
**INTERNATIONAL TRADE CONDITIONS:
CHALLENGES FOR LESS DEVELOPED COUNTRIES¹**

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ABSTRACT

Main issues this paper takes into consideration are related to: (i) conceptual topics or theoretical aspects from mainstream international trade frameworks; and (ii) core concerns, less developed countries need to face to pursue higher standards both, in their efforts to improve internal markets and participation into foreign links regarding international trade scenarios. From the theoretical standpoint, major features of the current globalization processes are discussed. One of the key final considerations regards the evidence that under the new mechanisms of the World Trade Organization, less developed nations have better conditions to carry out trade negotiations, notwithstanding, broad margin for improvement exists to achieve fair circumstances in the foreign trade relationships.

1. This study is a product of research projects which were carry out by the author of this paper. *The subscriber of this document is entirely responsible for the contents of this paper; thereby it does not necessarily represent the standpoint of the Catholic University of Colombia or any other organization.*

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RESUMEN

Este documento discute dos aspectos importantes que son predominantes en las actuales condiciones del comercio internacional. En primer lugar una síntesis sobre los fundamentos conceptuales, esto es, elementos teóricos del comercio internacional y desarrollo. Se hace mención de las principales características y de cómo éstas influyen en la dinámica de los procesos de globalización actual. En segundo lugar se discuten aspectos medulares que deben enfrentar los países en desarrollo, en referencia a su inserción en los circuitos de la economía internacional. Una de las principales consideraciones finales es que, si bien se hace evidente que la creación de la Organización Mundial de Comercio representó un avance en las condiciones de negociación internacional, aún queda considerable margen de mejora en las circunstancias de equidad para el trato de intercambios con países menos desarrollados.

Palabras clave: economía internacional, comercio internacional, economías de países menos desarrollados.

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THEORETICAL FEATURES

The current process of globalization is basically characterized by (i) increasing worldwide active communication systems; and (ii) increasing fluent economic conditions, especially those circumstances and factors regarding mobility of financial resources and trade. Based on the aforementioned conditions, the global scenario is more integrated in economic transactions.

From a conceptual perspective, mainstream trade theory and its links to economic development includes traditional arguments and criticisms. This section summarizes the arguments of the classical theory of international trade, and its main alternative claims. We will then finish by presenting several points concerning the controversy of import substitution policy and the export-led economic growth. All these considerations will be related to the conditions of developing countries.

The main points of the classical theory of international trade are:

First, trade is an important stimulator of economic growth. It enlarges a country's consumption capacities, increases world output, and provides

access to scarce resources and worldwide markets for products without which poor countries would be unable to grow.

Second, trade tends to promote greater international and domestic equality by equalizing factor prices, raising real incomes of trading countries, and making efficient use of each nation's and the world's resource endowments –i.e. raising relative wages in labor-abundant countries and lowering them in labor-scarce countries³.

Third, trade helps countries to achieve development by promoting and rewarding those sectors of the economy where individual countries have a comparative advantage whether in terms of labor efficiency or factor endowments.

Fourth, in a world of free trade, international prices and costs of productions determine how much a country should trade in order to maximize its national welfare. Countries should follow the dictates of the principle of comparative advantage and not try to interfere with the free workings of the market.

Finally, in order to promote growth and development, an outward-looking international policy is required. In all cases, self-reliance based on partial or complete isolation is asserted to be economically inferior to participation in a world of free unlimited trade⁴.

Claims of traditional international trade theory are derived from a number of explicit and implicit assumptions that in many ways are often contrary to the reality of contemporary international economic relations. This theory therefore often leads to conclusions in several cases not according to both the historical and contemporary trade experience of many developing. This is not to deny the potential benefits of a world of free trade, but rather to recognize that free trade exists mostly in the diagrams and models of economists, whereas the real world is overwhelmed by all varieties of national production and international non-competitive pricing policies.

There are six basic assumptions of the classical and neoclassical trade model that need to be scrutinized⁵:

First, all productive resources are fixed in quantity and constraint in quality across nations. They are fully employed and there is no international mobility of all productive factors.

3. TODARO, Michael (2005) p. 282.

4. MALLOCH, Thomas (2007).

5. SEE TODARO, Ob. cit, pp. 384-385.

As a second aspect, usually technology of production is fixed (classical model) or similar and freely available to all nation (factor-endowment model). Moreover, the spread of such technology works to the benefit of all. Consumer taster are also fixed and independent of the influence of producers (i.e., international consumer sovereignty prevails).

A third assumption, within national conditions, factors of production are perfectly mobile between different production activities and the economy as a whole is characterized by the existence of perfect competition. There are no risks and uncertainties.

As fourth component, national governments play almost no strict and direct role in international economic relations, so that trade is strictly carried out among many atomistic and anonymous producers seeking to minimize costs and maximize profits. International prices are therefore set by the forces of supply and demand.

Fifth, trade is balanced for each country at any point in time and all economies are readily able to adjust to changes in the international prices with a minimum of dislocation.

Finally, there is the assumption that the gains from trade that accrue to any country benefit all the nationals of that country.

The controversial situation about all these assumptions leads to the configuration of two main models: on one hand the classical and neoclassical one, and on the other hand especially the Keynesian, and new Keynesian proposal. The first model will support an export-oriented policy program in a country, and the Keynesian approach often is related to the import substitutional model and its different configurations⁶.

At this respect, it is possible to say that after the Second World War, Germany and Italy pursued an export oriented strategy. These two countries were using devaluations in order to achieve surplus in their current account. These two examples of export-led growth contrast markedly with the strategies adopted by France and Japan. Both countries vigorously protected their home markets, using industrial expansion within the home market as a springboard for the capture of export markets. They were following an import substitution model.

Regarding the strict consideration of market essential aspects, rejection of arguments for the efficiency of the price mechanism, for example on Keynesian grounds, also has the trend to the rejection of the efficiency of free trade. It was Keynesian arguments that underpinned the Economic Commission for Latin America and the Caribbean (ECLAC) strategy for

6. EATWELL, James, *et. al.* (2009) p. 346.

structural change in Latin America. Much of the ECLAC's argument were based on the trend of declining terms of trade according to the Prebisch-Singer theorem⁷.

If expansion of domestic demand could be prevented, by protective measures, from leaking abroad, then savings and fiscal revenues at home would finance domestic investment and government expenditure. Moreover, the profitability of protected domestic production would encourage further investment. The process of expansion would be self-sustaining.

The application of import-substitution strategies in Latin America during the 1950s met initially with considerable success. Output of domestically produced manufactured goods grew rapidly, as did industrial employment. Later the policy fell into disregard. It was argued that import substitution took place primarily in "soft" consumer goods industries, whereas investment goods continued to be imported. Hence after the early growth associated with import substitution in consumer goods, growth was once again constrained by the necessity of importing machinery.

Here it was evident one of the most crucial points in terms of political economy for development: structure of imports. It is utterly different for a developed country to act according to Keynesian economics –such as the "rescue" of the financial markets since the worldwide crisis of the 2008– than the measures a developing country need to take in a context of significant constraints. Those contrasting limitations are evident when a developed economy imports no strategic or productive goods, such as flowers, coffee, and sugar; and on the other hand, a developing nation is still dependent to import productive or intermediate goods –i.e. machinery, fertilizers, and auto-parts.

Moreover, it was argued that protected domestic industry was relatively inefficient, and unable to compete on world markets. These matters are the subject of considerable dispute, particularly as they involve not only question of economic efficiency, but also issues of national sovereignty. At this respect, the International Monetary Fund (IMF) has responded to the difficulties in which some Latin American countries have found themselves

7. That theorem is also called the theory of pessimistic terms of trade. It claims that over time, terms of trade for developing nations will decline. This situation would result in a transfer of income and wealth from less developed countries to more developed nations. This thesis was a useful tool to hold up public policies recommendation in terms of protecting less developed countries' manufacturing exports in order to raise wages and prevent the overexpansion of the primary export sector. See the two classical articles in which this theory was founded: (i) PREBISCH, Raúl (1950) and (ii) SINGER, Hans (1950). See also HIRSCHMAN, Albert (1985) particularly Section III: Strategy for Economics of Development –inequity in distribution of wealth, economics of development and basic goods and authoritarian regimes in less developed countries; also, BECKER, Gary (2005); HIRSCHMAN, Albert (1998) and MYRDAL, Gunnar (1985).

by demanding the removal of the trade protection on which the earlier development strategy was based⁸.

These criticisms of import substitution extend beyond the traditional case of free trade to consideration of the inference of different trade strategies for structural development and technological change. The Japanese case suggests that the traditional dichotomy between import substitution and export-led growth is invalid. The Japanese industry was developed within a rapidly growing and protected home market, that growth proved to be a springboard for expansion into world markets. Exports were domestic-growth led⁹.

The performance of successful Japanese (and French) examples of import substitution, and the problems encountered in Latin America, cannot be evaluated using static conceptions of allocate efficiency. Success (and lack of it) has clearly been associated with technological progress and industrial modernization. The case for free trade must be made on the ground that it encourages the most rapid adoption of the new technique which determine competitive advantage.

Nicholas Kaldor's version of Verdoorn's Law, whereby it is argue that the rate of productivity growth in manufacturing industry is a function of the rate of growth of demand for manufactured products, provides a framework within which trade strategies may be evaluated¹⁰.

Finally, the efficiency of any given trade strategy is not independent of the performance of the world economy as a whole. All countries cannot achieve export-led growth at once. Moreover, the success of the former West Germany recovery strategy was undoubtedly enhanced by the fact that it was implemented in a period of rapid growth in world trade. In an era in which world trade is expanding relatively slowly, reliance on export demand is unlikely to prove a successful foundation for rapid growth of demand and hence for rapid technological progress¹¹.

INTERNATIONAL TRADE AND ECONOMICS OF DEVELOPMENT: MAIN ISSUES IN DISPUTE

Since the mid-1960s, developing countries have become more vehement in their calls for international cooperation and for fundamental changes in the international trading system. This activism has been exhibited through the United Nations Conference on Trade and Development (UNCTAD), as

8. *Ibid.*, p. 347.

9. OJIMI, V. (1979).

10. BRAILOVSKY, V. (1998).

11. EATWELL, J. *Ob. cit.*, pp. 347-348.

well as in a number of other international forums, including the World Trade Organization (WTO). At least six basic areas of discontent with the status quo have been expressed¹².

First, it is evident that many developing countries specialize in the production of primary products, including agricultural goods, metals, and minerals. Primary-product producers claim they are exploited by buyers in the developed world due to the highly competitive and volatile nature of market conditions for these goods.

Second, economic development typically is seen as synonymous with industrialization. As developing countries attempt to move into manufacturing and industry, the role played by export markets in the developed countries becomes vital. Those industries most likely to be viable in the early stages of industrialization, such as labor-intensive industries: textiles, apparel, and footwear. Those are the very ones that receive the strongest protection in industrialized countries, limiting the export markets available to nations struggling to industrialize¹³.

As a third area of dispute, developing countries have limited resources to spend on the research and development that give rise to technological innovation. Many of societies of the developing world need to face the phenomenon by which their governments are more concern with maintain military operations –evident in the case of the war against narcotics- rather than implementing mechanisms for investment in education, infrastructure, science and technology.

In terms of the “know-how” technological procedures, one possible shortcut is to borrow and adapt technology already in place in more advanced economies. Due to the international system of patents and to the monopoly power held by some technologically innovative firms, developing countries feel their development efforts are being hampered by the high prices charged for borrowed technology.

Fourth, various international organizations are concerned with the process of economic development including the World Bank (WB) the International Monetary Fund (IMF) and the World Trade Organization, as well as UNCTAD and numerous others. Within many of these organizations, such as the World Bank and the International Monetary Fund, a country's voting rights are determined by the country's economic size. The develop-

12. SEE MOCHÓN Francisco (2007) pp. 46-53.

13. JOHNSON, Harold (2004).

ing countries claim that this voting system prevents their voices from being heard even though they represent the majority of the world's population¹⁴.

Another factor of dispute is related with the flow of aid from developed to developing countries. This aid accelerated noticeably during the 1950s and 1960s before slowing through the 1970s, 1980s, 1990s and the first decade of the XXI Century. Developing countries are claiming a right to a later and more stable share of the gross national product (GNP) of developed countries in the form of aid, preferably administered multilaterally and with no strings attached. One of the specific spheres in which this controversial point takes place is regarding environmental use of energy, natural systems, and in general ecological measures¹⁵.

Finally, developing nations need to face the problem of external debt. Nowadays, that apparently is not a problem. Debtor countries are paying with no evidence of insubordination; problems arise when troubles are for those who previously lend financial resources. The external debt of the developing world, as a whole, escalated rapidly in the 1980s, and to somehow during the 1990s. This tendency threatens the solvency of a number of countries. The debts are owed to both international agencies, and increasingly, private sources such as US commercial banks. These debts, along with the associated interest payments, are viewed as a hindrance to development. Some developing countries are calling for repayment exemptions or, at the very least, more favorable repayment schedules¹⁶.

During the seventies, demands dealing with these issues were known as part of the claim for a New International Economic Order (NIEO). For obvious reasons, some of the demands have met stiff resistance among the developed countries; other issues currently are the subjects of active negotiations.

14. See United Nations Organization (1992) p. 54.

15. Some of the basic concepts concerning operations with the International Monetary Fund -IMF- are useful to keep in mind in studying the economic adjustment plans carried out in developing nations. A country's subscription is the amount of money it pays into the International Monetary Fund when it joins the organization. Based on its subscription, a country is granted a quota which defines how much money it can borrow from the IMF. The **General Arrangement to Borrow** is a line of credit provided to the IMF by its major members. The **Gold Tranche** is the proportion of a member's line of credit at the IMF that can be automatically borrowed. It equals 25 percent of the country's subscription to the IMF. The remaining portions of a country's line of credit, called credit tranches, are more difficult to obtain. Normally, if a country wants to borrow more than 50 percent of its drawing rights, the **letter of intent**, describing the policies it plans to follow to overcome difficulties, will lead to its request for funds. SEE Walther Ted (1997) especially Chapters 4 and 7; also: MOSER, Carolina (2004), MUKUM, John, et.al. (2003), MYRDAL, Gunnar.(1969), OCAMPO, José (ed.) (2005).

16. DORNBUSCH, Rudy, *et. al.* (2009) p. 750.

TOPICS CONCERNING COMMODITY MARKETS

The difficulties faced by commodity exporters in general, and more especially by developing countries, heavily dependent on commodity export earnings. Commodity-dependent developing countries suffered from an enormous setback during the 1980s, caused by the very depressed level of commodity prices, especially in real terms. Price has continued to fall in real terms for most commodities and in nominal terms for many even though from 2003 to 2008 those prices had important enhance.

Over the last three decades, the traditional structural problems faced by commodity producers and exporters, such as price and earnings instability and relatively slow growth in demand, have been exacerbated by rapidly increasing supplies. The latter stem from increased productivity and the emergence of new and efficient producer, coupled with the inability of inefficient ones to diversify into other economic activities. This has been the case, in particular for cocoa and vegetable oils.

For a wide range of commodities exported by developing countries, the expansion in supply has also reflected the pressure to increase exports resulting from the need to service large foreign debts. Moreover, for several commodities such as cereals, sugar, vegetable oils, meat and most dairy products, high levels of producer support in developed countries have been the main factor behind times with excess supplies¹⁷.

The economic reforms introduced in developing countries have had mixed results in the commodity supply and export earnings. While much inefficiency have been correct by these reforms, in several cases established export structures have been destroyed and new difficulties have emerged in commodity exports. Devaluations have contributed to reducing real wages in many developing countries, permitting lower prices for commodity exports.

Among the developing regions, the biggest losses have been experienced by Africa and, to some extend, Latin America. The reason is that the prices of commodities such as tropical beverages, which have a relatively larger weight in the commodity exports of those regions, declined more than those of commodities such as natural rubber, vegetable oils and timber, which are relatively more important export items for Asia¹⁸.

Products such as wheat and vegetable oilseeds and oils, whose prices were rising in the recent period, are proportionately much more important for developed countries and have led to a relatively better performance on the price index of their commodity exports.

17. Trade and Development Report 1993, Ob. cit. p. 30.

18. SEE HELLINER, G. (2004). See also, ANTESANA, Oswaldo. Ob. cit. p. 78; PORTES, Alejandro (2007) PUIGNAU, Juan (2002), RASIAH, Rajah (2009) and RITTBERGER, V. (ed.) (1993).

THE UNEQUAL ACCESS TO MARKETS

According to Human Development Reports from 1992 to 2008, in a large perspective, developing countries suffer major losses because they do not have wider market opportunities. There are two main reasons for this situation. First, even where markets work freely, the poor nations participate as unequal partners. Second, where developing countries might have a competitive advantage, the markets are often restricted.

For example, the situation in the capital markets; the developing countries have paid extremely high real interest rates in some periods, because of their economic weakness, and because of perceptions of the risks of lending to them.

The weakness of developing countries is also evident in commodity market and in the markets for services -where they would probably gain at least some US\$ 20 billion per year, if they did not lack the necessary access and finance to compete on an equal base.

In terms of market restrictions, the most evident circumstance is probably in the labor market. Immigration controls cost, at a conservative estimate, US\$ 250 billion. Restrictions on the flow of goods because of tariff and non-tariff barriers cost at least US\$ 100 billion a year. Of this amount US\$ 35 billion are due to restrictions on manufactures (the Multi-Fiber Arrangement alone accounts for US\$ 24 billion), and US\$ 5 billion are due to restrictions on tropical, resources based and agricultural products. Technology markets are also closely guarded. The losses there for developing countries may be in the range of US\$ 20 billion, though it is difficult to make an accurate estimate¹⁹.

Millions of people have suffered from international trade protectionism, rising interest rates, declining terms of trade and inadequate financial resource transfers. Some examples can help illustrate the human cost based on a quantitative study from United Nations Organizations, taking as illustration the decade of the 1980s.

For example, trade barriers have translated directly into lost income for sugar-cane growers - they may have lost as much as US\$ 87 billion each year²⁰.

In the same track, but regarding primary export goods, although Uganda's volume of coffee exports went up by one fourth between 1986 and 1989,

19. Human Development Report 1992, Ob. cit, p. 66.

20. Ibid, p. 67.

its total export revenues dropped from US\$ 395 million to US\$ 273 million due to declining world market prices and the shift from roust to arabica coffee. The country's coffee farmers took the brunt of the fall as did coffee farmers in other parts of the world²¹.

In terms of macroeconomic measures, the economic crisis of the 1980s, and the ensuing structural adjustment programs have, in many highly indebted countries put social expenditures in a severe squeeze and directly affected people's lives -infant mortality, school enrollment and nutrition. External debt payments have, in many developing countries, absorbed a quarter to a third of the government's budget. This fact would be affected by the new international order, in which national governments have seen diminish their influence and effectiveness of policies, affected by multinational or transnational organizations²².

A study conducted by Ian Goldin, Odin Knudsen and Dominique van Mensbrugghe, from the World Bank and the OECD Development Center concludes that the world as a whole will be at least US\$ 213 billion a year richer by 1992 after a GATT deal, but that sub-Saharan Africa will be US\$ 2. 6 billion poorer. Other countries that might also be worse off include Indonesia and some Caribbean islands. Some people have seized on these findings to argue that -with the Uruguay Round successfully ended-, the winners have a duty to spend some of their gains helping the losers²³.

With the current process of globalization, especially in terms of the multinational or transnational influences in the Third World, it is possible that aggregate national accounts for less developed countries may mask the fact that earnings from exports are not acting in benefit of all sectors or institutions within domestic national conditions. The principal or major advantage or gains can go to non-nationals. Usually this type of operations is carried out by repatriation of earnings; mining, oil and agricultural large units of production may have this feature. For example, in Colombia, as a whole, the gold mining activity gives to the county's national accounts 4% of the revenue²⁴.

21. *Ibíd.*

22. A new economic world order has emerged reaching an advanced stage of globalization: just 450 multinational corporations in 2008 had sales greater than 1 billion US\$. They were responsible for 20 percent of the total worldwide industrial value added. See Mortimore, M. (1993). See also: Day, Richard (2004), Diesing, Paul. (2009), Echeverría, Rubén (2001).

23. See *Economist*, The (1993) December 18-24, 1993. (London: The Economist) p. 66.

24. See Kalmonovich, Salomon (2011) *El Espectador*, lunes 6 de junio, p. 28.

FINAL CONSIDERATIONS AND CONCLUSIONS

Trade can be an important instrument for achieving development from the present conditions of less developed countries, notwithstanding considerations discussed here are general. They need to be specific in terms of concrete conditions of a particular nation at any given point in time.

Trade has been an important stimulus to economic growth, as the experiences of Brazil, South Korea, Singapore, and oil exporter's countries have proof. Nevertheless, exacerbation of exports based on natural resources without significant added value, can be transformed into negative effects on social and economic conditions. An example of this last situation is economic phenomenon known as "Dutch disease", with all its distortions regarding domestic prices.

Third World nations whose political economic policies are based on trade can create overall conditions to greater use of idle resources, being these human and capital. By the generation of more earnings through improved exports qualities and added value from those products, nations can augment their scarce financial resources. This is not strange to the traditional trade theory.

In real terms, with empirical evidence specially from Latin American, African and several Asian countries, major benefits of international trade have disproportionately go to rich nations and wealthy nationals within domestic conditions of poor nations. This general condition has reinforced the status of highly inequity in institutional, social, political and economic contexts. Nowadays, multinational or transnational companies control enormous amounts of the world natural resources.

It is important, in terms of international trade negotiations, that developing nations –probably as a group– extract favorable trade conditions from more developed nations especially regarding the elimination of barriers to exports of less developed countries, based on labor-intensive manufactured goods. In this sense, the coming out of the World Trade Organization has the potential of improving conditions of international trade for less developed countries.

If developing nations cannot transform their structure of exports, inducing innovative production for more added values in exports, they will not be able to take advantage of the theoretical construction –mainly from the neoclassical theory- of the "free trade" argument. If these developing nations cannot solve this challenge, they will keep living under the present scenario characterized by imbalance in international power and wealth. These nations will benefit little by the current state of affairs and in some cases they will continue with conditions no dramatically different from

those of the neocolonial dependence in terms of trade, technological links and financial relationships.

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