as a whole, GCC is the worst performer.

tant in expanding regional trade in ESSEA. As discussed later, the degree of demand and supply dynamism of countries and production sharing are among other important factors. The rapid increase in the intrabloc trade of APTA is due to the involvement of two growth dynamic countries, China and the Republic of Korea: They have contributed to production sharing, which is also an important feature in ASEAN.

Table 7 shows the shares of intrabloc and interbloc exports of each of the main trading blocs in ESSEA, while table 8 highlights the growth rates of such exports during the period 1990–2005. China's exports to the various blocs are discussed separately because of its important weight in the region's trade. First of all, the share of intrabloc exports of each group has not always been greater than its share of exports with a different group or groups. For example, in 2005 the intrabloc exports of SAARC countries accounted for 5.5 per cent of their total exports, while ASEAN and APTA received 8.2 per cent and 10.9 per cent, respectively, of the total exports of SAARC (table 7). By contrast, in the case of ASEAN, the share of intrabloc exports in its total exports was greater than the shares of its interbloc exports. Yet its interbloc trade is expanding faster than its intrabloc trade, and the growth rate of its trade with other blocs and with China far exceeds the growth rate of its intrabloc trade (table 8).

As for APTA, its exceptionally high intrabloc trade is basically due to the involvement of China, which accounted for over half of APTA's intrabloc trade in 2005 (table 7). Nevertheless, China's performance cannot be attributed to its trade agreements through APTA alone, or even to its bilateral agreements with other members of APTA. It has also developed exceptional trade relations with some other countries, both as an exporter and importer, particularly with ASEAN, as a result of its intra-industry trade and production sharing (see below).

Exports of SAARC to China increased by an average annual rate of nearly 29 per cent during the period 1990–2005. Over the same period, exports of China to SAARC increased by 18 per cent (table 8). In other words, although the growth rates are high in both cases, as expected China's market for SAARC's exports was more dynamic than the market of SAARC for the exports of its own members. In the event the agreement on the Global System of Trade Preferences among Developing Countries (GSTP) becomes operational, it is very likely that interbloc and intrabloc trade in ESSEA will expand further, at least among countries that are contracting parties to GSTP (Annex 3).

Table 7: Share of intra- and inter-bloc trade in total exports of selected Asian economic blocs, 1990 and 2005

(%)

Exporter	Destination					
	ASEAN-10	SAARC-7	APTA-6	Total of the 3 groups	China	Developing Asia excl. China
ASEAN-10						
1990	18.9	2.5	7.1	26.6	1.8	37.5
2005	26.2	3.4	15.3	41.9	8.3	46.2
SAARC-6						
1990	4.4	3.2	4.3	9.3	0.4	23.5
2005	8.2	5.5	10.9	20.5	5.4	42.5
APTA-6						
1990	6.7	1.8	1.6	8.9	0.0	38.6
2005	8.1	2.4	11.0	19.5	5.9	39.7
Total of above groups*						
1990	12.5	2.2	4.4	17.4	0.9	37.9
2005	14.3	2.8	12.5	27.3	6.7	42.0
China						
1990	6.6	1.5	1.4	8.8		59.5
2005	7.3	2.1	6.2	14.0		41.6
Developing countries excl. China						
1990	7.5	1.8	6.6	14.5	3.3	26.3
2005	9.5	2.3	17.2	27.2	12.3	32.1

Source: Based on table A.1.
* Includes all member countries of the above groups counted only once.
Note: Bhutan is not included as a reporter, but is included as a SAARC member.

Table 8: Average annual growth rates of exports of selected Asian trade blocs, 1990-2005

(%)

Exporter	Destination					
	ASEAN-10	SAARC-7	APTA-6	Total	China	Developing Asia excl. China
ASEAN-10	10.4	12.0	14.6	11.6	19.8	9.9
SAARC-6	12.2	13.3	15.7	14.1	28.7	12.9
APTA-6	13.2	14.0	23.6	17.1	36.8	12.3
Total above*	11.2	12.9	18.0	13.5	24.0	11.2
China	17.9	18.4	23.5	19.3		13.6
Developing countries excl. China	9.1	9.9	14.0	11.7	16.0	8.9

Source: Same as table 7.
* Includes all member countries of the above groups counted only once.
Note: Bhutan is not included as a reporter, but is included as a SAARC member.

Finally, China has been relying more on markets in the rest of the world than have developing countries as a whole. This is partly related to the involvement of TNCs in assembly operations and to the fact that China has been acting as an engine of export growth for the region (Lall and Albaladejo, 2004) through production sharing (i.e. importing parts and components from a number of countries in the region and exporting finished products to third countries, mainly the United States and Europe, as discussed below).

4.4 Dynamic markets and sources of supply: Country level

Which individual countries, in addition to China, are dynamic sources of supply and markets for regional trade in ESSEA? To help determine this, table 9 provides data on regional trade in non-fuel products of individual countries of the region. It also includes data on per capita income and MVA/GDP ratios as rough indicators of the level of development and industrial capacity of the countries concerned. All the economies, except Hong Kong (SAR, China), Mongolia and Taiwan (Province of China), are included in an overall group denoted by "A". Hence, in the following paragraph, the regional trade of a country means its trade with "A". The three economies that are not part of "A" are included separately, as they do not participate in many trade agreements. Furthermore, the trade of Hong Kong (SAR, China) includes considerable re-export, the inclusion of which would distort the picture. Accordingly, the most important point emerging from the table is that the countries with industrial supply capabilities (indicated by MVA/GDP ratios) are among the most dynamic in regional trade. This implies that industrial capacity is a significant factor in the expansion of regional trade. The table indicates different categories. One category comprises the large and relatively high GDP growth dynamic countries of China and India, which are also dynamic in their regional trade. Their rate of growth of exports and particularly imports well exceeds that of the average for A, and they demonstrate trade deficits with the region.

Table 9: Non-fuel trade of selected countries/economies in East, South and South-East Asia, 2005

Economy	GDP per capita (US$)	Average annual GDP growth rate (%)	Share of manufacturing value added in GDP (%)	Total value of non-fuel trade (US$ million)			Share in total non-fuel world trade		Average annual growth rates in value of non-fuel trade (%)			
	2005	1995-2005	2005	2005			2005		1995-2005			
									Exports to		Imports from	
				Exports	Imports	Trade balance	Exports to Group A*	Imports from Group A*	World	Group A*	World	Group A*
China	2 037	9.83	42.0	74 4331	596 005	148 326	13	35	17.7	18.6	18.0	28.4
Republic of Korea	18 486	5.34	28.4	268 708	193 734	74 974	33	28	7.6	10.9	5.1	14.4
Singapore	30 159	6.19	26.8	201 646	164 556	37 091	46	46	5.5	8.4	2.6	7.0
Taiwan (Province of China)	15 954	5.20	22.1	180 539	153 494	27 045	39	32	4.4	14.5	3.9	14.9
Indonesia	1 591	3.54	26.7	61 943	40 188	21 754	38	38	4.8	8.7	-1.1	6.1
Malaysia	5 703	5.74	29.5	122 204	105 354	16 850	37	42	5.5	6.5	3.2	8.5
Thailand	3 252	3.78	34.8	105 342	97 221	8 121	32	35	6.4	8.5	3.9	10.8
Cambodia	512	7.10	19.1	3 089	2 142	947	4	52	26.4	-3.3	23.8	18.1
Mongolia	1 212	2.45	4.5	1 024	868	156	53	43	7.8	16.0	9.6	-6.2
Philippines	1 363	3.67	23.3	40 446	40 421	25	30	32	7.8	15.0	3.1	7.4
Lao PDR	597	6.33	20.7	507	613	- 107	45	81	2.3	4.7	-2.2	-1.8
Myanmar	271	9.05	9.3	1 475	1 715	- 240	56	87	9.8	7.4	2.6	3.8
Maldives	3 020	7.21	7.2	117	629	- 512	47	64	9.1	13.0	8.0	8.3
Brunei Darussalam	30 268	2.30	12.3	656	1 261	- 605	64	55	12.9	16.3	-6.2	-5.4
Nepal	321	4.38	7.7	823	1 514	- 692	58	77	10.2	21.3	4.3	6.7
Hong Kong (SAR, China)	26 611	4.01	3.4	291 280	292 193	- 913	54	63	4.8	7.8	3.6	11.0
Sri Lanka	1 403	4.68	20.8	6 159	7 191	-1 032	14	48	3.6	10.4	2.8	3.2
Viet Nam	708	7.48	20.7	27 388	29 880	-2 491	14	49	18.1	10.5	14.6	18.7
Bangladesh	416	5.13	17.2	6 580	9 689	-3 109	4	57	6.4	-0.4	5.5	8.2
Pakistan	789	3.87	18.3	15 375	19 797	-4 422	10	30	5.6	3.9	5.4	7.9
India	759	5.99	16.0	91 493	99 246	-7 753	22	26	10.7	15.0	11.9	19.2

Source: Same as table 1and UN COMTRADE database.

Note: Bhutan is not included as a reporter, but is included in group A.

* Group A comprises all the countries/territories except Hong Kong (SAR, China), Mongolia and Taiwan (Province of China).

The second group consists of the more industrialized economies of the region, such as the Republic of Korea, Taiwan (Province of China), Singapore, and, to some extent, Malaysia and Thailand. Their share of regional trade in total trade (both exports and imports) is increasingly high. Nevertheless, all of them, particularly the most industrialized (i.e. the Republic of Korea and Taiwan (Province of China) are regional exporters (sources of supply and market seekers) more than importers (markets), and they run a considerable trade surplus with "A". They seek markets in other countries, and are also involved in production sharing and FDI, mainly with NIEs.

The third group consists mainly of low-income countries. These are more of a regional market for other countries than sources of supply because of their limited productive capacity. They include (in reverse order of their share of exports to group A) Bangladesh, Cambodia, Pakistan, Sri Lanka, Nepal and Myanmar. For these countries, particularly the first four, the share of their imports from group A in their total imports is considerably higher than their corresponding share of exports, and they run a significant trade deficit with "A". Even a GDP growth dynamic low-income country such as Viet Nam (a member of ASEAN), which also displays dynamic regional trade relations, is more of a growing market than a source of supply for the region. Moreover, in most low-income countries of the region, the rates of growth of exports to group A are also lower than the rates of growth of their total exports.

In some countries (Bangladesh and Pakistan - members of SAARC, and Cambodia - a member of ASEAN) there is no sign of an increase in their regional exports. In fact, for Bangladesh and Cambodia the growth rate of exports to group A has been negative. By contrast, Myanmar, Nepal and Sri Lanka, relatively speaking, are more dynamic regional exporters. Nevertheless, in these exceptional cases, their source of trade dynamism is probably their special bilateral trade relations with, and, to some extent, their close proximity to, a large and relatively dynamic neighbouring country (e.g. Nepal and Sri Lanka with India, and Myanmar with China) (UNDP, 2005a), rather than their membership of a plurilateral trade agreement. For example, India received over 60 per cent of Nepal's exports in 2004/05 as against about 10 per cent in 1991/92 (Koirala, 2007: table 6.1). In the particular case of India, the country's outward FDI to its low-income trading partners has been a very important factor in the expansion of trade with them. In other words, India has contributed to the expansion of the supply capacity of its partners. Otherwise, generally speaking, with the exception of Nepal, the lower the per capita income, the lower is their average growth rate of exports to group A.

In short, despite the fact that, in general, tariffs and non-tariff barriers are lower in the first- and second-tier NIEs than in the low-income countries of the region, regional agreements have been associated with the expansion of exports of the former to the latter group, rather than the other way round. Various factors may be responsible for such discrepancies in the performance of the two groups of countries. Nevertheless, the lack of supply capabilities in manufactured goods, as indicated by the low MVA/GDP ratios in table 9, is definitely an important factor. Indeed, in all lower-income countries, the growth rates of GDP and MVA have also been lower than the average for group A.

As market and supply dynamism is a very important factor in the expansion of regional trade, for the ease of reference, this paper summarizes the characteristics of the most dynamic regional market countries and the sluggish suppliers of regional exports (tables 10a and 10b). Market dynamic countries are those whose average annual growth rates of imports from group A exceeded 10 per cent during the period 1995-2005. Sluggish exporters are those with the corresponding average annual growth rates of exports of less than 10 per cent. The countries are ranked according to the degree of regional market dynamism (table 10a). China and India stand out in terms of the size of their trade and the degree of their market and supply dynamism, at both regional and world levels. In fact, China ranks first in all respects, far ahead of India not only in terms of its market dynamism but also because of the magnitude of its imports that is over five times greater than that of India. India exemplifies both a lower per capita income and a lower MVA/GDP ratio. Viet Nam is also a dynamic market, but is relatively smaller in size. ASEAN countries show strong export supply dynamism (exports to the world), but, with the exception of Thailand, they do not demonstrate strong regional market dynamism (table 9). Nevertheless, considering the size of the group, the next section briefly examines the composition of their imports along with those of China, India and the Republic of Korea.

Table 10a: Main characteristics of dynamic regional markets in ESSEA

Dynamic regional markets	Size of regional imports	Average annual growth rates, 1995-2005		
		Total M	Region X	World X
China	VL	D	D	D
India	VL	D	D	D
Viet Nam	M	D	D	D
Cambodia	VS	D	N	D
Taiwan (Province of China)	VL	S	D	S
Rep. of Korea	VL	F	D	F
Hong Kong (SAR, China)	VL	S	F	S
Thailand	M	S	F	F
Average annual growth rates of Group B in table 9 (%)		6.9	10.2	8.7

Source: Based on table 9.
Notes to tables 10a and 10b:
Dynamic regional markets are those with an average annual growth rate of imports from the region of more than 10 per cent.

VL (very large) = greater than US$100 billion
L (large) = US$50–US$100 billion
M (medium) = US$10 –US$50 billion
S (small) = US$5 –US$10 billion
VS (very small) = less than US$5 billion
EXS (extra small) = less than US$ 0.5 billion

Average annual growth rates (%):
D (dynamic) = greater than 10%
F (fast) = 5–10%
S (slow) =1–5%
N = negative growth

X= exports
M= imports

Table 10b: Main characteristics of sluggish regional exporters

Sluggish regional suppliers	Size of regional exports	Average annual growth rates 1995–2005		
		Region X	World X	Region M
Cambodia	EXS	N	D	D
Bangladesh	EXS	N	F	F
Pakistan	VS	S	F	F
Lao PDR	EXS	S	S	N
Malaysia	M	F	F	F
Myanmar	VS	F	F	S
Hong Kong (SAR, China)	VL	F	S	D
Singapore	L	F	S	F
Average growth rates of Group B in table 9		10.2	8.7	11.1

Source: Same as table 10a.
Notes: See above.

In table 10b, countries are ranked according to ascending rate of growth of their regional exports. Except for Cambodia and Bangladesh, the growth rates of regional imports exceed those of their total imports. However, the situation of the lower-income countries differs from the others, because they are basically markets for others without enjoying the dynamism of the regional market for their exports. The growth rates of their regional exports are lower than those of their total exports. By contrast, other countries enjoy greater market dynamism for their export products than the lower-income countries.

5. Intra-industry trade, production sharing and regional trade

This section discusses that intra-industry trade through production sharing, particularly in electrical and electronic products, is the main source of dynamism in the expansion of regional trade in ESSEA. However, such trade has a number of drawbacks. Regional trade in these products is concentrated in the first-tier NIEs and, to some extent, in the second-tier NIEs, and China is the most dynamic market in this respect; India and other lower-income countries have not been integrated. India, unlike China, has focused on the software industry rather than hardware production and exports in the information technology (IT) sector. Further, the countries of the region have become vulnerable to the risks of interdependence and exposure to external shocks and international business cycles. Moreover, the second-tier NIEs need to upgrade their technological capabilities. Neither the integration of lower-income countries nor the technological upgrading of the second-tier NIEs is feasible through the operation of market forces alone. There is a need for policy initiatives by the governments of the region in order to enhance regional cooperation for these purposes.

Production sharing is a form of industrial collaboration and intra-industry trade whereby the process of production is fragmented into various parts and components that are produced in different countries, crossing borders to another country for assembly. Such a vertical production chain is facilitated by trade and investment liberalization and a reduction of transaction costs due to reduced costs of transportation and communication (Arndt, 2002).

According to a World Bank study for the 1985–2001 period (Ng and Yeats, 2003), the sharp increase in intraregional trade in the East Asia region has been largely due to the expansion of intra-industry trade, which is characteristic of industrialized countries. Their intra-industry trade has expanded particularly in skill-, capital- and/or technology-intensive goods such as electronic products and other machinery and transport equipment (SITC 7)[21]. The first-tier NIEs (Hong Kong (SAR, China), the Republic of Korea, Singapore and Taiwan (Province of China)) undertook more intraregional trade than other countries, followed by the second-tier NIEs (e.g. Malaysia and Thailand). Even within ASEAN, the lower the level of development, the lower is the intraregional trade of the country (Ng and Yeats, 2003: table 8.1). In other words, as countries industrialize the prospects for regional trade increase.

The Ng and Yeats study (2003) also make note that the growth of demand from the East Asian region, also improved competitiveness and contributed to diversification of the export structure of the exporting countries by providing them with a larger market, thus scale economies, and this enabled them to enter into new lines of production. Growth, competitiveness and diversification contributed to the growing market share of East Asia in international trade in general (Ng and Yeats, 2003: 27 and table 10.2). However, these factors have been less present in the intraregional trade and competitiveness of the lower-income countries of ESSEA, regardless of whether or not they were members of a regional trade group such as ASEAN (*ibid*: table

[21] Machinery and equipment accounted for 19 of the 30 largest four-digit SITC products in intraregional exports, and another 8 items were in the category of light manufactured goods (Ng and Yeats, 2003: table12.1).

9.1). Capital-and technology-intensive goods (SITC 7 items) constituted the bulk of items (16 out of 23 items) in which East Asia increased its market share in intraregional trade. In 2001, production sharing through trade in P&C accounted for over 26 per cent of the intraregional trade in manufactured goods, excluding chemicals. Further, P&C of SITC 7 accounted for half of the growth of East Asian trade during the period 1990-2001, and electronic products constituted the bulk of such trade (Kozo, Sazanami and Yu Ching, 2006: 4-5). Apart from Japan, China, Taiwan (Province of China), Malaysia, the Republic of Korea, Singapore, Thailand, Hong Kong (SAR, China) the Philippines and Indonesia, were (in that order of importance) among the main exporters of P&C. Nevertheless, only China, Indonesia the Republic of Korea and Taiwan (Province of China) showed a positive trade balance in P&C (*ibid*: table 18.1). Others were net importers engaged in assembly operations.

5.1 Composition of imports of main dynamic markets and ASEAN

This section examines the evolution of imports of non-fuel products in general, and the main imports of the most dynamic and largest markets of the region (i.e. China and India, and the Republic of Korea in ASEAN) and from the lower-income countries of the region. The lower-income countries include members of SAARC (excluding India), together with Cambodia, Lao People's Democratic Republic and Myanmar. As well, two small countries are included in this category: Maldives and Brunei Darussalam; although they are not low-income countries, they have low industrial capacity. Further, the section examines the main items of intra-ASEAN trade as well as main imports of China and ASEAN from India. The import items selected are those which account for at least 0.5 per cent of non-fuel imports of that country/group.

Table 11: Imports of non-fuel products of various countries and ASEAN-6 from ASEAN-6, 1995–2005*

	Non-fuel	Average annual growth rate (1995–2005)			Share		Main electrical & electronic goods		Share of various countries in imports of SITC 7 items of the country/group (%)
Reporters	Value (US$ million)	Non-fuel	Manf.	SITC (7)	Manf.	SITC (7)	Share (%)	SITC category	
China	67 058	26.4	30.7	38.6	87.1	66.7	58.3	776,752,764, 759,772,778,741	Mal.32, Phili.26, Sing.21, Thai.17, Ind.4, Vit.0.3
ASEAN-6	105 277	10.0	9.0	8	88.0	61.8	44.6	776,759,752,778, 716,771,741.	Mal.37.1, Sing.19.1, Thai 17.2 Phil.13.1, Ind.12.2, Vit.1.2
Rep. of Korea	16 789	9.6	12.6	15.3	80.3	56.1	46.1	776,752,764,778, 759,716,772	Sing.42.6, Mal.23.1, Phil.17.5, Thai.12.7, Ind.3.3, Vit.0.75
India	9 221	16.0**	19.0	21	71.6	40.1	27.4	752,759,764,776,761, 778,716,743,741	Sing.52.9, Mal.21.9, Thai.14.9 Ind.5.1, Phil.4.9, Vit.0.3

Sources: Based on tables A.2–A.10.
* All figures are for year-end, unless otherwise stated.
**Estimate.

SITC categories:
716: Rotating electrical plants
741: Heating and cooling equipment and parts
743: Pumps and compressors, etc.
752: Automatic data processing machines
759: Parts and accessories for office machine and data processing machines
764: Telecommunications equip. and parts
771: Electric power machinery
772: Electrical apparatus
773: Equipment for distributing electricity
776: Thermionic, cold & photo cathode valves, etc.
778: Electrical machinery

Country Abbreviations
Ind : India
Mal: Malaysia
Phil: Philippines
Sing: Singapore
Thai: Thailand
Vit : Viet Nam

Table 12: Imports of non-fuel products of selected countries and ASEAN from the lower-income/small countries of ESSEA, 2005*

Reporter	Non-fuel Value (US$ million)	Average annual growth rate (1995–2005)				Share in non-fuel imports (%)					SITC code	Share of countries in imports of manf. of the country/bloc (%)
		Non-fuel	manf.	O&M	Ag.R**	Food	Manf.	O&M	Ag.R	Main manf.	items	
China	1 283	9.6	9.0	17.1	10.0	6.8	60.0	22.4	26.2	56.1	651,652,611, 513,583	Pak. 88.1, Bang.6.2,Sri Lan. 2.9, Camb.2,1, Lao,1.9, Mya.,1.5, Nep.,0.7, Brun.nil, Mal. nil, Bhut. nil
ASEAN	1 801	6.0	3.0	26	8.0	4.0	34.4	10.9	54.7	20.1	845,846,843, 562,759,652, 653,541,667, 842, 513,674, 634,778.	Pak.24.1, Bang.22.6, Brun.19.9, Sri La.13.1, Camb.10, Myn.6.2, Lao, 2.9, Nep.0.5, Mal.0.2, Bhu. 0.1
Rep. of Korea	311	1.5	-0.9	23.6	-2.5	4.5	80.0	2.6	18	72.4	651,611,652, 634,843,842, 846,848,899, 696,872,894	Pak.66.5 Bang.16.1 Myn.8.6, Sri La.5.8, Cam.1.9, Nep.0.29, Lao.0.6, Bhut. nil, Brun. nil, Mal. nil.
India	1 888	15.6	39.9	12.7	12.0	32.2	13.2	54.6	24.2		651,522,513, 541,678,773, 693, 674,553, 658, 641,657, 654,661,634, 671,653,672, 598	Nep.39.4, ,Sri La.27, Bang.13, Pak.10.5, Bhut.8, Brun.nil, Mal.nil, Cam. nil, Lao. nil
Memo: Imports of China & ASEAN from India	8 293	23.1	21.4	43.1	15.1	5.3	46.8	37.9	8.7	33.6	667,674,672,583, 541,512,651,611, 515,671,741,531	ASEAN, 65, China 35

Source: Same as table 11.
*All figures are as at year-end, unless otherwise stated.
** O&M = ores and metals; Ag. R = agricultural raw materials.

SITC categories

512: Alcohols
513: Carboxylic acid, etc.
515: Organo-inorganic & heterocyclic chemicals
522: Inorganic chemical elements
531: Synth.org.dyestuffs, etc.
541: Medical and pharmaceutical products
553: Perfumery, cosmetics, etc.
562: Fertilizers manufactured
583: Polymerization etc.
598: Misc. chemicals
611: Leather
634: Veneers, plywood, etc.
641: Paper & paper boards
651: Textile yarn,
652: Cotton fabrics, woven
653: Fabrics, woven of manmade fibres
654: Textile fabrics, woven
657: Special textile fabrics
741: Heating and cooling equipment
759: Parts and components for office machines
773: Equipment for distributing electricity
776: Electrical machinery
842: Outer garments of textile fabrics
843: Outer garments, woven
845: Outer garment, etc. knitted
846: Undergarments, knitted, etc.
848: Articles of apparel & clothing accessories
872: Medical instruments
893: Articles of plastic material
894: Baby carriages, toys, etc.
899: Misc. manufactures

Country Abbreviations

Bang : Bangladesh
Bhut : Bhutan
Brn : Brunai
Camb : Cambodia
Lao : Lao PDR
Mal : Malaysia
Mya : Myanmar
Nep : Nepal
Pak : Pakistan
Sri Lan : Sri Lanka

Table 11 provides the relevant data on imports from ASEAN and highlights, *inter alia,* the importance of manufactured goods and SITC 7 items in total imports of the country/group concerned. It also shows the share of the main items (i.e. electrical and electronic products) in imports of manufactured goods of the country/bloc concerned, and the share of each partner country in imports of the reporting country/bloc. The main import items and countries of origin are ranked in order of their importance in imports of SITC 7 items (machinery and equipment). Except for ASEAN itself, SITC 7 items as a whole are the most dynamic products among the manufactured imports of various member countries. Further, they also account for the bulk of their imports of manufactured goods, particularly for China and ASEAN. More importantly, a limited number of electrical and electronic products - both finished and P&C (11 items) - feature in intra-industry trade. In fact, three items (SITCs 776, 752 and 759)[22] figure among the main imports of all countries and the bloc included in the table; and five items (754, 772, 778, 741 and 716) are among the main import items of three countries and the ASEAN bloc. Finally, Malaysia, Singapore and the Philippines are the major sources of supply of these imports.

Such a heavy dependence on a limited number of products and on China, is cause for concern. As mentioned earlier, China heavily depends on third markets (especially Europe and the United States) for exports of its finished products (see below). Therefore, it is vulnerable to business cycles in these countries as well as to other external shocks. To explain further, only seven electrical and electronic products accounted for 58.3 per cent of imports of manufactured goods of China from ASEAN in 2005, amounting to nearly US$60 billion dollars. Moreover, two items (SITC 776 and 752 – thermionic & photo-cathode valves, and automatic data processing machines, respectively) accounted for over 38 per cent and 12 per cent, respectively, of total non-fuel imports of China from ASEAN in 2005 (table A.2). These two items together amounted to nearly US$34 billion, and their imports grew at an average annual rate of about 63 per cent during the period 1995-2005. Malaysia is the most vulnerable country in this respect as it accounts for nearly 56 per cent of China's imports of these two products (based on table A.2).

Table 12 provides data on imports of dynamic countries and ASEAN from the lower-income/smaller countries of ESSEA. It also includes data on imports of China and ASEAN from India, and imports of non-fuel primary products. Further, as few SITC 7 items are exported by lower-income countries, the table includes data on the share of main manufactured goods in total imports of various groups/countries, instead of their share of SITC 7 items. As expected, the value of imports of non-fuel products from lower-income countries is not significant, and few manufactured products are imported from these countries. While their share of manufactured goods in the imports of the Republic of Korea was the largest, their growth rate was negative during the period 1995–2005. ASEAN's growth of imports of these products was also negligible. In other words, again, lower-income countries have not benefited from dynamism in the regional trade in manufactured goods in general, let alone in the market for IT products.

Secondly, Pakistan, as the most industrialized country among the lower-income countries (see table 9), is a source of imports by China, the Republic of Korea and ASEAN, followed by Bangladesh and Sri Lanka. As the other lower-income countries have limited industrial capacity, they benefit little from the dynamic markets of the region. Even in the case of Bangladesh and Pakistan, imports have not been expanding rapidly, as mentioned in the previous section.

Thirdly, the list of manufactured products imported from the lower-income/small countries covers very low-technology-intensive, light manufactured goods. For example, textile yarn and cotton fabrics account for over 45 per cent of China's imports of non-fuel products from lower-income countries. The picture for ASEAN and the Republic of Korea is not much different (tables A.6 and A.8). Even with regard to Pakistan, textile yarn constitutes nearly 70 per cent of China's imports from that country.

[22] For the product categories, see the notes to the table.

Fourthly, the performance of India stands out, as it is exceptional in certain respects. India is the largest and most dynamic importer of non-fuel products, including manufactured goods, from the lower-income countries. Indeed, not only are its imports larger than the imports of the whole of ASEAN from these countries, but also its structure of imports of manufactured goods is more diverse. Its imports include chemicals, textiles, processed ores and metals, paper and cement. Twenty-four items account for 24.2 per cent of its non-fuel imports and for over 75 per cent of its imports of manufactured good from the lower-income/small countries. Two neighbouring countries, Nepal and particularly Sri Lanka, enjoy important trade relations with India. They are the source of nearly 31 per cent and over 20 per cent, respectively, of imports of India from the lower-income/small countries (see table A.9) Proximity, cultural and political ties are important for such exceptional relations. However, they are not the only reason. Apart from wide product coverage of their bilateral trade agreements, India's outward FDI to these countries is an important factor in the expansion of trade of its trade with these countries, as mentioned before. By contrast, Bangladesh and Bhutan, among others, have neither similar bilateral trade agreements nor do they receive as much FDI from India. The S-S cooperation experience of Sri Lanka and Nepal would indicate not only the importance but also the feasibility of industrial collaboration among lower -income countries (discussed further in section 6 below).

Fifthly, regional imports of two commodity items – ores and metals – from lower-income/small countries have been expanding relatively fast in all cases, particularly in China's imports. Such an expansion has been due mainly to the growth in import volume, as prices of minerals and metals increased by an average annual rate of only about 3 per cent during the period 1995-2005 (based on UNCTAD, 2007c: table 6.1). Therefore, one area to be considered for industrial collaboration is in the processing of raw materials for increasing domestic value added (discussed further in section 6 below).

Finally, the import structure of China and ASEAN from India is close to the pattern of imports of other countries/groups from lower-income/small countries, with a couple of differences. One difference is that the manufactured goods imported from India are slightly more sophisticated technologically. Another is that chemical products figure among the main import items from India: Five main chemical items accounted for about 7 per cent of the non-fuel imports and 15 per cent of the imports of manufactured goods from India in 2005. By contrast, for reasons explained earlier, India does not seem to have entered into the network of production sharing in electrical and electronics goods, which have been important for the expansion of intraregional trade in East Asia, as discussed later in this study.

5.2 The role of China in regional production sharing

China is regarded in the literature, as the leading country in terms of deepening of vertical intra-industry trade specialization (i.e. production sharing), and as the engine of export growth of the East Asian region (e.g. Kozo, Sazanami and Yu Ching, 2006; Lall and Albaladejo, 2004; Haltmaier et al., 2007). Trade in P&C, particularly electrical and electronic P&C, has been one of the most dynamic elements of China's trade in general[23], including its regional trade with ESSEA. Exports and imports of P&C, necessary for the production of items covered by SITC 7, increased at average annual rates of 29.6 per cent and 18.5 per cent, respectively, over the period 1992/93–2004/05 (table 13). Such rates far exceeded the corresponding growth rate for exports of manufactured goods as a whole, which was about 20 per cent. The share of P&C in exports and imports of manufactured products was more than13.2 per cent and 20.5 per cent, respectively, in 2004/05. Trade in the 10 main items of P&C (mostly electrical and electronic goods) expanded even faster than those of total P&C. China has become a net exporter of these main products.

[23] For example, according to one estimate, in 2005, trade in P&C accounted for about 30 per cent of China's total exports and 41 per cent of its exports of machinery and equipment (Haltmaier et al., 2007: table 2; see also Shafaeddin, 2004).

Table 13: China's trade in parts and components of SITC 7, 1992–2005

	Exports		Imports		Growth rate (%)*	
	1992/93	2004/05	1992/93	2004/05	X	M
Total :						
Value (US$ million)	3 458	77 950	10 243	79 317	29.6	18.5
Share in total manufactures (%)	5.3	13.2	15.6	20.5		
Ten main items:						
Value (US$ million)	2 757	68 71	6 746	66 746	30.7	21.1
Share in parts and components (%)	79.7	88.1	65.8	84.1		

Source: Author's calculations based on UNCOMTRADE database.
* Average annual growth rate for the period 1992/93–2004/05.
X = exports; M= imports.

Data for the regional trade of China in P&C and their corresponding finished products are exhibited in table 14. In the table, the developing economies/regions are ranked according to the value of imports of P&C in 2006. The data also illustrates the total trade of China with ESSEA, excluding Hong Kong (SAR, China), because of its special situation as a major re-exporter. Even when Hong Kong (SAR, China) is excluded, China is not only a large market, but also a net importer of P&C and finished products from the region. Yet it is a net exporter to the rest of the world. Therefore, it acts as an export hub for the region.

Secondly, such a large market does not benefit all countries to the same extent. Three groups of economies can be distinguished in order of their importance as providers of the selected products. The first group is the Republic of Korea and Taiwan (Province of China) (NIEs). China's trade balance with these economies is significantly negative for both P&C as well as finished products. This is because they are major regional suppliers to China of sophisticated P&C that it does not produce domestically and requires for assembly of finished products, mostly for export. They also export some sophisticated finished consumer goods and capital equipment to China for its own domestic consumption.

The second group consists of four ASEAN members: Indonesia, Malaysia, Singapore and Thailand (ASEAN-4). China is a net exporter of P&C to these countries, except to Singapore, and a net importer of finished products, mainly from Singapore. In 2005, imports of six electronic products (SITCs 776,752, 764, 771, 716 and 751 in this order of importance) accounted for 77 per cent of China's imports from the "rest of ASEAN" of which SITC 776 accounted for over 60 per cent. The trade relations of China with the rest of ASEAN are dominated by trade in electronics with the Philippines, rather than with lower-income members of that regional group (table A.6). China also imports a small amount of electronic goods (worth about US$39 million) from Viet Nam (annex table A.2).

Table14: China's trade in main parts and components and their corresponding finished products for main SITC product categories, 2006
(values in US$ million)

Region/ Economy	Parts and component					Corresponding finished goods				
	Imports		Exports		Balance	Imports		Exports		Balance
	Value	%	Value	%	Value	Value	%	Value	%	Value
Republic of Korea	12 406	14.39	4 777	4.90	-7 629	22 496	13.0	5 835	2.9	-16 634
Taiwan (Province of China)	8 060	9.35	3 478	3.57	-4 582	28 017	16.2	4 897	2.5	-23 120
ASEAN-4	5 996	6.96	8 830	9.06	2 834	27 614	16.0	13 122	6.6	-14 492
Hong Kong (SAR, China)	1 726	2.0	29 891	30.66	28 165	1 848	1.1	43 111	21.6	41 263
Rest of ASEAN	1 249	1.45	966	9.06	-283	14 299	8.3	1 885	0.9	-12 414
India	96	0.11	1 046	1.07	950	65	nil	3 000	1.5	2 935
SAARC, excl. India	2.8	nil	340	0.35	347.2	5	nil	903	0.5	898
Total above	29 535	34.27	49 327	50.59	19 792	94 343	54.7	72 592	36.4	-21 751
Total excl. Hong Kong, (SAR, China)	27 809	18.21	19 436	19.93	-8 373	92 495	53.6	29 481	14.8	-63 014
Japan	17 421	20.21	8 349	8.56	9 072	18 935	11.0	13 575	6.8	-5 360
Others	39 226	45.52	39 828	40.85	598	59 340	34.4	113 373	56.8	54 033
Total	86 185	100	97 502	100	11 317	172 618	100	199 486	100	26 868

Source: Author's calculations based on table A.11–A.14.

The Philippines has become an increasingly important exporter of electronic products since the late 1980s through the involvement of Japanese and United States firms. Three characteristics of the country have attracted FDI: its proximity to other East Asian countries involved in the vertical production system, its ease of regional transport due to its vast coastal areas, and its low-wage and skilled human-power. Japan and the United States have been its main markets, but its exports of high-tech products to China have also increased significantly, from 1.3 per cent of its total exports in 2000 to 13 per cent in 2005 (Haltmaier et al., 2005: 32-36). Whether such a rapid expansion is due to the involvement of China's FDI or not requires further investigation.

The third group consists of lower-income country members of SAARC and India, from which China imports only a small amount.

Finally, even when Hong Kong (SAR, China) is excluded, over 60 per cent of China's exports go to developed countries: Japan (7 per cent) and mainly the United States and other countries (57 per cent)[24]. In other words, China could be vulnerable to changes in the market situation in developed countries for exports of its finished products, and risks transmitting these changes to other countries of the ESSEA region through its demand for P&C and finished goods, which amount to nearly US$30 billion and US$100 billion, respectively. The study turns to this issue after explaining the role of the market and government in the expansion of production sharing below.

5.3 Misconception about the role of market forces

Has production sharing developed through the operation of market forces? Can market forces alone provide the necessary impetus for the expansion of regional trade of lower-income countries through expansion of intra-industry trade, or are proactive policies required? There is a common misconception about the role of the market in the expansion of regional trade and production sharing in East Asia. It is maintained that the expansion of regional trade in East Asia has been market-driven (e.g. Kawai and Wignaraja, 2007: 3-4). Two points should be emphasized in this regard. First, while currently some arm's length intra-industry trade does take place among the countries of the region, the bulk of it is intra-firm trade that does not go through the market (Isoga, Morishita and Ruffer, 2002: 52). Second, such trade was mostly policy-driven; that is, it was initially a result of changes in FDI policies of the East Asian governments and the Government of Japan. The combination of these two resulted in the development of fragmented vertical production and distribution chains and production sharing mainly among the first- and second-tier NIEs and Japanese companies (Ando and Kimura: 2003). The Japanese firms initially played an important role in integrating the East Asian region. While US-owned firms based in the region produced mostly for export to the United States, Japanese firms produced mainly for export to other countries, including within region (Isoga, Morishita and Ruffer, 2002).

Furthermore, since the mid-1980s most governments of the region have been pursuing a new development strategy for efficient and beneficial use of FDI in the process of their economic development and industrialization. Both import-substituting and export-oriented industries were subject to new policies. Moreover, while market forces played a role (Isoga, Morishita and Ruffer, 2002: 3–9), this should not imply that the process was entirely market-driven. Apart from providing suitable locations for FDI, the governments of the region adopted policy packages that included introducing a duty drawback system for imported inputs and development of local firms and their clustering to prepare them for entry into the vertical production chain. They also took measures for the development of infrastructure, utilities and back-up services that were necessary for production and trade (Isoga, Morishita and Ruffer, 2002: 5–6). Throughout the period, capacity-building of the local firms was emphasized (Lall and Albaladejo, 2004).

---

[24] It is not easy to judge with certainty the impact on the direction of trade of re-exports of goods imported from China by Hong Kong (SAR, China), as there is a large discrepancy between the data on exports of the relevant items from China to Hong Kong (SAR, China) and the corresponding data on imports of Hong Kong (SAR, China) from China. Such discrepancy cannot be explained by differences in prices of cost, insurance and freight (c.i.f.) and free on board (f.o.b.) of the related products. On the basis of published data, however, the picture of the "effective" direction of exports of China does not seem to change much.

Subsequently, China adopted fairly similar policies to other countries. However, the differences are that the initial, significant contributions of inward FDI came from ethnic Chinese investors of foreign origin or investors from Chinese territories (mainly Hong Kong, (SAR, China) and Taiwan (Province of China)) and Singapore (Huang, 2002). Even after the country's accession to WTO, resource allocation has largely been governed by government policies (Haltmaier et al., 2007: 24).

To explain further, the fragmented vertical production chain[25] required, *inter alia*, specialization to benefit from the economies of scale and firm-specific assets of the local or affiliated firms in different countries. Initially, the Japanese Government and firms played an important role in the development of the chain and the network. The appreciation of the Japanese yen after the Plaza Accord in 1985 was influential in changing the Japanese Government's policy towards outward FDI[26]. This change of policy, by coincidence, took place more or less around the same time as East Asian governments changed their policies towards inward FDI. Japanese firms created affiliates in East Asia in order to relocate their labour-intensive industries in the region and benefit from availability of low-wage, semi-skilled labour, with the added advantage of geographical proximity. According to Gaulier, Lemoine and Unal-Kesenci (2005: 13-15), "In 2000, 3,773 out of 27,655 firms located in Japan… have [a total of] 18,943 foreign affiliates. Among them 2,994 firms have 10,224 affiliates in East Asia." Seventy five per cent of these affiliates were in the manufacturing sector, but there were also non-manufacturing affiliates (*ibid:* 13-15). The important point, however, is that, influenced partly by policies of the host governments, particularly on local content requirements and joint ventures (Amsden, 1989), the Japanese affiliates in East Asia purchased the bulk of their inputs – both goods and services – from the local markets and local firms (over 41 per cent) and from other East Asian countries (about 21 per cent) (*ibid:* 16). This process contributed to intraregional trade, an increase in local value added and the development of the capabilities of local firms. Similarly, although their production was export oriented, the regional market also absorbed a significant proportion of goods.

The development of the regional pattern of industrialization in East Asia resembled the flying geese model initially seen in Japan's domestic development (Akamatsu, 1961; Kasahara, 2004). However, the geese did not fly automatically, either in Japan or at the regional level. Government investment in areas such as education, training, technological infrastructure and R&D played an important role in the development of domestic capabilities in Japan and in other East Asian NIEs as well as China (Malhotra, 2006: 4-8; Fan and Watanabe, 2006; Lall, 2004: 14–24). The trickle-down effects of the process have since reached the second-tier NIEs (Indonesia, Malaysia and Thailand, and, to some extent, the Philippines), but so far not enough to upgrade their industrial structure significantly. In other words, the trickle-down effects have not had a sufficient impact on their technological capabilities. Second, the lower-income countries of the region were not part of this flying geese process before the recent wave of trade and investment liberalization and changes in international rules. Since the early 1980s, these changes have considerably limited the policy space available to these countries to follow the kind of government interventions that had enabled industrial upgrading in Japan and the NIEs. Hence, it is not clear whether, under the new global economic conditions governed by market forces and liberalization, the lower-income countries of the region would be able to follow the same path of industrialization as the first-tier or even second-tier NIEs.

In the particular case of China, as already mentioned, until very recently its inward FDI came mainly from ethnic Chinese groups, and part of it was in the form of round-tripping (Huang, 2002). On the basis of data provided by China, Hong Kong (SAR, China) and Taiwan (Province of China) alone accounted for nearly 70 per cent of China's cumulative FDI in the period 1990–2002 (Gaulier, Lemoine and Unal-Kesenci, 2005: table 1)[27]. The Republic of Korea accounted for another 4.2 per cent. More recently, investments by Japan and the

[25] This implies vertical specialization through splitting up of the value added chain.

[26] The Plaza Accord was an agreement concluded between France, the then Federal Republic of Germany, Japan, the United Kingdom and the United States at the Plaza Hotel in New York on September 22, 1985. They agreed, *inter alia*, to a devaluation of the United States dollar in relation to the Japanese yen and German deutsche mark by intervening in the currency market.

[27] If data of the reporting partners, Hong Kong (SAR, China) and Taiwan (Province of China), are used, these two territories accounted for more than 80 per cent of China's cumulative FDI during the period 1990–2002 (op. cit: table 1).

Republic of Korea in China have increased significantly and a sort of "triangular trade pattern" has developed. Therefore, it is not surprising that in 2002, 60 per cent of Chinese imports from Hong Kong (SAR, China), Taiwan (Province of China), the Republic of Korea and Singapore, and 40 per cent of its imports from Japan were used as inputs in highly import-intensive processing trade (Gaulier, Lemoine and Unal-Kesenci, 2005: 17 and table 2). The share of processed exports in total exports of China was over 58 per cent in 2005 (Shafaeddin and Pizarro, 2007: table 3). Nevertheless, Chinese firms still play an important role in exports of manufactured goods. For example, in 2002 about a quarter of firms involved were Chinese and anther 29 per cent were in the form of joint ventures (Gaulier, Lemoine and Unal-Kesenci, 2005: table 8). Further, the Chinese Government pursued a policy of expanding supply dynamic and demand dynamic products, such as IT products, in addition to its export of labour-intensive items. Supply dynamic products are those with high productivity and important externalities, while demand dynamic products are those that enjoy high income elasticity of demand in international trade (Shafaeddin and Pizarro, 2007: sections IV.a and IV.b; Rodrik, 2006).

The strategy followed by China and other East Asian economies has contrasted with, for example, Mexico and most other Latin American countries that have relied on market forces and regional trade arrangements alone. Mexico, for instance, imports P&C from the United States and exports the assembled goods mainly back to the United States. However, it is not part of a production sharing network and does not follow similar policies to those of East Asian governments (Gallagher et al., 2008).

5.4 Vulnerability and risks of interdependence

The third problem related to the emerging vertical production system in East Asia is the increased interdependence of the countries of the region and thus their vulnerability to the risks of transmission of the boom and bust cycles, particularly from a large trading partner such as China, to other countries. As mentioned earlier, China depends on the markets of developed countries in Europe and the United States for exports of its finished IT products and for over half of its exports. Thus, it is subject to the risks of business cycles in these countries. Moreover, the experience of the Asian financial crisis of 1997–1998 proved that an economic crisis in one country can easily spread to other countries, leading to a slowdown of economic growth. The financial problem, which started in Thailand, led to the Asian currency crisis that affected most of the East Asian countries. A shortage of foreign exchange and large-scale and abrupt outward movements of capital and currency had an adverse impact on the real sectors of the region's economies. The high degree of interdependence of countries in the ESSEA region, except for most countries of the Indian subcontinent (table A.17) is cause for concern, as the frequency and intensity of boom and bust cycles in the world economy has increased over the past three decades (Akyüz, *forthcoming*)[28].

The interdependence of the ESSEA region could entail a number of risks. One source of risk is the development of shocks in the economy, or bottlenecks in production in one country and their transmission to another through the production sharing network, leading to a slowdown of growth (Isoga, Morishita and Ruffer, 2002; Kamada and Takagawa, 2005; Kozo, Sazanami and Yu Ching, 2006). Trade and industrial policies pursued in one country affect prospects for trade and development in other countries of the region. In addition, exchange rate, financial and macroeconomic policies, *inter alia*, of one country may have important effects on the economies

[28] Some argue that a certain decoupling of the emerging markets is taking place led by China and the United States (see, for example, "The Decoupling Debate", *The Economist*, 6 March 2008). It is true that S-S trade expansion has reduced the share of the United States and other industrialized countries as markets for developing-country exports. However, it is too soon to speak of decoupling. For example, in the case of China, the share of industrialized countries in China's exports declined, from 56.3 per cent in 2000 to 51.6 per cent in 2006, although the share of the United States, which is facing an economic slowdown, in fact increased slightly, from 20.9 per cent to 21 per cent (based on IMF, 2007: 924). Further, the export/GDP ratio of China increased from 25.9 to 33 per cent during the period 2000–2005, and is likely to have increased further since then. According to *The Economist* (ibid.), China's exports to the United States account for 8 per cent of China's GDP. Therefore, every 10 per cent decline in its exports to the United States alone will lead directly to a reduction of its GDP by 0.8 per cent. Also, the contagion effects of the United States recession on the world economy will essentially have further indirect effects. Exports to industrialized countries alone account for nearly 20 per cent of China's GDP, and the worldwide recession potentially would have an impact on China's exports to other regions. After all, the intraregional trade of the EU accounts for over 60 per cent of its exports. Yet the last time around (during the global recession of the early 2000s), it was not immune to the United States' recession. Moreover, if the financial crisis caused by the sub-prime problem persists and spreads to other industrialized countries and developing regions, it would further affect trade through its impact on global economic activities.

of other countries of the ESSEA region. In fact, there has been an increase in the correlation of business cycles between economies across the East Asian region since the mid-1980s (Zebregs, 2004: 14).

Secondly, an important factor affecting the stability of their economic activities is change in the currency and exchange rate system. Currently, most countries of the region have floating exchange rates pegged to the United States dollar. China still pursues a fixed exchange rate pegged to the dollar with a band. One issue is the impact on exports of agricultural products and raw materials of low-income countries if China were to switch from a fixed exchange rate system to a floating rate. These countries are more vulnerable to changes in prices of primary commodities due to their low level of development and dependence on exports of these products. Another issue is the effect of shifting from a currency system pegged to the dollar to a system pegged to a basket of currencies. There are suggestions that a currency basket pegged to the currencies of East Asian economies or adoption of a single regional currency may have a stabilizing effect on the economies of the countries in the region. However, the result of one study (Kamada and Takagawa, 2005) demonstrates that the impact of pegging to a basket of currencies would be ambiguous, depending on the type of economic instability or shock. The ambiguity also applies to the impact of a switch to a floating exchange rate of the Chinese currency.

Yet another risk is the possibility of protectionism by the United States due to its growing trade imbalance with China. It could have negative effects on exports and production in China with adverse knock-on effects on the exports of other countries in the region (Kozo, Sazanami and Yu Ching, 2006:12).

In the literature, reference is also made to another source of risk facing the exporters of P&C to China: The substitution of imported intermediate products by domestic production as the country increases value added in its exports (see, for example, Lall, 2004; Humphrey and Schmitz, 2006). In fact, China, unlike Mexico, has been rapidly increasing the value added in its assembly operations (Shafaeddin and Pizarro, 2007). Yet perhaps this risk is overstated. While upgrading its existing industrial structure, China also creates demand for new equipment as well as intermediate products. Further, the experience of the industrialized countries notably demonstrates that as countries industrialize, intra-industry trade in differentiated products also increases.

How about lower-income countries? As China upgrades its industrial structure, will it leave some low-technology products to create space for activities of lower-income countries through a type of flying geese process? In fact, China has been improving its "revealed comparative advantage", not only in exports but also in the production of technology-intensive products in relation to labour-intensive goods. Nevertheless, it remains a massive producer of labour-intensive products (Shafaeddin and Pizarro, 2007) and may take a long time before shifting to production of higher technological products sufficiently to leave their production to the lower-income countries. Additional research is needed to study the impact of the dynamics of economic changes in China on export opportunities for lower-income countries[29].

In any case, international trade and investment rules have changed. Therefore, as mentioned before, lower-income countries of the region may no longer be able to benefit from the flying geese pattern, as did the Republic of Korea, Taiwan (Province of China) and the second-tier NIEs.

In short, regional trade has expanded rapidly in ESSEA mainly through intra-industry trade in the form of production sharing in electrical and electronic products. Such expansion has led to three evolving issues which require close attention by the countries concerned: the lack of integration of lower-income countries; the need for technological upgrading of the second-tier NIEs; and the necessity for insurance against risks of vulnerability of the countries involved in production sharing due to their dependence on external markets for finished products and on their own interdependence on trade in P&C. These issues need to be dealt with by proactive policies, including expanding the scope of regional cooperation beyond trade agreements, as explained in the next section.

[29] Some observers also refer to the fragility of regionalism in East Asia because of the lack of disciplines in bilateral trade relations and the absence of a mechanism for dispute settlement. As mentioned before, they, therefore, recommend binding unilateral tariff cuts in the WTO (Baldwin, 2006). Experience shows that this risk is also overstated, and that binding tariff cuts in WTO would result in the loss of policy space vis-à-vis third parties.

6. Policy initiatives for enhanced regional cooperation in ESSEA

Strengthening regional cooperation should cover, *inter alia,* four main areas: industrial collaboration among lower-income countries for developing their productive supply capabilities; provision of necessary assistance to these countries by more advanced member countries of the region; cooperation among second-tier NIEs, China and India on R&D for upgrading their technological capacities; and enhancing financial cooperation in the region in order to reduce their vulnerability, possibly by establishing a regional South Bank. Furthermore, although not within the scope of this paper, the region should seriously consider extending cooperation in trade in services. To elaborate on these points, the characteristics of the countries of the region need to be taken into account.

6.1 Industrial and technological collaboration

Three main categories of economies can be distinguished in the ESSEA region, based on their different levels of development and technological capabilities. The first group comprises the first-tier NIEs: the Republic of Korea, Taiwan (Province of China), and to some extent Singapore. The first two economies are at the frontiers of technology, especially in electrical and electronic industries. The second group consists of the second-tier NIEs and other emerging economies with dynamic industrial supply capacity such as the ASEAN-4, China, and, to some extent, India and the Philippines. The third group consists of lower-income countries, whose economies are based on production and export of primary commodities, with low manufacturing capacity. Some countries, such as Bangladesh, have only a limited capacity to export a few light manufactured goods. Most members of SAARC and low-income members of ASEAN fall in this group.

The first group has significant industrial and technological capabilities, but depends on imports of raw materials. The economies in this group provide opportunities for the expansion of trade amongst themselves. They are also interested in seeking markets in the other countries of the region and in assuring security of the supply of raw materials. They are involved in production sharing through FDI, and particularly in exports of technology-intensive P&C to the second group. This second group uses P&Cs for assembly operations to produce final products for sale in the regional market and/or for export to other countries. As market seekers, they are interested in the development of the regional market, therefore, it is in their own interest to pay attention to the development needs of the lower-income countries, by providing them with adjustment assistance for development of their industrial supply capabilities, as explained later.

The second group's crucial need is for the development of the technological and skills capabilities necessary for upgrading of their industrial structure, which requires R&D, among other things. Regional cooperation can help them attain their objective through division of labour and specialization in R&D and in skills-based industrial collaboration. Further, the countries of this group need to coordinate their policies for intensifying the technological spillover of FDI by the developed countries and by the first group. Attempts have been made by ASEAN and China to cooperate in research on information and communication technology (ICT) activities for which they have envisaged the establishment of an R&D centre for telecommunications equip-

ment. Nevertheless, with the exception of the Republic of Korea, Singapore and to some extent China, R&D expenditure in ESSEA countries is small, not only in lower-income countries, but also in the second-tier NIEs (table 15). If those countries are excluded, Hong Kong (SAR, China) ranks higher among the ESSEA economies, as demonstrated in the table in terms of the ratio of R&D expenditure to GDP and per capita R&D expenditure. Yet these figures are lower than those of Italy and Spain, which note the lowest figures among developed countries (table 15). The lack of skills and financial and technical resources prevents individual countries from undertaking research in a large number of areas separately at the same time. Large countries, such as China and India, are in a better position than others to develop their technological capabilities independently. For example, India has succeeded to some extent in the particular case of pharmaceuticals. Nevertheless, even for these countries the R&D/GDP ratios are far below those of developed countries, partly because of a lack of requisite skills. Therefore, division of labour and specialization among the countries concerned could help all countries of the group in advancing their common technological capabilities.

Table 15: Expenditure on research and development in selected ESSEA countries/territories and developed countries

Country/territory	Year	Share in GDP*	Per capita (US$)
Selected ESSEA countries/territories			
Rep. of Korea	2005	2.99	666.3
Taiwan (Province of China)	n.a.	n.a.	n.a.
Singapore	2005	2.36	702.2
China	2005	1.34	89.6
Hong Kong (SAR, China)	2004	0.74	231.3
Malaysia	2004	0.63	64.6
India	2005	0.61	20.8
Pakistan	2005	0.43	10.1
Thailand	2004	0.25	29.7
Viet Nam	2002	0.19	4.5
Sri Lanka	2004	0.19	7.4
Philippines	2003	0.14	6.2
Indonesia**	2005	0.05	1.4
Selected developed countries			
Israel	2005	4.95	1 317.4
Japan	2004	3.18	440.1
Switzerland	2004	2.94	1 024.4
United States	2004	2.68	1 058
Germany	2005	2.51	736
France	2005	2.13	650.8
Australia	2004	1.77	541.5
United Kingdom	2004	1.75	560
Belgium	2005	1.82	588
Spain	2005	1.12	305.8
Italy	2005	1.10	307.3

Source: UNESCO, Database on Expenditures on R&D.
* GDP in PPP.
** Partial data.

The third group has scarcity problems, including in finance, skills, infrastructure, organization and entrepreneurship. Its crucial problem is the expansion of industrial supply capacity. The first and second groups of countries mentioned above could constitute sources of supply for exports to lower-income countries. They may also absorb their exports of primary products through trade arrangements. However, market forces alone

will not be of much help in providing them with opportunities for trade expansion in industrial products because they lack the necessary supply capacity. As for FDI, outward investment by NIEs is directed mainly to China and the ASEAN-4, rather than to lower-income countries (Isoga and Shibanuma, 2000). Policies of regional investors do not favour low-income countries[30].

In the case of the third group, therefore, more concerted efforts and proactive policies are required for exploiting the benefits of division of labour and specialization through industrial collaboration among the countries concerned. The rationale behind this proposal is that individual countries do not have sufficient resources to produce a large number of products. They can enter into an agreement for industrial collaboration whereby each of the countries allocates scarce resources in a way that enables each of them to specialize in the production of a limited number of finished goods and/or P&C and exchange them with each other. Initially, trade among the countries involved could take place through the exchange of the new products produced even though they entail high production costs. Yet the exporting countries could gain increased employment, income and experience. Experience is gained more easily through specialization. An additional advantage of such industrial collaboration is the benefits arising from economies of scale. The combination of specialization, a larger market, economies of scale and experience contribute to a reduction of production costs over time. Therefore, they also can eventually export the products concerned to third markets.

Arranging industrial collaboration cannot, however, be discussed in abstract terms. In order to operationalize the idea, the characteristics, economic structure, stage of development and industrialization, as well as the capabilities of specific countries need to be taken into account. It is worth mentioning that UNDP Regional Centre in Colombo has studied prospects for diversification of the export structure of a number of LDCs in the region (UNDP, 2007). To organize industrial collaboration schemes among those countries as well as other lower-income countries, the UNDP may consider linking these schemes to the diversification strategies of individual countries. In such a programme, regional FDI by countries like China, India, the ASEAN-4 and Asian NIEs may also be involved. The processing of raw materials before exporting to the importing countries of the region could be one possibility, as mentioned before, but it is not the only one. The essential point is that for the development of the industrial capacity of individual countries, specialization and division of labour are crucial. Division of labour here means not only sharing the market, but also specializing in production of different products, as mentioned before. For this purpose, and to be able to target FDI, individual lower-income countries need to adopt industrial strategies as well as coordinate their strategies. The feasibility, modalities and choice of products for industrial collaboration and diversification require further research by considering specific countries for case studies.

The experiences of SAARC, the South Asian Free Trade Agreement (SAFTA) and other low-income countries indicate that rules of origin are also an impediment to the expansion of intraregional trade (Kawai and Wignaraja, 2007: 15; UNDP, 2005a: 58-62)[31]. Different trade agreements contain different rules of origin clauses that can create confusion for exporters and producers. In the particular case of SAARC, the cumbersome rules of origin are not conducive to increased production and trade. Such rules need to be changed and harmonized. If the GSTP Agreement became operational, it could contribute to the harmonization of rules of origin among the member countries of SAARC, which are contracting parties to the GSTP Agreement (Annex 3).

Often, there are political problems in securing agreements among the member countries of a trade or economic group concerning the division of labour (i.e. production of different products or undertaking different research). Each country may have its own individual interest as against the common interest of the group[32]. Understanding by the partners of the ultimate benefits of such arrangements for individual countries

[30] There are indications that when government policies favour regional cooperation (e.g. through investment), the lower-income countries benefit considerably. For example, in the case of India, S-S trade expansion has been influenced by investment cooperation with the partner countries in the Asia-Pacific region, particularly low-income countries such as Nepal and Sri Lanka (Wishwanath, 2007: 2).

[31] See also www.centad.org/events_15.asp:p.7.

[32] The experience of the D-8 countries in industrial collaboration is telling. D-8 is a loose arrangement for economic collaboration between eight Asian and North African Muslim countries: Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

requires dialogue and the dissemination of information and knowledge. The EU has extensive experience not only in industrial collaboration (e.g. aerospace), but also in many areas of research (e.g. nuclear). Drawing on its experiences would be useful.

The geographical proximity and existence of large coastal areas in many South and South-East Asian countries enable the provision of easier and cheaper transport infrastructure than in many other developing countries. Note that distance-related trade cost is a major impediment to S-S trade. For example, it is estimated that a "10% increase in distance tends to reduce North-North trade by about 10%, [but] the comparable figure for South-South trade is 17%..." (Kowaski and Shepherd, 2006: 6). Further, the distance effect is stronger for trade among low-income countries (*ibid:* 7).

6.2 Adjustment assistance

While helpful, proximity, trade agreements and industrial collaboration alone are not sufficient. Arrangements have to be made for the division of labour in required back-up services (see below), export credit, information and the development of the necessary infrastructure, training and skills development, and business cooperation through chambers of commerce. Moreover, as lower-income countries suffer from resource scarcity, there is a need for the provision of adjustment assistance by the more advanced countries of the ESSEA region to the lower-income countries, particularly through ASEAN+3. This could be in the long-term interests of the assisting countries as development of the lower-income countries could create potential markets for them, as mentioned earlier. The provision of financial and technical assistance by the more advanced member countries of the EU to the lower-income countries of that grouping (i.e. Greece, Portugal, Spain, and subsequently, the East European accession countries) for adjustment and development of their productive capacity could serve as a useful guide. Such assistance is, in particular, more relevant for ASEAN and for ASEAN+3 than for SAARC, as the members of ASEAN are more heterogeneous than the members of SAARC. SAARC has a compensation scheme for LDCs for the loss of revenues from reduced import duties resulting from trade liberalization. Such a scheme is helpful from a financial point of view, but the resources provided to the LDCs may not necessarily be used for the development of new production capacity as they are intended to compensate for the loss of general government revenues. The adjustment assistance should be designed in such a way as to contribute to the supply capacity of the country. Further research is required on the modalities and mechanism of such assistance. Perhaps a pilot project could be considered for implementation by ASEAN for its lower-income country members.

6.3 Cooperation in services

Although discussion of services is beyond the scope and terms of reference of this study, it needs to be touched upon briefly. Services can affect the expansion of South-South trade directly or indirectly in a number of ways. Three kinds of services may be distinguished: producer services, back-up services and services which enter international trade directly. Producer services are those used in the production of other goods or services, such as engineering, quality management, general management, training, finance and banking, internal transport, procurement and R&D. Therefore, they contribute indirectly to the productive capacity of an exporting country. Back-up services, or trade-related services are those that facilitate trade in goods and/or other services, such as insurance, export credit and trade facilitation. Finally, certain services enter into international trade directly, such as travel-related services, insurances, financial services, commercial presence and movements of natural persons. These three types of services often overlap, and S-S cooperation in the services sector should operate in such a way that it contributes to the development of productive capacity as well as the facilitation of S-S regional trade. More often, however, liberalization of trade in services – the third category – is the focus of attention, rather than S-S cooperation in the services sector for the expansion of productive supply capacity and trade in general.

Unfortunately, data on different types of services are not available, nor are data on intraregional trade in services. Rough estimates of regional trade in services and data on trade in services of the countries in the ESSEA region indicate that not only is existing intraregional trade in services relatively significant, but also that there is room for further expansion. The share of regional trade in services in total trade in services of developing countries in the Asia-Pacific is substantially higher than that of other developing regions (table 16). The region is also responsible for the bulk of S-S trade in services. Nevertheless, significant potential for further expansion of trade in services seems to exist in the ESSEA region as indicated in table 17. Again, China and India exhibit large and significant growth rates in trade in services. India, in particular, also shows a larger ratio of services exports/GDP than China[33] with a growing surplus in its trade in services. China, a number of NIEs (Indonesia, the Philippines, the Republic of Korea, Taiwan (Province of China) and Thailand), and especially most lower-income countries (Bangladesh, Brunei Darussalam, Myanmar, Nepal, Pakistan and Sri Lanka)[34], show a significant negative trade balance in their trade in services. This implies that perhaps they rely on third parties for their imports of services. Liberalization of trade in services, particularly mode 3 (mainly through commercial presence), is recommended for the expansion of trade in services (OECD, 2006). While liberalization of trade in services could help expand trade among countries in the region that have adequate supply capacities, it would not be sufficient for the development of supply capacity in the lower-income countries. ASEAN and SAFTA embarked on liberalization of trade in services in 1995 and 2006, respectively. ASEAN has also envisaged certain cooperation schemes for strengthening infrastructure in transport, energy and telecommunications (UNCTAD, 2007d: 9, 15). Further cooperation for development of supply capacity in producer services and trade-related services, particularly among lower-income countries is also required.

Table 16: Estimated share of regional trade in services of developing regions, 2002 (%)

	Asia-Pacific	Africa	Latin America
Intraregional/total trade	50	17	12
Intraregional/S-S trade	94	57	71

Source: UNCTAD, 2007d, based on OECD sources.

[33] Note that while the export/GDP ratio of China is significantly higher than that of India, for services the opposite is true.

[34] Although data are not readily available to permit an analysis, the surplus trade of Cambodia, Lao People's Democratic Republic and Maldives is most probably due to the contribution of travel services.

Table 17: Trade in services of selected countries/economies in ESSEA, 2006

Economy	Total value of trade, 2006 (US$ million)			Average growth rate, 1995-2006 (%)		Service exports/ GDP ratio (%)[7]
	Exports	Imports	Balance	Exports	Imports	
China	91 999	100 833	-8 834	15	14	4.6
India	76 645	63 427	13 218	23	17	9.6
Hong Kong (SAR, China)[4]	72 733	36 560	36 173	10	5	42.1
Singapore	59 020	61 892	-2 872	8	11	60.4
Republic of Korea	51 873	70 636	-18 763	7	9	6.6
Taiwan (Province of China)	29 272	33 661	-4 389	6	3	8.5
Thailand	24 129	32 052	-7 923	3	5	13.7
Malaysia	21 266	23 268	-2 003	4	3	16.3
Indonesia	12 784	25 362	-12 578	8	6	4.5
Philippines	5 403	6 072	- 669	-10	-5	5.5
Viet Nam[6]	5 100	5 122	- 22	7	8	9.6
Pakistan	3 508	8 411	-4 903	8	9	3.2
Sri Lanka[5]	1 540	2 088	- 549	8	6	6.4
Cambodia	1 296	790	506	25	14	24
Bangladesh	1 294	2 497	-1 203	7	6	2
Brunei Darussalam[3]	617	1 111	- 494	7	3	1
Mongolia	486	526	- 40	24	18	26.6
Maldives	473	233	240	5	9	61.4
Nepal	388	504	- 116	-7	6	5.23
Myanmar[2]	271	426	- 155	-6	4	2.5
Lao People's Democratic Republic[1]	166	32	134	11	-22	9.1

Source: Based on UNCTAD *Handbook of Statistics database.*
Notes:
[1] Total value: 2001, growth rate: 1995-2001.
[2] Total value: 2005, growth rate: 1995-2005.
[3] Total value: 2005, growth rate: 2001-2005.
[4] Growth rate: 1998-2006.
[5] Total value: 2005, growth rate: 1995-2005.
[6] Growth rate: 1996-2006.
[7] GDP data are for 2005, except for Lao PDR, which is for 2001.

6.4 Financial cooperation: A regional South Bank

The experience of East Asian countries with the Asian financial crisis of 1997–1998 led them to consider the adoption of various measures, including establishing a regional monetary fund. However, this was opposed by the international financial institutions and some developed countries. Subsequently, ASEAN+3 agreed to two financial initiatives[35]. One was the Chiang Mai Initiative, (a kind of "ASEAN, swap arrangement"), and a network of bilateral financial swap arrangements among ASEAN+3 countries. The aim of this scheme, which has been in operation since 2000, is to provide liquidity to member countries in the event of short-term balance of payments deficits. Another scheme is the Asian Bond Market Initiative launched in 2003, which aims at strengthening the Asian bond market to enable investors to raise long-term capital without currency and maturity risks. The member countries have also created an Economic Review Policy Dialogue mechanism and

[35] See UNCTAD, 2007a, chapter V for a summary.

a Technical Working Group and Research Group for Economic and Financial Monitoring. Their objective is to strengthen regional capacity for surveillance of capital markets in East Asia to monitor short-term capital flows and enhance financial cooperation with the aim of promoting financial stability in the region.

These initiatives are useful but not sufficient. Despite various proposals for reform of the international financial architecture since the Asian financial crisis, no significant progress has been made in this respect by developed countries. Furthermore, the risk of spread of the United States sub-prime crisis to other countries is another reminder of the weakness of the international financial system. The US Government has undertaken a number of monetary and fiscal measures since late 2007 and early 2008 to mitigate the impact of the sub-prime crisis on its economy. However, neither the extent of the problem, nor the degree of its impact on the economy or the efficacy of remedial measures taken is as yet clear. The related uncertainty involves risks. Further, the risk of inflation in the developed countries as well as in China (which experienced an inflation rate of more than 7 per cent in early 2008), adds to the possibility of stagflation occurring in these economies, with repercussions on the rest of the ESSEA region. High oil and food prices essentially add to the inflationary pressure.

Bearing in mind the adverse socio-economic impacts of the Asian financial crisis of 1997–1998 on the countries of the region, the subsequent conditionalities imposed on them by the international financial institutions, and their vulnerability to their own interdependence and to external factors, all point to the need for serious consideration of further policies and measures to cover their economies against related risks. The Asian Development Bank (ADB) correctly recommends the need for "stronger regional cooperation in monitoring and regulating financial markets" (*ADB Newsletter*, 22 November)[36].

The successful experience of Malaysia in adopting capital controls during the Asian financial crisis signals the need for the harmonization of policies relating to the degree and modalities of capital controls in the region. Further research is required on this issue. For instance, Malaysia introduced a complex capital control system that involved not only movement of capital and exchange rate policies, but also efficient monetary and fiscal policies aimed at reflating the economy. Strong State and administrative support, dynamism in policy implementation as well as public support were among the factors contributing to its success; so was consideration of Malaysia's specific situation (Epstein, Grabel and Jomo, 2003: Rodrik, 1998 and 2002).

Another area for further research concerns a proposal to establish a regional South Bank, possibly with two windows for short- and long-term lending, as well as for consolidating the Chiang Mai and Asian Bond initiatives within this institution. In an internal study for UNCTAD in the early 1980s, Avramovic proposed the establishment of a South Bank by developing countries as a group, but it was never implemented. More recently, in early December 2007, a number of Latin American countries established a regional bank for Latin America. Drawing on their experience, the ESSEA countries might wish to study the feasibility and modalities of a similar regional bank.

Finally, although not discussed in this paper, the region should guard against its vulnerability to a possible energy crisis. Cooperation on energy issues could include development of facilities for a strategic energy reserve to reduce risk associated with the interruption of energy supplies.

[36] See http://www.adb.org/media.

7. Concluding remarks, and areas for future research

This paper has examined regional South-South trade and cooperation in East, South and South-East Asian countries (ESSEA) with the aim of: providing an economic rationale for South-South trade; shedding some light on the extent and pattern of South-South trade in the ESSEA region; examining the dynamic forces behind the expansion of such trade; explaining its vulnerabilities; and proposing policies for enhancing and strengthening regional cooperation in ESSEA.

It has shown how regional trade has expanded rapidly in ESSEA, to the extent that the region has become not only the most dynamic area in S-S trade, but also a major force in international trade in general. Nevertheless, S-S trade in ESSEA highlights three main characteristics that point to the need for policy initiatives for enhancing and strengthening regional cooperation in order to further enhance economic development of the region. First, the expansion of intraregional trade has been concentrated among the relatively more advanced developing countries of ESSEA, and the lower-income countries have benefited less. Second, the nature of regional trade expansion in ESSEA is such that it has increased the vulnerability of ESSEA countries to external factors, particularly those countries that are involved in production sharing. Third, the countries of the region are not homogeneous. Hence, although they have some common interests, their individual situations diverge: Lower-income countries have supply capacity problem, while others that have relatively larger supply capacity are market seekers. Although an arrangement for industrial collaboration among lower-income countries is needed, they also need to be assisted by market seekers to adjust and develop their supply capabilities.

More specifically, the study has sought to prove that while the neo-liberal argument against S-S trade is not justified, critics of this argument have not so far provided a strong economic rationale in favour of active expansion of such trade. Developing-country policy-makers have paid lip service to the need for promoting S-S trade in various international forums, and scholars who have discussed the issue in the literature have taken a defensive approach. S-S trade is favoured, for example, because of problems of, or limits to, trade with the North, or because of weaknesses and asymmetries in the international trading system and lopsided N-S trade agreements. These agreements are considered not conducive to industrial development of developing countries.

This paper has proposed an alternative economic rationale for S-S trade based on a combination of three elements: theory of "vent for surplus", the resource scarcity problem of developing countries and the need for division of labour and specialization. Accordingly, S-S trade is viewed as being additional to N-S trade, and as a vehicle for enhancing industrialization, upgrading of the industrial structure and general economic development through fuller utilization of unemployed resources of developing countries. By specialization and division of labour through industrial collaboration and/or cooperation in R&D, developing countries can overcome scarcity in complementary factors of production, and benefit from larger markets and scale economies. The expansion of supply capabilities and S-S trade could, in turn, reduce the risk of dependence

on markets of developed countries and improve their bargaining position in multilateral forums as well as in their bilateral trade relations with the developed countries.

ESSEA has increasingly become a dynamic source of supply and demand in international trade as well as S-S regional trade. The rate of growth of exports and imports of ESSEA well exceeds that of world trade as well as S-S trade in general, such as for manufactured goods.

The paper has also demonstrated that trade agreements have contributed to increased trade among members of each regional trade group, particularly ASEAN. Nevertheless, other factors seem to have been more important than trade agreements in expanding regional trade in ESSEA. The share of intrabloc trade of the various groups in ESSEA is not in all cases greater than their trade share with a different bloc or blocs. Demand and supply dynamism as well as policies of governments and TNCs are among important contributory factors. At the country level, China and India have been the most dynamic sources of supply and markets in the region. By contrast, while the lower-income countries of the region have acted as a market for exports of other countries, they have not benefited much from the market opportunities provided by the demand dynamic countries. In other words, despite the fact that, generally speaking, tariffs and non-tariff barriers are lower in the first- and second-tier NIEs than in the lower-income countries of the region, regional agreements have not been able to provide a significant impetus to regional exports of all these lower-income countries. While SAARC displays the lowest ratio of intrabloc trade/total trade among the various trade blocs in ESSEA, this ratio is nevertheless higher than that of all African regional trade blocs, except those of the Southern African Development Community (SADC), which benefits from extensive trade with South Africa, and the West African Economic and Monetary Union (UEMOA). Further, a number of countries (e.g. Nepal and Sri Lanka, and to some extent Viet Nam) benefit from bilateral trade agreements and/or trade with demand dynamic countries of the region such as India and China. However, the low-income/small countries of ESSEA have not been regionally integrated as much as other countries of the region.

Various factors may be responsible for such discrepancies in the performance of the more advanced ESSEA countries and the lower-income countries. The lack of supply capabilities in manufactured goods is a very important factor. Primary products, which are the main export items of the lower-income countries in the region, have benefited less than the manufactured goods from dynamism in regional trade. Further, for most of the lower-income countries, the rates of growth of exports to the region have been negative or lower than their rates of growth of total exports.

In particular, the low industrial and skills capabilities of the lower-income countries have prevented them from getting involved in the rapid expansion of intra-industry trade and production sharing in the region, which have been particularly dynamic factors in the expansion of regional trade. These factors have been widespread among the first- and second-tier NIEs in a limited number of electrical and electronic products, which have accounted for the bulk of their intraregional trade in non-fuel products. For example, seven such products accounted for nearly 58 per cent of non-fuel imports and for about 66 per cent of imports of manufactured goods of China from a few ASEAN countries. More importantly, only two electrical and electronic items accounted for over 50 per cent of total non-fuel imports and for about 60 per cent of imports of manufactured goods of China from those countries. In value terms, they amounted to US$34 billion in 2005 and increased at an average annual rate of 63 per cent over the period 1995–2005. China, as the largest and most dynamic market, imports some sophisticated electrical and electronic products from the NIEs. At the same time, it is a major regional market for P&C used for assembly operations, the products of which are exported largely to developed countries.

Such a heavy dependence on a limited number of products and the high degree of interdependence of the exporting countries in the region is cause for concern. In particular, the dependence of other countries on China increases their vulnerability to external shocks and business cycles. The contagion effects of the Asian financial crisis of 1997–1998 serve as a reminder of the need for strengthening regional financial cooperation in order to reduce the adverse socio-economic effects of such crises. The sub-prime difficulties in the financial markets of the United States are another reminder of weaknesses in the international financial architecture.

There is a common misconception about what has driven the rapid expansion of regional trade and production sharing in ESSEA. Some observers believe it has been driven by market forces; this paper has argued that production sharing is basically an inter-firm operation, initially driven by changes in the policies of the Government of Japan, the Japanese TNCs and the governments of the East Asian countries themselves. Similarly, the involvement of lower-income countries in intra-industry trade and/or product sharing needs to be policy-driven through active cooperation of the countries in the region, including the lower-income countries themselves.

Having examined the pattern of regional trade and the characteristics and main development interests of the countries in the region, the study proposes the need for enhancing and strengthening regional cooperation in four areas. The first is for industrial collaboration among the lower-income countries, through an arrangement for the division of labour and specialization for building their supply capacity. As the countries concerned have a common production and export structure, they have little prospects for expanding intraregional trade. The idea is to develop complementarity through the division of labour and specialization in different products and industries. However, this cannot take place by relying on the operation of market forces alone. There is need for cooperation, coordination and harmonization of development and industrial policies in the lower-income countries with a view to helping them achieve dynamic comparative advantage. Second, regional agreements and arrangements should also consider establishing a facility for the provision of adjustment assistance to lower-income countries for building up their supply capacity, and for training, skills development and back-up services, among others. The NIEs, in particular, which are interested in enlarging their markets, should contribute to such a facility, as development of the lower-income countries could provide them with additional market opportunities in the region. Further research is required to identify the modalities of such assistance. Perhaps a pilot project could be implemented by ASEAN for its lower-income country members. The third area for enhanced cooperation should be in technological capacity building and R&D by the second-tier NIEs for upgrading their industrial structure. Finally, there is a need to enhance financial cooperation and control of movements of capital in order to reduce the risks of interdependence and vulnerability of the ESSEA countries to external factors.

Need for further research

The following issues may be considered for further research in the future:

- The impact of the dynamics of economic changes in China and India on export opportunities and industrialization of the lower-income/small countries of the region, drawing on the experience of trade and investment cooperation between India and its two neighbours, Nepal and Sri Lanka.
- The evolution of the relations between FDI and regional trade cooperation and production sharing in the ESSEA region.
- The modalities of adjustment assistance to lower-income countries for development of such aspects as productive capacity, skills development, education, training, back-up services and infrastructure, as against "aid for trade" in the narrow sense of the term.
- Building the trade supply capabilities of the lower-income countries of the region, for targeting the Chinese and Indian markets in particular, including needs assessment, identification of the necessary back-up services, bottlenecks and skills and training requirements.
- The feasibility of industrial collaboration by lower-income countries, identifying areas for such collaboration, and the prospect for processing of the raw materials needed for industrial production in China, India and the ASEAN-4.
- Areas and modalities of cooperation in R&D among the second-tier NIEs, China and India.
- Regional cooperation in the services sector, particularly back-up services for trade expansion, such as export financing and insurance.
- In the field of finance,
  (i) The feasibility and modalities of establishing a regional South Bank which could also incorporate the existing schemes of the Chiang Mai and Asian Bond Market Initiatives; and
  (ii) The possibilities and modalities of capital control and harmonization of policies of various countries in the region, in this respect.
- Regional cooperation by the governments in the region in the field of energy, and development of a strategic energy reserve to reduce risks related to the interruption of energy supply.

References

Agatiello, O. R. (2007). "Is South-South Trade the Answer to Bringing the Poor into the Export Process?" Paper presented to the UNCTAD Expert Meeting on Participation of Developing Countries in New and Dynamic Sectors of World Trade: The South-South Dimension, Geneva, 16–17 October, 2007.

Akamatsu, K. (1961). "A Theory of Unbalanced Growth in the World Economy," *Welwirtschaftliches Archiv-Review of World Economics,* 86: 3–25.

Akyüz, Y. (forthcoming). "Managing Financial Instability in Emerging Markets: A Keynesian Perspective." *METU Studies in Development.*

Amsden, A.H. (1989). *Asia's Next Giant: South Korea and Late Industrialization.* New York: Oxford University Press.

—— (2001). *The Rise of "the Rest": Challenges to the West from Late Industrializing Economies.* Oxford: Oxford University Press.

Ando, M. and Kimura, F. (2003). "The Formation of an International Production and Distribution Network in East Asia." NBER Working Paper no. 10167. Cambridge, MA: National Bureau of Economic Research.

Arndt, W.A. (2002). "Production Sharing and Regional Integration." Claremont College Working Papers, available at http://owe.clarmont/mckonna.edu; http://ideas.repec.org.

Baier, S., Bergstrand, J.H. and Vidal, E. (2007). "Free Trade Agreements in the Americas: Are the Trade Effects Larger than Anticipated?" *World Economy*, 30 (9): 1347-77.

Baldwin, R. (2006). "Managing the Noodle Bowl: The Fragility of East Asian Regionalism." Centre for Economic Policy Research, Discussion Paper no. 5561, available at www.cepr.org/pubs/dps/DP5561.asp.asp.

Baldwin, R., Evenett, S. and Low, P. (2007). "Beyond Tariffs: Multilaterising Deeper RTA Commitments." Paper presented at the Conference on Multilateralizing Regionalism, sponsored and organized by the World Trade Organization and the Institut de Hautes Etudes Internationales et du Développement, and co-organized by the Centre for Economic Policy Research (CEPR) at WTO, Geneva,10 September, 2007.

Bhagwati, J. (1993). "Regionalism and Multilateralism," in de Melo, J. and Panagariya, A. (eds.). *New Dimensions in Regional Integration*. Cambridge: Cambridge University Press, for Centre for Economic Research.

Cernat, L. (2003). "Assessing South-South Regional Integration: Some Issues, Many Metrics." *UNCTAD, Policy Issues in International Trade and Commodities, Study Series* no. 21. Geneva: UNCTAD.

Cernat, L. and Laird, S. (2007). "North, South, East, West: What's Best? Modern RTAs and Their Implications for the Stability of Trade Policy." CREDIT Research Paper no. 03/11. Centre for Research in Economic Development and International Trade (CREDIT), School of Economics. Nottingham: University of Nottingham.

Cline, R.W. (1983). "Trade Policy in the 1980s." Washington, DC: Institute for International Economics.

Corden, W.M. (1993). "Round Table Discussion," in de Melo, J. and Panagariya, A., (eds.). *New Dimensions in Regional Integration*. Cambridge: Cambridge University Press, for Centre for Economic Research, 457-60.

de Melo, J. and Panagariya, A.(eds.). (1993). *New Dimensions in Regional Integration*. Centre for Economic Research Cambridge: Cambridge University Press.

DAFT (Department of Foreign Affairs and Trade) (2004). *South-South Trade, Winning from Liberalization*. Canberra: Australian Government Printers.

ECLA (Economic Commission for Latin America) (1950). *The Economic Development of Latin America and its Principal Problems*. New York: United Nations.

Epstein, G., Grabel, I. and Jomo, K.S. (2003). "Capital Management Technique in Developing Countries: An Assessment of Experience from the 1990s and Lessons for the Future." Paper presented to the XVIth Technical Group Meeting of G-24, Geneva, 13-14 February, 2003; available at www.g24.org.

Fan, P. and Watanabe, C. (2006). "Promoting Industrial Development through Technology Policy: Lessons from Japan and China." *Technology in Society*, 28: 303-20.

Gallagher, K. and Zarsky, L. (2007). *The Enclave Economy: Foreign Investment and Sustainable Development in Mexico's Silicon Valley*. Cambridge, MA: MIT Press.

Gallagher, K. et al. *(forthcoming). Neo-Development vs. Neo-Liberalism: Industrial Policy and Industrial Development in China and Mexico.*

Gaulier, G., Lemoine, F. and Unal-Kesenci, D. (2005). "China's Integration in East Asia: Production Sharing, FDI and High-Tech Trade." CEPII Paper no. 2005-09. Paris: Centre d'Etudes Prospectives et d'Informations Internationales.

Greenaway, D. and Milner, C. (1990). "South-South Trade, Theory, Evidence and Policy." *The World Bank Research Observer* (5)1: 47-68.

Haltmaier, J.T. et al. (2007). "The Role of China in Asia: Engine, Conduit or Steamroller." Washington, DC: Federal Reserve System.

Hirschman, A.O. (1958). *The Strategy of Economic Development*. New Haven, CT: Yale University Press.

—— (1968). *National Power and the Structure of Foreign Trade.* Berkeley: University of California Press.

HKMDS (Hong Kong Census and Statistical Department) (2007). *Hong Kong Monthly Digest of Statistics,* June.

Huang, Y. (2002). *Selling China: Foreign Direct Investment during the Reform Era.* New York: Cambridge University Press.

Hufbauer, G.C. and Schott, J.J. (2007). "Multilateralizing Regionalism: Fitting Asia-Pacific Agreements into the WTO." Paper presented at the Conference on Multilateralizing Regionalism, sponsored and organized

by WTO-HEI and co-organized by the Centre for Economic Policy Research (CEPR) at WTO, Geneva, 10 September, 2007.

Humphrey, J. and Schmitz, H. (2006). "The Implications of China's Growth for other Asian Countries." Sussex, UK: University of Sussex, Institute of Development Studies.

Isoga, T. and Shibanuma, S. (2000). "East Asia's Intra-and Inter-regional Economic Relations: Data Analysis on Trade, Direct Investment and Currency Transactions." Working Paper no. 00-E-4. Tokyo: Bank of Japan.

Isoga T., Morishita H. and Ruffer, R. (2002). "Analysis of Intra- and Inter-regional Trade in East Asia: Comparative Advantage Structures and Dynamic Interdependency in Trade Flows." Working Paper no. 02-E-1. Tokyo: Bank of Japan.

Kaldor, N. (1972). "The Irrelevance of Equilibrium Economics." *Economic Journal,* 8 (338): 1237–55.

Kamada, K. and Takagawa, I. (2005). "Policy Coordination in East Asia and Across the Pacific." Working Paper no. 05-E-4. Tokyo: Bank of Japan.

Kasahara, S. (2004). "The Flying Geese Paradigm: A Critical Study of Its Application to East Asian Regional Development." UNCTAD Discussion *Paper* no. 169. Geneva: UNCTAD.

Kawai, M. and Wignaraja, G. (2007). "ASEAN+3 or ASEAN+6: Which Way Forward?" Paper presented at the Conference on Multilateralizing Regionalism, sponsored and organized by World Trade Organization (WTO)-Graduate Institute of International Studies (HEI) and co-organized by the Centre for Economic Policy Research at WTO, Geneva, 10 September, 2007.

Koirala, J.R. (2007). Presentation to the Expert Meeting on the Participation of Developing Countries in New and Dynamic Sectors of World Trade: The South-South Dimension, at UNCTAD, Geneva, 16-17 October.

Kowaski, P. and Shepherd, B. (2006). "South-South Trade in Goods." *OECD Trade Policy Working Papers,* No. 40. Paris: Organisation for Economic Cooperation and Development.

Kozo, K. Sazanami, Y. and Yu Ching, W. (2006). "Intra-regional Trade in Asia: Dynamics of Product Sharing." Working Paper. Yokohama: Yokohama National University.

Lall, S. (2004). "Reinventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness." *UNCTAD, G-24 Discussion Papers* no. 28. Geneva: United Nations.

Lall, S. and Albaladejo, M. (2004). "China's Competitive Performance: A Threat to East Asian Manufactured Exports?" World Development (32) 9: 1441–66.

List, F. (1856). The National System of Political Economy (translated into English by Matile, G.A.). Philadelphia, PA: J. B. Lippincott & Co.

Ng, F. and Yeats, A. (2003). "Major Trade Trends in East Asia: What Are Their Implications for Regional Cooperation and Growth?" *World Bank Policy Research Paper, Working Paper Series no. 3084*. Washington, DC: World Bank.

Malhotra, K. (2006). "National Trade and Development Strategies: Suggested Policy Direction." Background paper prepared for the *2006 UNDP Human Development Report: Trade on Human Terms: Transforming Trade for Human Development in Asia and the Pacific.* New York, United Nations Development Programme.

Moen, J. (1998). "Trade and Development: Is South-South Cooperation a Feasible Strategy?" Paper Series 21. Bergen, Norway: Norwegian School of Economics and Business Administration.

Myint, H. (1958). "The Classical Theory of International Trade and Underdeveloped Countries." Economic Journal, 68. Reprinted in Livingstone, I. (1971). Economic Policy for Development. London: Penguin Books.

Myrdal, G. (1971). *Asian Drama: An Inquiry into the Poverty of Nations.* London: Penguin Books.

OECD (2006). "South-South Services Trade." OECD Trade Policy Working Paper, 39 (TD/TC (2006)7/ Final). Paris: OECD.

Oman, C. (1994). *Globalization and Regionalization: The Challenge of Developing Countries.* Paris: OECD.

Otsubo, S. (1998). "New Regionalism and South-South Trade: Could It Be an Entry Point for the South Toward Global Integration?" *APEC Discussion Paper* no.18. Nagoya: Nagoya University, APEC Study Centre.

Prebisch, R. (1984). "Five Stages in My Thinking on Development," in Mier, J.M. and Seers, D., (eds.). *Pioneers in Development.* Oxford: Oxford University Press.

Puri, L. (2007). "Going Beyond the Doha Negotiations: Promoting South-South Trade and Role of GSTP." Statement presented at a meeting of government officials in New Delhi, 9 August; available at www.unctad.org; http://www.unctad.org/sections/ditc_dir/docs/statement_0119_09-08-07_en.pdf

Rodrik, D. (1998). "Who Needs Capital-Account Convertibility?" in Fischer, S. et al. *Should the IMF Pursue Capital-Account Convertibility? Princeton Essays in International Finance,* 207: 55–65. Princeton, NJ: Princeton University, International Economics Section, Department of Economics.

—— (2002). "After Neo-liberalism." Talk delivered at the Conference on Coalition for New Rules for Global Finance, Washington, DC, 22-23 May.

—— (2006). "What's So Special about China's Exports?" *CEPR Discussion Paper* no. 5483. London: Centre for Economic Policy Research.

Rollo, J. (2007). "The Challenge of Negotiating RTAs for Developing Countries: What Could the WTO Do to Help?" Paper presented at the Conference on Multilateralizing Regionalism, sponsored and organized by WTO-HEI and co-organized by the Centre for Economic Policy Research at WTO, Geneva, 10 September, 2007.

Sarkar, P. and Singer, H.W. (1991). "Manufactured Exports of Developing Countries and Their Terms of Trade since 1965." *World Development* (19) 4: 333–40.

Shafaeddin, M. (1984). Import Capacity as a Bargaining Tool of Developing Countries." *Trade and Development: An UNCTAD Review,* 5: 53–79. Geneva: UNCTAD.

—— (1997). "Review of New Dimensions in Regional Integration," in de Melo, J. and Panagariya, A., (eds.). *Journal of Modern African Studies.* Cambridge: Cambridge University Press.

—— (2004). "Is China's Accession to WTO Threatening Exports of Developing Countries?" *China Economic Review* (15) 2: 109–44.

—— (2005a). *Trade Policy at the Crossroads: The Recent Experience of Developing Countries.* Basingstoke and New York: Palgrave Macmillan.

—— (2005b). "Towards an Alternative Perspective on Trade and Industrial Policies." *Development and Change* (36) 6: 1143–62.

—— (2006). "Is Industrial Policy Relevant in the 21st Century?" Keynote speech to the plenary session of the International Conference on New Approaches to Design of Development Policies, Beirut, 20-21 March, organized by the Arab Planning Institute (published by the same Institute as a monograph).

Shafaeddin, M. and Pizarro, J. (2007). "From Export Promotion to Import Substitution: Comparative Experiences of China and Mexico," available at www.networkieas.org.

South Centre (1996). *Enhancing South-South Trade.* Geneva: South Centre.

Subramanian, A. and Tamirisa, N.T. (2001). Africa's Trade Revisited. *IMF Working Paper 01/33.* Washington, DC: International Monetary Fund.

UNCTAD (1986). *South-South Trade and Finance: Strengthening the Weakest Link.* New York and Geneva: United Nations.

—— (2007a). *Trade and Development Report, 2007.* New York and Geneva: United Nations.

—— (2007b). *World Investment Report 2007.* New York and Geneva: United Nations.

—— (2007c). *Handbook of Statistics, 2006-2007.* New York and Geneva: United Nations.

—— (2007d). "Trade in Services, and Development Implications." TD/B/COM.1/85, Geneva: United Nations.

—— (2007e). "Progress Report on the Implementation of the Agreed Conclusions and Recommendations of the Commission since UNCTAD XI." TD7B/COM.1/91, Geneva: United Nations.

UNDP (2003). *Making Global Trade Work for People.* London and Sterling, VA: Earthscan.

—— (2005). "The Great Maze – Regional and Bilateral Free Trade Agreements in Asia: Trends, Characteristics and Implications for Human Development." Colombo: UNDP Regional Centre in Colombo.

—— (2007). "Export Diversification for Human Development in the Post-ATC Era." Colombo: UNDP Regional Centre in Colombo.

Viner, J. (1950). "The Customs Union Issue." Washington, DC: Carnegie Endowment for International Peace.

Wishwanath, T.S. (2007). South-South Cooperation: A Business Perspective on India's Engagement. Presentation to the Exert Meeting on the Participation of Developing Countries in New and Dynamic Sectors of World Trade: The South-South Dimension at UNCTAD, Geneva, 16-17 October, 2007.

World Bank (2000). *Trade Blocs.* New York: Oxford University Press.

Young, A.R. (1928). "Increasing Return and Economic Progress." The *Economic Journal,* December.

Zebregs, H. (2004). "Intraregional Trade in Emerging Asia." *IMF Discussion Paper* no. PDP/04/1. Washington, DC: International Monetary Fund.

Annex 1

Membership of economic cooperation agreements in East, South and South-East Asia

APTA (1975)	Asia-Pacific Trade Agreement (former Bangkok Agreement): Bangladesh, India, Lao People's Democratic Republic, Republic of Korea, Sri Lanka and China (which joined in 2001).
ASEAN (1967)	Association of Southeast Asian Nations: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam (1984), Viet Nam (1995), Lao PDR and Myanmar (1997) Cambodia (1999). The ASEAN Economic Community was established in 2003. An ASEAN Free Trade Area (AFTA) is to be created by 2018), an ASEAN Investment Area (AIA) was created in 1998 and is intended to allow free of all FDI by 2020; AFAS (ASEAN Framework Agreement on Services to liberalize services) was launched in 1992. ASEAN Vision 2020 was adopted in 1997, and in 2003 an agreement was reached for the establishment of an ASEAN Community with the aim, *inter alia*, of creating a single market in 2020.
ASEAN+3 (2002)	ASEAN plus China, Japan and the Republic of Korea.
BIMP-EAGA (1994)	Brunei Darussalam, Indonesia, Malaysia, the Philippines – East Asian Growth Area.
BIMSTEC (2004)	Bay of Bengal Initiative for Multi - Sectoral Technical and Economic Cooperation – an agreement linking ASEAN and SAARC.
CAREC (1997)	Central Asia Regional Economic Cooperation: Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan.
ECO (1985)	Economic Cooperation Organization: Afghanistan, Azerbaijan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Turkey, Turkmenistan and Uzbekistan. Founded in 1985 by Islamic Republic of Iran, Pakistan and Turkey and expanded in 1992 to include the other seven members.
GCC (1981)	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates
GMS (1992)	Greater Mekong Subregion (Economic Cooperation Programme): China, Cambodia, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam.

SAARC (1985)	South Asian Association for Regional Cooperation: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. A South Asian Preferential Trade Agreement (SAPTA), established in 1993, came into effect in 1995, and expanded in 2002. In 2004, a framework agreement on a SAARC Free Trade Area (SAFTA) superseded SAPTA.
SASEC (1997)	South Asian Sub-regional Economic Cooperation: Bangladesh, Bhutan, Nepal and the Eastern States of India.
SECSCA (2003)	Subregional Economic Cooperation in South and Central Asia: Afghanistan, Pakistan, Tajikistan and Uzbekistan, with Iran as observer. Turkmenistan is also part of the proposed North-South and East-West corridors and has been invited to participate in ministerial conferences.

Annex 2

Main electrical and electronic parts and components traded in ESSEA

SITCs (rev.2)	Description
Parts and components	
7169	Parts, n.e.s. of rotating electrical plants
759	Parts, n.e.s. of and accessories for use in SITC 751 & 752
7649	Parts, n.e.s. for use in equipment falling under SITC 76
77129	Parts, n.e.s. of electric power machinery for SITC 771
772	Electrical apparatus for making and breaking electric circuits
77689	Parts, n.e.s. of the electric components for SITC 776
784	Parts and components n.e.s. for motor vehicles for SITC 722, 781, 782 or 783
7929	Parts, n.e.s. of aircraft for SITC 792
7139	Parts of a piston engine
78539	Parts, n.e.s. for SITS 785
Finished products	
716	Rotating electrical plants, excl. parts (SITC 7169)
751	Office machines
752	Automatic data processing machines
764	Telecommunications equipment excl. parts (SITC 7649)
771	Electric power machinery excl. parts (SITC 77129)
776	Valves and tubes excl. parts (SITC 77689)
722	Tractors
781	Passenger cars
785	Motor cycles excl. parts (78539)
792	Aircrafts and parts excl. parts (SITC 7929)

---

n.e.s. = not elsewhere specified.

Annex 3

The Agreement on the Global System of Trade Preferences among developing countries: Its implications for regional trade

A separate study is required on the interrelationship between the GSTP Agreement and regional trade agreements. Nevertheless, a few points are worth mentioning. First of all, the scheme is limited in its scope and membership. It is mainly a preferential scheme for trade in goods aimed at provision of preferential tariffs and non-tariffs concessions on a reciprocal basis to contracting parties. Only LDCs are supposed to be provided with concessional preferences. It can also provide possibilities for harmonization of rules of origin. However, it is, neither a forum for negotiation with developed countries, nor a platform for designing trade or industrial policies. Further, the system is by no means "general". Only 42 developing countries and one trading bloc (MERCOSUR) are contracting parties to the GSTP Agreement. China is not yet the contracting party, although it participates in the third round of negotiations. The member countries account for only about half of S-S trade (Puri, 2007: 4). Moreover, despite the fact that LDCs are supposed to enjoy concessional preferences, only seven LDCs have so far signed the agreement and few others have applied (see table A.16).

Secondly, the idea of a GSTP Agreement was initiated in 1976 and two rounds of negotiations have taken place with another in the process, but so far the scheme has not become operational. The first round began in 1986 and led to the establishment of the GSTP Agreement in 1988, which came into force in 1989. The second round took place during the period 1992–1998, when 24 countries exchanged preferential tariff concessions for about 900 products. However, the concessions did not take effect, as less than the required 15 members ratified the related protocol. Hence, when the third round started in 2004, the participating countries were back to square one, as no concessions had been exchanged (Agatiello, 207:10). This was mainly because the trade policies of the member countries had changed considerably in the meantime. The third round was supposed to conclude by November 2006, and the deadline for its conclusion was extended to the end of 2007 (UNCTAD, 2007e:11). Thus far little has been achieved in terms of exchanging concessions.

Thirdly, as far as the relationship between GSTP and regional trade agreements are concerned, as mentioned before, trade liberalization is not the most significant factor in the expansion of S-S regional trade. To the extent that trade liberalization contributes to the expansion of S-S regional trade, it is most unlikely that preferences given through GSTP would exceed those offered through regional agreements.

Fourthly, if more countries and trading blocs were to participate in the GSTP scheme, it could contribute to the reduction of trade barriers among the various trading blocs in the ESSEA region and elsewhere and act as a building bloc for S-S trade liberalization. Provided it is supplemented by other cooperative and collaboration measures at the regional level, it could become an important vehicle for further expansion of S-S trade. The alternative markets of the developing countries could provide them with greater bargaining power in their trade relations with industrialized countries, provided the developing countries also improve their bargaining skills, enhance their necessary knowledge and information and clarify their own trade and industrial policies before they enter into negotiations in multilateral forums or in bilateral trade agreements (Shafaeddin, 1984).

One important advantage of GSTP is that it would result in a possible harmonization of the rules of origin, the lack of which has been a problem in the expansion of regional trade, particularly among SAARC members. However, only 12 of 21 countries/territories in the ESSEA region are contracting parties to the GSTP Agreement (table A.16).

Annex 4

Annex tables

General note

All data on product levels are based on SITC (Standard International Trade Classification), Revision 2.

Table A.1: Value of total exports (including fuel) of various regional blocs in ESSEA, 1990 and 2005
(US$ million)

Exporters	Destination						
	ASEAN-10	SAARC-7	APTA-6	Total	China	Developing countries excl. China	World
ASEAN-10							
1990	27 365	3 598	10 314	38 424	2 633	54 181	144 427
2005	165 064	21 522	96 531	263 782	52 284	290 387	629 166
SAARC-6							
1990	1 211	863	1 158	2 530	118	6 396	27 230
2005	10 663	7 062	14 134	26 563	6 964	55 095	129 569
APTA-6							
1990	10 194	2 682	2 429	13 530	52	58 696	152 018
2005	93 499	27 974	127 277	226 721	68 459	460 321	1160 161
Total of above*							
1990	37 826	6 525	13 220	52 700	2 751	114 545	302 231
2005	258 639	50 589	225 511	492 292	121 163	757 373	1805 406
China							
1990	4 151	950	865	5 533	..	37 353	62 760
2005	55 479	15 910	47 504	106 506	..	317 115	762 337
Developing countries excluding China							
1990	57 112	13 702	50 029	110 027	25 163	198 904	757 047
2005	278 393	68 438	502 865	794 957	358 994	938 264	2918 853

Source: UNCTAD, 2007c, based on *IMF Direction of Trade Statistics* database.
* Includes all member countries of the above groupings once (double counting is avoided).
Note: Bhutan is not included as a reporter, but is included as a member of SAARC.
ASEAN-10: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
SAARC-7: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
APTA-6: Bangladesh, China, India, Lao PDR, Republic of Korea and Sri Lanka.

Table A.2: Imports of China from ASEAN-6, 2005 (values in US$ '000)

SITC code	Product category	Total value, 2005 (US$ '000)	Share in total non-fuel imports (%)
776	**Thermionic, microcircuits, transistors, valves, etc.**	**25 888 544**	**38.61**
752	**Automatic data processing machines and units thereof**	**8 196 513**	**12.22**
333	Crude petroleum and oils obtained from bituminous minerals	3 589 933	5.35
583	Polymerization and copolymerization products	2 884 678	4.30
764	**Telecommunications equipment, n.e.s.; parts and accessories, n.e.s.**	**2 653 563**	**3.96**
334	Petroleum products, refined	2 548 984	3.80
759	**Parts, n.e.s., and accessories for machines of headings 751 and 752**	**2 479 544**	**3.70**
424	Other fixed vegetable oils, fluid or solid, crude, refined	2 001 443	2.98
232	Natural rubber latex; rubber and gums	1 799 389	2.68
513	Carboxylic acids, and their derivatives	1 345 264	2.01
582	Condensation, polycondensation and polyaddition products	1 158 168	1.73
772	**Electrical apparatus for making and breaking electrical circuits**	**1 043 970**	**1.56**
778	**Electrical machinery and apparatus, n.e.s.**	**902 284**	**1.35**
898	Musical instruments, parts and accessories thereof	735 052	1.10
251	Pulp and waste paper	694 139	1.04
512	Alcohols, phenols etc., and their derivatives	606 458	0.90
682	Copper	575 738	0.86
741	**Heating and cooling equipment and parts thereof, n.e.s.**	**522 298**	**0.78**
511	Hydrocarbons, n.e.s., and derivatives	498 698	0.74
874	Measuring, checking, analysis, controlling instruments, n.e.s., parts	493 863	0.74
	Total of 7 electrical & electronic items (listed above)		58.28
	Food (SITC 0+1+22+4)	346 9430	5.17
	Agr. raw mats. (SITC 2-(22+27+28))	368 7867	5.50
	Ores & metals (SITC 27+28+68)	147 9347	2.21
	Manufactures	584 21433	87.12
7	Machinery and transport equipment	447 27587	66.70
	Other	13693845	20.42
3	Mineral fuels, lubricants and related materials	7306181	10.90
	Total imports	74 459 175	111.0368
	Non-fuel imports	67058077	100
	Shares of countries in China's non-fuel imports (%)	100	
	Share of countries in China's SITC 7 imports (%)		

Source: Author's calculations based on UN COMTRADE database.

Average annual growth rate, 1995-2005 (%)	Malaysia	Singapore	Thailand	Indonesia	Philippines	Viet Nam
63.89	**10 857 370**	**4243506**	**2188549**	**221604**	**8368780**	**8 736**
62.53	**818 255**	**1824104**	**2702808**	**718041**	**2102716**	**30 589**
15.21	149 641		509120	1592098	49002	1 290 072
24.60	722 735	1165189	872649	85 657	36 223	2 225
27.45	**875 776**	**693718**	**519256**	**166 849**	**388 247**	**9 715**
7.84	211 449	2 067 700	18 155	229 044	20 267	2 369
21.86	**609 989**	**57 1966**	**820 047**	**151 096**	**322 267**	**4 178**
12.45	1 257 050	128	2 744	738 173	3 169	178
15.18	558 638	1 756	782 610	373 760	18 693	63 932
36.47	222 008	352 964	317 435	452 842	4	11
37.95	107 675	511 301	501 959	29 480	3 625	4 128
33.00	**192 353**	**331 652**	**312 421**	**81 690**	**96 027**	**29 828**
28.62	**292 629**	**193 295**	**187 130**	**99 114**	**127 504**	**2 612**
60.81	101 570	610 317	5 774	12 451	4 876	64
24.00		932	32 448	659 432	1 327	
36.99	220 677	210108	7 163	164 116	4 394	
20.11	96 780	49 500	20 290	180 026	228 815	326
30.26	**65 930**	**406 056**	**37 741**	**4 336**	**8 235**	
48.97	36 890	248 377	69 778	139 806	3 847	
30.63	176 992	284 234	13 573	3 406	14 100	1 559
9.62	13 77 328	85 032	850 303	895 384	106 958	154 423
16.42	974 114	9 289	1 174 014	1 341 829	34 748	153 872
21.15	200 918	116 911	72 443	594 867	368 366	125 842
30.69	17 032 896	14 027 726	11 086 769	3 604 015	12 214 974	455 053
38.60	14 322 231	9 315 701	7 607 503	1 665 357	11 659 726	157 070
19.32	2 710 665	4 712 025	3 479 266	1 938 658	555 248	297 983
12.42	471871	2220438	807118	2 000 290	142 957	1 663 507
23.78	20 093 205	16 514 596	13 991 887	8 436 960	12 869 689	2 552 838
26.39	19585256	14238958	13183531	6436 096	12 725 047	889 190
	29	21	20	10	19	1
	32	21	17	4	26	nil

Table A.3: Imports of ASEAN-6 from ASEAN-6, 2005 (values in US$ '000)

SITC code	Product category	Total value, 2005 (US$ '000)	Share in non-fuel imports (%)
776	**Thermionic, microcircuits, transistors, valves, etc.**	**24 672 513**	**23.44**
334	Petroleum products, refined	19 193 887	18.23
759	**Parts, n.e.s., and accessories for machines of headings 751 or 752**	**10 218 183**	**9.71**
333	Crude petroleum and oils obtained from bituminous minerals	7 543 059	7.16
752	**Automatic data processing machines and units thereof**	**4 247 968**	**4.04**
764	Telecommunications equipment, n.e.s.; parts and accessories, n.e.s.	4 205 759	3.99
772	Electrical apparatus for making and breaking electrical circuits	3 733 510	3.55
778	**Electrical machinery and apparatus, n.e.s.**	**2 443 821**	**2.32**
583	**Polymerization and copolymerization products**	**2 386 248**	**2.27**
511	Hydrocarbons, n.e.s.., and derivatives	2 375 585	2.26
784	Motor vehicle parts and accessories, n.e.s.	1 516 035	1.44
874	Measuring, checking, analysis, controlling instruments, n.e.s., parts	1 317 181	1.25
749	Non-electrical parts and accessories of machinery, n.e.s.	1 266 115	1.20
781	Passenger motor vehicles (excl. buses)	1 252 503	1.19
716	**Rotating electric plants and parts thereof, n.e.s.**	**1 241 298**	**1.18**
898	Musical instruments, parts and accessories thereof	1 189 755	1.13
641	Paper and paperboard	1 119 231	1.06
682	Copper	1 112 807	1.06
699	Manufactures of base metal, n.e.s.	1 078 479	1.02
893	Articles n.e.s. of plastic materials	1 074 468	1.02
582	Condensation, polycondensation and polyaddition products	1 052 105	1
771	**Electric power machinery, and parts thereof, n.e.s.**	**866 897**	**0.82**
741	**Heating and cooling equipment and parts thereof, n.e.s.**	**854 425**	**0.81**
687	Tin	851 196	0.81
322	Coal, lignite and peat	816 860	0.78
042	Rice	814 104	0.77
785	**Cycles, scooters, motorized or not; invalid carriages**	**809 764**	**0.77**
	Total of 8 electronic & electrical items (listed above)		**44.6**
Total:	Food (SITC 0+1+22+4)	7 145 179	6.79
	Agr. raw mats. (SITC 2-(22+27+28))	2 090 773	1.99
	Ores & metals (SITC 27+28+68)	3 452 822	3.28
	Manufactures:	92 588 574	87.95
7	Machinery and transport equipment	65 052 286	61.79
	Others	27 536 288	26.16
3	Mineral fuels, lubricants and related materials	28 732 967	27.29
Total	**Total trade**	**136 053 084**	**129.23**
	Non-fuel imports	**105 277 349**	**100**
	Shares of countries in ASEAN-6 non-fuel imports (%)	100	
	Share of countries in ASEAN-6 SITC 7 imports (%)		

Source: Same as table A.2.

Average annual growth rate, 1995-2005 (%)	Malaysia	Singapore	Thailand	Indonesia	Philippines	Viet Nam
10	**10 786 450**	**5 123 358**	**1 798 390**	**1 001 393**	**5 936 269**	**26 653**
20	2 069 667	13 776 481	1 892 757	1 265 991	185 378	3 613
6	**4 194 006**	**1 324 845**	**2 189 695**	**1 563 260**	**836 942**	**109 435**
23	3 681 203	18 271	344 769	646 437	173 696	2 678 682
4	**1 470 852**	**743 177**	**1 011 431**	**649 455**	**316 340**	**56 714**
8	2 324 244	606 836	343 674	762 968	156 299	11 738
5	1 205 981	840 545	524 544	641 286	164 804	356 350
7	**584 114**	**601 453**	**460 818**	**696 906**	**91 358**	**9 172**
17	**419 939**	**1 188 036**	**584 367**	**149 239**	**30 111**	**14 555**
24	450 099	1 021 011	625 331	274 761	2 366	2 016
36	159 420	32 921	666 183	317 241	327 731	12 539
20	669 629	405 845	88 578	70 858	74 924	7 347
11	314 801	392 126	307 546	186 301	55 539	9 801
60	11 669	8 755	931 041	137 286	163 752	
3	**177 846**	**144 309**	**514 798**	**257 580**	**109 602**	**37 163**
8	536 205	534 071	45 323	68 249	4 828	1 079
13	121 985	245 618	210 706	499 706	32 583	8 632
12	196 321	82 272	111 307	616 838	105 797	271
3	457 373	350 132	109 964	104 423	44 098	12 488
9	492 820	291 254	129 186	96 498	41 544	23 166
16	262 141	405 370	239 261	134 752	3 598	6 984
- 1	**152 913**	**158 935**	**78 173**	**350 242**	**106 859**	**19 775**
7	**326 931**	**93 314**	**362 410**	**52 024**	**15 850**	**3 895**
50	127 275	22 439	6 998	682 919	126	11 440
16	96	5 443	2 144	744 136		65 040
- 5	147	1 904	216 219	218	69	595 547
17	**184 169**	**20 537**	**443 563**	**113 820**	**189**	**47 487**
8	1 697 060	658 651	1 698 979	1 880 211	367 844	842 435
7	723 159	129 480	712 546	456 317	44 243	25 028
13	609 834	409 018	305 842	1 780 930	303 009	44 189
9	32 472 832	20 529 574	16 483 257	12 599 523	9 171 619	1 331 768
8	24 146 105	12 335 642	11 230 959	8 039 204	8 500 014	800 362
10	8 326 727	8 193 932	5 252 299	4 560 319	671 605	531 406
20	5 992 092	14 251 333	2 499 492	2 876 665	366 039	2 747 345
10	**41 694 588**	**36 613 589**	**22 425 287**	**20 033 010**	**10 282 016**	**5 004 596**
9	**35 502 886**	**21 726 723**	**19 200 624**	**16 716 980**	**9 886 715**	**2 243 421**
	34	21	18	16	9	2
	37	19	17	12	13	1

Table A.4: Imports of Republic of Korea from ASEAN-6, 2005 (values in US$ '000)

SITC code	Product category	Total value 2005 (US$ '000)	Share in total non-fuel imports (%)	Average annual growth rate, 1995-2005 (%)
776	**Thermionic, microcircuits, transistors, valves, etc.**	**5 828 545**	**34.72**	**19.30**
341	Gas, natural and manufactured	4 136 589	24.64	8.74
333	Crude petroleum and oils obtained from bituminous minerals	2 816 501	16.78	9.88
752	**Automatic data processing machines and units thereof**	**876 592**	**5.22**	**7.81**
322	Coal, lignite and peat	742 934	4.43	19.48
764	**Telecommunication equipment, n.e.s.; parts and accessories, n.e.s.**	**679 152**	**4.05**	**17.02**
778	**Electrical machinery and apparatus, n.e.s.**	**644 409**	**3.84**	**24.31**
334	Petroleum products, refined	548 813	3.27	14.62
287	Ores and concentrates of base metals, n.e.s.	508 769	3.03	6.80
232	Natural rubber latex; rubber and gums	504 161	3.00	0.17
634	Veneers, plywood, "improved" wood and other wood, worked, n.e.s.	415 234	2.47	- 1.18
651	Textile yarn	348 227	2.07	11.74
251	Pulp and waste paper	334 440	1.99	9.87
898	Musical instruments, parts and accessories thereof	313 645	1.87	28.36
759	**Parts, n.e.s. of and accessories for machines of headings 751 or 752**	**285 984**	**1.70**	**6.89**
598	Miscellaneous chemical products, n.e.s.	277 349	1.65	0.23
874	Measuring, checking, analysis, controlling instruments, n.e.s., parts	198 624	1.18	8.49
682	Copper	193 636	1.15	4.57
036	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc	193 062	1.15	13.96
716	**Rotating electric plants and parts thereof, n.e.s.**	**165 725**	**0.99**	**12.33**
057	Fruit and nuts, fresh, dried	155 318	0.93	10.33
335	Residual petroleum products, n.e.s., and related materials	149 731	0.89	16.48
424	Other fixed vegetable oils, fluid or solid, crude, refined	142 609	0.85	-1.14
288	Non-ferrous base metal waste and scrap, n.e.s.	141 201	0.84	6.35
582	Condensation, polycondensation and polyaddition products	139 195	0.83	25.36
687	Tin	138 180	0.82	8.04
512	Alcohols, phenols etc., and their derivatives	135 963	0.81	14.37
772	**Electrical apparatus for making and breaking electrical circuits**	**131 095**	**0.78**	**10.01**
513	Carboxylic acids, and their derivatives	128 795	0.77	42.84
	Total of 7 electronic items (listed above)		46.10	
Total:	Food (SITC 0+1+22+4)	1 161 460	6.92	3.43
	Agr. raw mats. (SITC 2-(22+27+28))	1 047 288	6.24	-0.75
	Ores and metals (SITC 27+28+68)	1 101 268	6.56	6.33
	manufactures	13 479 330	80.29	12.61
7	Machinery and transport equipment	9 409 690	56.05	15.34
	Other manufactures	4 069 640	24.24	7.89
3	Mineral fuels, lubricants and related materials	8 395 041	50.00	8.88
	Total imports	**25 212 480**	**150.17**	**9.59**
	Non-fuel imports	**16 789 346**	**100**	**9.76**
	Share of countries in Rep. of Korea's non-fuel imports (%)	100		
	Share of countries in Rep. of Korea's SITC 7 imports (%)			

Source: Same as table A.2.

Malaysia	Singapore	Thailand	Indonesia	Philippines	Viet Nam
1 196 221	**3 057 531**	**485 894**	**30 295**	**1 045 685**	**12 918**
1 456 923	1 977		2 677 689		
721 507		141 121	1 953 873		
310 873	**243 789**	**201 691**	**41 295**	**72 683**	**6 261**
	4 488		713 778		24 669
253 977	**61 641**	**195 935**	**100 272**	**51 779**	**15 547**
162 250	**151 476**	**85 430**	**18 956**	**218 675**	**7 623**
128 540	128 047	3 542	288 380	302	2
256	81	44	505 519	12	2 857
93 282	534	259 053	112 122	7 070	32 100
209 296	1 066	61 797	142 353	180	542
34 367	21 463	84 602	151 434	358	56 002
261	1 393	12 184	320 429	47	126
114 397	175 791	2 386	20 121	336	614
67 395	**139 996**	**15 700**	**870**	**61 751**	**273**
167 617	89 257	3 644	13 878	1 995	957
70 619	112 858	1 199	1 050	12 348	551
9 761	20 325	7 082	1 234	155 154	79
2 717	443	77 400	7 670	14 317	90 515
1 568	**8 488**	**40 446**	**18 198**	**83 596**	**13 428**
	159	569	207	151 560	2 824
2 236	4 381	54 236	88 856		21
112 245	982	2 070	1 396	25 916	
27 441	12 923	22 708	14 488	63 066	575
24 653	67 125	41 750	3 372	1 235	1 060
69 368	24 831	8 707	35 151	124	
62 171	15 358	4 374	38 819	15 242	
34 808	**37 552**	**22 513**	**11 621**	**22 558**	**2 044**
53 384	72 988	698	1 614	111	
180 632	37 600	266 182	154 942	295 673	226 432
154 802	2 673	293 409	538 835	13 953	43 617
128 219	70 172	75 522	570 314	238 690	18 351
3 238 632	5 064 197	1 853 046	1 179 779	1 763 203	380 473
2 177 548	4 009 702	1 193 786	307 809	1 650 328	70 516
1 061 084	1 054 494	659 260	871 969	112 875	309 957
2 309 206	138 894	198 899	5 722 577	302	25 163
6 011 639	**5 317 585**	**2 688 753**	**8 184 433**	**2 316 026**	**694 043**
3 702 285	**5 174 642**	**2 488 159**	**2 443 870**	**2 311 519**	**668 872**
22.1	31	14.8	14.6	13.7	3.9
23.1	43	13	3.3	17.5	0.75

Table A.5: Imports of India from ASEAN-6, 2005 (values in US$ '000)

SITC code	Product category	Total value, 2005 (US$ '000)	Share in total non-fuel imports (%)
424	Other fixed vegetable oils, fluid or solid, crude, refined	1 097 656	11.90
322	Coal, lignite and peat	846 797	9.18
752	**Automatic data processing machines and units thereof**	**795 326**	**8.63**
759	**Parts, n.e.s. of and accessories for machines of headings 751 or 752**	**603 717**	**6.55**
511	Hydrocarbons, n.e.s., and derivatives	427 890	4.64
764	**Telecommunications equipment, n.e.s.; parts and accessories, n.e.s.**	**405 554**	**4.40**
287	Ores and concentrates of base metals, n.e.s.	334 489	3.63
776	**Thermionic, microcircuits, transistors, valves, etc.**	**298 790**	**3.24**
793	Ships, boats and floating structures	294 638	3.20
247	Other wood, in the rough or roughly squared	278 439	3.02
892	Printed matter	269 333	2.92
341	Gas, natural and manufactured	261 576	2.84
513	Carboxylic acids, and their derivatives	226 201	2.45
583	Polymerization and copolymerization products	193 934	2.10
582	Condensation, polycondensation and polyaddition products	145 083	1.57
431	Animal and vegetable oils and fats, processed, and waxes	140 242	1.52
792	Aircraft and associated equipment and parts thereof, n.e.s.	139 300	1.51
874	Measuring, checking, analysis, controlling instruments, n.e.s., parts	121 637	1.32
651	Textile yarn	114 489	1.24
761	**Television receivers**	**109 172**	**1.18**
713	Internal combustion piston engines, and parts thereof, n.e.s.	104 250	1.13
898	Musical instruments, parts and accessories thereof	99 130	1.08
282	Waste and scrap metal of iron or steel	96 778	1.05
778	**Electrical machinery and apparatus, n.e.s.**	**95 672**	**1.04**
251	Pulp and waste paper	86 659	0.94
723	Civil engineering, contractors' plant and equipment and parts, n.e.s.	86 401	0.94
716	**Rotating electrical plant and parts thereof, n.e.s.**	**79 209**	**0.86**
522	Inorganic chemical elements, oxides and halogen salts	74 691	0.81
057	Fruit and nuts, fresh, dried	73 501	0.80
641	Paper and paperboard	72 835	0.79
743	**Pumps, compressors; centrifuges; filtering apparatus; etc, parts**	**71 253**	**0.77**
674	Universals, plates, and sheets, of iron or steel	70 956	0.77
741	Heating and cooling equipment and parts thereof, n.e.s.	67 989	0.74
	Total of 9 electrical & electronic items (listed above)		27.40
	Total		
Total	Food (SITC 0+1+22+4)	1 451 479	15.74
	Agr. raw mats. (SITC 2-(22+27+28))	512 183	5.55
Manuf.	Manufactures	6 600 094	71.58
7	Machinery and transport equipment	3 726 105	40.41
	others	2 873 989	31.17
3	Mineral fuels, lubricants and related materials	1 121 260	12.16
Total	**Total trade**	**10 397 047**	**112.75**
Total	**Non-fuel inports**	**9 220 991**	**100**
	Share of countries in India's non-fuel imports (%)	100	
	Share of countries in India's SITC 7 imports (%)		

Source: Same as table A.2.

Average annual growth rate, 1995-2005 (%)	Malaysia	Singapore	Thailand	Indonesia	Philippines	Viet Nam
10	163 899	78	568	933 060	16	35
26			12	827 264		19 521
27	**257 419**	**446 559**	**50 960**	**32 320**	**7 380**	**690**
27	**191 831**	**292 801**	**8 499**	**5 288**	**104 886**	**413**
19	172 668	245 193	4 392	5 417		219
20	**134 449**	**236 694**	**28 968**	**3 270**	**1 816**	**358**
38	1 364	802	93	332 124	29	77
14	**71 441**	**173 499**	**31 769**	**5 393**	**16 432**	**256**
39	19 929	217 467	7 822	16 558	32 858	4
14	276 689	381	1 259	80		29
42	4 312	261 957	1 379	1 512	170	4
34	251 434	10 142				
17	89 058	103 086	4 448	29 551	57	
10	35 024	80 007	52 542	24 481	371	1 509
24	8 578	33 433	69 265	29 152	860	3 796
7	91 617	3 088	1 978	43 376	159	24
15	3 120	131 961	1 273	8	2 937	
23	18 324	97 735	3 604	905	918	151
20	42 674	6 429	15 505	48 458	63	1 361
44	**3 715**	**9 933**	**93 195**	**2 328**		
42	1 367	23 879	77 158	1 844		
19	13 572	80 992	3 893	645	18	9
18	24 306	38 662	19 444	3 312	8 536	2 518
17	**13 727**	**52 210**	**18 545**	**2 719**	**2 260**	**6 210**
6	792	4 065	3 689	78 106	8	
26	12 131	43 504	606	30 025	17	117
16	**487**	**14 852**	**855**	**62 762**	**20**	**233**
16	45 370	5 719	539	23 062		
5	12	40	1 474	70 161	501	1 313
11	8 026	3 220	10 319	32 999	18 270	
29	**6 789**	**18 926**	**44 823**	**254**	**457**	**3**
29	16 977	9 833	37 350	6 796		
24	18 708	10 182	35 354	1 725	1 925	95
10	270 664	11 400	15 291	1 101 577	1 813	50 733
10	299 401	10 413	59 465	131 446	1 391	10 066
19	1 467 893	3 221 934	1 058 331	591 553	218 389	41 994
21	815 982	1 972 080	554 652	190 580	182 862	9 948
n.a	651 911	1 249 854	503 679	400 972	35 526	32 046
1	252 789	17 212	4 342	827 347	49	19 521
14	**2 425 193**	**3 367 084**	**1 216 390**	**3 020 048**	**236 426**	**131 907**
n.a	**2 160 173**	**3 333 916**	**1 206 650**	**2 171 765**	**236 114**	**112 373**
	25	35	13	23	3	1
	22	53	15	5	5	

Table A.6: Imports of China from lower-income/smaller countries, 2005 (values in US$ '000)

SITC code	Product category	Total value 2005 (US$ '000)	Share in total non-fuel imports (%)	Average annual growth rate, 1995-2005 (%)
651	**Textile yarn**	**464 325**	**36.19**	**11.85**
333	Crude petroleum and oils obtained from bituminous minerals	207 626	16.18	73.6
247	Other wood, in the rough or roughly squared	138 523	10.80	12.53
652	**Cotton fabrics, woven (not including narrow or special fabrics)**	**114 558**	**8.93**	**5.65**
682	Copper	90 623	7.06	n.a.
611	**Leather**	**81 364**	**6.34**	**12.06**
248	Wood, simply worked, and railway sleepers of wood	74 984	5.84	24.36
287	Ores and concentrates of base metals, n.e.s.	66 019	5.15	12.12
513	**Carboxylic acids, and their derivatives**	**46 768**	**3.64**	**163.06**
264	Jute, other textile bast fibres, n.e.s., raw, processed but not spun	26 301	2.05	2.33
232	Natural rubber latex; rubber and gums	18 451	1.44	25.77
263	Cotton	15 825	1.23	-7.22
583	**Polymerization and copolymerization products**	**13 530**	**1.05**	**53.32**
034	Fish, fresh, chilled or frozen	13 145	1.02	30.56
292	Crude vegetable materials, n.e.s.	8 212	0.64	1.47
081	Feeding stuff for animals (not including unmilled cereals)	7 127	0.56	29.17
278	Other crude minerals	5 887	0.46	31.74
281	Iron ore and concentrates	5 812	0.45	n.a
222	Seeds and oleaginous fruit, whole or broken, for 'soft' fixed oil	5 537	0.43	18.66
036	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc.	5 253	0.41	13.00
	6 manufactured items (listed above)		**49.08**	
Total	Food (SITC 0+1+22+4)	49 400	3.85	6.82
	Agr. raw mats. (SITC 2-(22+27+28))	286 789	22.35	10.24
	Ores & metals (SITC 27+28+68)	172 335	13.43	17.08
	manufactures	774 572	60.37	8.96
7	Machinery and transport equipment	6 391	0.50	22.59
	Other manufactures	768 180	59.87	8.89
3	Mineral fuels, lubricants and related materials	207 957	16.21	66.85
Total	**Total trade**	**1 491 864**	**116.27**	**12.72**
	China's non-fuel imports	**1 283 096**	**100**	**9.6**
Share of countries in China's non-fuel imports (%)		100		
Share of countries in China's imports of manufactures (%)				

Source: Same as table A.2.

Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei Darus-salam	Cambodia	Lao PDR	Myanmar
934			**12**	**455 901**	**291**		**7 187**		
						207 626			
			788				75	8 591	129 068
107				**113 900**	**162**		**389**		
				84 339				6 226	58
28 944			**692**	**51 451**	**145**		**2**		**131**
					8		8 332	2 592	64 051
				28 483	16 314			628	20 595
				46 765	**3**				
25 816									485
					1 513		3 131	4 185	9 622
				15 818			7		1
8 840		**10**		**3 686**	**51**		**45**	**1**	**897**
2 179		1		9 916	79		420		551
			165	1 842	184		79	354	5 587
				3 261					3 866
			2	379	737		2	31	4 737
									5 812
				1 055	32		83	80	4 288
1 258				1 532	26		312		2 125
3 452		1	3 194	16 716	2 384	93	952	1 471	21 137
26 585			953	18 112	4 043		11 851	15 740	209 506
452			6	116 156	17 051		2	6 885	31 782
48 114	2	26	4 343	682 147	13 117	9	14 257	917	11 640
109		5	58	339	5 641		124		117
48 006.651	1.631	21.487	4 285	681 808.3	7 476.5	9	14 132.67	917.17	11 522.62
						207 626			330
78 603	**2**	**27**	**8 495**	**833 169**	**36 595**	**207 728**	**27 305**	**25 545**	**274 395**
78 603	**2**	**27**	**8 495**	**833 132**	**36 595**	**102**	**27 061**	**25 013**	**274 065**
6.1	nil	nil	0.7	64.9	2.9	nil	2.1	1.95	21.3
6.2	nil	nil	0.6	88.1	1.7	nil	1.8	0.1	1.5

Table A.7: Imports of ASEAN-6 from lower-income/smaller countries, 2005 (values in $ '000)

SITC	Product Name	Total value 2005:$000	Share in non-fuel	Growth rate 95-05	Bangla-desh
341	Gas,natural and manufactured	1,493,189	82.90	n.a	
333	Petrol.oils,crude,& c.o.obtain.from	1,483,086	82.34	22	
248	Wood,simply worked,and railway slee	211,145	11.72	17	
682	Copper	167,396	9.29	100	
247	Other wood in the rough or roughly	146,738	8.15	5	
845	**Outer garments and other articles**	**134,159**	**7.45**	**19**	**27,255**
034	Fish,fresh (live or dead),chilled o	124,959	6.94	17	1,045
232	Natural rubber latex; nat.rubber &	98,418	5.46	4	
036	Crustaceans and molluscs,fresh,chil	76,377	4.24	-1	10,651
351	Electric current	62,812	3.49	n.a	
054	Vegetab.,fresh,chilled,frozen/pres.	60,852	3.38	-1	1,289
651	Textile yarn	46,684	2.59	-4	940
846	**Under garments,knitted or crocheted**	**43,411**	**2.41**	**8**	**6,591**
334	Petroleum products,refined	42,034	2.33	18	35,469
263	Cotton	41,762	2.32	6	58
971	Gold,non-monetary	38,201	2.12	50	
057	Fruit & nuts(not includ. oil nuts),	32,388	1.80	17	823
843	**Outer garments,women's,of textile f**	**31,677**	**1.76**	**8**	**10,503**
611	Leather	31,108	1.73	8	11,569
562	**Fertilizers,manufactured**	**29,415**	**1.63**	**-2**	**29,414**
042	Rice	25,125	1.39	-3	17
122	Tobacco manufactured	21,516	1.19	71	196
759	**Parts of and accessories suitable f**	**21,027**	**1.17**	**-7**	**65**
046	Meal and flour of wheat and flour o	20,298	1.13	n.a	
652	**Cotton fabrics,woven**	**18,879**	**1.05**	**-6**	**183**
658	**Made-up articles,wholly/chiefly of**	**18,727**	**1.04**	**20**	**8,231**
222	Oil seeds and oleaginous fruit,whol	16,441	0.91	0	26
282	Waste and scrap metal of iron or st	15,641	0.87	32	69
653	**Fabrics,woven,of man-made fibres**	**15,358**	**0.85**	**5**	**885**
001	Live animals chiefly for food	15,288	0.85	19	0
541	**Medicinal and pharmaceutical produc**	**12,931**	**0.72**	**21**	**1,398**
044	Maize (corn),unmilled	12,897	0.72	14	
667	**Pearls,precious& semi-prec.stones,u**	**12,559**	**0.70**	**-4**	
842	**Outer garments,men's,of textile fab**	**12,286**	**0.68**	**-7**	**5,767**
081	Feed.stuff for animals(not incl.unm	12,008	0.67	34	
322	Coal,lignite and peat	11,777	0.65	42	

Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei	Cambodia	Lao PDR	Myanmar
			2					1,493,187
			17,350		1,418,529			47,207
				4		60,896	115,149	35,097
		0	29	119	137	45	70,706	96,359
						149	26,307	120,282
	2	**115**	**411**	**1,355**	**72,450**	**28,329**	**53**	**4,189**
	45,889		16,972	1,537	8	791		58,716
				2,148	586	67,409	39	28,236
	1,678		9,024	6,687	43	432		47,860
							62,812	
	8		5,937	15	9	707	3,120	49,767
		1	41,979	2,433	42	1,186	78	26
	0	**394**	**133**	**1,373**	**30,831**	**3,146**	**144**	**800**
	0	1	6,490		71	0	0	4
			41,585	25		65	28	1
				8	1,274	36,919		
			8,153	39		21,125	541	1,707
	5	**573**	**1,005**	**993**	**2,987**	**12,385**	**492**	**2,734**
		294	19,109	61		75		
								1
			17,648			494	2,872	4,094
			0	1,929	0	14,347		5,043
	30	**12**	**647**	**19,642**	**502**	**18**	**7**	**105**
			1	20,297				
		3	**15,882**	**1,443**	**4**	**1,142**	**104**	**118**
	0	**121**	**7,333**	**66**	**0**	**77**	**28**	**2,871**
			161	109		7,734	1,692	6,718
			2	195	10,378	4,738	211	48
11		**0**	**12,018**	**1,221**	**62**	**888**	**49**	**224**
					15	11	1,301	13,961
		48	**10,644**	**62**	**247**	**347**	**157**	**28**
			231			1,154	2,990	8,521
		10	**312**	**9,794**	**38**	**1**	**2**	**2,403**
		185	**424**	**339**	**1,294**	**1,764**	**502**	**2,011**
			6,074	2,035	6	79	27	3,787
							3,970	7,807

Table A.7: Imports of ASEAN-6 from lower-income/smaller countries, 2005 (values in $ '000) ***contd.***

SITC	Product Name	Total value 2005:$000	Share in non-fuel	Growth rate 95-05	Bangla-desh
513	**Carboxylic acids,& their anhydrides**	**11,405**	**0.63**	**130**	
674	**Universals,plates and sheets,of iro**	**11,134**	**0.62**	**43**	**10,817**
897	Jewellery,goldsmiths and other art.	11,118	0.62	5	
771	Electric power machinery and parts	10,709	0.59	8	114
634	**Veneers,plywood,improved or reconst**	**10,089**	**0.56**	**0**	
269	Old clothing and other old textile	9,995	0.55	46	300
778	**Electrical machinery and apparatus,**	**9,496**	**0.53**	**19**	**246**
	total:14items of manufactires (above)		20.1		
Total:	Food (SITC 0+1+22+4)	452,007	25.10	4	16,449
	Agricultural Raw Materials (SITC 2-	532,706	29.58	8	5,304
	Ores & Metals (SITC 27+28+68)	196,929	10.93	26	625
	manufactures	619,468	34.39	3	140,465
7	Machinery & transport equip.	76,565	4.25	-9	9,249
	Other	542,902	30.14	6	131,216
3	Mineral fuels,lubricants and relate	3,093,050	171.73	39	35,469
Total	**Total Trade**	**4,966,347**	**275.74**		**201,330**
Non-fuel imports	**Non-fuel imports**	**1,801,109**	**100.00**	**6**	**162,843**
	Share of countries in non-fuel	100			11.2
	Share of countries in manufactured				22.6

Source: Same as table A.2.

Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei	Cambodia	Lao PDR	Myanmar
			11,343	**4**		**49**	**9**	
			45	**176**	**22**	**74**		
		49	1,057	2,126	7,812	0	5	68
	4	4	739	1,480	4	7	1,597	6,759
		0	**8**		**20**	**309**	**8,002**	**1,751**
	0	0	826	37	13	8,812	2	5
	0	**14**	**228**	**8,816**	**32**	**140**	**2**	**18**
29	47,982	211	66,802	39,204	378	53,123	18,273	209,556
	49	108	44,705	3,131	1,116	140,704	146,593	190,996
		0	486	684	13,530	5,476	76,827	99,301
551	1,268	3,278	149,914	81,571	123,764	62,274	17,743	38,639
	398	417	7,755	36,030	4,218	4,093	5,512	8,895
551	870	2,861	142,159	45,541	119,546	58,181	12,232	29,744
	0	1	23,978		1,418,605	0	66,793	1,548,205
585	**49,422**	**3,838**	**288,209**	**125,753**	**1,565,671**	**302,751**	**338,797**	**2,089,991**
580	**49,300**	**3,598**	**261,907**	**124,590**	**138,787**	**261,577**	**259,436**	**538,492**
0.03	2.8	0.2	14.5	6.9	7.7	14.5	14.4	30
0.1	0.2	0.5	24.1	13.1	19.9	10	2.9	6.2

Table A.8: Imports of Republic of Korea from lower-income/smaller countries, 2005 (values in $ '000)

SITC code	Product category	Total value 2005 ($ 000)	Share in total non-fuel imports (%)	Average annual growth rate, 1995-2005 (%)
333	Crude petroleum and oils obtained from bituminous minerals	643 748	207.03	8.57
341	Gas, natural and manufactured	164 782	52.99	4.82
334	Petroleum products, refined	131 720	42.36	n.a.
651	**Textile yarn**	**110 271**	**35.46**	**- 2.52**
611	**Leather**	**59 366**	**19.09**	**12.22**
652	**Cotton fabrics, woven (not including narrow or special fabrics)**	**14 066**	**4.52**	**- 13**
634	**Veneers, plywood, "improved" wood and other wood, worked, n.e.s.**	**12 651**	**4.07**	**23.69**
081	Feeding stuff for animals (not including unmilled cereals)	12 536	4.03	- 5.11
292	Crude vegetable materials, n.e.s.	11 891	3.82	3.17
036	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc.	9 700	3.12	51.68
843	**Women's, girls', infants' outerwear, textiles, not knitted or crocheted**	**7 942**	**2.55**	**18.65**
842	**Men's and boys' outerwear, textile fabrics not knitted or crocheted**	**7 435**	**2.39**	**2.91**
034	Fish, fresh, chilled or frozen	6 401	2.06	63.86
846	**Undergarments, knitted or crocheted**	**3 761**	**1.21**	**28.23**
054	Vegetables, fresh or simply preserved; roots and tubers, n.e.s.	3 587	1.15	- 1.21
562	Fertilizers, manufactured	3 120	1	n.a.
288	Non-ferrous base metal waste and scrap, n.e.s.	3 091	0.99	4.86
848	**Articles of apparel, clothing accessories, non-textile, headgear**	**2 999**	**0.96**	**2.48**
263	Cotton	2 705	0.87	- 11.84
682	Copper	1 922	0.62	n.a.
899	**Other miscellaneous manufactured articles, n.e.s.**	**1 889**	**0.61**	**8.56**
278	Other crude minerals	1 886	0.61	26.64
696	**Cutlery**	**1 754**	**0.56**	**19.72**
222	Seeds and oleaginous fruit, whole or broken, for "soft" fixed oil	1 706	0.55	n.a.
872	**Medical instruments and appliances, n.e.s.**	**1 630**	**0.52**	**8.75**
232	Natural rubber latex; rubber and gums	1 601	0.51	6.59
264	Jute, other textile bast fibres, n.e.s., raw, processed but not spun	1 588	0.51	n.a.
894	**Baby carriages, toys, games and sporting goods**	**1 555**	**0.50**	**0.85**
	Total of 12 manufactured items (listed above)		72.40	
Total:	Food (SITC 0+1+22+4)	36 960	11.89	4.48
	Agr. raw mats. (SITC 2-(22+27+28))	19 100	6.14	- 2.49
	Ores and metals (SITC 27+28+68)	8 179	2.63	23.55
	Manufactures	**246 710**	**79.34**	**- 0.92**
7	**Machinery and transport equipment**	**3 371**	**1.08**	**- 15.19**
	Other manufactures	243 340	78.26	- 0.37
3	Mineral fuels, lubricants and related materials	940 249	302.38	7.57
	Total trade	1 251 201	402.38	4.73
	Non-fuel imports	310 949.3	100	1.46
	Share of countries in Rep. of Korea's non-fuel imports (%)	100		
	Share of countries in Rep. of Korea's imports of manufactured goods (%)			

Source: Same as table A.2.
Note: n.a. = not available.

Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei Darussalam	Cambodia	Lao PDR	Myanmar
						622 037			21 711
						164 782			
				131 703			17		
1 073				**108 173**	**1 025**				
25 846				**33 430**	**68**		**22**		**1**
29				**13 907**	**62**		**67**		
8							**80**		**12 562**
				7	12 530				
				3 271	7 108		363	18	1 131
166				3 818	934				4 781
1 706			**23**	**86**	**1 073**		**453**	**11**	**4 588**
2 451			**3**	**196**	**894**		**1 095**	**23**	**2 773**
204				5 824	12		1		360
88			**1**	**83**	**3 201**		**335**	**17**	**36**
17				33	420				3 117
3 120									
2 333				659	58	42			
878			**92**	**385**	**1 639**		**6**		
11				2 695					
									1 922
12				**6**	**142**		**27**	**1 352**	**349**
			56	1 047	783				
				1 704			**50**		
				1 625	80				
				1 629			**1**		
					629		637		335
1 588									
21				**1 412**	**99**				**22**
828			1	11 528	15 181		79	453	8 890
1 720			1	6 337	7 876	1	1 003	92	2 069
3 350			56	1 737	845	42	54		2 096
39 597	**36**	**4**	**719**	**164 284**	**14 182**	**23**	**4 809**	**1 565**	**21 491**
838			**197**	**43**	**288**	**21**	**1 660**	**25**	**297**
38 759	36	4	522	164 240	13 893	2	3 149	1 540	21 194
				131 703		786 818	17		21 711
45 495	36	4	778	315 591	38 083	786 884	5 962	2 110	56 257
45 495	36	4	777	183 886	38 083	66	5 945	2 110	34 547
15	nil	nil		59	12	nil	2	1	11
16	nil	nil	6	67	6	nil	2	1	9

Table A.9: Imports of India from lower-income/smaller countries, 2005 (values in US$ '000)

SITC	Product category	Total value 2005 (US$ '000)	Share in total non-fuel imports (%)	Average annual growth rate, 2005 (%)
054	Vegetables, fresh or simply preserved; roots and tubers, n.e.s.	331 246	17.54	11.46
247	Other wood, in the rough or roughly squared	262 233	13.89	16.90
431	Animal and vegetable oils and fats, processed, and waxes	204 912	10.85	n.a.
682	Copper	151 158	8.01	179.2
684	Aluminium	60 555	3.21	69.67
075	Spices	48 020	2.54	22.71
651	**Textile yarn**	**46 369**	**2.46**	**21.30**
522	**Inorganic chemical elements, oxides and halogen salts**	**44 611**	**2.36**	**8.79**
513	**Carboxylic acids, and their derivatives**	**35 202**	**1.86**	**87.49**
057	Fruit and nuts, fresh, dried	32 272	1.71	- 0.29
541	**Medicinal and pharmaceutical products**	**28 313**	**1.5**	**7.96**
893	**Articles, n.e.s., of plastic materials**	**27 885**	**1.48**	**64.75**
652	**Cotton fabrics, woven (not including narrow or special fabrics)**	**27 620**	**1.46**	**17.62**
583	**Polymerization and copolymerization products**	**22 563**	**1.20**	**67.74**
678	**Tube, pipes and fittings, of iron or steel**	**22 475**	**1.19**	**n.a.**
773	**Equipment for distribution of electricity**	**22 448**	**1.19**	**n.a.**
111	Non-alcoholic beverages, n.e.s.	21 611	1.14	n.a.
693	**Wire products (excluding insulated electrical wire); fencing grills**	**21 472**	**1.14**	**101.07**
264	Jute, other textile bast fibres, n.e.s., raw, processed but not spun	21 136	1.12	- 1.06
674	**Universals, plates and sheets, of iron or steel**	**20 922**	**1.11**	**97.29**
553	**Perfumery, cosmetics, toilet preparations, etc.**	**18 723**	**0.99**	**17.53**
658	**Made-up articles, wholly or chiefly of textile materials, n.e.s.**	**16 857**	**0.89**	**47.62**
641	**Paper and paperboard**	**14 249**	**0.75**	**62.89**
091	**Margarine and shortening**	**14 218**	**0.75**	**n.a**
657	**Special textile fabrics and related products**	**14 120**	**0.75**	**9.90**
654	**Textile fabrics, woven, other than cotton or man-made fibres**	**13 696**	**0.73**	**23.72**
081	Feeding stuff for animals (not including unmilled cereals)	13 549	0.72	22.75
661	**Lime, cement and fabricated construction materials**	**13 496**	**0.71**	**97.26**
634	**Veneers, plywood, "improved" wood and other wood, worked, nes**	**12 709**	**0.67**	**4.06**
671	**Pig and sponge iron, spiegeleisen, etc., and ferro-alloys**	**11 963**	**0.63**	**13.60**

Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei Darussalam	Cambodia	Lao PDR	Myanmar
146	420		8 711	68 215					253 755
	229	157			743				261 103
1 425	2 469		48 095		152 896				26
2 396	28 028		1 633		119 101				
			13 016		47 539				
2	30		13 297	929	33 215				546
6 929	**8 144**		**25 747**	**5 276**	**272**				
39 337			**3**	**13**	**5 258**				
			10 846	**24 304**	**52**				
2 925			308	26 244	1 639		455		701
			5 186	**33**	**23 093**				
1 761	**3**		**18 482**	**1 215**	**6 419**	**4**			
142				**22 975**	**4 486**		**17**		
66	**50**		**21 548**	**162**	**737**				
26		**2**	**21 028**		**1 419**				
268			**3 977**		**18 203**				
999	4 061		16 524		27				
			613		**20 858**				
21 132			4						
		18	**20 493**		**395**				**16**
1			**18 408**	**3**	**311**				
14 821			**1 267**	**750**	**19**				
57	**584**		**1 678**		**11 918**	**12**			
					14 218				
3 585			**8 631**	**143**	**1 760**				
1 870			**11 679**	**13**	**3**		**20**		**111**
555	10		11 007		1 978				
552	**165**		**558**	**175**	**12 042**				**5**
	4 563		**3 802**		**26**				**4 318**
	11 942		**21**						

Table A.9: Imports of India from lower-income/smaller countries, 2005 (values in US$ '000) ***contd.***

SITC	Product category	Total value 2005 (US$ '000)	Share in total non-fuel imports (%)	Average annual growth rate, 2005 (%)
653	**Fabrics, woven, of manmade fibres (not narrow or special fabrics)**	**11 742**	**0.62**	**21.25**
672	**Ingots and other primary forms, of iron or steel**	**11 723**	**0.62**	**n.a.**
282	Waste and scrap metal of iron or steel	11 566	0.61	5.22
598	**Miscellaneous chemical products, nes**	**11 433**	**0.61**	**47.25**
523	Other inorganic chemicals; compounds of precious metals	11 347	0.6	10.94
288	Non-ferrous base metal waste and scrap, nes	10 114	0.54	7.96
034	Fish, fresh, chilled or frozen	10 037	0.53	- 2.08
251	Pulp and waste paper	9 890	0.52	18.02
061	Sugar and honey	9 558	0.51	11.65
	Total of 24 manfd. items (listed above)		24.2	
Total:	Agri. raw mats. (SITC 2-(22+27+28))	317 988	16.84	12.73
	Food (SITC 0+1+22+4)	713 169	37.77	12.04
	Ores and metals (SITC 27+28+68)	249 719	13.23	39.87
	Manufactures	**607 197**	**32.16**	**18.13**
7	Machinery and transport equipment	48 754	2.58	32.25
	Other	558 442	29.58	17.32
3	Mineral fuels, lubricants and related materials	83	0.00	16.23
Total	Total imports	1 890 086	100.11	15
	Non-fuel imports	**1 888 073**	**100**	**15.56**
	Share of countries in India's non-fuel imports (%)			
	Share of countries in India's imports of manufactured goods (%)			

Source: Same as table A.2.

Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brunei Darussalam	Cambodia	Lao PDR	Myanmar
91			**8 493**	**2 929**	**229**				
	11 008		**714**						
860		1 132	332	488	8 741	14			
42			**11 076**	**7**	**307**				
6	11 321		6	14					
1 034		572	233	4 473	3 259	524			20
9 630		15		146	71				175
			5	1	9 835				48
911			1 181	7 462	3				
23 902	381	161	5 231	5 032	16 363	21		54	266 843
18 327	9 880	58	114 770	103 535	209 768		541		256 290
6 032	28 350	1 704	19 014	7 639	186 421	539			20
79 229	**49 545**	**59**	**242 200**	**63 985**	**166 770**	**220**	**238**	**51**	**4 899**
3 941		13	7 489	717	36 351	198	26		19
75 288	49 545	47	234 711	63 268	130 419	21	212	51	4 880
				2	82				
127 533	89 123	1 987	381 358	180 274	579 993	883	779	105	528 051
127 491	**88 156**	**1 982**	**381 215**	**180 191**	**579 323**	**780**	**779**	**105**	**528 051**
6.7	4.6	nil	20	9.5	30.6	0.04	0.04	nil	27.5
13	8	nil	39.8	11	27	nil	nil	nil	1

Table A.10: Imports of China and ASEAN from India, 2005 (values in US$ '000)

SITC	Product category	ASEAN-6	China	Total	Share in non-fuel imports (%)	Average annual growth rate, 1995-2005 (%)
281	Iron ore and concentrates		5 224 693	5 224 693	29	56
667	**Pearls, precious and semi-precious stones, unworked or worked**	**1 988 576**	**280 205**	**2 268 782**	**13**	**27**
334	Petroleum products, refined	1 257 703	44 681	1 302 383	7	51
287	Ores and concentrates of base metals, n.e.s.	14 871	641 859	656 730	4	30
674	**Universals, plates and sheets, of iron or steel**	**132 268**	**498 216**	**630 483**	**3**	**75**
672	**Ingots and other primary forms of iron or steel**	**249 895**	**322 255**	**572 150**	**3**	**44**
583	**Polymerization and copolymerization products**	**82 870**	**395 677**	**478 547**	**3**	**77**
511	Hydrocarbons, n.e.s., and derivatives	426 694	41 503	468 197	3	52
081	Feeding stuff for animals (not including unmilled cereals)	370 295	67 294	437 588	2	- 1
682	**Copper**	**202 549**	**130 367**	**332 916**	**2**	**88**
541	**Medicinal and pharmaceutical products**	**206 950**	**75 122**	**282 073**	**2**	**24**
684	**Aluminum**	**224 480**	**15 381**	**239 862**	**1**	**16**
512	**Alcohols, phenols etc., and their derivatives**	**57 490**	**179 816**	**237 306**	**1**	**21**
011	Meat and edible meat offal, fresh, chilled or frozen	217 098		217 098	1	10
263	Cotton	40 907	154 133	195 040	1	17
273	Stones, sand and gravel	8 604	183 272	191 876	1	24
651	**Textile yarn**	**65 702**	**121 523**	**187 225**	**1**	**- 2**
611	**Leather**	**56 380**	**124 926**	**181 307**	**1**	**25**
515	**Organo-inorganic and heterocyclic compounds**	**59 622**	**104 325**	**163 947**	**1**	**18**

671	**Pig and sponge iron, spiegeleisen, etc, and ferro-alloys**	**102 852**	**53 010**	**155 862**	**1**	**27**
749	***Non-electric parts and accessories of machinery, n.e.s.***	***58 214***	***66 531***	***124 745***	***1***	***27***
278	Other crude minerals	37 248	86 966	124 214	1	15
897	Gold, silverware, jewelry and articles of precious materials, n.e.s.	116 809	1 726	118 535	1	17
741	***Heating and cooling equipment and parts thereof, n.e.s.***	***31 303***	***72 760***	***104 063***	***1***	***21***
531	**Synthetic dye, natural indigo, lakes**	**62 662**	**34 721**	**97 383**	**1**	**19**
	Total of 15 items of manufactures (listed above)				34	
Total:	Food (SITC 0+1+22+4)	1 033 662	218 942	1 252 604	7	5
	Agr. raw mats. (SITC 2-(22+27+28))	88 157	223 682	311 839	2	15
	Ores and metals (SITC 27+28+68)	543 783	6 288 278	6 832 061	38	43
	Manufactures	**5 478 178**	**2 951 276**	**8 429 455**	**47**	**21**
7	Machinery and transport equipment	753 408	375 736	1 129 144	6	11
	Other	4 724 771	2 575 540	7 300 311	40	24
3	Mineral fuels, lubricants and related materials	1 281 389	58 586	1 339 975	7	50
	Total imports	**8 465 317**	**9 766 216**	**18 231 534**	**101**	**24**
	Imports of non-fuel items	**8 292 625**	**9 726 804**	**18 029 383**	**100**	**23**
	Share in non-fuel imports from India (%)	46	54	100		
	Share in manufactured imports from India (%)	65	35	100		

Source: Same as table A.2.

Table A.11: China's trade in main parts and components (SITC 7), 2006 (US$ million)

Products (SITC)	ASEAN-4	Rest of ASEAN	SAARC excl. India	India	Rep. Of Korea	Taiwan (Province of China)	Hong Kong, (SAR, China)	Total	Japan	Others	Total world
7169											
Imports	77.7	8.0	0.0	7.5	118.4	109.8	22.7	344.2	349.6	593.5	1 287.3
Exports	59.0	18.0	2.0	65.8	66.8	43.8	141.5	396.9	164.8	380.3	942.0
759											
Imports	2 765.8	465.9	0.4	27.2	2 896.6	1 961.8	310.0	8 427.6	3 228.3	8 604.0	20 259.9
Exports	4 000.5	241.8	13.5	168.1	592.0	1 195.2	10 387.3	16 598.5	2 152.1	15 935.2	34 685.8
7649											
Imports	1 483.1	539.6	2.1	4.4	4 881.2	1 114.3	674.0	8 698.6	3 495.9	12 893.8	25 088.4
Exports	2 858.6	200.3	79.9	381.9	2 629.7	921.7	11 442.3	18 514.5	2 508.5	10 450.9	31 473.9
77129											
Imports	79.8	6.1	0.1	6.2	201.0	81.3	30.9	405.3	186.1	505.6	1 097.0
Exports	45.6	14.5	1.8	15.6	170.2	30.4	197.4	475.4	115.5	253.1	844.0
772											
Imports	1 163.7	153.7	0.0	39.5	2 081.6	3 867.5	563.7	7 869.8	5 080.5	10 433.8	23 384.1
Exports	949.0	123.6	49.3	160.0	707.1	936.6	7 161.5	10 087.1	1 621.0	4 016.9	15 725.0
77689											
Imports	218.6	63.1	0.0	0.6	450.5	597.3	120.9	1 451.0	842.6	496.8	2 790.4
Exports	198.1	15.4	0.2	24.0	153.5	49.3	199.6	640.1	56.6	145.6	842.2
784											
Imports	134.8	12.6	0.0	8.9	1 539.6	221.5	1.1	1 918.5	3 421.2	3 702.8	9 042.6
Exports	333.2	113.8	64.9	83.6	315.7	111.3	71.9	1 094.5	1 261.9	6 575.7	8 932.0
7929											
Imports	9.8	0.0	0.2	0.1	0.5	0.1	0.3	10.9	14.2	1 060.3	1 085.4
Exports	76.9	8.9	4.9	28.6	41.2	3.4	194.9	358.9	222.1	425.5	1 006.4
7139											
Imports	12.4	0.0	0.0	1.2	235.1	15.4	0.8	265.0	756.9	904.3	1 926.2
Exports	84.2	120.5	62.0	26.1	81.6	30.5	32.0	436.9	142.9	539.9	1 119.7
78539											
Imports	49.8	0.1	0.0	0.3	1.6	90.7	2.1	144.6	46.3	33.3	224.2
Exports	224.3	108.8	61.9	92.2	19.2	155.3	62.7	724.4	103.4	1 103.4	1 931.2
Total of above											
Imports	5 995.5	1 248.9	2.8	95.8	12 406.2	8 059.9	1 726.4	29 535.4	17 421.7	39 228.2	86 185.4
Exports	8 829.5	965.6	340.6	1 046.0	4 777.0	3 477.5	29 891.1	49 327.2	8 348.8	39 826.4	97 502.3

Source: Based on UN COMTRADE database, Revision 2.

Table A.12: China's trade in finished goods corresponding to SITC items reported in table A.11, 2006 (US$ million)

Products (SITC)	ASEAN-4	Rest of ASEAN	SAARC excl. India	India	Rep. Of Korea	Taiwan (Province of China)	Hong Kong, (SAR, China)	Total	Japan	Others	Total world
716-7169											
Imports	272	48	0	3	119	147	71	659	505	2 240	3 404
Exports	477	132	68	79	276	32	913	1 978	647	2 962	5 587
751+752											
Imports	6 567	2 274	0	2	721	594	207	10 365	901	9 166	20 432
Exports	3 169	159	45	727	1 759	1 239	19 359	26 457	8 255	65 109	99 821
764-7649											
Imports	680	138	0	0	1 105	310	130	2 363	491	4 633	7 487
Exports	4 391	505	604	1 822	990	522	9 999	18 834	1 372	33 287	53 492
771-77129											
Imports	335	168	4	26	254	356	118	1 261	816	3 434	5 511
Exports	571	142	63	184	675	559	2 568	4 761	1 132	4 269	10 162
776-77689											
Imports	19 759	11 670	0	34	19 743	26 606	1 323	79 135	14 593	25 204	118 931
Exports	4 427	883	29	153	2 104	2 518	10 092	20 204	2 127	6 036	28 367
722+781											
Imports	1	0	0	0	554	1	0	556	1 629	4 803	6 988
Exports	55	10	67	10	4	0	3	148	15	1 585	1 748
785-78539											
Imports	0	0	0	0	0	3	0	4	1	5	10
Exports	242	185	69	13	103	28	69	709	539	4 061	5 309
792-7929											
Imports	0	0	0	0	0	0	0	0	0	9 855	9 855
Exports	6	27	0	0	0	0	150	184	0	99	282
Total of above											
Imports	27 614	14 299	5	65	22 496	28 017	1 848	94 343	18 935	59 340	172 618
Exports	13 122	1 885	903	3 000	5 835	4 897	43 111	72 592	13 575	113 373	199 486

Source: Based on UN COMTRADE, Revision 2.

Table A.13: Share of selected countries/economies and blocs in China's trade in main parts and components (SITC 7), 2006 (%)

Products	ASEAN-4	Rest of ASEAN	SAARC excl. India	India	Rep. of Korea	Taiwan (Province of China)	Hong Kong, (SAR, China)	Total	Japan	Others	Total world
7169											
Imports	6.04	0.62	0.00	0.59	9.20	8.53	1.76	26.74	27.16	46.10	100.0
Exports	6.26	1.91	0.22	6.99	7.09	4.65	15.02	42.14	17.49	40.37	100.0
759											
Imports	13.65	2.30	0.00	0.13	14.30	9.68	1.53	41.60	15.93	42.47	100.0
Exports	11.53	0.70	0.04	0.48	1.71	3.45	29.95	47.85	6.20	45.94	100.0
7649											
Imports	5.91	2.15	0.01	0.02	19.46	4.44	2.69	34.67	13.93	51.39	100.0
Exports	9.08	0.64	0.25	1.21	8.36	2.93	36.35	58.82	7.97	33.20	100.0
77129											
Imports	7.27	0.55	0.01	0.57	18.33	7.41	2.81	36.95	16.97	46.09	100.0
Exports	5.41	1.71	0.21	1.85	20.16	3.60	23.39	56.33	13.68	29.99	100.0
772											
Imports	4.98	0.66	0.00	0.17	8.90	16.54	2.41	33.65	21.73	44.62	100.0
Exports	6.04	0.79	0.31	1.02	4.50	5.96	45.54	64.15	10.31	25.54	100.0
77689											
Imports	7.83	2.26	0.00	0.02	16.15	21.41	4.33	52.00	30.20	17.80	100.0
Exports	23.53	1.83	0.02	2.85	18.22	5.85	23.70	76.00	6.72	17.29	100.0
784											
Imports	1.49	0.14	0.00	0.10	17.03	2.45	0.01	21.22	37.83	40.95	100.0
Exports	3.73	1.27	0.73	0.94	3.53	1.25	0.80	12.25	14.13	73.62	100.0
7929											
Imports	0.90	0.00	0.02	0.01	0.04	0.01	0.02	1.00	1.30	97.69	100.0
Exports	7.64	0.88	0.49	2.85	4.09	0.34	19.37	35.66	22.07	42.28	100.0
7139											
Imports	0.64	0.00	0.00	0.06	12.21	0.80	0.04	13.76	39.30	46.95	100.00
Exports	7.52	10.76	5.54	2.33	7.29	2.72	2.86	39.02	12.76	48.22	100.00
78539											
Imports	22.22	0.03	0.00	0.13	0.71	40.47	0.95	64.50	20.66	14.83	100.00
Exports	11.62	5.63	3.21	4.77	0.99	8.04	3.25	37.51	5.36	57.13	100.00
Total of above											
Imports	6.96	1.45	0.00	0.11	14.39	9.35	2.00	34.27	20.21	45.52	100.0
Exports	9.06	0.99	0.35	1.07	4.90	3.57	30.66	50.59	8.56	40.85	100.0

Source: Same as table A.11.

Table A.14: Shares of selected countries/economies and blocs in China's trade in finished goods corresponding to items reported in table 13, 2006 (%)

Products	ASEAN-4	Rest of ASEAN	SAARC excl. India	India	Rep. Of Korea	Taiwan (Province of China)	Hong Kong, (SAR, China)	Total	Japan	Others	Total world
716-7169											
Imports	8.0	1.4	0.0	0.1	3.5	4.3	2.1	19.4	14.8	65.8	100.0
Exports	8.5	2.4	1.2	1.4	4.9	0.6	16.3	35.4	11.6	53.0	100.0
751+752											
Imports	32.1	11.1	0.0	0.0	3.5	2.9	1.0	50.7	4.4	44.9	100.0
Exports	3.2	0.2	0.0	0.7	1.8	1.2	19.4	26.5	8.3	65.2	100.0
764-7649											
Imports	9.1	1.8	0.0	0.0	14.8	4.1	1.7	31.6	6.6	61.9	100.0
Exports	8.2	0.9	1.1	3.4	1.9	1.0	18.7	35.2	2.6	62.2	100.0
771-77129											
Imports	6.1	3.1	0.1	0.5	4.6	6.5	2.1	22.9	14.8	62.3	100.0
Exports	5.6	1.4	0.6	1.8	6.6	5.5	25.3	46.8	11.1	42.0	100.0
776-77689											
Imports	16.6	9.8	0.0	0.0	16.6	22.4	1.1	66.5	12.3	21.2	100.0
Exports	15.6	3.1	0.1	0.5	7.4	8.9	35.6	71.2	7.5	21.3	100.0
722+781											
Imports	0.0	0.0	0.0	0.0	7.9	0.0	0.0	8.0	23.3	68.7	100.0
Exports	3.1	0.6	3.8	0.6	0.2	0.0	0.2	8.4	0.9	90.7	100.0
785-78539											
Imports	0.9	0.4	0.0	0.1	0.5	34.8	0.1	36.8	9.9	53.3	100.0
Exports	4.6	3.5	1.3	0.2	1.9	0.5	1.3	13.4	10.2	76.5	100.0
792-7929											
Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
Exports	2.3	9.6	0.0	0.0	0.0	0.0	53.2	65.1	0.0	34.9	100.0
Total of above											
Imports	16.0	8.3	0.0	0.0	13.0	16.2	1.1	54.7	11.0	34.4	100.0
Exports	6.6	0.9	0.5	1.5	2.9	2.5	21.6	36.4	6.8	56.8	100.0

Source: UN COMTRADE, Revision 2.
Note: For definition of SITC items in tables A.11-A14, see Annex 2.

Table A.15: Trade of Hong Kong (SAR, China) in parts and components and corresponding finished goods, 2006

	Parts & components		Finished products	
	Imports	Exports	Imports	Exports
Total world (US$ million)	62 187	71 575	80 559	65 613
ESSEA (US$ million)	47 461	55 589	65 201	46 447
Shares (%):				
China	52	64.1	34.1	56.7
ASEAN-4	9.3	5.9	20.6	5.7
Taiwan (Province of China)	3.8	8.9	1.9	13.9
Rep. of Korea	3.8	3.7	8.3	2.8
Rest of ASEAN	2.2	1.7	4.0	1.0
India	0.08	0.44	0.1	0.7
SAARC excl. India	0.02	0.4	nil	0.2
Total ESSEA	76.3	77.7	80.9	70.8
Japan	13.9	9.4	8.0	3.9
Others	9.8	18.0	11.0	25.4
Total world	100	100	100	100

Source: Same as table A.11.

Table A.16: Contracting parties to the GSTP Agreement

ESSEA	Other Asia	Africa	Latin America
Bangladesh (LDC)	Guyana	Algeria	Argentina
India	Islamic Rep. of Iran	Benin (LDC)	Bolivia
Indonesia	Iraq	Cameroon	Brazil
Malaysia	Dem. People's Rep. of Korea	Egypt	Chile
Myanmar (LDC)		Ghana	Colombia
Pakistan		Guinea (LDC)	Cuba
Philippines		Libyan Arab Jamahiriya	Ecuador
Singapore		Morocco	Mexico
Republic of Korea		Mozambique (LDC)	Nicaragua
Sri Lanka		Nigeria	Peru
Thailand		Sudan (LDC)	Trinidad
Viet Nam		Tunisia	Venezuela
		United Rep. of Tanzania (LDC)	MERCOSUR
		Zimbabwe	
12	4	14	13

Source: Based on http://www.g77.org/gstp/participants.
Note: Burkina Faso, Burundi, Haiti, Madagascar, Mauritania, Rwanda, Suriname, Uganda and Uruguay, applied for accession to GSTP in 2005.

Table A.17: Share of exports in GDP of ESSEA countries/territories, 2005 (%)

Country/territory	Share	Country	Share
Singapore	243.0	Philippines	56.4
Hong Kong (SAR, China)	197.5	Republic of Korea	42.5
Malaysia	123.4	Indonesia	33.5
Brunei Darussalam	97.1	Sri Lanka	33.3
Thailand	73.7	China	33.0
Maldives	69.3	Lao PDR	27.6
Viet Nam	69.0	Bhutan	26.5
Mongolia	66.3	Nepal	16.4
Taiwan (Province of China)	62.5	Pakistan	15.3
Cambodia	59.1	Bangladesh	14.9
India	14.5		

Source: Based on UNCTAD, 2007c: table 8.31.

Asia-Pacific Trade and Investment Initiative
Regional Centre in Colombo
23 Independence Avenue
Colombo 7
Sri Lanka
Tel: +94 11 4526400
Fax: +94 11 4526410
Email: asiapacific.trade@undp.org
Website: http://www.undprcc.lk

ISBN 955141622-8