I. INTRODUCTION

This issue of the *IDS Bulletin* has been prepared for the 25th anniversary of UNCTAD, which is uniquely dedicated, within the United Nations system, to the promotion and regularisation of trade in the interests of development.

UNCTAD's work has up to now been based on a twofold premise stemming from the insights of Raúl Prebisch, its founding father. While trade has the potential to support growth and development, there are systematic structural asymmetries between developed and developing countries that make it particularly difficult for developing countries which specialise in primary commodity exports to reap fully the potential gains from trade. Two policy prescriptions follow from this. First, developing countries need to address the root cause of the structural asymmetries in order to diversify and expand their production capacity out of primary commodities. Second, conditions in international commodity markets need to be made more gainful through measures which improve the conditions for the sale of primary commodities in raw or processed form. Developing countries can then either generate investible resources with which to expand and diversify production capacity or, for those countries which may be unable to diversify, have a higher return to their existing commodity exports.

UNCTAD's mandate within the UN system perhaps necessarily drove it to concentrate on the commodity issue within its own programme of activities. It had no remit to become involved with the domestic conditions for diversification and industrialisation within developing countries, just as, subsequently it held back from entering the debate on structural adjustment. It did take action, as far as possible, to facilitate trading conditions in international markets in manufactures, although this fell largely under the aegis of the GATT and various bilateral trade arrangements beyond its purview. Otherwise, the only relevant actions it could take in this field, which were vigorously but not always successfully pursued, related in the main to regulation of the activities of multinationals, for example as regards the transfer of technology and control of transfer pricing, and more recently, the role of services in development.

The emphasis in UNCTAD's programme in its first 25 years thus fell on attempts to ameliorate the terms of trade for developing countries in commodity markets and to improve the conditions for processing and marketing of those commodities. Its activities were directed less towards action on production and supply, than towards conditions affecting price and demand under the umbrella of the Integrated Programme for Commodities (IPC). The underlying thrust of this effort to alter trading conditions was to seek to achieve an international redistribution of resources. This has been, not surprisingly, a fatal flaw in the IPC's political acceptability by the other parties in what has been seen as a zero sum game.

Our purpose in this *Bulletin* is to suggest that the time is ripe for reconsideration of the other basic question to do with the relation between trade and development. How can ways be found to promote production efficiency in developing countries through trade, that is, to increase the gains from expanding trade, rather than to seek redistribution of a given quantum of gains? Are trading arrangements adequate in this respect?

Prebisch's prescience about the need for non-commodity development was clearly correct, although how to achieve this aim has been controversial. Commodities account for a decreasing share of international trade, and throughout the past 40 years manufactures have consistently been the fastest growth sector. Though the composition of trade may shift again, it will assuredly not be back towards commodities again.

We are in an era of unimaginable leaps in production technology, which will be accessible to developing countries, especially the poorer among them, only through trade. What are the implications of the new technologies for the structure of production and patterns of trade internationally, and what aspirations may developing countries have for their acquisition and use? What objectives should developing countries pursue in current and future trade negotiations to maximise their chances of increasing productive capacity under these new conditions? What international market regulations are needed in old and new sectors to allow developing countries full participation
in trade? Are current negotiations likely to prejudice or promote developing countries’ interests?

2. Background

Historically, there has been an empirical association between periods of rapid growth of trade and the rate of growth of GDP, as shown in Table 1.

<table>
<thead>
<tr>
<th>Year Range</th>
<th>GDP</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1820-1870</td>
<td>2.2a</td>
<td>4.0b</td>
</tr>
<tr>
<td>1870-1913</td>
<td>2.5</td>
<td>3.9</td>
</tr>
<tr>
<td>1913-1950</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>1950-1973</td>
<td>4.9</td>
<td>8.6</td>
</tr>
<tr>
<td>1973-1979</td>
<td>2.5</td>
<td>4.8</td>
</tr>
<tr>
<td>1979-1987</td>
<td>2.9c</td>
<td>3.4c</td>
</tr>
</tbody>
</table>

a average for 13 countries
b average for 10 countries
c average for 120 countries
Source: Maddison [1982, Table 4.9] and World Bank, World Development Reports

With the exception of the period 1913-1950, the rate of growth of exports has always been higher than the rate of growth of GDP. Recently, over the last five years, the annual rate of growth of GDP and exports has been around four and six per cent respectively. The overall picture of the growth projections into the 1990s by the international agencies has been one of quiet confidence that a favourable association between trade and growth will continue, but at a slightly slower rate of growth of trade and output than in recent years. However, changes in the rate of growth of exports have only been positively associated with changes in the rate of growth of GDP in the two post-war sub-periods starting in 1950. This observation reinforces the point that the overall statistical relationship says nothing about the direction of causality, which can only be established with the help of a combination of empirical observation and theoretical insight.

In the post-war period, there have been both supply and demand-side factors which have produced a strong association between trade and growth. Until the breakdown of the dollar standard in 1971, Keynesian demand management helped produce rapid growth and relatively full employment in the industrial economies. To some extent, this stimulated trade through the demand for primary commodities, and it provided a favourable macroeconomic background for the growth of intra-industry specialisation and trade among the industrial countries. After the first oil shock in 1973-74, the re-cycled petrodollars and negative real interest rates helped sustain the level demand in the developing countries, albeit at a lower level than in the period 1950-73. The relatively favourable macroeconomic factors in the period up to end of the 1970s were reinforced by the successive agreements reached under the auspices of the General Agreement on Tariffs and Trade (GATT) to lower barriers for industrial products traded between the developed market economies to relatively insignificant levels.

Whilst industrial country trade liberalisation measures helped sustain and stimulate the post-war growth of the industrial economies, the role of demand-side factors in general, and of trade policy reform in particular, in creating conditions for rapid growth in developing countries has not been so clear cut. For the newly industrialising countries (NICs), favourable initial supply side conditions, including resource endowments, historical experience and institutions, together with redistributive policies which favoured investment and the capacity of governments for strategic intervention in fostering growth, have played a more important role than either the level of world demand or developed country trade liberalisation measures in achieving rapid growth. Demand-side factors have been far more important for primary product exporters from developing countries, playing an important role in determining the terms of trade, especially in the shorter run.

In spite of the generally liberalising role of GATT rounds of trade policy reform in the developed market economies, there remained at the end of the last Tokyo Round in 1979 a number of important protectionist measures which harmed developing country interests, particularly in regard to the processing of primary commodities and for agriculture. Since that time, a reversal of the trend towards a more open world economy with the rise of protectionism in the developed market economies has had serious consequences for developing countries.

As can be seen from Table 2, escalation in the tariff barriers suggests that there remains a considerable bias against the processing of primary commodities in developing countries. Non-tariff barriers, particularly Voluntary Export Restraints (VERs) and trade-restricting measures such as the Multi-Fibre Agreement (MFA), contributed to a worsening world trading environment for developing countries.

2 There is, of course, a close interaction between supply and demand side factors in determining the terms of trade. For a review of some of the empirical evidence supporting these observations on the determinants of the terms of trade, on the relationship between trade and growth, and on the determinants of growth in developing countries, see Evans [1989a, ch 9; 1989b Section 5 and 1990].
Arithmetic averages of post-Tokyo MFN tariffs. See MacBean [1988, Table 7] for details of the original sources and sectoral coverage.

Import-weighted average tariffs and para-tariffs. See MacBean [1988, Table 8] for original sources and for a regional disaggregation.

See MacBean [1988, Table 9].

Excludes chemicals.

earlier part of the 1980s.

New developments in US trade policy have further undermined the post-war framework for reaching international agreement on trade policy reform, and for dispute settlement. After GATT failed to set up a new round to trade negotiations in 1982, the US embarked on a two-track trade policy. Whilst maintaining its traditional links with the GATT, the US began negotiation of a series of Free Trade Areas (FTAs). Two of these, with Israel and Canada, have been negotiated, and other potential FTAs have been explored. The US has also developed a new policy of aggressive bilateral market opening whereby a country’s access to the US market is threatened unless trade liberalisation deemed satisfactory to the US is achieved. This new policy can be ‘rationalised’ on the basis of the new theory of strategic trade policy, whereby it can be shown that, in the presence of scale economies and imperfect competition, and in the absence of retaliation, such aggressive market opening policies can be mutually gainful.

Both the FTAs and the new aggressive market opening policies seriously undermine the post-war multilateral trading system, and may open the way for the emergence of new trading blocs in the world economy. There is a considerable risk that such blocs will be trade-diverting and therefore inefficient, and they may also lead to destabilising retaliatory behaviour.

Another important avenue for trade policy reform, affecting mainly developing countries, has come about through IMF and World Bank stabilisation and structural adjustment programmes over the 1980s. These programmes have been in place in a large enough group of developing countries for an assessment to be made on the extent of trade policy liberalisation. Thus, UNCTAD (1989) documents the major changes in trade policy in developing countries, both in terms of import liberalisation and export promotion. However, in only nine out of 32 country cases examined could it be said that the 1980s ended with low import barriers, and even in these cases the remaining protective effects of commercial policy were often significant. Given that the success or failure of stabilisation and structural adjustment

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Table 2: Incidence of Protection in the World Economy

<table>
<thead>
<tr>
<th>Food</th>
<th>Agricultural Raw Materials</th>
<th>Mineral Fuels</th>
<th>Ores and Materials</th>
<th>Manufactures</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>EECa</td>
<td>Japanb</td>
<td>USAc</td>
<td>Developing Countriesd</td>
<td>Developed Market Economiese</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>20</td>
<td>7</td>
<td>30</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>2</td>
<td>21</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>1</td>
<td>16</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>4</td>
<td>19</td>
<td>25</td>
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<tr>
<td>7</td>
<td>7</td>
<td>7</td>
<td>32</td>
<td>20d</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>8</td>
<td>6</td>
<td>30</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

a Arithmetic averages of post-Tokyo MFN tariffs. See MacBean [1988, Table 7] for details of the original sources and sectoral coverage.

b Import-weighted average tariffs and para-tariffs. See MacBean [1988, Table 8] for original sources and for a regional disaggregation.

c See MacBean [1988, Table 9].

d Excludes chemicals.

e Table 2 Incidence of Protection in the World Economy

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8 The key instrument is the 1988 US Trade Act embodying the so-called 301 and Super-301 techniques of trade negotiation. See UNCTAD [1989:68-74] for background and overview. The central findings of the new strategic trade policy can be found in Krugman cd. [1986].

4 For example, S. Korea and Taiwan are often seen as the archetypal cases of open economies with strong outward orientation. However, as argued in Wade (forthcoming), the remaining restrictions, which are both selective and high, have a significant protective effect. See also Amsden [1989].
programmes in respect of both financial stabilisation and longer term growth and transformation rests heavily on a strong trade performance, it is surprising that more efforts have not been made by the key sponsoring institutions to ensure commitment to continued liberalisation of trade both by adjusting developing countries and amongst developed countries as well.

The end of the 1980s saw the most dramatic changes in the future shape of Europe as country after country in Eastern Europe abandoned centrally planned state socialism. In these countries, major political change has preceded the dismantling of central planning and the introduction of radical economic reform — the reverse of the process underway to a greater or lesser extent in China and Vietnam.7 The effect of these momentous changes on the form and distribution of ownership of productive assets remains unclear.8 Whatever the final result, a common feature of all of these changes in existing socialist countries is the introduction of reform of markets for goods and services, and the potential opening of these economies to the world market through a combination of currency reform and convertibility and the liberalisation of their trading regimes. In so far as these changes are facilitated by major cuts in military expenditure and large-scale transfers from West to East, there may be major repercussions for the level and nature of military expenditure in the West and the future shape of the world economy.9

In all of the developments in the world economy briefly described above, trade policy and the future institutional arrangements governing world trade will have a decisive effect on the way in which trade and economic growth interact in both developed and developing countries. Will the future Europe become a common European house with multilateral trading ties and arrangements with the rest of the world economy, or will it become a fortress Europe operating as a trading bloc with strong bilateral ties with both Eastern European countries and developing countries? Will the US trade policy revert to the post-war model around a reformed GATT, or will the twin-track trade policy lead to a withering of GATT and the emergence of a new trading bloc centred around the US, with strong bilateral ties with selected countries?

1 For a recent discussion of some aspects of economic reform in China and Vietnam, see Wood [1989a and b].
2 For a discussion of the relationship between markets and ownership of assets in ideal types of socialist economies, see Roemer [1982, Chs 7 and 8].
3 For a discussion and analysis of the effects of the present changes in Eastern Europe on North-South trade, see Kaldor [1990]. For a discussion of the effects of past patterns of military expenditure on the competitiveness of the US and UK economies, see Kaldor and Walker [1988].

3. GATT and the World Economy

In all of the above discussion, it has been taken for granted that the world trading system built around GATT is based on the idea that freer trade is better than restricted trade. Yet paradoxically, there is a sense in which Mercantilism, the pursuit of a trade surplus for its own sake or the belief that a trade surplus maximises national wealth, has never been so central to the evolution of the world economy [Srinivasan 1989]. In the post-war period, Mercantilism appears in the guise of the more extreme versions of export promotion or of import substitution. These have frequently been pursued as ends in themselves, owing to their expected earning or saving of foreign exchange. Even the notion of reciprocity in the GATT itself, whereby a reduction of a country's protection is offered as a negotiating concession in return for reciprocal lowering of protection on its exports by its trading partners, is fundamentally Mercantilist in the following sense.

If there are indeed potential and mutual gains in economic welfare to be realised from trade, then barriers to trade are misconceived in the first place, both from an individual country viewpoint and from a collective viewpoint. The exceptions to this general rule arise principally from infant industry and from balance of payments arguments.10 In an ideal world, it would therefore make sense for trading nations to reduce trade barriers unilaterally without bargaining with their trading partners for mutual trade liberalisation. This is, in fact, the argument driving the unilateral reduction of trade barriers under the World Bank and IMF stabilisation and structural adjustment programmes already discussed. However, trade liberalisation is more likely to be successful if it is carried out on a multilateral basis in the context of an open and growing world economy. The growth of protectionism and bilateral trading arrangements in developed market economies seriously endangers these developments, as does the inappropriate use of the infant industry and balance of payments arguments for protection amongst developing countries themselves.

There is strong evidence to suggest that developing countries have seriously over-worked the infant industry and balance of payments arguments for protection [see Evans (1990) for a summary]. In North-South negotiations, they have also, as noted above, tended to argue for redistributive rather than for productive and mutually gainful policies, for example in the 1970s call for a New International Economic Order (NIEO) and in the UNCTAD IPC policies. Arguments for increased South-South trade as an ‘engine’ for developing country growth...
have usually been put in a bilateral rather than a multilateral context, in spite of evidence that the major barrier to South-South trade is developing country trade barriers. Developing countries have a far greater stake in an open world economy, including more open trading relations between developing countries themselves, than is often recognised. For example, UNCTAD [1989, chs III and V] puts the onus for maintaining an open world economy primarily on the developed countries, rather than proposing a wide-ranging set of multilateral trade negotiations which seek to lower trade barriers in both developed and developing countries. Equally, the achievement of a more open world economy requires that the arguments for deviation from market prices in general, and for trade barriers in particular, must be soundly based.

One of the reasons for the deep distrust of the advocates of an open world economy amongst developing country policy makers arises from a strong tendency within mainstream economic analysis to over-stress the role of the ‘invisible hand’ and to underestimate the importance of the ‘visible hand’ in achieving rapid economic growth. Some important recent work on the developmental state stresses the important role of state intervention in the formulation and execution of a development strategy. It focuses on the importance of the class base and the relative autonomy of the state, its administrative capacity, its ability to make long-run strategic decisions, and the role of intermediate levels of state intervention in the formulation and execution of selective market intervention. Strategic intervention in this context is a much broader concept than that used in the new strategic trade theory, which focuses solely on intervention to influence market structure and market shares. It may involve the selective use of quantitative controls which, when tied to crude incentives, can be an essential instrument for effective state intervention as part of a selective industrial policy for infant industry protection, particularly in the early stages of the development of industrial exports.

For multilateralism to be the basis of world trading arrangements in the 1990s, it is important that the role of direct state intervention in successful infant industry protection be recognised and accepted alongside other instruments of infant industry protection. It also requires that the pursuit of strategic trade policies be tempered by the over-riding interests of developing and developed countries, and of the eastern bloc countries engaging in the reform of their central planning mechanisms, in multilateral rather than bilateral trading arrangements.

4. Contents of this Issue

The deep disquiet over the future of the world trading system touched on above is elaborated on in ‘The International Trading System’ by Jagdish Bhagwati. He argues strongly against the growing intellectual and political support for trading blocs, showing how an evolving GATT system can provide a favourable and mutually beneficial trading environment for developing countries.

Lakis Kaounides ‘The Materials Revolution and Economic Development’ puts an important new issue on the agenda for developing countries. Against the past background of failed stabilising and redistributive primary commodity policies advocated by developing countries, Kaounides examines the origins, tendencies and consequences of the materials revolution for the primary commodity sector. He concludes that primary commodity policy must move away from a preoccupation with distribution. Rather, it needs to focus on long-run productive strategies and the associated development of skills. R & D and information technologies appropriate to the emerging materials and new technologies, considered in the light of the circumstances of developing countries at different levels of development.

One of the important new issues where UNCTAD has led the way concerns trade in services. ‘Sectoral Issues and the Multilateral Framework for Trade in Services’ by Murray Gibbs and Michiko Hayashi addresses two major topics in this area: the market structure and basis of comparative advantage for trade in services; and the desirability of a multilateral negotiating framework which takes into account the strategic importance of particular service sectors to growth and development.

One of the most controversial areas in the current Uruguay Round negotiations is intellectual property rights. So strong are the feelings over this issue that failure to reach agreement on intellectual property rights could jeopardise the entire negotiations. There has always been a clash of interest between the users and originators of patents and other intellectual property rights, and the United States appears to have forgotten its own history in the switch from championship of user interests to a tough negotiating stance for the rights of the originators. John Curtis’ article ‘Intellectual Property and International Trade’ provides an overview of the economic issues behind the intellectual property rights bargain, against which the negotiating positions of the developed and developing countries at the Uruguay Round can be assessed.

The importance of South-South trade is a constant theme in the trade and development literature. ‘South-South Trade: Developments in the 1980s and Policies
for the 1990s’ by L. Hulugalle traces the development of trade amongst developing countries in the 1980s. Notwithstanding the poor performance of South-South trade in the 1980s, Hulugalle argues that developing countries need to give greater weight to each others’ markets in their export strategy in the 1990s and, to this end, adopt conscious policy measures in the area of trade, finance and development. These conclusions highlight the need for a resolution of the debt crisis for developing countries to provide the basis for expanding South-South trade, and for including South-South trade liberalisation within the context of multilateral trade negotiations.

It has already been argued both in this Editorial and by Bhagwati that the disintegration of the world trading system into competing blocs will seriously imperil the overall interests of developing countries. A taste of the complexity of the issues and of the uncertainty of costs and benefits to developing countries of trading blocs is given by Christopher Stevens in his article ‘The Impact of Europe 1992 on the South’. He argues that the effects will vary from product to product and by country and region. Overall, the outcome will be determined by the balance between, on the one hand, faster growth in production and demand in the European economy, and, on the other, improvements in productivity and competitiveness by European producers and pressures for external protection by EC countries which would otherwise lose out to non-EC competitors.

One of the features of the ‘lost decade’ of the 1980s is the interconnected nature of debt and trade issues, and the role of the debt overhang in increasing the unevenness of the economic performance and prospects of developing countries. Rising protectionism in the North makes it more difficult for debtor countries to expand their exports to pay the interest on their debt, let alone repaying the principal. Similarly, debt overhang and trade barriers make it more difficult for mutually gainful South-South trade to grow. A feature of the more recent discussion of the debt crisis is the move from debt bargaining to the search for mutually gainful solutions to the debt problem. ‘Is the Brady Plan an Effective Approach to Debt Management?’ by Stephany Griffith-Jones briefly describes the current Brady Plan for voluntary debt reduction as well as the background to its emergence. It then evaluates the role which regulatory and fiscal managements have in influencing debt reduction, and proposes that fiscal arrangements — in Europe and Canada — be modified to encourage more effective debt reduction.

The moderately up-beat view of the recent and projected performance of overall world trade and output growth summarised in Page (1989) hides a great diversity of country and regional experience in developing countries. This background is reflected in

5. Concluding Remarks

Up to a point, the growth of manufactured exports from developing countries has had a favourable effect on the distribution of income in developing countries. However, the consequences for the distribution of income within the industrial countries in an open world economy may not be so favourable. With very
high rates of accumulation of capital, even in a small number of successful NICs, the employment of less skilled workers in developed countries is threatened, the distribution of income between skilled and unskilled workers is likely to deteriorate, and the returns to capital increase. These likely trends are not in themselves arguments for protection in the industrial countries, but they have certainly increased the protectionist response on both Mercantilist and interest groups grounds. Advocacy of a more open multilateral trading environment for the 1990s requires that the potentially unfavourable redistributive consequences for the North be faced directly, and for the appropriate policies, combining economic re-structuring and reskilling of their work forces with directly redistributive policies, be devised and implemented.

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