Does Multilateralism Crowd Out Intra-Group Trade? Evidence from Some Developing Regions*

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Abstract. The literature is ambiguous on the nature of the relationship between multilateral trade negotiations and growth of intra-group trade. However, both the WTO and proponents of liberalization maintain that the relationship is positive and that the WTO supports regional bodies and intra-group trade. But does evidence support this? It is possible that the WTO supports regional bonding, while its existence discourages growth of actual trade and development of institutions within regions. Our findings seem to support this view, particularly for southern countries as shown by trends in intra-group trade captured in this work.

1. Introduction – The Problem

Increases in trade volumes and values in recent years across the globe have been both intensive and extensive. According to the United Nations Conference on Trade and Development, world annual average export growth rate has risen from a meager 6.5% between 1950 and 1960 to over 20% between 1970 and 1980 --- and still growing! The average OECD country trade to GDP ratio of about 12.5% in 1960 rose to 20% in 2005. Indeed, some developing countries like China post averages in excess of developed countries' performances. Explanations for this trend are varied and interesting. One school of thought points to the vast technological changes that have taken place within the last half century as being pivotal to the phenomenal growth in trade. Others believe it has to do with the changing global political climate which presently is in favour of greater integration and reduction in geographical and social barriers (Krugman 1995).

Whatever the cause of this trade boom, however, it has also been acknowledged that the participation of least developed countries (LDCs) is limited. Africa's share in world trade had plunged particularly over the last two decades from 5% in 1981 to about 2.8% in 2005 (figure 1). But the retardation is not noticeable in the area of trade alone; many aspects of macroeconomic wellbeing in Africa either nose-dived or remain erratic. Many economies within Africa suffered impressive growth implosions in the 1990s, with the income per capita of some economies like Nigeria being only half their 1980 values in 2003. These countries have hardly benefited from the global trade boom as can be seen from figure 1.

Figure 1: Trends in Africa's Share in Global Trade, 1981 – 2005

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The dwindling fortunes of Africa (and indeed, most developing countries) in world trade is partly attributed to size and geography which hinder them from optimally exploiting the opportunities presented by multilateral trade but make them vulnerable to gyrations arising therefrom. World trade growth also came with a myriad of trade promoting, facilitating, monitoring and regulating institutions and a complicated (almost confusing) wave of negotiations and protocols, which have potentials to add to the challenges facing the policymaker. Thus, it is believed that not only had unilateral trade liberalization and multilateral trade not helped promote growth and poverty reduction in poor countries, but that they lack the capacity to do so without the complementation of regional trade arrangements (RIA) and south south trade (SST). Consequently, regional integration arrangements and south south trade (trade among developing countries) are vigorously promoted as complements (if not substitutes) to multilateral trade arrangements among developing countries. It is believed that increased interaction, partnership and integration among developing countries will increase complementarities and potentials for African countries to reap greater benefits from the world market (Cernat 2002; Agatiello 2005)

But it is not clear that much of the clamour for south south trade (SST) and regional integration arrangements (RIAs) has been based on critical and in-depth analyses of the trends in such arrangements over time and thus their potentials to lift developing countries out of poverty. But more importantly, it is often assumed that all the multilateral trade arrangements support such regional trade arrangements and that unilateral trade liberalization does not mean less regionalism and involvement in south south trade. Equally, it is taken as given that developing countries have the capacity to replicate the European Union model of regional integration and that such regional and south south trade arrangements 'are good' for the countries involved.

But some of these assumptions do not reflect the realities on ground. For one, it is on record that several attempts to replicate the European integration model in other parts of the developing world have not proved very successful. The literature on what makes for successful regional integration among developing countries is still weak and it is not exactly clear that even if they work, they will provide superior results to either multilateral trade negotiations or unilateral trade liberalization. But again, it is easily assumed that all these trade arrangements are complementary and can co-exist with one another. Multilateral trade arrangements have spread like wild fire, catching nearly every nation in its wake since the formation of the World Trade Organization. Most developing countries are signatory to the protocol and actively participate in the negotiations. But they are also supposed to be actively engaged in their respective regional and south south trade arrangements.

In this paper, we try to show that this has not been working together and that regional trade cooperation has been dwindling since the formation of the WTO in nearly all regions of the developing world. We have tried to show, using data from on intra-group trade in developing regions that the idea that multilateral trade arrangements is not complementary, but rather substitutive to intra-group trade. In particular, while the WTO purports to promote regional trade arrangements and indeed, have been registering RTAs, its existence has been the reasons for the poor performance of those RTAs. To make the point, this paper draws on the history and trends in south south trade and regional integration in almost every region of the developing world. The methodology is primarily analytical. The aim of the paper is to excite debate on the contributions of multilateral trade arrangements and trade negotiations on intra-group trade. This is part of the ever-relevant debate on whether developing countries on the overall actually benefit from multilateral trade arrangements, and whether the 'increased trade shares' of some of these regions are at the expense of trade relations with their neighbours.

2. The Theoretical Context

Arguably the most prominent theoretical underpinning for regional trade agreements was provided by Viner (1950). Viner's arguments centers on potentials for what he termed *trade creation* and *trade diversion.* Viner viewed trade creation as a positive force, good for growth and trade diversion as distortionary. But it is important to note that Viner's conclusions on the outcome of regional integration efforts and negotiated trade arrangements were ambiguous[1]. Summarily, it showed that the net effect of RTA would depend on which of either trade creation or trade diversion holds. Conceptually, the ambiguity owes to the fact that preferential trade policies reduce one price distortion – between domestic and partner country products; but introduce another – between partner and third country products (Pomfret, 1997). Consequently, majority of the ensuing literature in this field laid emphasis on the contrast between discrimination through preferential tariffs and unilateral tariff reduction. Discrimination is assumed to misallocate global resources by distorting relative prices and increasing transaction costs while multilateralism (especially as in the Most Favoured Nation Principle) reduces suspicion and distortions.

Viner's argument analyzes world trade as a zero sum game. But if economic growth is sustained (and/or sustainable), it might be better to see trade as having the potential to grow on all sides. Trade diversion is not the

[1] As in many other theories, Viner's thoughts were also critically influenced by the political economy of the times he lived in. at that time, the US was vehemently opposed to European regionalism seeing it more as a threat to the burgeoning but young multilateral trade arrangement as enshrined in the GATT. Viner therefore worked to provide economic justifications for and against regional trading arrangements which the EC represented.

only source of distortions; domestic policies can also introduce distortions in regional and multilateral trade. Indeed, trade creation and trade diversion are some of the issues that are hardly brought up in the arguments for or against regional integration in developing countries in modern discourse. The reasons are not farfetched. In Africa, for example, the problem of supply response to production is a central challenge – and rightly so. Many policy programmes recommended for Africa assume that getting the policies right is all that is needed to get the continent on sustainable growth path. But hindsight testifies otherwise. Discussions about trade creation and diversion take supply response as given.

But this does not mean that regionalism within a multilateral and globalizing world is entirely misplaced. This is not just because members of a customs union can gain at the expense of the rest of the world, but also because in the real world of multilateralism, regionalism can reduce the bargaining costs of reaching international trade agreements. Given that RTAs are easier to negotiate, they could be a prelude to global trade liberalization measures and could provide more solid foundation for better world trading system. This position has been taken by several post-Viner authors who go beyond analysis of trade creation and trade diversion.

Political motives underlie all regionalism and considerations for trade gains often come as secondary. Some of such political issues are taken up in the Johnson-Cooper-Massell theory. The theory posits that since non-discriminatory tariff reductions are always superior, discriminatory arrangements can be explained only by non-economic motives. Such motives often fall within the realm of politics. For example, regionalism politicizes international trade first by promoting hard bargaining in the course of negotiating preference margins on a case-by-case basis. For politicians and technocrats, RTAs may just be no more than instruments to broaden their areas of influence. In the words of Pomfret (1997), "competitive bargaining and influence spheres add to mercantilist tendencies" leading to perceptions of …international trade as a zero sum game, in contrast to the GATT/WTO philosophy of promoting mutual gains through freer trade…" The potential of such attitude to lead to disputes is very high. But fact is, such non-economic motives and impacts are very difficult and imprecise to measure.

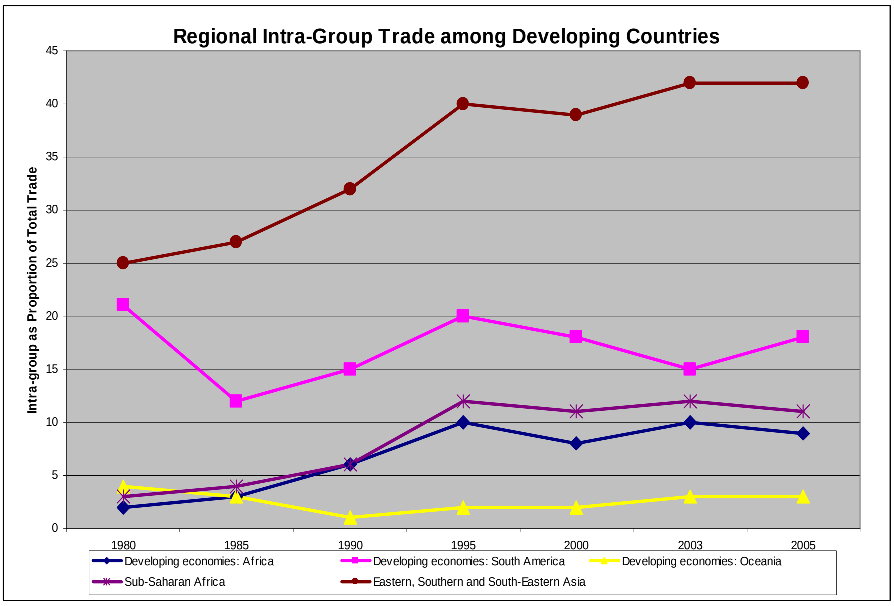
These non-economic issues form the bedrock of most current discussions of RTAs and other trade arrangements. For example, a major complement of RTAs should be the ability to import knowledge, ideas, investment goods, technology and skilled management from successful integrating (Amponsah, 2002). Economic integration makes growth sense only to the extent that it brings about improved environment for human capacity building, learning by doing, and sustained policy and institutional reforms. And these are some of the most pressing needs of developing economies. Thus analyses of impact of multilateral and regional trade agreements that do not reflect transmission mechanisms for changes in human resource and capacity usage may not be very relevant to these economies– at least not in the immediate.

If world trade is then a zero-sum game, then multilateralism and regionalism (including the attendant intra-group trade) will be substitutes. But if the opposite be the case, then they should be complements. However, the political, diplomatic and other processes underlying the establishment and implementation of either of these forms of trade cooperation can also make them either substitutes or complements. Even with world output growth, trade relations among countries can be skewed in favour of either regionalism or multilateralism. Not that either matters, but if as has been shown in the literature, intra-group trade holds such potentials as reduced transactions cost, economic and capacity growth complementation and come with less conditionality than multilateral trade and north south trade relations, then there is need to worry if it is found that growing sentiments towards multilateralism crowds out regional trade arrangements.

3. Trends in Intra-Group Trade

Intra-group trade among developing countries has been steadily growing. The situation in 2006 was completely different from what it was about two decades earlier when developing country trade represented less than one fourth of global merchandise trade and South-South trade was viewed as the "weakest segment of world trade" (Ventura-Dias 1989, Greenaway and Milner 1990, Moen 1998). South-South trade flows have increased at more than ten percent per annum since the early 1990s, that is, at more than twice the rate of expansion of world trade. From 26 percent of total trade by developing countries in 1980, intra-developing countries trade has shot up to 45 percent. In value terms, it was worth $768 billion in 2001 – equivalent to 12.2% of world merchandise trade, up from 7.7% in 1990 (*WTO 2003*; UNCTAD, 2004). However, there are immense regional disparities in the distribution of such growth in intra-group trade among developing countries, with Asia having the most significant share and growing faster the rest. Asia accounts for about two thirds of all south-south merchandise trade, largely due to intra-regional, intra-industry flows in a region of high economic growth rates (Commonwealth of Australia 2004). Intra group trade in Asia which was only 25 percent in 1980 grew to 42 percent in 2006. Though small in absolute terms, growth of intra-group trade in Africa has equally been significant, growing from 3 percent in 1980 to about 11 percent in 2006, the highest among developing countries. Intra-group trade in South America and the Oceania dwindled between 1980 and 2006, the former from 21 percent to 18 percent while the latter from 4 percent to 3 percent over the period. Southern Asian countries also did not perform relatively well.

Figure 2: Intra-Group Trade among Developing Country Regions



There are deep intra-regional discrepancies in trade growth. The different sub regions within each of the continents above performed very differently. Figures 3 and 4 below indicate the disparities among the different sub regions in both Asia and Africa – the continents that witnessed significant improvement over the last two decades. In Asia, Eastern and South-Eastern Asia grew the fastest with intra-group trade between 1980 and 2005 increasing from 13 percent to 32 percent in the former and from 17 percent to 26 percent in the latter. In contrast, intra-group trade in Western Asia was erratic moving from 5 percent to 11 percent and back to 9 percent while that of Southern Asia dwindled from 9 percent to 6 percent over the period. Within Africa, the East performed relatively better than the rest with intra-group trade growing from 11 percent in 1980 to 15 in 2005. In contrast, West Africa remained fairly stagnant (with the little improvements coming from French-speaking part of the sub region). Intra-group trade grew in North Africa first grew from 1 percent in 1980 to 5 percent in 1995 and then fell back to about 3 percent in 2005. Central Africa remained even weaker than the rest with about 2 percent intra-group trade in 1985 and falling afterwards.

Figure 3: Intra-Group Trade in Asia

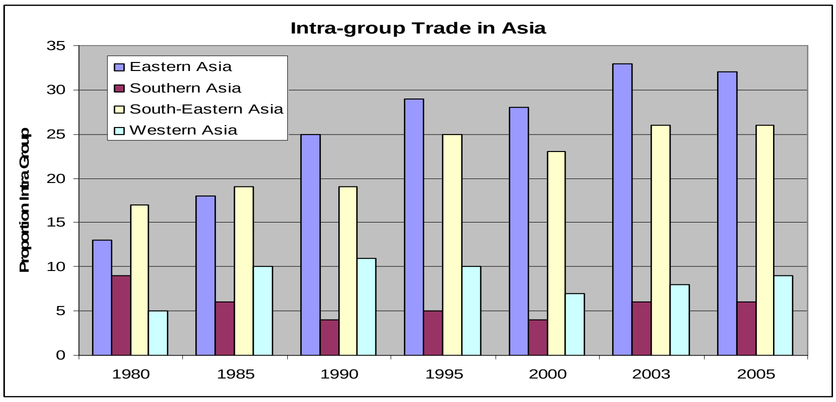
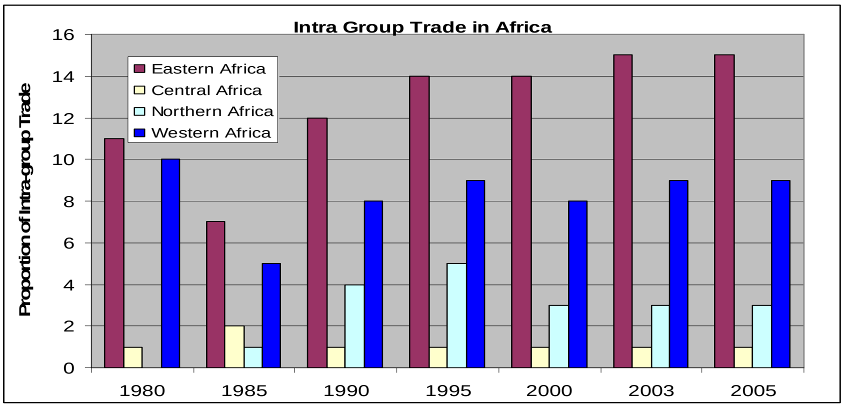


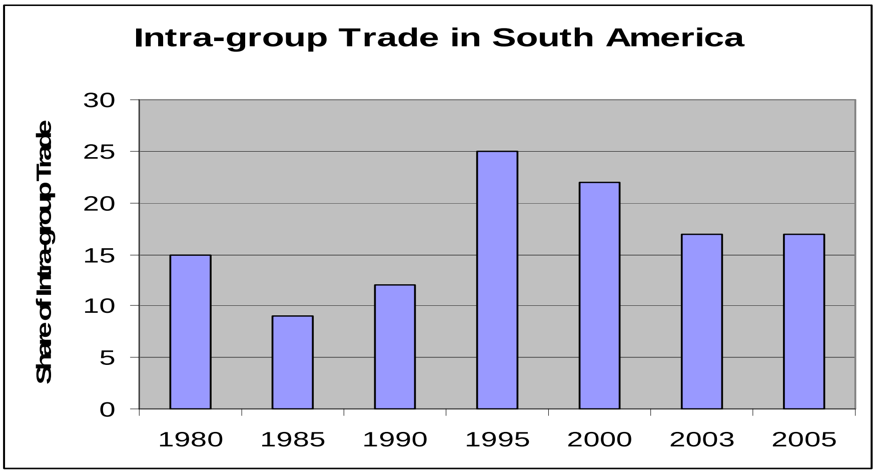
Figure 4: Intra-Group Trade in Africa



4. The 1995 Downturn

But something else was also happening to intra-group trade within the regions at this time as can be seen from figures 2, 3 and 4 above. Almost without exception, growth in intra-group trade in almost all developing regions after 1995 either stagnated or fell. Depending on a combination of other factors, not the least output growth in each region, intra-group trade increased significantly between 1980 and 1995, but afterwards tapered off, became epileptic or reversed outright. Almost without exception, 1995 marked a watershed for the worse in intra-group trade for these regions. In figure 2 for example, Asia (and virtually all its component sub regions) showed strong, uninterrupted growth up till 1995 and tottered afterwards. Beginning from 1995, intra-group trade grew epileptically in East and South East Asia and collapsed altogether in West and South Asia. Intra group trade in sub Saharan Africa rose from barely 3 percent to 11 percent between 1980 and 1995, but tottered and flattened out afterwards at just 9 percent between 1995 and 2005. East Africa managed to maintain unsteady growth, West Africa retarded while North Africa fell all after 1995. After an initial fall between 1980 and 1985, intra-group trade in South America picked up and sustained an increase up till 1995, but again like other regions fell back to its 1990 level in 2003. The Caribbean simply stood still after 1995 while Central America (which has never really been able to find its feet) remained weak before and after 1995. The picture of intra-group trade growth in South America depicted in figure 5 below clearly shows the situation in most parts of developing countries. Summarily, intra-group trade peaked for most regions in 1995 and with a few exceptions, had continued to fall.

Figure 5: Intra-group Trade in South America



If it could be proven that this state of affairs arose out of some of the issues outlined in stylized facts in the literature on trade; for example as emanating from poor growth or decreased interest in regional integration, then it is possible to excuse the dwindling intra-group trade among regional groupings in the South. But this can hardly be so as we show in this section.

4.1. Can Growth Performance Explain Reduced Intra-Group Trade?

It has largely been agreed in the literature that regional integration arrangements and south south trade growth in many parts of the developing world, while divergent, seem to correlate with output growth in each region over time (Berg and Kruger, 2003). As in other aspects of economic performance, output growth has been quite divergent as well among developing regions. However, while the downturn in intra-group trade is pervasive, there is no indication of such largely uniform and pervasive reduction in growth. The growth performance of China, India and some other countries of Eastern and South Eastern Asia is almost a textbook example of what has been termed miracles. Even with the Asian financial crisis of the late 1990s, overall growth performance did not dim so much as to cause significant drop in total trade. Besides, the drop in intra-group trade has already started before the financial crises. Likewise, while there has been poor and relatively epileptic growth in Africa, there seems to be little (if any) correlation between the intra-group trade share and economic growth. Growth in the continent has consistently been epileptic, and for the most part of the 1980s and 1990s was not strong. Beginning 1999, there was significant growth rebound in Africa with the number of countries with negative growth rates drastically reducing from 21 in 1990 to 4 in 1998 and those with negative real GDP per capita growth rate falling from 29 out of 52 to 23 out of 53 between 1990 and 1998. It seems odd that it is within this period of growth rebound that intra-group trade will be on the decline. Table 1 below shows growth among regional groupings in Africa since 1999

Table 1: Africa: Real GDP Growth Rates by Sub-Region, 1999-2006

	1999	2000	2001	2002	2003	2005	2006 a/
ADB Geographical sub-regions							
Central Africa	0.2	0.1	3.8	4.5	4.7	4.9	3.9
Eastern Africa	4.2	4	5	1.7	2.7	6.4	5.1
Northern Africa	4	3.6	3.7	2.7	4.8	4.6	6.3
Southern Africa	2	2.9	2.8	3.1	2.2	5.6	5.4
Western Africa	2.5	3.1	3.4	2.9	3.2	5.6	4.8
Regional & Economic Group							
AMU	2.3	2.3	3.5	2.7	5.7	4.2	4.9
CAEMC	2.4	3.4	6.8	4.7	5	4.2	2.6
COMESA	4.2	3.4	3.1	2.3	2.8	5.9	7
ECCAS -	0.7	0.6	3.7	6.2	4.6	8.3	6.6
ECOWAS	2.6	3.1	3.4	2.9	3.3	5.6	4.8
FRANC ZONE	3.1	2.2	4.8	3.5	3.2	4.3	3
SADC	1.6	2.5	2.7	3.2	2.6	5.6	5.5
WAEMU	3.6	1.5	3.5	2.7	2	4.4	3.3
Net Oil Exporters	3.7	3.8	3.3	2.8	4.3	5.9	5.9
Net Oil Importers	2.5	2.6	3.7	2.9	3.2	4.7	5.2

Related to the above is the ever-present challenge of product diversification. For the bulk of Africa for example, there has been little product diversification over the last two or three decades with a few exceptions like Mauritius. One of the recent positions in the literature is that regional integration and intra-group trade depends on the composition of exports and imports of the integrating countries. given the above argument, it will then seem that for there to be changes in the size and direction of intra-group trade, there should necessarily be associated changes in the structure of commodities produced by the countries involved. It could be shown that this has not been the case for Africa. Even for the Asian countries where intra-group trade was also weak, there has been little structural change in the composition of goods either imported or exported as to warrant significant change in trading partners. We illustrate with Africa where product diversification coefficient has been low and fairly constant. Manufactured products, for example, remained approximately two thirds of the total exports of the South and have remained so for nearly two decades driven mainly by the industrialization processes in East and South East Asia. Africa and the rest of the developing world specialized in primary products. Within Africa, a few economies with relatively more diversified exports like South Africa, Egypt, Tunisia, Kenya, Morocco, Libya etc account for well over 60% of all intra African trade and trade with other southern countries. But while this has hardly changed over the last two decades, trade between these countries and their African neighbors have dwindled relative to their trade with countries in other parts of the world.

4.2. What about Trends in Regional Integration?

Another possible source of such negative outcomes as noted in developing countries' intra-group trade is trends in regional integration arrangements. It is possible there has been a fall in the number or distribution of regional associations and cooperation among developing countries, accounting for the relative fall in intra-group trade. However, the data do not seem to support this. The most dramatic rise in the number of regional trading arrangements has been after the formation of the WTO in 1995. For the nearly five decades of the existence of GATT (1948 and 1994), only 124 RTAs were notified. Within just eight years of the formation of WTO, by May 2003, the WTO received well over 265 notifications of possible RTAs with only three of its members not party to any regional trade agreement. In this respect, it could be shown that there is a positive relationship between RIAs and the multilateral trading system. But that is only as far as it goes. Evidence of the sort provided in previous sections indicate that while there were proliferations of regional integration arrangements within the period, intra-group trade has been either on the decline or fluctuating since 1995. In effect, there is a possible positive between multilateral trade and regional integration but not between multilateral trade and intra-group trade. Summarily, there is no evidence of a fall in regional integration arrangement in developing countries; the evidence rather points to the opposite direction. Table 2 shows that even in the 1990s, African countries continue to work to strengthen regional integration arrangements.

Table 2 - Structure of African Regional groupings: Source: FAO, 2003

West Africa	**1960s**	**1980s**	**1990s**
Lagos Plan		ECOWAS 1975 Economic Community of West African States	1993 revised ECOWAS Treaty
	UDEAO 1966 Customs Union of West African States	CEAO 1973 Economic Community of West Africa UMOA West African Monetary Union	WAEMU 1994 West African Economic and Monetary Union
Central Africa			
Lagos Plan		ECCAS (CEEAC) 1983 Economic Community of Central African States	
	UDEAC 1964 Economic and Customs Union of Central Africa BEAC 1961 Bank of the Central African States		CEMAC 1994 Economic and Monetary Union of Central Africa
Southern and Eastern Africa			
Lagos Plan		PTA 1981 Preferential Trade Area	COMESA 1993 Common Market for Eastern and Southern Africa CBI 1993 Cross Border Initiative
	SACU (originally 1889, 1969) Southern African Customs Union CMA Common Monetary Area		
		SADCC 1980 Southern African Development Coordination Conference	SADC 1992 Southern African Development Community
	EAC 1967 East African Community I		EAC 1999 East African Community II
		IGADD 1986 Intergovernmental Authority on Drought and Development	IGAD 1996 Intergovernmental Authority on Development

Ahmad (2003) notes that ASEAN member countries have vast experience in economic integration having implemented a preferential trading arrangement since 1977 and the free trade area since 1992, (but) the rest (of Asia) are relatively late-comers in the RTA game". Likewise, African countries have been in the business of forming regional integration arrangements since the early days of colonialism. The 'spaghetti bowl' concept of regional integration arrangement in Africa is a well-known and widely cited fact of economic integration in the region. This supports the stance that regional integration is not a prerequisite to effective trade performance. In reality, the gallant trade performance of some Eastern and Southern Asian countries was not with full scale regional integration arrangements. Serious work on the adoption and implementation of full regional integration structure under the ASEAN started after the financial crises of the late 1990s which affected almost all the countries in East Asia. In contrast, West African countries with longer history of regional integration did not perform as creditably either in overall growth or in trade. Regional integration should be able to enhance trade and growth performance, but it is not a prerequisite for either. Where it comes alongside any of them, its provisions have to be consistent with overall growth aspirations of participating countries or there might be frictions that could hinder growth further.

4.3. So what explains the 1995 Downturn?

This is a rather difficult question at this point, but we will attempt to point to some developments, more to stimulate debate in this area than to provide answers to all the questions. Current research is still weak in this area and it could be safe to claim that little attention has even been pointed in this direction.

Whatever affected intra-group trade among developing countries could not have been unconnected with the establishment of the World Trade Organization (WTO) in 1995. Prior to 1995, there was a growing appreciation of intra-group trade as instrument of growth among developing countries. Concerted efforts were therefore made by authorities in these countries to improve intra-group trade. The coming of the WTO, however changed a lot of this. A number of developing countries, particularly in Africa, were among the first to ratify and adopt the treaty establishing the WTO and so were both bound by the protocols.

Box 1: Trade Policy Direction of Developing Countries – The Nigerian Example

An example of the trends in trade policy of developing countries in preparation for and after 1995 can be seen from the Nigerian trade policy document adopted in 2002. The policy document has six sections. The introductory section of the document stressed the critical role of globalization and other developments in the global trade arena in shaping the policy, especially the coming into effect of the WTO in 1995 which to a large extent currently influences international trade. It also stressed the need for flexibility in the adoption of international best practices as a requisite for success and growth in Nigeria's trade.

Among other things, the fundamental objectives of the policy include:

- Integration of the Nigerian economy into the global market through the establishment of a liberal market economy;
- Promotion and diversification of exports in both traditional and non traditional markets;
- Progressive liberalization of the import regime to enhance competitiveness of domestic industries;
- Effective participation in trade negotiations to enhance the achievement of national economic gains in the multilateral trading system, as well as regional and bilateral agreements;
- Attraction of foreign capital inflow into export oriented production through special incentive packages and domestic support;
- Promotion of regional integration and cooperation; and
- Effective utilization of information and communication technology in electronic commerce.

Such issues as promotion and development of domestic trade appeared more like footnotes in the document. The macroeconomic framework of the trade policy provided for sustained deregulation of interest and exchange rates and liberalization of the trade regime in order to 'promote efficiency and competitiveness of domestic industries and remove unnecessary protection' (Article 2.6). The policy strives to remove quantitative trade restriction measures in line with WTO in all traded goods and services. Government's role was redefined as that of a facilitator, leaving the private sector to take over. While this appears conceptually right, the private sector in Nigeria is weak and parasitic, feeding on crumbs from oil-induced government expenditure at all levels. Unfortunately though, even the few provisions for improving domestic and regional trade were hardly implemented, but the swing towards the multilateral trade arena was. The result: domestic trade has remained epileptic, fraught with rigidities and other impediments; the country breaks every one of its regional trade commitments and remains a major reason behind the indefinite time-table for the ECOWAS regional integration. All the while, it spends a substantial part of its lean resources in global negotiations and ensuring that it remains relevant in the WTO as well as in seeking favour from governments of the markets that seem to matter globally.

Sources: FGN 2002; Agu and Oduh 2005

Historically, significant changes in trade relationship of nations were supported by schools of thought. Likewise, the establishment of the WTO was equally based on the school of thought, which holds that multilateralism and trade liberalization is superior to other forms of trade relationship. Much of the tenets of the WTO demanded consistent liberalization, extolling the numerous virtues of trade openness, the removal of trade barriers and integration into the global trading system, among others. These 'virtues' stood in sharp contrast to the dominant views, practices and institutional structures in many developing countries prior to WTO. These practices and structures emphasized domestic protection as well as priority of trade and diplomatic relationship with immediate neighbours at the expense of the rest of the world. However, following the formation of the WTO and in order to comply with some of its binding protocols, domestic trade policies of many developing countries have been revised and emphasis placed on integration with the global village. Attention to domestic and regional capacities and possibilities began to wane in light of the obviously more potentially rewarding global possibilities and so developing countries began to jostle for multilateral visibility. Within this context multilateralism somewhat became a retardant to the growth of intra-group trade among developing countries.

The WTO came with a lot of promises for developing countries. To reap from these promises, immediate neighbours became less important, particularly for small open economies. But in addition, as policy attention and resources focused on jostling for the limited space in the international market, developing countries, especially those with identical supply side constraints and products, saw themselves as rivals. Appearance in the 'big markets' became the big issue for economic and diplomatic reasons. Complementary concessional policies like the African Growth and Opportunity Act, the Lome Convention and Cotonou agreement of the EU and ACP countries granting market access with limited condition to Europe and North America completed the circle of factors needed to completely change the orientation of policymakers in a number of developing countries, particularly Africa. The narrowing of the policy space and the shrinking of government (both critical components of the larger package of structural adjustment programmes) led to falling trade tax revenue and meant less capacity to fund regional infrastructures. That the changes in trade orientation affected domestic and regional trade only is attested to by the fact that neither Africa's falling share nor East and Southeast Asia's rising share in global trade changed in any significant way since 1995.

RTAs, both existing and new ones, are mandated to be registered with the WTO. To that extent, the WTO supports regional integration. But whether such support translates to support for intra-group trade is a different matter. Besides, it has been noted that some regional trading arrangements spring up as a response to the frustration with the slow pace of progress at the WTO. Under such circumstances, attention is hardly given to

Given that the WTO moves at the rate of the lowest common denominator, this may not be very far from the fact. For example, while the ASEAN project has been on for a while, *ASEAN plus three* was partially an outcome of the financial crises that hit East Asia in the latter 1990s and partially a response to frustration with the WTO (Ahmad 2003).

5. Concluding: Developing Countries and Intra-Group Trade

Indeed, the recurrent impasse in consecutive rounds of the WTO negotiations seems to indicate structural weakness in the multilateral trading arrangement and that multilateralism can only go so far. There is visible frustration with the slow pace of the multilateral system (Stephenson, 2003) and seems to provide additional impetus for regional bonding. Following the 1997 Asian financial crisis, the wave of regional economic bonding is now on the rise among hitherto reluctant countries of Asia. The same has been true for Africa where economic integration has substantially increased over the last one decade and a half. The challenge however, is to translate such economic bonding among developing countries to increased trade. Africa has paid a lot of attention to the formation of regional integration arrangements, particularly in recent years. But these have not translated much into improved intra-group trade.

Available evidence shows that for African countries, the highest volume of intra-group trade seems to occur among countries with stronger historical ties – same language, same colonial history and geographical proximity. French West Africa and the East African Community lead the pack of groups with highest amount of intra-group trade and provide clear examples of commitment to growing internal trade relations. But the rest can also pick up. Multilateralism need not be an excuse for poor growth and decreasing trade relations among African countries. But a few pre-conditions have to be immediately attended to. We list a couple of these underneath.

- **Export supply and Product Redefinition:** The fall in the intra-group trade of East and South East Asian countries was not as sharp as the fall in those of other regions of the developing world, particularly Africa and South America. The reason for this may not be unconnected with the increased product diversification of the region relative to others. As such, beside other institutional and relationship restructuring in trade, product diversification may be necessary if developing countries will increase intra-group trade.
- **Empowering Southern Trade Support Institutions .**There is little doubt of increased co-operation among Southern economies. For instance, China is now Brazil's second largest trade partner and 35% of Brazil's trade is now with the G20. India's trade with China has grown exponentially since 2000 and MERCOSUR and SACU's trade with India is now worth about \$4.6bn with Mercosur now negotiating tariff reductions with India on 600-800 products (interestingly India's first extra-continental trade agreement with the potential of leading to a free trade area). Such cooperation has led to the formation of many regional trade groups as well as social movements like the G20, G90 and G77. Increasingly, these groups are becoming strong forces in pushing the agenda of improvement in the terms of the WTO for developing countries. But they need more empowerment and

identification with member countries in order to improve on their capacity to facilitate intra-group trade. These groups need teeth and possibly a redefinition of their mission to make them more visible. In the same vein, multiple membership that affect effectiveness of participation has to be checked by countries in order to attend to the actual challenge of increasing trade and not just increasing regional trade agreements.

- **Redefining Domestic Trade Policies:** That supply response in many developing countries is weak is no news (see for example Riedel 1988; Stryker 1990 and Soludo and Adenikinju 1997). Africa's growth experience has not unequivocally proven that trade liberalization is good for growth. In fact, we probably know less now in this area than before Structural Adjustment Programmes. The critical demand on African countries is to focus on policies that will once again reposition domestic industrial and trade policies on overcoming internal rigidities so as to enable them take advantage on global trade trends. Such internal trade challenges as poorly developed local and regional markets; weak transportation networks and other regional infrastructure as well as language barriers, among others have to be attended to by domestic trade, industrial and other development policies.

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