University Avenue Undergraduate Journal of Economics

Volume 2 | Issue 1 Article 6

1998

Winning the Marathon: A Reconsideration of the Development Effects of Neo-Classical Trade Practices

Peter Weylie
Carleon University

Jean-Pierre Guevremont
Carleon University

Follow this and additional works at: https://digitalcommons.iwu.edu/uauje

Part of the International Economics Commons

Recommended Citation
Weylie, Peter and Guevremont, Jean-Pierre (1998) "Winning the Marathon: A Reconsideration of the Development Effects of Neo-Classical Trade Practices," *University Avenue Undergraduate Journal of Economics*: Vol. 2 : Iss. 1 , Article 6.
Available at: https://digitalcommons.iwu.edu/uauje/vol2/iss1/6

This Article is brought to you for free and open access by Economics Departments at Illinois Wesleyan University and Illinois State University. It has been accepted for inclusion in University Avenue Undergraduate Journal of Economics by the editors of the journal. For more information, please contact sdaviska@iwu.edu.
©Copyright is owned by the author of this document.

University Avenue
UNDERGRADUATE JOURNAL OF ECONOMICS

Winning the Marathon: A Reconsideration of the Development Effects of Neo-Classical Trade Practices

Peter Weylie and Jean-Pierre Guevremont
Carleton University

Introduction

From the beginning of time humans have understood the importance of trade, but it was not until the birth of formal economics that we truly understood its magnitude. In the first instance, trade theory was focused on the notion of absolute advantage, based on a two party production and exchange analysis; however, as the study of economics became more refined, trade theory evolved, culminating in Ricardo's discovery of the principle of comparative advantage. In recent times, trade theorists have focused their attention on the developing world and the importance of trade to the economics of development. Scholars came to realise that any worthy trade theory had to go beyond the two party analysis and add a developmental dimension to its doctrine. It has now become generally accepted that development cannot occur without trade; however, we should not make the grievous mistake of believing that trade -in and by itself- produces development.

Unfortunately, this mistake has too often been made by contemporary trade theorists and development economists. In fact, the theoretical foundations of both the World Bank and International Monetary Fund (IMF), are constructed almost entirely out of the neo-liberal paradigm. Consequently, standard policy prescriptions for developing countries include, in the first round of the structural adjustment programs, free trade and export promotion. The experience of the Newly Industrialized Countries (NICs) is often heralded as proof of the success of these prescriptions; however, as an example of the strict adherence to a neo-liberal development framework, the case of the NICs falls exceedingly short (Brohman 1996). The truth remains that the causal linkage between free-trade and development is still unclear (Harrison 1996).

In this paper, we will focus on the trading policies of developed nations, specifically import quotas, and their positive and negative effects on developing countries. We hope to show that the case is not as polar as was once believed and instead focus on how the current literature suggests that the real effects of free-trade are shrouded in nuance and circumstance. Our starting point will be an analysis of the fashionable neo-liberal trade theory and its impact on development, making special reference to the Multi-Fibre Agreement (MFA). We will then turn our attention to the shortcomings of the neo-liberal approach, and provide a critique of it with the aim of shedding some light on the true nature of quotas and their contemporary cousins: Voluntary Export Restraints (VERs). Finally, we will examine whether or not developing nations are merely predetermined pawns in the game of globalized trade or if they can take an active role in increasing and maximizing their trade position.

A Brief Overview of Trade and Development

For the greater part of economic history, the study of trade has ignored any questions of development, yet the connection between these two not so distinct areas of economics is incredible, and it has now become clear that trade is a fundamental ingredient in our recipe for development. Trade provides developing countries with tremendous opportunities, not only in terms of an expanded market for exports, but also in terms of technology transfer and increased productivity. Furthermore, developing countries benefit

from international finance that accompanies trade and, through trade, all countries are exposed to a variety of social structures, political organisations and business practices. Therefore, through trade, we can share our expertise and ideas and in the process, realize the gains which arise from specialization. In much the same way as the domestic division of labour creates gains for the country by maximizing the use domestic resources, the international division of labour creates gains for the entire world by maximizing the use world resources.

Although for many classical economists the debate would end at this point, because of the multifarious nature of trade, we must remain cognizant of the fact that, while trade yields enormous benefits, it also involves many costs. Of particular note, the developed world uses trade liberalization to ensure cheap import prices for primary goods. In light of the developing world's reliance on primary goods, with declining terms of trade, this results in a polarization of wealth towards the developed world. Furthermore, developing countries are forced to open their markets to OECD exports thereby snuffing out domestic industries. From a cultural perspective, countries find their cultural autonomy threatened as the global society based on western values slowly takes hold. In short, coincident with trade in goods and service is trade in culture. The Third World is being bombarded with ideas of western consumerism which are unsustainable in their economies and exacerbate foreign exchange problems by stimulating demand for "frivolous" imports. With more liberalised trade, governments lose their ability to control industrial development and are forced, for the sake of attracting business, to indenture themselves to the Multi-National Corporations (MNCs). As one writer has remarked, "[t]he thrust of recent policy has been to enhance the mobility of capital, thus increasing [the power of MNCs] over workers and local governments." (Lee 1996, 383) Furthermore, MNCs generally repatriate their profits meaning that, while they provide jobs for a few thousand workers, the net effect in terms of sustainable development is negligible.

Although the IMF and the World Bank would have us believe differently, the debate about the effects of free trade is not over. "Too often, the success of the Asian tigers has been confused with the success of free trade." (Lee 1996, 386) Reality speaks to a more mixed assessment. In the ensuing sections, we will examine different approaches to trade and development with the hopes of understanding the intricate relationship that exists between the two.

The Neo-Liberal Approach

Free Trade vs. Protectionism

In the realm of development economics, the debate over liberal or "free trade" policy versus protectionist practices has been fundamental. In many respects, the overwhelming affliction of the debt crisis has been a result of trade practices which often favour the developed countries at the expense of the developing ones. While many can not agree on a policy of liberal trade versus protectionism, both arguments highlight some very real issues presently facing development. No one can deny that in order to develop in today's ever increasing global economy, participation is crucial. Yet, it is almost undeniable that

developed countries have an enormous, if not inescapable, effect on the economies of their less developed trading partners.

Unilateral free trade issues are by no means a recent topic. As Britain gained prosperity due to rapid industrialization in the beginning of the nineteenth century, it was recognized that trade liberalization could be an enormous benefit.[1] This was because as the new industries grew, so did the need for new markets and cheap raw materials. It followed quite reasonably, that resource-rich developing countries had both to offer. The thought was that as earnings increased in less developed countries from the exporting of raw materials, so would the demand for British products. While this is an extremely simplified example, British free-trade policy was upheld throughout the rest of the nineteenth century and well into the twentieth.

Of course, like any policy, it was not without its critics. Economists of the time such as Ricardo and Smith, argued that those involved with import-competing industries would inevitably be hurt.[2] While those concerns are valid, neoclassical economics, specifically the Hecksher-Ohlin factor-endowment model, has shown that the efficiency gains from trade liberalization are always sufficient to offset the losses incurred by those who are hurt by free trade. This can be illustrated by examining a standard two country, two commodity model (Todaro 1997, 433-434):

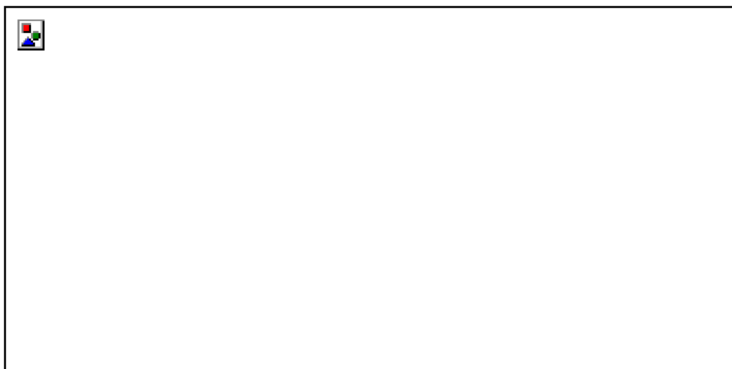

Figure 1. Trade with Variable Factor Proportions and Different Factor Endowments

This model cleanly shows how either country, in this case the Third World or the rest of

the World, is made better off with free trade. Each country can shift along their respective production functions where they can produce more of the domestic good for which they have a comparative advantage. For example, as illustrated, the Third World is producing agricultural goods and manufactured goods at point **a**, which is determined by its given domestic price ratio, (Pa /Pm)T. If a policy of international free trade is implemented, an international price ratio will occur in between the domestic price ratios of the Third World and the rest of the World (i.e. a flatter slope). This will allow the third world to shift to point **b** at which it can trade **bd** agricultural products to import **dc** manufactured products to arrive at point **c**, which is above the initial point **a**, before free trade. Hence, what this model assumes is that different countries can produce different goods at different prices for a variety of reasons (such as factor endowments and variable factor proportions).With free trade, countries can exploit their comparative advantage and more efficiently import products that are expensive to produce domestically so that everyone wins and World welfare is increased.

Unfortunately, this is simply not the case for many of the players in international trade. Governments in both developed and developing nations alike tend to favour domestic concerns over global ones. While the gap between theory and practice is enormous, it is not a new phenomenon in development economics. It seems increasingly evident that the detailed provisions of international trade agreements are not the primary concerns of the very real day to day politics which guide government policy.[3] Protectionism has taken many forms. Whether in the guise of tariffs, physical quotas, or voluntary export restrictions, developed nation have refined numerous ways and rationalizations to protect domestic sectors from foreigners.

Many rich nations have, in fact, increased protectionism in the past decade, and along with programs implemented by the IMF and World Bank, helped double the gap between rich and poor countries (Chomsky). While it is clear that developing nations are often the first to suffer from the practices of their developed trading partners, it has been shown that these industrialized countries may already be hurting themselves. Some estimates show that in the early eighties, the United States the annual net costs associated to the quotas in the automobile, sugar, textile and steel sectors was in excess of 2.28 billion dollars.[4] These costs are the estimates of the dead-weight loss to the US economy.

This begs the question: why American policy makers insist on maintaining protectionist policies? While it is not in the aim or scope of this paper to discuss all the vagaries that influence American policy, some assessments seem quite relevant to the task at hand. It has been posited that in the period following the second World War, conditions with structural problems concealed under high growth rates allowed the targets of major national economic policies to be compatible with a regime of liberal foreign trade (Kraus and Lutkenhorst 1986, 8-9).

General Agreement on Tariffs and Trade

One such regime is the General Agreement on Tariffs and Trade that has been in operation since January of 1948. The GATT is a multilateral trade treaty concerned with the conduct, promotion and regulation of international trade (Cutajar and Franks 1967,

127). Unfortunately, this once 'institutional pillar of the postwar international trading system' has eroded for a number of reasons over the last half of the century to its reform as the World Trade Organization (WTO).

These number of reasons range from behavior of multi-national corporation, changes in international politics and the decrease in self discipline of the more powerful trading nations (Kraus and Lutkenhorst 1986, 9-10). These problems, initially, were inherent in the structure of the GATT itself; it was seen merely as a 'tariff lowering device'. This caused an insufficient focus on the structural changes that were needed in the complex and diverse arena of international trade. This further led to the GATT being reduced to a bystander as the major developed nations resolved conflicts bilaterally or ignored decisions from the agreement altogether. Other reason for moves to more protective measures can be attributed to corporate interest groups emerging in western industrialized nations as participants in the political-decision process. These groups tend to favour the status quo of putting domestic sectoral damage at forefront which furthers protectionist practices. It is these practices that further reduce the effectiveness of the GATT to promote liberal trade policies which are in the best interest of all, especially developing countries.

Specifically, the rise in discriminatory trade practices such as voluntary export restrictions and orderly marketing agreements were viewed as sturdy challenges to GATT Principles. A particular example is the Multi-Fiber Arrangement (MFA) to enact quotas against "low-cost" producers of textiles and textile related goods.[5] The MFA was enacted to control the flow of textiles into North America and Europe by imposing highly detailed and individualized quotas on textile product exporting countries. Recent figures from the United Nations Conference on Trade and Development estimate that a phase out of the MFA could allow LDC's to triple their exports in ten years and generate an additional $175 billion in export revenues.[6] Hence the phasing out of the MFA, which is due to be completed by the year 2005 (under the Uruguay Round negotiations of 1995), will have enormous benefits.

The Uruguay Round of trade negotiations marked the full entry of developing countries into the world trading system. The round was significantly more important than earlier rounds with respect to LDC's for several reasons (Overseas Development Institute Briefing Paper 1995) . The Round brought both agriculture and clothing back under the normal rule of the trading system as they had previously been under separate systems of regulations and quotas. The WTO was also given increased regulatory powers to strengthen and refine the system for monitoring and enforcement. The overall quantifiable effects are estimated to be a 1.4% increase in exports from developing countries (Overseas Development Institute Briefing Paper 1995). While Asian countries gain the most, it will be Africa who will be the apparent loser in opting for the promised benefits accruing to function in a system with set rules and no arbitrary changes in access to markets. These benefits will come in the face of loss of preferences, increased technology costs, and a restriction on trade barriers.

Conclusion

Precisely, in recent events concerning international trade, this has been the case. The WTO has charged that the US has shown insufficient evidence that its domestic industry was suffering any damage when it imposed safeguard quotas on Indian woolen shirts and blouses in April of 1995 (Indian Express 1997) The WTO has called for sixteen of the twenty-four US safeguard quotas to be revoked. While at first glance this might seem like a WTO triumph for developing nations, no such victories have been claimed. The fact is that India may be trying to play down recent events to avoid possible retaliations from its largest trading partner (Indian Express 1997). This case obviously illustrates that international trade is far more complicated than the rulings of global trade institutions.

While neo-liberal economics and numerous political leaders tout the assets of liberalization, the arguments fade when the role of dominant developed nations and mutli-national corporations are examined. However it also important to recognize that the questions posed development can rarely be answered in sweeping generalizations and one-size-fits-all prescriptions. And so, even if neo-liberal perspectives may not be our end-all of development economics, it can not so easily be dismissed.

Neo-Liberalism Reconsidered

Even though classical trade economists did not explicitly formulate a theory of development, a close reading of their works can provide us with tremendous insight into the evolution of the neo-liberal trade theories, and at the same time, provide the theoretical foundation for their rejection. Let us set the stage. The need to shift from primary to industrial goods in order to achieve development was well understood by classical economists but is something that contemporary trade theories often ignore. Viewed in terms of division of labour, Smith saw trade as being important for Britain's industrialization. He felt that industrial activities would produce a more sophisticated division of labour than would agricultural activities and consequently it would be more profitable for Britain to concentrate her resources in the industrial sector (Ho1996, 418-419). By trading manufactured goods, in exchange for agricultural products (products from which Britain would divert resources), Smith felt that a country was able to overcome the constraints of a finite home market. Effectively, he felt that through trade we could extend the domestic division of labour and create a more complete, more perfect, international division of labour. According to Ricardo, this would allow England to import food and other necessaries -which were paid to the labourer as a wage good- at a reduced price, thereby reducing labour costs and allowing profits to rise.

Implicit in the above arguments is a belief that in order to ensure growth, the terms of trade must shift in England's favour. Taking this argument to its logical conclusion, we see that the terms of trade are zero-sum, that is to say one country benefits at the expense of the other. Simply put;

> while England could augment her own growth rate through exporting manufactures and importing primary products, her trading partners would not be able to export the latter at a rate commensurate with her demand,

> nor would they be able to import the former at a rate commensurate with her supply (Ho 1996, 420).

Fundamentally this is a recognition that, adverse and declining terms of trade, would create a chronic trading gap between developed and developing countries. Figures have shown that between 1980 and 1992 the terms of trade with respect to manufactured goods, exported from developing countries, fell by 52 per cent (Ho 1996, 420). A fact that seriously undermines those who posit that trade liberalization increases welfare for everyone. This point is reflected in the following statement by economist Jerry Mander:

> We are now being asked to believe that the development processes that have further impoverished people and devastated the planet will lead to diametrically different and highly beneficial outcomes, if only they can be accelerated and applied everywhere, freely, without restriction; that is, when they are globalized (Mander 1996).

It is clear that voluminous evidence is mounting and is pointing to the fact that the doctrines of liberalization need to be re-evaluated. Under free trade, there would exist an inevitable divergence in growth rates between the developed and the developing world. The exploitative nature of this classical formulation should be obvious. Nonetheless the classical economists were seemingly oblivious to the implications lurking behind their statements, and consequently affirmed that trade would transmit growth from the more developed to the less developed. In the words of Adam Smith,

> [t]his perfect freedom of trade would... be the most effectual expedient for supplying them [developing countries], in due time, with all the artificers, manufactures and merchants, whom they wanted at home. [7]

It is easy to see how so many came to believe that development is an inevitable by-product of trade. However, trade, while certainly a necessary condition for development, is not a sufficient condition.

The need for access to expanded markets, in an attempt to maximize increasing returns to scale, was well understood by the colonial powers and therefore they spent vast amounts of time and money securing trade routes and expanding trading opportunities. While to some extent these relationships were mutually beneficial, they generally benefited colonial powers more than the colonies. The same is true today. For the most part, the developed world exports finished goods to the developing world and the developing world exports primary goods to the developed world. This cycle of trade has the effect of concentrating all of the added value derived from manufactures (which is necessary for development) in the developed countries while forcing the developing countries to rely on commodities; goods which face inelastic demand curves and decreasing returns to scale. This point was not lost on Torrens, who recognized that,

> the capital employed [in England] in preparing [wrought] goods for the foreign market increases faster than the capital employed in foreign

countries in raising raw materials, and in exchanging them for foreign goods. [8]

Intuitively we conclude that, ceteris paribus, any gains from trade will disproportionately benefit the developed world. Therefore, liberalized trade allows the industrialized countries to increase the market for their manufactured goods and import the primary goods produced by developing countries more cheaply. Consequently, unabashed free-trade has the effect of trapping the terms of trade of developing countries in a downward spiral. It is this inevitable polarization of wealth, based on an asymmetric trading relationship, that poses a challenge to trade-centred development.
Much of the neo-liberal paradigm focuses on the efficiency gains of liberalising trade but is silent on the issue of equity. According to neo-liberal trade theorists, trade liberalization has the effect of levelling the playing field, however, we disagree. Liberalization, confers the advantage to those who are already ahead and makes it harder for those lagging behind to catch up. Imposing output restrictions (particularly VERs for which there is a rent stream flowing towards the developing country), has the effect of subsidizing the high-cost producer and conferring additional profits to low-cost producers. From a classical economics point of view, this situation is one of great inefficiency, "...structural adjustment will do-away with high cost manufacturing.... The net result may be a decline of the manufacturing sector in favour of sectors with more comparative advantage" (Dijkstra 1996, 535). As we have already discussed, those areas where developing countries have a comparative advantage are mostly primary industries and do not generate the same revenue as manufactures. We need to remember that any loss in efficiency is more than made up by the equity of having easy entry into the market and spreading the industry across many countries. With VERs one need not be a specialized low-cost producer with immense capital stock to survive, this has the effect of increasing entrepreneurship and expanding the industrial base.[9] Clearly, when looked at from this perspective, it is developed countries who find NTBs threatening. Because quotas only restrict the output of each country, and not the world output, as production spreads across the developing world, gross production increases. As a result, quotas not only create higher prices for western consumers but more importantly, they erode the developed world's monopoly on manufactures by creating more competition.

This conception, at least on the surface, is counter-intuitive making a more thorough explanation necessary. The traditional argument has been that when faced with what developed countries deem to be "unreasonable costs," associated with international competition, they respond by erecting trade barriers. In theory, these barriers protect the "high-cost" domestic producers from cheap imports.[10] This classic argument is based on the assumption that, in the absence of trade barriers, the industry in the developing country is the low-cost producer. When we consider the world's least developed countries this assumption is unlikely to be true. The belief that trade barriers harm developing countries and protect developed ones is only correct if we consider a (reasonably) developed country such as Singapore. Here, the industry is sufficiently developed and there exists enough capital to provide output well beyond its quota restriction. However, if we consider such producers as Malawi, Ethiopia, and Mozambique (none of which fill their clothing and textile quotas) the argument is void. Effectively, quotas prevent the

low-cost producers with developed industries (such as Hong Kong and Singapore and more recently China) from flooding the market and gaining a monopoly. The higher prices associated with quotas allow countries with infant industries (higher-cost producers that are still small enough that the quotas do not restrict them) the chance to produce and grow (with the help of foreign direct investment). The higher prices in the OECD countries and quantity restrictions faced by the NICs serve as a type of "development tax" (which we will call the Robin Hood effect) whereby funds are redistributed from the developed to the developing world. Although the NICs are hurt slightly by the fact that their level of output is restricted, they too benefit. Like other countries who are similarly farther along the development path, they have reached the stage of production where they become restricted by the quotas. At this point, the country begins realizing the rents associated with those restrictions. These rents can then be channelled into investments used to facilitate the development of new infant industries. This is similar to Lewis' model whereby the rents earned in the urban sector are channelled into the agricultural sector, with the aim of increasing productivity.

Between 1970 and 1986 developing countries' share of world exports in manufactures increased from 7 to 12.5% and by 1992 they had increased to nearly 20%.[11] While this threefold increase might seem impressive, when the data is disaggregated the results are far more revealing (see table 1).

Table 1- Shares in world Exports of Manufactures [12]

Region		1970	1980	1986	1990	1991
Developing Countries		**7**	**10.5**	**12.5**	**17.1**	**18.6**
	Asia	3.7	7.5	9.4	14.1	16
	Latin America	1.8	1.8	1.9	2	1
	Africa	0.4	0.5	0.5	0.5	0.5

The data in this table illustrates that all the manufacturing growth is concentrated in Asia. Africa gains nothing and Latin America fluctuates but hovers around the 2.0% level. This is consistent with our thesis (although admittedly, some qualifications are necessary). In the 1960's Japan started the barrage of clothing and textile exports to the United States, which prompted the implementation of a the quota system originally referred to as the Short Term Agreement. As the output of the Japanese clothing and textile industry came under the quota system, production expanded to other Asian countries (those countries we now know as the NICs), prompting the imposition of quotas under the Long Term Agreement signed in 1974 (this was later to become the MFA). It is easy to see that Japan gave up the clothing and textile market to the NICs and shifted its production into more value-added goods (first more sophisticated clothing then high tech) which would allow them to increase their growth rate. Over the period 1970-1992 the NICs moved from textiles to clothing and are now sophisticating further, leaving the textile and clothing industry to Africa and Latin America (and China). These two regions are holding on to

market share, which means their export growth is consistent with the world but because they are still in the initial stages of production, they are not able to capture more. As their infant industries develop (under the protection of the MFA) and they are able to move away from simple manufactures into more sophisticated ones, they will be able to capture a larger share of the value-added exports. However, in the absence of quotas the NICs would expand their production and capture the entire market share.

Finally, it is important to expound upon a notion which is implicit in the above text but because it is so integral to our consideration of trade and development it needs to be made explicit. The MFA's restriction of NICs' clothing and textile exports to the OECD countries provides an incentive for countries not yet under the MFA to cultivate their own clothing and textile industries (which is generally considered to be the first stage of industrialisation, after agriculture). In an attempt to respond to increased demand, clothing companies seek out new production locations. As the industry establishes itself and the country uses up its quotas (eg. Hong Kong), production expands to other countries. Once theses "new" producers become sufficiently large low-cost producers in their own right, quotas are imposed on them and so industry begins to sprout in new areas, and so forth. The existence of the MFA therefore serves as the impetus for spreading growth across the Third World. Because the world market for clothing and textiles is continuously expanding, production is not relocated to the "new" countries, instead the "old" producers begin to specialise.

> [Because the quota is] calculated in terms of quantity instead of value,... it encouraged Hong Kong to move from textiles to clothing and then from simple to fancy clothing, in order to generate more income and employment per square yard (Lardner 1988, 46).

Hence, the quota system has forced the NICs to cast off 'primary' production and move into more value-added products, thereby contributing to further economic development. History backs this assertion. In the 1970's production was only beginning in places such as Hong Kong and Singapore. Now, the industries in these countries have matured and have helped in the development of other sectors of their economies. Meanwhile, clothing and textile industries have sprouted up in such palaces as Mauritius, Bangladesh and Jamaica, which twenty years ago were unheard of as clothing and textile producers. However with the current round of trade liberalization these countries stand to lose their fledgling industries.

> The long-term change in the industry [textiles & clothing], however, is probably that the substitute countries will be replaced by the most efficient, giving a more concentrated structure, rather than by a new generation of substitutes. It is these potential substitutes which will lose a potential opportunity (Page and Davenport 1994, 63).

In the absence of output restrictions, production will recede to the to the NICs and strip the least developed countries of any chance for development.

http://digitalcommons.iwu.edu/uauje

Evaluation and Conclusions

The Uruguay Round (UR) of the GATT negotiations saw a liberalization of world trade and in particular a reduction in Non-Tariff Barriers (NTB's) and the phasing out of the MFA. In addition to the great liberalization that occurred, what makes this round so important is that it saw a tremendous increase in the participation of developing countries. Therefore, the scope for analysis about the impact of trade liberalization on developing countries is great. Even a cursory look at the data concerning the projected effects of the Uruguay Round will confirm that the effects on the least developed countries in the world is devastating.

> In the case of industrial goods, reduced MFN [Most Favoured Nation] tariffs will lead to some trade shift against the developing world as a whole... For Africa, for the ACP and the least developed [the net loss of exports] is greater, 1.5%, 1.5%, and 1.9% respectively, but still modest (Page and Davenport 1994, 60).

Abolition of the MFN means that there exists no more protection for the countries whose economies are composed of infant industries and as a consequence production shifts to the more developed regions. In addition, it is irrational to describe a drop in exports of 1.5-1.9% as "modest" when we are considering the poorest countries of the world. These regions post the lowest -sometimes even negative- growth rates in the world, they can least afford to lose. Furthermore,

> Certain individual countries fare much worse than the regional or other groupings. Ethiopia, Malawi, Mozambique, and Guyana lose between 4.6 and 5.9% of total export earnings. No one country gains substantially in terms of total revenues. Thailand is estimated as the greatest gainer but its export revenues are only enhanced by half a percentage point (Page and Davenport 1994, 60).

Clearly, for these countries, the effect of a drop in export earnings in the magnitude of 4.6-5.9% is intolerable, especially in a sector of the economy which is proven to be the impetus for development. Table 2 shows the (projected) measurable effects of the liberalization caused by the Uruguay Round.

Table 2- Summary of Trade Effects as a % of 1992 Exports [13]

Country or Region	Effect of Liberalized Agriculture and Tariff Reductions	Effect of Removal of MFA, Assuming 2% Growth and Production Redistribution	Total
Developed Countries	**0.1**	**1.4**	**1.5**
Least Developed	**-1.9**	**-0.2**	**-2.1**

Africa	**-1.5**	**0.8**	**-0.7**
Latin America	**0.2**	**0.4**	**0.6**
Asia	**0**	**2**	**2**
NICs (a)	**0**	**6.1**	**6.1**
Cameroon	-1.2	0	-1.2
Ethiopia	-5.9	0.3	-5.6
Ghana	-2.2	0	-2.2
Malawi	-5.3	0.3	-5
Mauritius	-2.7	-19.2	-21.9
Somalia	-2.9	0	-2.9
Jamaica	-3.3	-7.6	-10.9
Papua New Guinea	-1	0	-1
Argentina	0.9	0	0.9
Chile	0	0.1	0.1
Colombia	0.8	-1.5	-0.7
Nepal	0	-8	-8
Bangladesh	-0.4	-18.9	-19.3
Indonesia	0.1	-2.1	-2

(a) includes: Hong Kong, Singapore, Republic of Korea and Other Asia, excluding Taiwan

It is quite apparent that Africa and the least developed countries consistently lose. While many countries come out even in a numerical sense, they face a more difficult path to development because they have lost the opportunity to develop infant industries. In summary,

> The countries which still produce principally primary goods and whose few non-traditional primary and manufactured exports have received the most preferential terms necessarily have little to gain and the probability of losses. They not only lose in terms of their present exports, but also lose the potential to use preferences in the future as a way of entering markets and gaining export experience in the early stages of development (Page and Davenport 1994, 69).

The sad truth is that once again the developed countries gain at the expense of the developing world.

Neo-liberal economists are quick to justify the GATT reforms by claiming a $213 billion efficiency gain (Khor, 2). Although, to a certain extent, international trade benefits both parties, these "gains" are merely consumption gains (Ho 1996, 413). It is important to remember that "the primary beneficiaries of any reduction in barriers to trade are those who purchase the imports on which tariffs and other barriers are lowered" (Page and Davenport 1994, 3). It has been estimated that over 70 per cent of the additional income generated from the implementation the latest round of the GATT agreements will be appropriated by developed countries (Khor). It should also be noted that developed countries represent only 20 per cent of GATT members. The OECD and World Bank have also expect that in the face of the North's US$142 billion gain, Africa, Indonesia, and the Mediterranean region will lose $2.6, $1.9, and $1.6 billion (Khor). Clearly this regime of "Free trade" is not a positive sum for all concerned.

What we have seen is the developing world's loss of opportunity, and income, end up in the pocket-books of Western consumers. Because of this, the redistribution of the gains from trade, which would normally occur in the classical co-ordinated equilibrium, will not occur unless governments are willing to tax their citizen and simultaneously increase their foreign aid. This seems highly unlikely given the current neo-conservative political climate which shuns both. Essentially, the quota, which serves as a "development tax" on Western consumers, has the effect of providing aid to the developing world. Therefore, any reduction in those barriers to trade which benefit LDC's, must be simultaneously accompanied by an aid program which compensates for the losses and helps to ensure the development of value-added industries.

Moreover, the quota system, by limiting output and thereby restricting the amount of foreign exchange, provides a defacto import substitution effect. This means quotas have a combined impact of assisting higher cost producers and restricting the entry of OECD products into the Third World, both of which have been shown to be important to development. However, by signing the GATT agreement, developing countries are obligated to open their domestic markets to the developed world. This eliminates the option of using *any* type of import substitution program (whether it be defacto or active) as a tool to encourage the development of domestic industries. This policy restricting dimension of GATT is often overlooked.

If developing countries hope to take advantage of the framework for development which

quotas provide, they must ensure that they reinvest the associated rents. Unless companies re-invest these benefits they cannot move down the long-run average cost curve and become a low-cost producer. The inability to make use of the rents is likely a contributing factor to both Latin America and Africa's stagnant growth. This inability stems from rampant corruption, unstable political institutions and a lack of a secure banking sector. Unless these numerous social and political impediments are addressed, these regions will continue to suffer economically.

Even the classical economists recognized that, in an unequal world, countries will never be able to catch up on their own, due to the fact that the developed countries would always be in an advantageous position (derived from the unequal trading relationship). Therefore Torrens believed that "*Extended colonization is the only practicable means by which we can create expanding fields of employment for the redundant capital and labour which must otherwise melt away and perish...*" [14] If we remove the political connotations, the modern day corollary to this statement is that in order to create a sustainable world market, the developed countries must channel funds to the developing world in the form of international aid and Foreign Direct Investment. For without this, the challenge of development will be virtually insurmountable.

Economic development is a diverse field of study and requires numerous tools, no-one paradigm can hope to have all the answers. The fact that liberalized trade can create a "bigger pie" is not disputed, but as development economists we must not only consider efficiency, but equity as well. The world in which quotas are effective tools for development is one where there are a variety of countries all at different stages of development. While this situation produces inefficiencies, it creates an economic structure which is more conducive to development. From a development perspective, we will not be able to benefit from free-trade's efficiency gains until all countries become economic peers.

It is important to remember that on a level "playing field" those countries who are ahead will stay ahead. Therefore we must create a detour for the "sprinters" while we teach the "slow-pokes" how to run faster. In essence, before we as economists, wave the checkered flag for the neo-liberal paradigm, the paradigm requires some structural adjustments of its own.

Endnotes

1.Cuddington, John T. and Mckinnon, Ronald I. "Free Trade versus Protectionism: A perspective." Tariffs, Quotas and Trade: The Politics of Protectionism. (Institute for Contemporary Studies: San Francisco, 1979) p. 11-12.

2. Cuddington and Mckinnon 11-12.

3. Helleiner, Gerald K. "The New Industrial Protectionism and the Developing Countries". International Trade and Third World Development. Greenwood Press: London, 1984. p.192.

4. Tarr, David G. and Morkre, Morris E. "Aggregate Costs to the United States of Tariffs and Quotas on Imports." The New Protectionist Threat to World Welfare. North Holland: New York, 1987. p. 227-8.

5. Diaz-Alejandro, Carlos F. and Helleiner, Gerald K. "Developing Countries and Reform of the World Trading System". The New Protectionist Treat to World Welfare. North-Holland: New York. !987. p. 506.

6.Atkinson, Jeff. "Oxfam Policy Briefing fot the Ministerial Conference". World Trade Organization: Singapore. 1996.
http://www.oneworld.org/oxfam/policy/papers/wtobrf.htm

7. Adam Smith, Wealth of Nations, as cited in P.S. Ho, "Rethinking Classical Trade," p. 424.

8. As cited in: P.S. Ho, "Rethinking Classical Trade," p. 420

9. A word of caution however, those companies who are making profit, need to understand the importance of re-investing those profits (if they ever hope to see any long-term development) with the aim of moving down the long-run average cost curve.

10. Nowhere is this more apparent than when considering the clothing and textile industry. Where, in an attempt to protect domestic producers, the developed countries created the MFA which mapped out an elaborate system of quotas on clothing and textiles under which foreign producers must operate.

11. It is important to consider the nature of the data. The numbers represent the share of world trade of manufactures. This means that an increase in world share does not reveal growth in exports per se, instead an increase in share indicates how much export growth has occurred over and above other countries (i.e this table would show an increase in share for country A if country A's exports remained constant but country B's exports declined and would show no increase in share for either if both country A and B's exports remained constant). In addition, the table does not tell us whether the data is based on export value or quantity. We will assume value because quantity would be very difficult to measure.

12. Adapted from: Sheila Page and Michael Davenport, World Trade Reform: Do Developing Countries Win or Lose?, Chameleon Press, London, 1994, table 1.1, p. 5.

13. Adapted from: Page and Davenport, World Trade Reform, table 6.2, p 62.

14. As cited in: P.S. Ho, "Rethinking Classical Trade," p. 421, (italics original).

http://digitalcommons.iwu.edu/uauje

References

Adams, Walter et al. Tariffs, Quotas and Trade: The Politics of Protectionism. Institute for Contemporary Studies: San Francisco, 1979.

Axline, Andrew W. The Political Economy of Regional Co-Operation. Pinter Publishers, London, 1994.

Boyd, Gavin. Structuring International Economic Co-Operation. Pinter Publishers, London, 1991.

Brohman, John. "Post-War Development in the Asian NIC's: Does the Neo-Liberal Model Fit Reality?" in Economic Geography. Vol. 72 (1996) pp. 107-130.

Chomsky, Noam. "Notes on NAFTA: The Masters of Mankind" http://daisy.uwaterloo.ca/~alopez/ politics/chomnafta.html

Cuddington, John T. and Mckinnon, Ronald I. "Free Trade versus Protectionism: A perspective." Tariffs, Quotas and Trade: The Politics of Protectionism. (Institute for Contemporary Studies: San Francisco, 1979) p. 11-12.

Cutajar, Michael Z. and Franks, Alison. The Less Developed Countries in Worl d Trade. Overseas Development Institute: London, 1967.

Dijkstra, A Geske. "The Impact of Structural Adjustment Programs on Manufacturing: Lessons from Nicaragua," in World Development. Vol. 24 no. 3, March 1996, pp. 535-547.

Economic and Political Weekly. "Barriers to Growth" in Economic and Political Weekly. Vol. 28, no. 42, October 16, 1993, pp. 2240-2241

Feenstra, Robert C. "Trade and Uneven Growth" in Journal of Development Economics. Vol. 49 (1996) pp. 229-256.

Ghosh, Pradip K. International Trade and Third World Development. Greenwood Press: London, 1984.

Griffiths, Brian. Invisible Barriers to Invisible Trade. The Macmillan Press, London, 1975.

Harrison, Ann. "Openness and Growth: A Time Series Cross Country Analysis for Developing Countries" in Journal of Development Economics. Vol. 48 (1996) pp. 419-447.

Ho, P. Sai-wing. "Rethinking Classical Trade Analyses Within a Framework of Capitalist Development" in Cambridge Journal of Economics. Vol. 20 no. 4, July 1996, pp. 413-432.

Indian Express. "WTO shows Its teeth." in The Indan Express. January 10, 1997. http://www.expressindia.com/fe/daily/ 19970110/01055723.html

Khor, Martin. "Free Trade - for whom ?". VSO (Voluntary Service Overseas) http://www.oneworld.org/ vso/orbit60/trade.html

Kraus, Willy and Wilfried Lutkenhorst. The Economic Development of the Pacific Basin. St. Martin's Press: New York, 1986.

Lardner, James. "Annals of Business: The Sweater Trade," in New Yorker, January 11 & 18, 1988, p. 46.

Lee, Thea M. "Trade Policy and Development: Spurring Good Growth" in Current History. Vol. 95 no. 604, November 1996, pp. 382-386.

Mander, Jerry. "Coporate Colonialism". Resurgence Magazine Online. September/October 1996. http:// www.gn.apc.org/resurgence/dec96/MANDER.html

Overseas Developing Institute Briefing Paper. "Developing Countries in the WTO." Overseas Development Institute. May 3, 1995. http://www.oneworld. org/odi/odi_developing.html

Page, Sheila and Michael Davenport. World Trade Reform: Do Developing Countries Gain or Lose? Chameleon Press, London, 1994.

Pestieau, Caroline and Henry, Jacques. Non-Tariff Trade Barriers as a Problem in International Development. Private Planning Association of Canada: Montreal, 1972.

Salvatore, Dominick. The New Protectionist Threat to World Welfare. North-Holland: New York, 1987.

Stockhausen, Gerard Lawrence. Threats of Quotas in International Trade. Greenwood Press, New York, 1988.

Todaro, Michael P. Economic Development. Addison-Wesley Publishing Company: New York,1997.

Turok, Mary. The African Response: Adjustment or Transformation. Institute for African Alternatives: London, 1992.

Yanagawa, Noriyuki. "Economic Development in a World With Many Countries" in Journal of Development Economics. Vol. 49 (1996) pp. 271-288.

Yeats, Alexander J. Trade Barriers Facing Developing Countries. The Macmillan Press Ltd. London, 1979.

Venables, Anthony J. "Trade Policy, Cumulative Causation, and Industrial Development" in Journal of Development Economics. Vol. 49 (1996), pp. 179-197.

Watkins, Kevin. "Farmers, Food, and the WTO" Oxfam Policy Briefing. December 1996. http://www.oneworld.org/oxfam/policy/papers/wtofarm.htm.

Weiss, John. "Trade Reform and Manufacturing Performance in Malawi 1970-91" in World Development. Vol. 24 no. 7, July 1996, pp. 1267-1278.

Wilber, Charles K. The Political Economy of Development and Underdevelopment: Fifth Edition. McGraw-Hill, Toronto, 1992.

http://digitalcommons.iwu.edu/uauje