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CAPITAL
 By DAVID WESSEL


The Rise of South-South Trade

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At a recent meeting of global business executives convened in Abu Dhabi by consulting firm A.T. Kearney, managers of sovereign-wealth funds had a message for U.S. and European executives: Work with your government to keep your markets open to us. If not, we'll go elsewhere.

The big government-controlled investment pools weren't just talking tough. Sure, the U.S. remains the world's largest and most attractive economy. But the past couple of decades have seen the rise of trade and investment not only between the rich countries of the North and developing economies of the South, but between South and South.

Turned away by the U.S., **Dubai Ports World** is expanding in China, India, Peru and Vietnam. Saudi Arabia's state-owned oil company is investing in refineries in China's Fujian and Shandong provinces. **Industrial & Commercial Bank of China** last year bought a 20% stake in South Africa's Standard Bank. India's sprawling Tata Group has African investments ranging from the Taj Pamodzi hotel in Zambia, to a railroad-car and steel-fabrication plant in Mozambique.

A.T. Kearney says flows of money, investment and trade are creating a multicontinental market spanning the Indian Ocean. Showing a consultant's affection for catchphrases, it has dubbed this market Chimea -- Chinese and Indian know-how, money and thirst for resources ("chi"), plus Middle Eastern money and oil ("me"), plus African raw materials and opportunity ("a").

Boston Consulting Group lists 100 companies in 14 emerging-market countries that, it says, are becoming global players. ([Read the publication](#)¹.) Many prosper by selling to other developing countries: Revenue of India's Bajaj Auto has more than doubled over the past several years to \$2.2 billion as it exports two- and three-wheeled vehicles. ([See more on Bajaj](#)².)

David Wessel discusses the rise and importance of South-South flows of trade and investment.

In his recent book, "Africa's Silk Road: China and India's New Economic Frontier," World Bank economist Harry Broadman argues, "China and India have a growing middle class, with increasing purchasing power and with an increasing appetite for imported goods" -- from Africa. The Asian giants offer Africa more than markets, though. He says Chinese and Indian companies are beginning to expand beyond oil and mining in Africa to telecommunications, food processing, textiles and construction. ([Read more on Mr. Broadman's book](#)³.)

Economists Cigdem Akin and M. Ayhan Kose, in a new analysis published by the International Monetary

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Fund, detail ways in which the "the globalization era" that began in 1986 is different from earlier decades. One big one: The two dozen countries they call "the emerging South" (from Brazil to China to India to South Africa) have diversified, grown and become more dependent on one another's growth and less on the North. ([Read their paper](#).⁴)

By contrast, countries of "the developing South" (from Bolivia to Bangladesh to Botswana) are just as tethered as ever to demand from the North.

With all the hype about China and India, it's easy to forget just how big a change this is. When the U.S. pulled out of Vietnam three decades ago, would anyone have imagined a Morgan Stanley ad on page one of The Wall Street Journal lauding Vietnam as a promising market for luxury goods?

In a 1979 lecture accepting the Nobel Prize in economics, Sir Arthur Lewis said: "For the past hundred years, the rate of growth of output in the developing world has depended on the rate of growth of output in the developed world. When the developed grow fast the developing grow fast, and when the developed slow down, the developing slow down." ([Read the lecture](#)⁵.)

"Is this linkage inevitable?" asked the Caribbean-born, British-trained Princeton professor.

DISCUSSION	
	What are the implications of the rise of South-South trade and investment among emerging market countries, as opposed to old flows between North and South? Share your thoughts ⁶ .

Sir Arthur bemoaned developing countries' dependence on rich countries for food, fertilizer, cement, steel and machinery. He argued -- hopefully and presciently -- that South-South trade could change the world for the better. "Taken as a group, lesser-developed countries could quickly end their dependence" on the North for food, fertilizer, cement and steel -- and "more

gradually throw off their dependence for machinery."

"LDCs are capable of feeding themselves now," he added, "if they adopt appropriate agrarian policies and... [scientists] give us better varieties and improved technology."

A central question about this year's global economy is whether emerging markets -- both China and others -- can keep growing as they have been as the U.S. and Europe slow.

The answer turns on at least three factors: whether demand for commodities abates and hurts economies dependent on raw-material exports, whether turmoil in financial markets of the North disrupts lending to borrowers in the South, and whether there is enough self-sustaining demand among emerging-market economies to stoke their growth.

But the importance of the explosion of South-South trade and investment goes far beyond this year's outlook. It could be the opening of a new epoch of globalization -- one in which the global economic might of big U.S. and European companies is challenged like never before, one in which the remarkable success of China and other Asian economies in lifting their people out of poverty is spread -- finally -- to other poor continents.

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