

## Global Partnership, a Goal of Greatest Importance

Global Partnership for Development; Focusing on South-South Trade and Aid for Trade

Sungkyunkwan University

Thesis Director: Prof. Kim, Young-han

Myeong-hwan Roh (010-9358-7528/ace78pro@naver.com)

Lee, Young-In

Kim, Joon-min

## Abstract

Until now, there were unquestionable progresses in the goals that Millennium development goals have been poised to achieve. However, the problem is that significant proportion of the development is of few outliers such as China. In other words, there were regional discrepancies. In order to alleviate those discrepancies, the global partnership, which is the eighth goal of Millennium development goals, is needed and should be emphasized among the other goals of Millennium development goals. The global partnership can facilitate the trade which leads to greater economic welfare of developing countries, and therefore eliminate the most life-threatening and deteriorating issues. Among the various methods, this paper suggests to foster 'South-South trade' and 'aid for trade'. Through enlarged trade and enhanced infrastructure by aid for trade, South countries' economic indices such as gross domestic product can increase. Of course not all problems stem from low income. But It can be easily inferred that economic prosperity can get rid of or at least improve the other currently substandard indices.

## Key Words

Aid for Trade, Development, Progress, Regional Discrepancy, South-South Trade,

## I. Introduction

Development is a complex and multidimensional concept in that many different factors are involved in defining it. Including Amartya Sen, many scholars have alleged this regarding various indices such as health and education as used in Human Development Index (HDI), not only income per capita. Supporting this idea, the UN's eight Millennium Development Goals (MDGs) have been practiced since 2000 with certain levels of concrete targets to achieve in developing countries in multidimensional aspects. In fact, each goal represents one field or theme respectively—poverty for Goal 1, primary education for Goal 2, gender equality for Goal 3, child mortality for Goal 4, maternal health for Goal 5, disease for Goal 6, environment for Goal 7, global partnership for Goal 8—having stress on what is important when measuring development.

### 1. Evaluations of Millennium Development Goals (MDGs)

#### 1) Goal 1: Eradicate extreme poverty and hunger

Eradicating extreme poverty and hunger is the first mission of the Millennium Development Goal, known as MDG 1, and the importance of this goal is self-evident. Even if progress were to be achieved on metrics such as rises in income per capita, the continued prevalence of malnutrition and of widespread penury discounts any meaningful improvement of overall social welfare.

Beyond the lower quality of life, poverty and hunger is in itself a problem. If people do not take in sufficient amount of nutrition, they will show lower productivity; and with degraded productivity, the poorer they will be. This vicious cycle will continue to grow until some kind of 'Big Push' is implemented by institutions like government. If government cannot function as to implement big push, then the foreign aid becomes more effective alternative.

Fortunately, according to a report published by the World Bank, the number of people in the state of the extreme poverty had been gradually declined to 22% from 43.1% during the decade of 1990-2000 thanks to numerous efforts made by domestic and international institution. Still, there is some way left to manage to meet the supposed objective (21.55%). However, it would be safe to say MDG 1 will be achieved if this downward trend continues.

## 2) Goal 2: Achieve universal primary education

Generally, there is strong relationship between income and education level. The more schooling one receives, the more income one will be likely to earn. Moreover, higher education is crucial for a nation as whole because it empowers individual citizens with knowledge of their basic rights and responsibilities.

Statistics indicates that school enrollment has been increasing, but 10% of population still lacks a primary education. Taking that UN is pursuing primary education into account, there is a long way to shorten the gap between developing and developed nations.

More recently, some under-developed countries have tended to concentrate on college education rather than promoting elementary education. While it is indeed true that college education is vital for economic growth, it holds true only if the country has firm foundation of elementary education. If benefits of education are only accruing to a small, privileged minority, it does little to improve the overall social welfare.

Conditional cash payments are an exemplary system that gives incentives for households to send their child to school. These types of incentive systems have been linked to increases in rates of school attendance, suggesting that to increase enrollment rates, institutions should come up with incentive-based systems.

### 3) Goal 3: Promote gender equality and empower women

MDG 3 is mainly measured by proportion of seats held by women in single or lower houses of national parliaments. (Graph 2) shows a significant improvement in this measurement, recording nearly 75 percent increase since 1995. A couple of bars illustrate how some of it doubles in the world, but it is still in slow pace and low overall.

However, there is an argument to be made that the proportion of female parliament representatives is not the most accurate measurement to rate the female empowerment. For a more holistic perspective on the role of women in a society, other indices should be added to the calculation, including female status in household and economic area - not only in politics, but within the context of existing cultural traditions and social norms. Since empowering women has been shown to positively impact development – e.g. decreasing population growth, contributing to higher income per capita in developing countries - this goal merits attention.

### 4) Goal 4: Reduce child mortality

The initial target for MDG Goal 4 is to reduce the under-five-year-old mortality rate by two-thirds, between 1990 and 2015, from 93 children to 31 children dying out of every 1,000. To display these data, the UNDP report provides a graph (Graph 1). This graph illustrates that UN activities have been successful throughout the most regions in the world, except in Latin America and Western Asia. However, upon examination of the data prior to the start of the MDG project, the achievements of the MDG appear less impressive.

According to World Bank data (Table 1), developed by the UN Inter-agency Group for Child Mortality Estimation (UNICEF, WHO, World Bank, UN DESA, UNPD), infant mortality has been continuously reduced worldwide. This seems to be consistent with the data provided by UNDP – however, shrinking numbers in the table imply that the infant mortality had been on a trend of

decreasing even before the year of 2000 and before the MDGs project. This allows the possibility that other factors have also contributed to the decrease in infant mortality rates. One possibility is the explosive increase in total births. In fact, although the average of reduction rate in infant mortality after 2000 (3.98%) is greater than before 2000 (3.08%), it is not a significant fall, and still falls short of the initial goals set out by the MDGs. In conclusion, even though MDGs has played an essential role in reducing infant mortality, it still needs stronger momentum.

#### 5) Goal 5: Improve maternal health

According to the MDGs report 2012, published by UN, about 287,000 maternal deaths occurred during 2010, which is a 47% decline from 1990. Roughly 85% of these deaths are from Southern Asia and Sub-Saharan Africa combined, suggesting that UN efforts should be redoubled in these regions. Additionally, even with 47% drop in maternal mortality rate, it is still far below the three-quarter decrease the MDGs have set to achieve by 2015.

In order to determine whether the MDGs have played a causal role in the 47% decrease in infant mortality rate, it would be important to look at whether such decrease in the maternal death rate has been happening steadily over time, or if it happened after announcing MDGs. However, due to lack of data prior to 1990, only inferences can be made. According to the graph based upon the data from World Bank, maternal mortality rate has been steadily decreasing since 1990, even before the announcement of MDGs has been made. This suggests that there have been external factors other than MDGs that accounted for the decrease in maternal mortality rates.

#### 6) Goal 6: Combat HIV/AIDS, malaria and other diseases

According to the WHO, total of 70 million people have been infected with HIV, and about half of those who have been infected died of AIDS. Additionally, in 2011, 34 million people were living with AIDS, and among them, 2.5 million had been newly infected, and 1.7 million died of

AIDS. The goal of MDG 6 was to halt the spread of AIDS/HIV by 2015 and start lowering the number of HIV/AIDS infections.

The data regarding percentage of people with AIDS in the age group of 15-49 from World Bank also starts from 1990, so we face the issue of causality – it is difficult to determine whether MDGs really helped fighting AIDS/HIV, or if other factors contributed. However, if we look at the graph below (which shows the prevalence of HIV in the sub-Saharan region, LDC and the world), at least in the Sub-Saharan Africa and LDC showed clear decrease in the prevalence of HIV since 2000, the year MDGs had been announced. This data suggests that MDGs had a real impact on decreasing the spread of HIV/AIDS, but there is still much more to achieve in order to reverse the spread of the disease.

#### 7) Goal 7: Ensure Environmental Sustainability

Looking at the data from UNDP, the consumption of substances that deplete the ozone layer has been considerably reduced. It is especially remarkable that in developed countries, the consumption decreased from over 1,200 thousands of metric tons to almost zero. This remarkable improvement stemmed from successful global partnership. However, not all global partnerships were as successful. A historical case in point - the United States (US) decided to break away from Kyoto Protocol, an international treaty designed to bind industrialized countries to lower global greenhouse gas emissions. It was adopted in 1997 and began to be enforced in 2005. The withdrawal of the US from the Kyoto Protocol highlights the main shortcoming of international agreements – the inability to enforce participation.

#### 8) Goal 8: Develop a global partnership for development

The past data on Official Development Aid (ODA) show that monetary and non-monetary aids from developed countries have risen gradually since 2000, which seems to be a positive result.

According to UNDP web page, the net aid expenditure amounted to \$133.5 billion in 2011. However, one may overlook the fact that there was an actual decrease in the real term. In the web page's retrospect, core development aid fell in real terms for the first time in more than a decade, as donor countries face fiscal constraints. As a result, bilateral aid for development programs and projects fell by 4.5 percent in real terms, excluding debt relief and humanitarian aid. However, developing countries who are at a position of beneficiary cannot complain about the donors' decisions and such exogenous variables have great impacts on economies of developing countries. In other words, it is impossible for them to plan for development leaving their future in others' hands. This implies that stable and secure way to aid developing countries is required to achieve sustainable development in developing countries, other than merely depending on the developed countries' financial conditions.

Therefore, this paper will discuss how global partnership can concentrate on such methods to foster not only development but also self-reliance among themselves at the same time. According to Rostow's Five Stages of Growth Model, every society experiences certain five steps toward industrialization and development. The third stage, which is called 'Take-off' stage, is especially important because it is the turning point for developing countries to construct their own infrastructure and institutions for long-run development. Global partnership should be focused on what developing countries really need and demand for their own happiness, not simply granting them monetary support. The millennium goal can become reality only when concrete and specific goals are established to teach developing nations how to catch fish. More specifically, this paper will stress that global partnership should set its course towards setting up stages for trade among developing countries; South-South trade.

As evaluated above, over the past decade, some MDGs have shown progress while other MDGs are still far from reaching the goal that has been originally set. All of these problems are so



tightly intertwined that it is hard to determine how the problems should be prioritized. However, in order for any of these problems to be solved, the nation's economy should be able to support the effort to resolve the problems. This is the reason why this paper much focuses on the Goal 8, hoping this will affect the others as well. By strengthening South-South trade, in fact, it does not only contribute to development in developing countries but also will express a macroscopic vision to the globe, which is to let the underdeveloped grow sustainably and be independent.

## II. International trade and development

Development is a complex and multidimensional term that in many cases, is an amalgamation of many different measures and indices. For example, the Human Development Index (HDI) combines monetary income with health and education metrics to measure different aspects of living standards. There are various other indices that measure development as well, but they all have one thing in common. Each and every single one includes income, or economic growth, as a deciding variable.

Many scholars of economic growth have touted trade as an important tool for economic growth. Adam Smith, one of the most important thinkers in the field of economics, stated that trade enlarges market size and thus promotes economic growth. Through specialization, each person need produce only the good he is best at making, and later trade with others to procure all other goods. The driving force of specialization is comparative advantage, defined as “the ability to produce a good at a lower opportunity cost than another producer.”<sup>1</sup> That is, even if Country A can produce both Good 1 and Good 2 at lower costs than Country B, Country A should still specialize in one of

---

<sup>1</sup> Mankiw, N. G. (2011). *Principles of economics International Edition* (6th ed.). Singapore: South-Western Cengage Learning. P.55

them that requires less resources and leave the other to be produced by B, and then later trade with B for the other good. This leads to economic efficiency, and therefore economic growth.

International trade strengthens this advantage of specialization further by expanding the market size. Unfortunately, however, not all countries benefit equally from international trade. As international dependency theorists argue, especially through the core-periphery model, developing countries are exploited for the raw materials at low prices while they provide good markets for value-added products from developed countries. This form of trade makes developing nations poorer due to declining terms of trade (price of exports divided by price of imports). To fight against declining terms of trade and move towards a more sustainable growth, developing nations need to build manufacturing industries of their own.

Such exploitative relationship is called the North-South trade. Developing countries are generally classified as "South" due to their geographical locations, and the term "North" is used to indicate developed countries for the same reason. As an alternative to this exploitative relationship, South-South trade has been suggested and practiced. In this essay our team focuses on this specific form of trade, point out its limitations, and finally suggest aid for trade as solutions to those problems.

### III. South-South Trade and its Advantages

Firstly, it is necessary to clarify the logic behind South-South trade. Due to their geographic proximity and similar resource endowments – which lead to overlapping specializations - countries in the South can be said to trade not because of comparative advantages but in order to realize economies of scale. Economies of scale is “the property whereby long-run average total cost falls as

the quantity of output increases.”<sup>2</sup> Through trade and the larger markets it provides each produced good can reach out to more consumers, enabling the quantity of output to increase. As the Latin America Regional Trade Executive asserts,

*The potential consumer market within Latin America and Asia is vast, with a strong middle class developing rapidly in Brazil, India and China. There is a corresponding opportunity to leverage local commodities and develop products for the local market and, eventually, export to a neighboring market or to another emerging region.*<sup>3</sup>

Indeed, South-South trade offers many advantages that North-South trade does not.

To begin with, developing countries can be less vulnerable to economic vicissitudes stemming from the developed West and to decisions made by those nations. After the global recession of 2008, South-South exports recovered much more quickly than global trade. Annual growth rate of South-South trade went from 22% (2008) to -16% (2009) to 30% (2010), whereas that of world trade went from 15% (2008) to -22% (2009) to 22% (2010).<sup>4</sup>

Secondly, South-South trade can act as a catalyst for growth in companies small, medium and large.<sup>5</sup> Growth of small and medium sized enterprises (SMEs) are especially vital for self-sustainable economies, because “these firms play a pivotal role in industrial development and restructuring, satisfying rising local demand for services, allowing for increased specialization and

---

<sup>2</sup> Mankiw, 272.

<sup>3</sup> Leonel, A. (n.d.). South-South Trade – Rewiring the Global Economy. *J.P.Morgan*. Retrieved May 29, 2013, from [www.jpmorgan.com/cm/ContentServer?cid=1320504817166&pagename=jpmorgan%2Fts%2Fts\\_Content%2FGeneral&c=TS\\_Content](http://www.jpmorgan.com/cm/ContentServer?cid=1320504817166&pagename=jpmorgan%2Fts%2Fts_Content%2FGeneral&c=TS_Content)

<sup>4</sup> (2012). South-South Trade Monitor. *UNCTAD, No.1*.

<sup>5</sup> Agatiello, O. (2004). Is South-South Trade the Answer to Bringing the Poor into the Export Process?" . *International Trade Center*.

supporting larger firms with inputs and services.”<sup>6</sup> Moreover, SMEs usually thrive in the manufacturing industry,<sup>7</sup> which creates more formal sector jobs and lead to sustainable growth.

Thirdly, the low-priced imports within the South enable many people from the impoverished region to live a fuller, more “developed” life. For instance, the increased Asian products arriving in sub-Saharan Africa have provided Africans many household goods such as refrigerators for the first time in their lives.<sup>8</sup>

Lastly, the South can be an appropriate place for testing its exporting capability. Exporting firms in developing countries, especially least developed countries (LDCs) that have minimum infrastructure are likely to find it easier to find potential importers in their neighbors. Aiming for North markets requires “large volumes and exacting quality control, packaging and corporate social responsibility (CSR) standards.”<sup>9</sup> For instance, to benefit from trade with Europe under the EU’s Generalized System of Preferences that give developing nations an upper hand, developing countries need to ratify 27 international conventions guaranteeing labor rights, environment protection, good governance, and so forth.<sup>10</sup>

---

<sup>6</sup> Fjose, S., & Grünfeld, L. (2010). SMEs and growth in Sub-saharan Africa: Identifying SME roles and obstacles to SME growth. *MENON Business Economics*, 14, 3. Retrieved May 19, 2013, from <http://www.norfund.no/getfile.php/Dokumenter/Studier%20for%20Norfund/SME%20and%20growth%20MENON%20%5BFINAL%5D.pdf>

<sup>7</sup> Fjose, S., & Grünfeld, L, 13-15.

<sup>8</sup> The growth of "South-South" trade: it’s not just the geography but the content that matters. (n.d.). *UNCTAD*. Retrieved May 27, 2013, from <http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10093>

. Retrieved May 27, 2013, from <http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10093>

<sup>9</sup> Agatiello, O, 14.

<sup>10</sup> GSP: The new EU preferential terms of trade for developing countries. (n.d.). *Europa Press Release*. Retrieved May 19, 2013, from [europa.eu/rapid/press-release\\_MEMO-05-43\\_en.htm](http://europa.eu/rapid/press-release_MEMO-05-43_en.htm)

#### IV. Limitations of South-South Trade

Unfortunately, South-South trade is not without limitations. The biggest problem is that it is increasingly beginning to imitate North-South trade's extraction of raw materials, without any major spillovers for the rest of the economy.<sup>11</sup> This is mainly due to the fact that levels of development vary across the three regions of the South: sub-Saharan Africa, Latin America, and South Asia. According to the UNCTAD, South-South trade as a whole is a case of regional specialization, where Asia provides manufactured goods and extracts raw goods like fuel from Africa.<sup>12</sup> Africa faces increasing competition from Asian countries in light manufactures and grows more raw material-dependent.<sup>13</sup> Africa's exports are dominated by fuels. Fuels make up around 50% of Africa's exports to Asia, to Americas, and to the North.<sup>14</sup>

Another major—and perhaps the most obvious—challenge is the lack of infrastructure, particularly in sub-Saharan Africa. The regions' annual infrastructure needs are US\$17-22 billion, yet only about \$10 billion is spent.<sup>15</sup> Since roads, ports, telecommunications, energy networks, and all other things imaginable basic necessities are often absent, it is impossible for many in sub-Saharan Africa to start trading in the first place.

---

<sup>11</sup> Chahoud, T. (2007). South-South Cooperation- Opportunities and Challenges for International Cooperation. *German Development Institute*. Retrieved May 26, 2013, from [http://www.die-gdi.de/CMS-Homepage/openwebcms3\\_e.nsf/\(ynDK\\_contentByKey\)/ADMR-7BLF2V?Open](http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/(ynDK_contentByKey)/ADMR-7BLF2V?Open)

<sup>12</sup>(2012). South-South Trade Monitor. *UNCTAD, No.1*. 3.

<sup>13</sup> Chahoud, T, 1.

<sup>14</sup>(2012). South-South Trade Monitor. *UNCTAD, No.1*. 3.

<sup>15</sup> (2010). Aid for Trade: Why, What and How? *World Trade Organization*.

Exorbitant tariffs also pose as a hurdle for South-South trade. In general, South-South merchandise trade faces three times as much tariff than comparable North-South or North-North trade.<sup>16</sup> Moreover, nearly  $\frac{3}{4}$  of all tariffs faced by the South's exporters are put on by other countries in the South.<sup>17</sup> It is interesting to note that those with the highest tariffs tend to be the least developed.<sup>18</sup> An optimistic perspective on the issue would see this trend as a benefit, since these poorest nations have the most to gain by reducing tariffs.

Sadly, though, such Least Developed Countries (LDCs), including Small Island Developing States (SIDS), face a fundamental challenge in participating in more flexible international trade—their limited human capacity.<sup>19</sup> Due to their small population, which on the whole undereducated, SIDS often struggle to delegate experts in the negotiations that will define the terms of trade they will face. This dearth is growing more problematic with time due to the numerous overlapping trade agreements in the South that have reached over one hundred.<sup>20</sup>

## V. Aid for Trade

Aid for Trade (AfT) is a term coined for a specific type of aid, one that aims to promote trade of developing countries. This idea was first brought up during the Hong Kong Ministerial Meeting in 2005. According to the Ministerial Declaration, the purpose of aid for trade is to “to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related

---

<sup>16</sup> (2006) South-South Trade: Vital for Development *OECD Observer*.1.

<sup>17</sup> Agatiello, 5.

<sup>18</sup> *id*

<sup>19</sup> Di Caprio, A, & Krueger, J. (2012). Can Aid for Trade enhance human capacity shortfalls in Asia's LDCs and SIDS? . *OFFICE OF REGIONAL ECONOMIC INTEGRATION (OREI)*, No.2. Retrieved May 19, 2013, from [http://www.aric.adb.org/pdf/policy\\_brief/ADB-OREI%20Policy%20Brief%20-%20Aid%20For%20Trade.pdf](http://www.aric.adb.org/pdf/policy_brief/ADB-OREI%20Policy%20Brief%20-%20Aid%20For%20Trade.pdf)

<sup>20</sup> *id*.

infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.”<sup>21</sup> Below are OECD’s simpler categorizations of Aid for Trade:<sup>22</sup>

1. *Economic Infrastructure: Transport and storage, communications, and energy generation.*
2. *Building Productive Capacity: Banking and financial services, business and other services, agriculture, forestry, fishing, industry, mineral resources and mining, and tourism.*
3. *Trade Policy Regulation and Trade Related Adjustment: Trade policy and administrative management, trade facilitation, regional trade agreements, multilateral trade negotiations, trade related adjustment and trade education/training.*

Roughly 60% of AfT flows go into economic infrastructure, about 37% is allocated for productive capacity, and trade policy regulation receives just 3%.<sup>23</sup>

First, we support a correlation between aid for trade and trade performance in the most general sense and later proceed to pose aid for trade as solutions for the specific problems of South-South trade mentioned in the previous section. Aid to infrastructure “has an overall positive and significant impact on exports”<sup>24</sup> and a 10 percent increase in aid to infrastructure leads to 2.34 percent increase in the ratio of exports to GDP.<sup>25</sup> On the other hand, aid for building productive

---

<sup>21</sup> (2005). DOHA WORK PROGRAMME Ministerial Declaration. *World Trade Organization*.

<sup>22</sup> Di Caprio, A, & Krueger, J.

<sup>23</sup> *id.*

<sup>24</sup> Cali, M., & TeVelde, D. (2011). Does Aid for Trade Really Improve Trade Performance?. *World Development*, 39. Retrieved May 26, 2013, from [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1430492](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492)

<sup>25</sup> Vijil, M., & Wagner, L. (2010). Does aid for trade enhance export performance? Investigating on the infrastructure channel. *INRA*, -. Retrieved May 26, 2013, from <http://www.rennes.inra.fr/smart/Media/Working-papers/WP10-07>

capacity does not show significant effect on exports.<sup>26</sup> It follows that among AfT, even more importance should be given to infrastructure over building productive capacity than current levels.

We now turn to examine the specific issues addressed in the previous section. The first dealt with the regional specialization that emphasizes Asia's role as the supplier of value-added products that solidified Africa (and Latin America) as peripheral nations providing raw materials. To turn this around we need to focus on the fact that for trade within a continent, manufacture exports claim the highest share both in Africa and Latin America.<sup>27</sup> It then follows that if these two continents trade more within their respective regions, export diversification from raw materials to manufactures will become possible. Aid for trade certainly leads to export diversification for recipient countries, and the impact is the greatest for low-income countries.<sup>28</sup>

This paper further argues that aid for trade should be focused on enabling intra-regional trade within Latin America and within Africa, so that they will have more intra-continental trade whose largest portion is manufactures. This is especially important for sub-Saharan Africa, which we noted has a considerable lack of infrastructure. Trade within Africa incurs transport costs more than twice as high as transport costs within South East Asia.<sup>29</sup> As for Latin America, delivery trucks spend more than half of their total journey time at border crossings in the Andean area.<sup>30</sup>

---

<sup>26</sup> Cali, M., & TeVelde, D. 725.

<sup>27</sup> (2012). South-South Trade Monitor. *UNCTD, No.1*.

<sup>28</sup> Kim, Y. (2012). The Effect of Aid for Trade on Export Diversification of the Recipient Countries. *Seoul National University Library*. Retrieved May 29, 2013, from [http://m.riss.kr/search/detail/DetailView.do?p\\_mat\\_type=be54d9b8bc7cdb09&control\\_no=074f1260b38eb9f1ffe0bdc3ef48d419](http://m.riss.kr/search/detail/DetailView.do?p_mat_type=be54d9b8bc7cdb09&control_no=074f1260b38eb9f1ffe0bdc3ef48d419)

<sup>29</sup> "Aid for Trade: Why, What and How?" (2010): n. pag. World Trade Organization.

<sup>30</sup> id



Clearly AfT is need to improve these situations; to infrastructure for Africa's inefficient roads, and to trade policy regulations for Latin America's trade facilitation.

In addition to trade facilitation, trade-related education/training should receive much more than the current level of 3% of total AfT flows. SIDS and other LDCs that lack representatives for trade negotiations will be able to participate in more trade agreements with assistance from AfT, and subsequent removal of tariffs will amount to billions. Tonga, a small island with a labor force of only 41,711 people, is one example of an SID that will very likely benefit from this proposal.<sup>31</sup>

Once these countries have negotiating power, they will do well to start lowering tariffs, as will other developing countries that have more human capacity. It is estimated that a 10% cut on tariffs will increase exports by 1.6%; this would mean an additional US\$5.7 billion for South-South trade each year.<sup>32</sup> This is yet more reason to give more weight to the third category of aid for trade.

## VI. Conclusion

This paper examined international trade in the general sense, South-South trade in particular and its problems, then suggested aid for trade (AfT) as plausible solutions. International trade leads to development mainly by increasing monetary wealth through the principles of specialization and comparative advantage, and South-South trade does the same, but through economies of scale.

South-South trade exhibits many fortes, and we discussed four of them. The first is that it makes developing nations more resilient to worldwide recessions. Secondly, South-South trade provides a favorable environment for SMEs which create formal sector jobs especially in

---

<sup>31</sup> Di Caprio, A, & Krueger, J.

<sup>32</sup> (2006) South-South Trade: Vital for Development *OECD Observer*.1.

manufactures and thus lead to sustainable growth. Thirdly, household goods that we take for granted in the North have been made accessible to people in the South for the first time thanks to the relatively cheaper manufactures. Finally, exporters can join South-South trade more easily than they can northbound markets, for South-South trade has less binding restrictions.

However, we noted several pitfalls of South-South trade as well. First, the regional specialization by each continent of the South is poised to become a central issue – for example, Africa’s excessive exports of fuels. Second is the lack of infrastructure, especially in Africa. Third, the exorbitant tariffs that causes welfare loss. Fourth, the lack of human capital faced by LDCs and particularly SIDS.

In response to these issues, aid for trade and related suggestions were put forward as solutions. Of the three categories of aid for trade, aid to infrastructure (especially for Africa and Latin America), and aid to trade policy regulations should receive more attention than they are getting today. This will promote intra-continental trade for African and Latin American nations, enlarging their manufacturing sectors and leading them to sustainable development. Facilitating trade and trade policy negotiations will result in billions of welfare gains and have the added benefit of helping those most in need, i.e. LDCs and SIDS. We acknowledge that these solutions will not be panacea to South-South trade’s problems, but we believe that these suggested changes will lay the groundwork for a long-term solution. We hope to see our suggested policies practiced to bring development in the true sense to the developing nations of the world.

All goals that MDG are aiming for have its own meaning and values. However, it is important to realize that there is one driving force which leads every other goal to progress. Of course, not all problems that we are poised to solve are stemming from economic deprivation. But economic prosperity can change other problems significantly, since scarce resources are the source

of almost all problems, through South-South trade and aid for trade, we can drive 'south' countries to better economic position by making them to realize economies of scale and then to be out of most of life threatening or deteriorating issues.

So far, we discussed how global partnership should proceed to promote the economic welfare of developing countries of south. When we refer to 'global partnership', it is not the thing that simply originated from decision made by developed west, but cooperation among developing countries. In order to get out of dependent status quo, it is necessary to devise an alternative way to soar to the self-sufficing economy

- Agatiello, O. (2004). Is South-South Trade the Answer to Bringing the Poor into the Export Process? *International Trade Center*.
- (2010). Aid for Trade: Why, What and How? *World Trade Organization*.
- Cali, M., & TeVelde, D. (2011). Does Aid for Trade Really Improve Trade Performance?. *World Development*, 39. Retrieved May 26, 2013, from [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1430492](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492)
- Chahoud, T. (2007). South-South Cooperation- Opportunities and Challenges for International Cooperation. *German Development Institute*. Retrieved May 26, 2013, from [http://www.die-gdi.de/CMS-Homepage/openwebcms3\\_e.nsf/\(ynDK\\_contentByKey\)/ADMR-7BLF2V?Open](http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/(ynDK_contentByKey)/ADMR-7BLF2V?Open)
- Fjose, S., & Grünfeld, L. (2010). SMEs and growth in Sub-saharan Africa: Identifying SME roles and obstacles to SME growth. *MENON Business Economics*, 14, 3. Retrieved May 19, 2013, from <http://www.norfund.no/getfile.php/Dokumenter/Studier%20for%20Norfund/SME%20and%20growth%20MENON%20%5BFINAL%5D.pdf>
- GSP: The new EU preferential terms of trade for developing countries. (n.d.). *Europa Press Release*. Retrieved May 19, 2013, from [europa.eu/rapid/press-release\\_MEMO-05-43\\_en.htm](http://europa.eu/rapid/press-release_MEMO-05-43_en.htm)
- Kim, Y. (2012). The Effect of Aid for Trade on Export Diversification of the Recipient Countries. *Seoul Neational University Library*. Retrieved May 29, 2013, from [http://m.riss.kr/search/detail/DetailView.do?p\\_mat\\_type=be54d9b8bc7cdb09&control\\_no=074f1260b38eb9f1ffe0bdc3ef48d419](http://m.riss.kr/search/detail/DetailView.do?p_mat_type=be54d9b8bc7cdb09&control_no=074f1260b38eb9f1ffe0bdc3ef48d419)
- Leonel, A. (n.d.). South-South Trade – Rewiring the Global Economy. *J.P.Morgan*. Retrieved May 29, 2013, from [www.jpmorgan.com/cm/ContentServer?cid=1320504817166&pagename=jpmorgan%2Fts%2Fts\\_Content%2FGeneral&c=TS\\_Content](http://www.jpmorgan.com/cm/ContentServer?cid=1320504817166&pagename=jpmorgan%2Fts%2Fts_Content%2FGeneral&c=TS_Content)
- Mankiw, N. G. (2011). *Principles of economics International Edition* (6th ed.). Singapore: South-Western Cengage Learning.

- (2012). South-South Trade Monitor. *UNTCD, No.1*. Retrieved May 12, 2013, from [http://unctad.org/en/PublicationsLibrary/webditctab2012d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webditctab2012d2_en.pdf)
- (2006) South-South Trade: Vital for Development *OECD Observer*.1.
- The growth of "South-South" trade: it's not just the geography but the content that matters. (n.d.). *UNCTAD*. Retrieved May 27, 2013, from <http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10093>
- Vijil, M., & Wagner, L. (2010). Does aid for trade enhance export performance? Investigating on the infrastructure channel. *INRA*, -. Retrieved May 26, 2013, from <http://www.rennes.inra.fr/smart/Media/Working-papers/WP10-07>