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Trade and developing Countries

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Trade can be a key factor in economic development. The prudent use of trade can boost a country's development and create absolute gains for the trading partners involved. Trade has been touted as an important tool in the path to development by prominent economists. When development economist discuss the role played by international trade in country's economic development; they tend to tell one of the three types of story. The first and oldest is a happy story that trade leads to increase in production, consumption and social welfare no matter what the circumstances are.

The second, comparatively newer version is a dull and detailed version about the way in which differences in economic structure between countries, bias the gains from trade in favour of the rich and technologically advanced economies against the poor, low technology agricultural countries. The third story is the most recent one and is tragic. It asserts that trade and economic development are actually the cause of the underdevelopment of the developing nations. The unhappy ending of permanent global polarity could only be rewritten if the international capitalist system were superseded

Mutually beneficial trade

Variant (1). Theory of comparative advantage tells us about the opportunities that this world offers for mutually beneficial trade, given the uneven distribution of metals, minerals, oil, soil and climate. It would require very odd national consumption patterns for there to be no scope of mutually beneficial trade. Similarly differences in unit cost deriving from scale of operation or skill's which cannot be acquired easily, create scope for mutually beneficial trade. So theory of comparative cost (advantage) should not be seen as an explanation of how trade comes about rather it should be seen as a reminder that opportunities for trade exist and that static welfare losses will be incurred if these opportunities are neglected. Proof can be provided by stating as to how both countries can increase total volume of consumables at their disposal by shifting inputs into the production of commodity for which the ratio of domestic input cost to foeign input cost is lower but there is nothing in this argument to the effect that every country must have a comparative advantage in some product or that existing advantage would continue because they are natural or created historically. So the worlds like beautiful, never controversial must be used very cautiously.

The H.O theorem (second variant) attempts to give a specific accout of how comparative advantages arise by rooting them in international deffefrences in what are called " factor endowments". This variant comes with a policy guideline advising "the poor countries to specialize in labor intensive product and import product with capital intensity".

In this, variant factor endowments are so dominant that other determinants like localized natural resources, level of technology, differential labor skills are not even considered. Similarily non-economic factors as tastes, preferences, fashion , and living conditions are not considered at all.

The third variant is vent for surplus approach. In this we assume that prior to trade certain resources are unemployed. Trade is said to benefit this unemployed resources, which were unemployed because of lack of demand or lack of specific factor. With trade, demand as well incomes would increase to let the unemployed resources gain employment and further national income but in reality vent for surplus has generally been per force rather than natural. The last variant is of recent origin (1957) developed by Haberler and Cairncross. These economists thinks that trade is no more exchange of goods. It's a window to the economic activity held anywhere. Followers get more advantage than leader because leaders have to trace the path in vent new ideas, technology, social and economic system while followers can easily and readily get what ever they require. This version also cannot be taken as very efficient and logical. We have seen as to what technology and resources have been offered to the LDC's.

The happy ending of the story of mutually beneficial trade would therefore need considerable dilution. While there are static welfare gains from specializing according to comparative advantage specially when internal resources are fully mobile but the general presumption that poor countries have a comparative advantage in goods with low capital/labour ratio's can not be sustained. The existing trade between north and south cannot be interpreted as merely a result of comparative advantage. It also cannot lead to either transition to full employment or to technology transfer in favour of less developed countries. This happy story is not very happy.

The theory of structurally biased gains from trade

The theorem given by Raul Prebisch, E.W.Singer, Gurnar Myrdal and other suggest that the benefits of trade accure disproportionately between rich and poor. These theories are based on the assumptions that technological level and associated institutional dissimilarities differs between rich and poor countries.

The best-known exponent of this theory is Raul Prebisch who argues that there is a secular decline in terms of trade for the countries which are producing primary goods vis a vis those who are producing manufactured goods. He also tries to prove this decline through his empirical findings. The secular deterioration of terms of trade for LDC's results in long period transfer's of income from less developed to developed countries. The theory of secular deterioration is explained from both sides, the supply and the demand. On supply side a country keeps improving its export sector for technical chage and increasing production. The price will fall and the benefit will accure to the importer. The condition's been deteriorating to such an extent that growth may have "Immiserizing growth as termed by J.N Bhagwati

1958. Dr. Bhagwati writes export biased growth by poor nations would worsen their terms of trade so much so that they would be worse of that if they had not grown at all. The conditions under which immiserizing growth can occur are extreme and had never been found.

Prebisch also introduced into discussion variable on demand side. The demand of primary product is inelastic. This postulate is based on the functioning of Engel's law. The demand for manufactured commodity is highly income elastic. This is based on Dusenbury effect. E.W. Singer adds further to the theory by suggesting that countries is trying to corner huge profit implement those policies which allow them to hold larger gains form trade i.e. by restricting production of exportable to keep the prices at high level and enchancing production of importable to keep the prices of imported commodities at low level.

Prebisch's argument may appeal to one and all but the fact is that he has overstated the importance of terms of trade, moreover in modern trade the classification of center and peripherry and their production pattern cannot be classified in such stringent conditions as Prebisch has done. A part from all other commodity boards developed in UNCTAD have not been able to gain anything for less developed counties.

The story of trade induced global polarity

Marxist analyses of international trade tend to analyze trade in the context of world capitalism or imperialism. This analysis is more heterogeneous than that in the comparative advantage tradition. Samir Amin's recent efforts (1974 ,76, 77) in this tradition can be discussed. Although E. Manuels version (1964s, 67) and G. Franke's version are also very useful. Amin's analysis is based in terms of two kinds of nations, center and periphery (1977. Chaps5) capitalism is the 'centre' countries was developed on the basis of expansion of the home market where as 'peripherry countries capitalism was introduced from outside (except for a few countries like India but now in India also this has been introduced). In the 'Peripherry' capitalism was developed without any internal dynamism further it was distorted in three ways (1) distortion in favour of export industy (extraversion) (2) distortion due to improrrtance given to tertiary sector (hypertrophy) and distortion towards light branches of activity and use of modern techniques of production (easy availability). Since periphery is complementary and dominated features of underdevelopment are clearer as growth occurs.

Economic relation between center and peripheral can be explained by 'unequal exchange' (1977 par IV). Most importantly we must note that "unequal exchange" of Samir is different form E. Manuel (1972) with whom this theory is associated. Actually 'unequal exchange' is exchange of goods whose production involves wage differential greater than productivity,E. Manuel. In Amin's view since capital internationally mobile wages very between countries but the rate of return on capital is almost same. Hence the transformations of international prices imply the transfer of value from some nations to others. (1977p,187) Actually social labour is crystallized in goods, which have an international character.

Policy (1) so long as the underdeveloped counties remain integrated to the world system, they remain helpless. The possibilities of local accumulation are nil (2) as economic growth occurs in LDCs, underdevelopment accentuates only radical and complete break with the world capitalist system will provide the necessary and sufficient condition for economic development.

The creation of a national currency confers on the local authorities no powers of effective control. So long as accounting is integrated into the world market, the economic policy at national level is ineffective in a peripheral capitalist economy the only solution is a revolutionary break with the capitalist system.

The logical status of Armin's argument is unclear. Infact neither advanced capitalist countries nor underdeveloped countries can be regarded as facing similar problems in relation to world marker financial institutions. The problems country's face depends upon the structure of these economies and their particular location. Within the framework of Samir Amin's universal theory such particularism cannot be explained. Information's presented by Amin is impressive in scope and generally demonstratres the correctness along with theory and whenever information could not demonstrates the correctness of theory, resort is taken in appearances yet abstraction of theory and its application in real world creates a dichotomy.

We cannot dismiss such issues by calling them irrelevant yet we cannot fully agree with them. These are the areas where meaningful research must be conducted and the tragic factor should be studied in further detail to find out the size of tragedy.

Research relevant to poor country's trade problem

Some variants of each type of theory suggest certain valuables insights in to either rationale or historical determinats trade of by poor countries. But not one story conveys rational acceptance. We must try to go for intelligent eclecticism that 'trade theories are far from hopeless'. We must search as to how and what kind of trade policy a poor country must adopt.

At independence each poor country inherited a specific structure and volume of trade. How much of this trade structure is based on principles of mutually beneficial and how much is the result of powerlessness because the country was slave and was forced to export and import which it neither needed nor desired". The analysis must be based on historical research. Just because coercion was faced in the past does not necessarily makes that trade disadvantageous. Nor because we inherited some thing makes it useful. What part of inherited trade is advantageous and, must be continued and vice versa has to be studied.

Similarly previous trade links can be used to build in harmonies trade aggreements for mutually beneficial trade. There is no need to comment that in past, colonies were forced to become a supplier of raw material and the developed countries would also have to realize that there trade surplus's could not continue forever. We call mercantilist's thesis narrow ,

shallow and mean, then how developed countries could think that they can always have more import surpluses. The developed counties have to mend their ways. MNC also have mended their way. When they come they present a rosy picture. They present themselves as bearers of the gift of the capital, technology and management who will combine with local labour in to exports of manufacture., In certain counties like Mexico and Singapore this promise has been fulfilled but in most places this dream is unfulfilled, is least what we can say. MNCs instead of promoting exports has destroyed the local industry and is appropriating huge profits. Since the smart government of poor countries have not been able to fashion the long spoon which they require to sup with multinational there is a story need to make certin common policy framework to deal with MNC. Corporations under UNCTAD which could have been more meaningful have not been undertaken whether they are of resources transfer or debt moratoria of commodity programmes which W.T.O. has pushed upon LDC.

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