

Fostering growth in emerging markets



Essay by Ian Saxon

Twenty years ago, the vast majority of world trade occurred amongst developed countries, with a lesser share occurring between developed and developing nations, and an even smaller share among developing countries. Since then there have been significant changes in world trade patterns. Trading between developing economies has expanded rapidly, which is likely to continue. Air transport has played a key role in facilitating this important development, often referred to as ‘South-South’ trade (exports from one emerging market to another ¹⁴⁶), fostering economic growth in emerging markets.

The world is becoming more interdependent, and South-South trade is playing an important role. In 1990, the value of world exports was roughly \$3.4 trillion¹⁴⁵, or 15% of world GDP at the time. By 2012, that value had increased by over 400%, to \$17.9 trillion. This is more than double the rate of growth of world GDP over the same period.

Since the early 1990s, the value of South-South exports has grown more rapidly than all international exports. Between 1990 and 2012, the value of exports between emerging

countries increased by an average of 14% per year. This compares to an average of 5% among developed countries (North-North trade), and 11% for exports from emerging to developed nations (South-North trade).

There is also some evidence that the growth in South-South trade is speeding up. Between 1990 and 2000, the average annual growth in the value of exports among emerging economies was 10%; over the next twelve years, that rate increased to 18%. In contrast, the growth in export value among developed nations remained broadly constant.

While these patterns are evident across many emerging countries, a key driver of growth in South-South trade has been export activity involving developing Asian countries. Between 1990 and 2012, for example, the value of exports between developing Asia and Latin America (including exports to and from both regions) grew by over 7,100%. That is a multiple of four of the growth in the value of exports among all emvergers over the same period, and a multiple of 16 of the growth in export value around the globe. Over the same period, exports between Asia and Africa increased by nearly 5,000%, while the value of exports between developing Asian countries themselves increased by 4,500%.

The expansion in air transport services among emerging markets has facilitated the growth in South-South trade. The number of passengers flying between emerging market countries has increased by 116% between 2005 and 2012¹⁴⁷. That is compared to a 57% increase in passengers travelling from developing to developed countries, and a 9% increase in passengers travelling between developed countries.

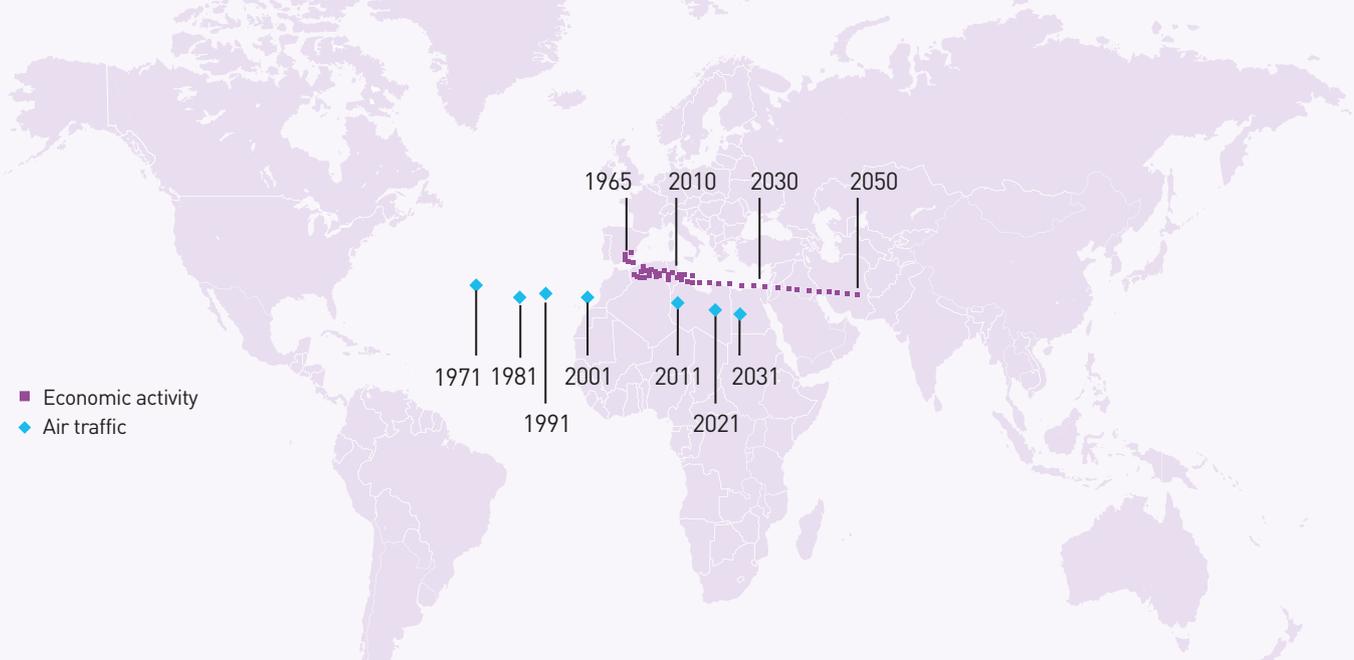
As with trade, there has been significant growth in air passenger numbers involving travel to or from Asia. Between 2005 and 2012, for example, the number of air passengers travelling between Asia and Africa increased by 141%¹⁴⁹. Over the same period, air passengers between Asia and Latin America increased by 99%, while those flying among Asian countries themselves increased by 97%.

The growth in air transport links between emerging markets has delivered invaluable connectivity benefits for businesses. As discussed elsewhere in the report, this is likely to include the ability to serve more distant markets, hasten the speed of delivery, source cheaper or better inputs more efficiently, and organise their businesses in a more cost effective way.

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Re-balance

Shift in geographic centre of gravity for economy and air transport¹⁵⁴



An additional implication of the growth of South-South trade and the expansion in economic output in some of the emerging markets has been the move eastward in the world's economic centre of gravity – a concept developed by academics and recently revisited by the Center for Global Development¹⁵⁰. In the 1960s, the economic centre of gravity was firmly planted in the Northern Hemisphere, somewhere in Spain.

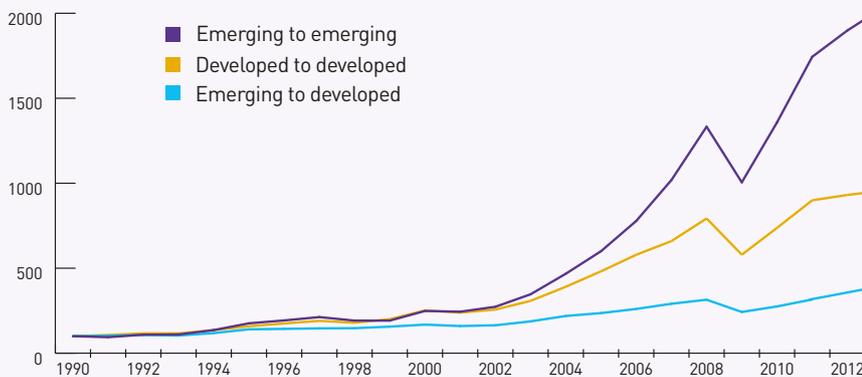
This was because most of the world's economic activity at the time – roughly two thirds¹⁵¹ – took place in Europe, North America, and the Former Soviet Union. Since then, the economic centre of gravity has moved steadily eastward, and in recent years southward, reflecting the growing importance of the economic activity of Asia and other emerging markets. It is forecast to move further east in the future.

As would be expected with the growth in air transport in the emerging markets, the world's 'aviation centre of gravity' has also shifted eastwards¹⁵². The aviation centre of gravity is estimated to have moved eastward and southward between 1970 and 2011, and is predicted to continue moving in that direction out to 2031¹⁵³.

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Rapid developments

Value of merchandise exports 1990-2012, indexed to 1990¹⁴⁶



Ahead of the pack

% growth in passengers between different economies, 2005-2012¹⁴⁸

