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INTERNATIONAL TRADE AND TRADE POLICY: IT'S IMPACT ON THE DEVELOPING WORLD

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Free and fair international trade is often cited as the most effective way to overcome poverty in the developing world. Are the trade policy changes promoted by the IMF, the WTO, the EU and other affluent organisations really advancing the interests of developing countries? Sinead Kelleher investigates this by considering patterns of trade and trade policy. After doing so she is in a position to put forward some policy suggestions to assist developing nations.

Introduction

"International trade has often played a crucial though not necessarily benign role in the historical development of the Third World".

(Todaro, 2000: 457)

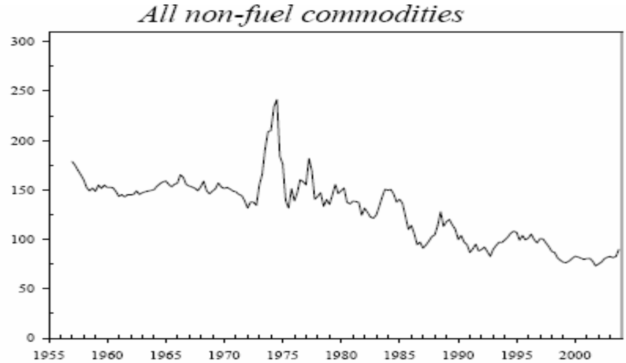
Trade is an essential aspect of any country's economic activities, and is of particular importance to developing nations. As Aaron Schavey of the Center for International Trade and Economics stated – "The evidence shows that increased trade leads to increased economic growth, which raises labour and environmental standards" (Schavey. A, 2001). Trade offers a source of essential foreign exchange, helps countries to avoid deficits on current accounts, and is a channel through which technology transfer occurs. The expansion of trade enlarges both consumption capabilities and potential markets for goods and through the concepts of specialization and comparative advantage, world output has increased to unprecedented levels. For some small nations with poor agricultural resources, the ability to purchase food on the world market is central to their very survival. Furthermore, large, industrial countries in the North depend on oil imports to drive their factories, power their electrical generators and run their cars, and luxury foods and consumables to satisfy the appetites of their residents. However, since globalization proper, identified by widespread price convergence and a high volume of international transactions, began in the 1800s (Taylor, 2002), world trade has been characterized by exploitative

relationships and inequitable policies. Rather than ameliorating, global trading relationships over the past two centuries
have continued to be asymmetric and unbalanced. The current pattern of trade, especially the near monopoly held by developed nations on lucrative manufactured goods and the reliance of their developing counterparts on primary produce works to the severe disadvantage of the South. This critical situation will be the first aspect of international trade examined in this essay. Following this policies, particularly those promoted by the IMF will be critiqued. A number of policy suggestions will then be presented- a special emphasis being placed on the possibility of 'collective self reliance' and economic integration of developing nations.

Pattern of Trade

Despite their large populations, many developing nations remain on the periphery of the international marketplace- the 44 least developed countries, home to 10% of the world's population, are engaged in only 0.3% of global trade (Todaro, 2000). However, even Less Developed Countries (LDC'S) which are participating in trade face a very serious obstacle- a disproportionate reliance on the export of primary products. There are a number of problems associated with this. Firstly, these products, mainly agricultural goods and unrefined metals, have very low price and income elasticities. This means that the demand for LDC exports increases slowly relative the growth of Northern economies, and that price decreases have little effect. Todaro explains that these two phenomena leads to 'export earnings instability' resulting in lower and unpredictable economic growth. As well as this, real, non-oil primary commodity prices have exhibited a downward trend for many years-between 1985 and 1993 the real prices of primary commodities fell 30% (Cavanagh, 2002). The graph below shows the declining overall trend in prices since 1957.

Figure 1.



Source: IMF, International Financial Statistics (2004).

Less developed countries also tend to be more dependent on foreign trade as a proportion of GNP than more developed countries. In 1996, export earnings accounted for between 30 and 40% of overall GDP in Togo, Sri Lanka, Venezuela and Nigeria, but just 9% and 11% in Japan and USA respectively (Todaro 2000). For this reason, falling prices or demand have devastating consequences for entire economies. This is particularly pronounced when countries focus their productive resources on only one or two goods. This is very common practice in the Developing World and a prime example of a country's "fatal reliance on a single export crop" (New Internationalist, October 1999) is the Dominican Republic. During the 1980s, bananas made up 20% of GDP, 60% of exports and provided jobs for 10,000 people. However, following a number of hurricanes and a more liberalized market in the EU, the exports of bananas fell dramatically, from 72,000 tons in 1988 to just 28,000 tons in 1998 (New Internationalist, 1999). Contrary to this dependence on primary products, developed countries export predominantly manufactured goods-these goods make up between 78% and 95% of exports in the UK, US and Japan but under 10% in Togo and Nigeria (Todaro, 2000).

The demand for these products tends to be more price and income elastic, and many of these products are imported in large quantities by LDCs to use in industry, repair malfunctioning machinery, carry out medical procedures and satisfy residents' demands for ostensibly Western goods. However, historically the prices of primary products have been falling relative to the prices of manufactured goods, leading to declining terms of trade for the Developing World. This means that in order for an LDC to be able to import the same volume of processed goods as it did in previous years, it will have to export more. However, as discussed earlier, primary goods have low income and price elasticities and greater production of these goods tends simply to lead to a glut on world markets (New Internationalist, 2000a). Todaro (2000) estimates that declining terms of trade cost the Developing World $2.5bn per annum, leading to steadily worsening merchandise trade balances.

In summary, the powerful, technologically advanced North benefits from rapidly declining prices of primary goods exported by the South while agrarian LDCs suffer due of declining terms of trade.

Trade Policies

Trade policies adopted and enforced by the North have, for many years, worked to the disadvantage of developing nations. These include the dumping of surplus agricultural produce on Third World markets and EU and USA subsidy policies. However the two policies I am going to focus on are barriers erected in developed nations against LDC imports, and free trade policies as insisted upon by Western dominated institutions, particularly the International Monetary Fund (IMF).

Trade barriers were first erected in the North in the 1960s and 1970s as a result of growing employment concerns following an increase in low cost LDC exports (Todaro, 2000). Barriers were put up against products which were likely to put competitive pressure on locally produced goods, namely light industries which are intensive in unskilled labour, including textiles, processed foodstuffs and footwear, as well as agricultural produce. Tariff escalation, where barriers increase as the level of processing does, reduces the incentive for LDCs to expand their production and export of more lucrative processed goods - for example, although the USA does not have a tariff on cocoa beans, it charges 25c per pound of imported chocolate (Rich World, Poor World: A Guide to Global Development). The average tariff of OECD members for imported agricultural products is 60%, while tobacco and chocolate face tariff peaks of 350% and 277% respectively (Food and Agriculture Organisation, 2005). Todaro estimates that barriers to trade cost the Developing World $40bn annually, while the table below emphasizes the biased nature of tariffs by showing that in many cases the USA collects more in imports from developing nations than from other countries in the North.

Table 1.

Country	**Tariff Paid ($ billions)**	**Total US imports ($ billions)**	**Average income/capita (1995 $)**
France	330	31	30492
Bangladesh	331	2.5	386
Norway	24.2	5.4	28,297
Mongolia	23.1	0.2	430
UK	403	42.3	22,697
Philippines	418	11.8	1165
Thailand	514	15.6	2,853
Indonesia	596	11	1034
India	428	10.3	477

Source: Rich World, Poor World: A Guide to Global Development

Although some barriers are gradually being lowered, for example the notorious Multi-Fiber Agreement was eliminated in January 2005, ‘dirty tariffication’ is still prevalent. This is the process whereby developed nations manipulate tariffs to obtain the optimal results for their country, often reducing, under public or political pressure, tariffs on products which have negligible impact on their economies while retaining barriers on key products. (Hyland and O Breasail, 1999). Even the Doha Round of world trade negotiations taking place at the moment, looks very unlikely to live up to its official title of the ‘Doha Development Round’. As the Economist (2005) explain, the talks have been “plagued by a lack of ambition on the part of the poor as much as the rich” and a focus on the wrong issues – for example, within agriculture, much more progress has been made in pledges to phase out subsidies in the West. However, over 90% of the gains to developing countries from freer trade in food would be from tariff reductions – eliminating production enhancing subsidies will have relatively little impact on poorer nations.

Ironically, the other most significant trade policies of recent times placed emphasis on reducing trade barriers and encouraging ‘free trade’. Free trade was an integral component of the packages of policies thrust upon developing nations via Structural Adjustment Programmes in the 1980s and is still enthusiastically promoted today by the Washington Consensus minded International Monetary Fund (IMF). Chris Brazier states that the IMF “has been taken over by fundamentalists as extreme and narrow minded as an al-Qaeda lieutenant or a US Bible-Belt preacher” (Brazier, 2004: 10) and Gregory Palast (2001) lambastes an "ideology gone rotten". In their haste to implement market based trading systems in the aim of simulating economic growth in poorer nations, IMF analysts, including their European managing director[1], appear to have overlooked the fact that even the much lauded Asian Tigers judiciously protected certain infant industries from competing imports until they were well developed. As well as this, the immorality and irony of forcing developing nations to expose their economies to the unpredicabilities of international trade under the threat of withheld aid payments and a reputation as a non-cooperative nation, whilst barricading our own markets against their produce does not appear to resonate. Joseph Stiglitz, in an interview with New Internationalist (2004a) suggests that the IMF is working in the interests of Western capital and financial markets, and the fact that between 1995 and 2002 the EU gained $80bn from the liberalization of trade whilst Africa lost $2.6bn, offers some credibility to this claim. (New Internationalist, 2000b)

Policy Suggestions

Possible policy solutions to assist the Developing World's in expanding and improving their share of global trade can be divided into three categories- those based in the North, national LDC policies, and transnational, or regional policies.

Policies originating in the Developed World revolve primarily around reducing import barriers on Developing World produce, especially manufactured goods. Lowering agricultural subsidies could assist in preventing overproduction of certain goods, which often results in product dumping on LDC markets. Recent examples of this include the dumping of European beef onto markets in Namibia in the early 1990s at half the price of Namibian beef, and the dumping of EU canned tomatoes onto the South African market more recently (Hyland and O' Breasail, 1999). The transformation of the IMF, possibly involving a reversion back to its original Keynesian ideals (Stiglitz, 2002), or a review of voting power within the major global Economic institutions, the World Bank and IMF would undoubtedly assist LDCs. At the moment, voting power in these organizations is determined by economic power and, presently the G8

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[1] By agreement between Europe and USA, the job of Managing Director of the IMF has traditionally gone to a European, and the presidency of the World Bank to an American- neither position ever to a citizen of a developing nation most affected by the decisions of these institutions. (Blustein, 2004)

control almost half the votes of each- 48.18% in the IMF and 45.71% in the World Bank (New Internationalist, 2004b).

National policies within individual LDCs should focus on developing strong financial, credit and legal institutions, as well as enhancing human capital by investing in education, with a particular emphasis on technology and science. The ‘brain drain’ which has afflicted many developing nations in recent years should be tackled, possibly by offering tax incentives to educated nationals who stay in their country or who are repatriated. A movement away from reliance on a very small number of primary products could also help countries to avoid major recessions when the price of, or demand for, a particular good falls in the Developed World. Ideally, diversification should be both vertical and horizontal, but as discussed earlier, unless barriers to manufactured LDC imports fall, Third World nations have a major disincentive to expand into manufacturing.

On a regional level, the development of regional trading blocs with no internal trade barriers, but common external barriers within the Majority World is viewed as crucial to the growth of LDCs (Todaro, 2000). Firstly, cooperation between states at fairly equal stages of economic development allow for combined inward and outward looking trade policies which make available the benefits of regional trade, while not subjecting infant industries to the ravages of international competition. Economies of scale can be exploited by industries whose domestic markets are too small to allow for efficient production, whilst wasteful duplication, such as the same, inefficient industry in neighbouring countries, is eliminated. A common economic policy could assign each country export quotas of certain goods to avoid oversupply on global markets and a consequent fall in prices. As well as this, natural resources such as waterways, forests and coastal zones can be utilized more efficiently, and the essential development of infrastructure, especially overland transport facilities in Africa, is more effective if done regionally, as opposed to nationally. Barriers to non-essential Developed World imports and a unified stance on certain issues would compel the EU, USA, IMF, World Bank and other Western institutions to engage with fundamental Developing World problems on a more appropriate, meaningful level. As Julius Nyerere, former President of Tanzania stated “[African Unity] can make it difficult for Africa and the African people to be disregarded and humiliated” (New Internationalist, 2000c). At present a number of regional trading blocs do exist in the Developing World, including Andean Community, SADC, Mercosur, Asean and ECOWAS and the significance of South- South trade is increasing rapidly. Although it still only represents 7% of overall global trade, in 1990 South- South trade made up 33% of all LDC exports, with trade in manufactured goods rising rapidly. (Todaro, 2000)

Conclusion

In this increasingly globalized and interdependent world, trade is essential to the development of viable and strong economies in Less Developed Countries. This is particularly evident now, following the acceptance by many that import substitution policies often result in rent seeking, inefficiencies and poor long-term economic prospects. However, declining terms of trade and a reliance on a small number of primary exports are making LDCs increasingly vulnerable, while barriers to trade in the North make it very difficult for countries in the south to expand production and exportation into more lucrative manufactured goods. As well as this, the so-called 'free trade' policies pushed upon poorer nations by the IMF are forcing them to lower their barriers to Western goods while we keep our tariff and quota systems firmly in place. Policy suggestions stemming in the Developed as well as the Developing World were explored in this essay emphasizing the fact that both have the responsibility and the ability to ameliorate the global trading system and to assist a transition to fairer relationship between equals.

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