INTERNATIONAL TRADE POLICIES, INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT

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Abstract

Although it is commonly accepted that trade liberalization leads to a more rapid growth and development, some authors state that trade liberalization is mainly determined domestically, and opening up of trade and an investment regime help to stimulate and accelerate it.
Foreign trade liberalization policy, for it to be effective in the economic development of a country, has to be followed by a number of interventions, transformations on restrictions, monetary problems, economic stabilization and structural reforms.
By the recent GATT agreement, a considerable increase in trade, investments, income and well-being is generally assumed also for developing countries as a result of a better access to the markets of developed countries and the opening up of trade.

Résumé

Quoiqu'il soit couramment accepté que la libéralisation du commerce donne lieu à une croissance et à un développement plus rapide, certains auteurs affirment que ladite libéralisation n'est ni nécessaire ni suffisante.
La croissance et le développement sont principalement déterminés à l'intérieur, l'ouverture commerciale et un régime d'investissements jouent un rôle de stimulation et d'accélération.
La politique de libéralisation du commerce étranger, pour qu'elle soit efficace dans le développement économique d'un Pays, doit être accompagnée par un ensemble d'interventions, de modifications des restrictions, de problèmes de devise, de stabilisation économique et de réformes structurelles.
Par le récent accord GATT, on suppose, en général, une augmentation significative du commerce, des investissements, du revenu et du bien-être aussi pour les Pays en voie de développement suite à un meilleur accès aux marchés des pays développés et à leurs ouvertures commerciales.

In a classic article, Nurkse (1959) pointed out that the export sector was the leading sector and operated as an «engine of growth» for the regions of recent settlement during the nineteenth century. This is in sharp contrast to the situation prevalent in the majority of developing countries today because of much less favorable demand and supply conditions. Today, it is widely agreed that although it can greatly facilitate growth, international trade operates more as a «handmaiden» than as an engine of growth (Kravis, 1970). This has been confirmed by a large number of empirical studies, among which: Salvatore (1983, 1992), Reidel (1984), Ram (1987), Salvatore and Hatcher (1991), Dollar (1992), and Greenaway and Sapsford (1995). In this paper, I will begin by presenting some basic trade data for major developing-country groupings and countries. Then I will review the experience with the recent move toward trade liberalization in most developing countries. Finally, I examine the relationship between strategic trade policies, endogenous growth, and economic development, and evaluate the effect of the implementation of the Uruguay Round agreement on economic development.

Background trade data for developing countries

Table 1 shows the value of merchandise exports and imports in 1992, their growth between 1970-1980 and 1980-1992, and the terms of trade (the ratio of export to import prices multiplied by 100) in 1985 and 1992 for major developing-country groupings and countries. The table shows that the merchandise exports and imports of all developing countries as a group were less than one third of the merchandise exports and imports of the high-income economies in 1992. The value of exports and imports of Korea were almost as high as those of China (a much larger country) and larger than the combined exports of Argentina, Brazil, and Mexico, while the exports and imports of Bangladesh, Pakistan, and Egypt are very small for their size. The growth of exports between 1970-1980 and 1980-1992 declined for Sub-Saharan Africa (because of the serious drought in the 1980s), in the Middle East & North Africa and in Indonesia (because of the decline in petroleum prices), in Korea (where, however, it remained very high), and in Argentina, Brazil and Mexico, but it increased sharply in China, Thailand, and South East Asia (especially, Pakistan). The striking thing about imports is their sharp decline between 1970-1980 and 1980-1992 in Sub-Saharan Africa, in the Middle East & North Africa, as well as in Latin America (which included the most severely indebted countries). Between 1985 and 1992, the terms of trade deteriorated for all groups of developing countries (especially for the countries of Sub-Saharan Africa and Middle East & North Africa), except for low- and middle-income Europe and Central Asia, Korea, Brazil.

Table 2 presents the change in the structure of merchandise exports between 1970 and 1992. It shows that the share of fuels, minerals and metals exports increased for the countries of Sub-Saharan Africa, for the countries of the Middle East and North Africa, and for the severely indebted countries, but declined for all other groups of countries. It declined sharply for Thailand and increased sharply for Argentina and Mexico. The share of the exports of other primary commodities declined (sometimes sharply) for every group of countries and individual countries listed. The share of machinery and transport equipment increased sharply for all groups and most individual countries, except for Bangladesh and Algeria (where it declined). The same is true for other manufactures, except for Algeria and Mexico, and for textiles and clothing (especially for Indonesia, Thailand, Bangladesh, Pakistan, Greece, and Turkey), except for Korea and the high-income economies. To be noted is that even though there has been a shift away from the export of primary commodities and toward the export of manufactured exports between 1970 and 1992, the exports of primary commodities remained substantial in 1992 period in most cases.

Table 3 shows the share of total imports of food, fuels, other primary commodities, machinery and transport equipment, and other manufactures in 1970

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Table 1 ***Merchandise trade.***

	Merchandise Trade (billions of dollars)		Average Annual Growth Rate (percent)				Terms of Trade (1987=100)	
	Exports 1992	Imports 1992	1970-80	Exports 1980-92	Imports 1970-80	1980-92	1985	1992
Sub-Saharan Africa	63	60	2.8	2.4	3.0	–2.7	107	88
East Asia & Pacific	282	290	9.5	10.5	7.8	8.8	96	103
China	85	81	8.7	11.9	11.3	9.2	109	99
Indonesia	34	27	7.2	5.6	13.0	4.0	134	92
Korea, Republic of	76	81	23.5	11.9	11.6	11.2	103	106
Thailand	32	40	10.3	14.7	5.0	11.5	91	91
South Asia	32	39	3.6	6.8	2.7	2.1	97	91
Bangladesh	2	3	3.8	7.6	-2.4	1.4	122	102
India	20	23	4.3	5.9	3.0	1.9	96	92
Pakistan	7	9	0.7	11.1	4.2	3.6	90	77
Europe & Central Asia	141	179	...	...	...	...	92	101
Greece	10	23	10.9	4.8	3.2	5.9	94	101
Portugal	19	30	1.2	11.6	1.0	10.4	85	104
Turkey	15	23	4.3	9.0	5.7	9.6	82	111
Middle East & N.Africa	117	112	3.9	0.8	15.6	–2.9	129	93
Algeria	12	8	–0.5	4.3	12.1	–5.1	174	86
Egypt, Arab Rep.	3	8	–2.6	3.1	7.8	–1.2	131	95
Latin America & Caribbean	128	149	–0.1	2.9	3.6	0.6	114	95
Argentina	12	15	7.1	2.2	2.3	–1.7	110	110
Brazil	36	23	8.5	5.0	4.0	1.5	92	108
Mexico	27	48	13.5	1.6	5.5	3.8	133	120
Low-Income Countries	177	184	3.3	6.9	6.0	2.7	106	90
Middle-Income Countries	586	646	4.0	3.7	6.1	2.2	109	98
Severely Indebted Countries	135	144	9.5	2.8	5.9	–0.3	118	92
High-Income Countries	2,812	2,956	5.4	4.9	2.4	5.8	98	99

Source: World Bank, World Development Report 1994. Washington, D.C.

and 1992. The table shows much more stability in the various categories of imports as compared with exports between 1970 and 1992 for most country groups and individual countries listed. The only exception was the sharp decline in the share of food imports of Indonesia, Korea, Bangladesh, and India (as a result of the green revolution), and the sharp increase in the share of fuel imports of China, Korea, Indonesia, India, Pakistan, Turkey, and Brazil. As expected, however, the share of developing countries' imports of manufactured goods remained very high as compared with their share of primary commodity imports both in 1970 and 1992. This can be explained by the fact that many developing countries do not produce many manufactured products, such as specialized machinery, that is important for their industrialization and economic development.

Trade liberalization in developing countries

Starting in the early 1970s, an increasing number of developing countries, especially those that had opted for an inward-oriented strategy or import-substitution industrialization (ISI) during the 1950s and 1960s, began to liberalize trade. This involved replacing quantitative restrictions (QRs) with tariffs, reducing and simplifying import tariffs and import taxation, reducing impediments to exports, as well as eliminating or reducing currency overvaluation. These trade-liberalizing measures were intended to promote the more efficient use of resources in the country by (1) eliminating the static costs of protection (such as the higher prices paid by domestic consumers of the product), (2) overcoming X-inefficiencies (i.e., the cost associated with the «quiet life»), (3) taking away the incentive for such unproductive or rent-seeking activities as lobbying to retain or impose trade regulations, (4) making economies of scale possible, and (5) stimulating the flow of investments and advanced technology from abroad (Kol, 1995).

Some countries (such as Chile, Greece, Israel, New Zealand, and Singapore) consistently pursued liberalization during the past two decades. Others (such as Argentina, Brazil, Columbia, Mexico, Pakistan, Peru, the Philippines, and Turkey) were not as consistent and their commitment to trade liberalization during some years wavered. In general, the majority of the more liberalizing countries were smaller, had a higher per capita income, and were more politically stable than those countries that were less consistent in their liberalizing efforts. In addition, while the shift from an inward-oriented to an outward-oriented strategy can best be accomplished by removing existing trade barriers and devaluing the nation's currency, many countries (mostly in the second group that was less consistent in its liberalization efforts) used export incentives without eliminating or significantly reducing their import barriers or devaluing their currency. As a result, the growth of their exports was half as large as that for the more liberalizing countries. Furthermore, while exports grew at about the same rate as GDP in the less liberalizing countries, exports grew significantly faster than GDP in the more liberalizing countries and, therefore, behaved more like the leading sector in these countries. Research by Michaely et al (1991), Falvey and Dong (1992), Greenaway (1993), and Kol (1995) showed that in

Table 2 ***Structure of merchandise exports (percentage share).***

	Fuels, Minerals and Metals		Other Primary Commodities		Machinery and Transport Equip.		Other Manufactures		Textile and Clothing	
	1970	1992	1970	1992	1970	1992	1970	1992	1970	1992
Sub-Saharan Africa	37	44	46	32	2	3	15	21	1	2
East Asia & Pacific	22	11	45	15	6	25	27	50	13	20
China	11	7	19	14	15	15	55	64	29	30
Indonesia	44	38	54	15	0	4	1	44	0	18
Korea, Republic of	7	3	17	4	7	40	69	53	36	20
Thailand	15	2	77	32	0	22	8	45	1	17
South Asia	9	6	44	21	3	5	45	69	28	41
Bangladesh	1	0	35	18	1	0	64	81	49	72
India	13	8	35	21	5	7	47	64	25	25
Pakistan	2	1	41	20	0	0	57	79	47	69
Europe & Central Asia	..	..	..	..	..	..	..	..	..	..
Greece	14	11	51	36	1	5	33	49	7	27
Portugal	5	5	31	12	8	21	56	62	25	30
Turkey	8	4	83	24	0	9	9	63	5	39
Middle East & N.Africa	74	85	18	5	1	1	7	9	3	4
Algeria	73	97	20	0	2	1	5	2	1	0
Egypt, Arab Rep.	5	51	68	14	1	1	26	34	19	18
Latin America & Caribbean	43	32	45	30	2	14	9	24	1	3
Argentina	1	10	85	64	4	8	10	19	1	1
Brazil	11	13	75	29	4	21	11	37	1	4
Mexico	19	34	49	13	11	31	22	21	3	2
Low-Income Countries	29	21	44	17	4	9	24	53	13	26
Middle-Income Countries	40	32	32	19	9	18	18	31	4	10
Severely Indebted Countries	22	34	47	27	13	14	16	25	3	4
High-Income Countries	11	7	16	11	35	43	38	39	6	5

Source: World Bank, *World Development Report* 1994. Washington, D.C.

the design of trade liberalization policies, nations should transform quantitative restrictions (QRs) into tariffs first (so as to remove distortions from rent seeking and monopoly power and increase transparency) and then gradually lower tariffs, starting from the highest tariffs first. Trade liberalization should also be preceded or accompanied by a real depreciation of the nation's currency to eliminate overvaluation. The authors show that this sequencing of trade liberalization measures is likely to generate the largest welfare gains for the nation.

Michaely et al (1991) and Thomas et al (1991) also showed that liberalization policies are more likely to be sustained in the long run if they are (1) initiated in the midst of macro-economic difficulties, (2) carried out in a crisis atmosphere and under international pressure, and (3) launched in a single bold move rather than with a number of small hesitant steps over time. There is also a consensus that the likelihood of success for a program of trade liberalization is much greater if trade liberalization follows macro-economic stabilization than if it precedes it, or if it is undertaken at the same time. Managing one type of stabilization at the time makes each more manageable. Furthermore, when macro-economic stability has already been achieved and prices are playing their full signaling role, it is more likely that trade liberalization will achieve its desired results. As Sachs (1987) pointed out, prior macro-economic stabilization was crucial to the success of the trade liberalization programs in Japan and Taiwan in the late 1950s and early 1960s. Empirical research on the political economy of trade liberalization by Nabli (1990) also showed that trade liberalization is more likely to succeed (1) the greater is the strength of the exporter group, (2) the smaller is the strength of the import-competing sector's opposition, (3) the smaller is the time for which the import-substitution measures were in place, (4) the smaller the size of the country, and (5) the stronger is political leadership and its commitment to a program of trade liberalization.

The World Bank has greatly facilitated the planning and the carrying out of trade liberalization programs with technical assistance and loans. The Bank (1994) began its lending for structural adjustment in 1980 and by 1993 more it had lent more than $20 billion to more than 60 countries for the purpose of implementing structural or sectoral reforms. The largest number of loans went to Sub-Saharan African countries, but since these loans were generally small, a much larger amount went to other developing countries. The purpose of the Bank's loans also varied. In Sub-Saharan Africa, the loans went mostly to support agriculture (to increase producer prices and setting up or improve extension services and research) and to carry out institutional reforms in the public sector (to restructure production and finances, and for divestiture). On the other hand, in other highly indebted countries, Bank loans went mostly for trade (to remove disincentives for and to encourage exports) and for financial sector policies (such as reforming the banking system and establishing financial intermediaries).

Spurred by the debt crisis that started in 1982 and the evident success of the early outward-oriented developing countries, and prompted and helped by the World Bank and the IMF to undertake economic reforms, many more LDCs adopted trade-liberalizing policies during the late 1980s and early 1990s. These resulted in lower average tariffs in most

Table 3 ***Structure of merchandise imports (percentage share).***

	Food		Fuels		Other Primary Commodities		Machinery and Transport Equip.		Other Manufactures	
	1970	1992	1970	1992	1970	1992	1970	1992	1970	1992
Sub-Saharan Africa	11	12	4	8	4	4	38	39	42	37
East Asia & Pacific	13	6	7	10	10	9	33	39	37	36
China	7	5	1	4	9	9	39	38	43	44
Indonesia	12	6	2	8	4	9	35	43	47	34
Korea, Republic of	17	6	7	18	21	12	30	35	25	28
Thailand	5	6	9	8	7	8	36	41	43	37
South Asia	25	10	7	19	13	11	24	22	31	39
Bangladesh	23	16	13	16	11	20	22	17	32	31
India	21	5	8	23	19	12	23	18	29	42
Pakistan	21	15	6	16	7	7	31	35	35	27
Europe & Central Asia	..	..	..	..	..	..	..	..	..	..
Greece	11	15	7	10	9	4	48	34	25	38
Portugal	4	12	9	8	13	5	30	38	34	37
Turkey	8	6	8	17	8	9	41	35	36	33
Middle East & N.Africa	19	16	3	5	7	5	32	35	39	39
Algeria	13	26	2	3	6	5	37	32	42	34
Egypt, Arab Rep.	23	29	9	1	12	10	27	26	29	34
Latin America & Caribbean	11	11	11	10	7	5	35	40	36	35
Argentina	6	6	5	3	16	5	31	46	42	40
Brazil	11	9	12	22	8	6	35	33	34	29
Mexico	7	11	3	3	9	5	50	48	31	33
Low-Income Countries	16	9	6	9	7	9	31	34	40	40
Middle-Income Countries	13	11	10	10	9	6	34	38	34	35
Severely Indebted Countries	14	12	10	10	8	5	34	39	34	34
High-Income Countries	16	10	10	9	16	6	25	35	33	41

Source: World Bank, *World Development Report* 1994. Washington, D.C.

developing countries (particularly those of Latin America), sharply lower quantitative restrictions on trade (especially in the developing countries of East Asia and Latin America), and reduced currency overvaluations (measured by the reduction in average black market exchange rate premia), especially in African countries (see **tables 4, 5,** and **6**).

Strategic trade policies, endogenous growth, and economic development

During the past two decades, new trade theories based on imperfect competition and economies of scale have been developed to complement the Heckscher-Ohlin factor-endowment theory, and these have given rise to strategic trade policy as a new argument for trade intervention and protectionism in developed and developing countries alike (Krugman, 1986). According to this, a nation can create a comparative advantage (through temporary trade protection, subsidies, tax benefits, and cooperative government-industry programs) in such fields as semiconductors, computers, telecommunications, and other industries that are deemed crucial to future growth in the nation. These hi-tech industries are subject to high risks, require large scale production to achieve economies of scale, and give rise to extensive external economies when successful. Strategic trade policy suggests that by encouraging such industries, the nation can achieve economies of scale in production and reap the large external economies that result from them, and thus enhance its future growth prospects.

Although strategic trade policy can theoretically improve the market outcome in oligopolistic markets subject to extensive external economies and increase the nation's growth and welfare, even the originators and popularizers of this theory now recognize the serious difficulties in carrying it out. First, it is extremely difficult to pick winners (i.e., choose the industries that will provide large external economies in the future) and devise appropriate policies to successfully nurture them. Second, when other nations also play the game, a prisoners' dilemma situation results, in which all nations many end up losing. Third, and most important for our analysis, developing countries (with the possible exception of the NICs) are seldom significant players in oligopolistic global markets, and so strategic trade policies are even less applicable to them than to developed countries. Fourth, empirical studies indicate that even under the best of circumstances strategic trade policies yield only small gains. For all of these reasons, strategic trade theory does not seem as promising as it once seemed, especially for developing countries.

Another recent theoretical advance of relevance to economic development – but one that calls for trade liberalization rather than trade restrictions – is endogenous growth theory. Starting with Romer (1986), Lucas (1988), and Rodrik (1988), endogenous growth theory seeks to provide a more convincing and rigorous theoretical basis for the relationship between international trade and long-run economic growth and development. The new theory of endogenous growth postulates that lowering trade barriers will speed up the rate of economic growth and development in the long run by (1) allowing developing nations to absorb the technology developed in ad-

Table 4 ***Average nominal tariff***[a]**.**

	Pre-reform[b]	Post-Reform[c]
Africa		
Ghana (1983, 1991)	30	17
Kenya (1987, 1991)	40	34
Madagascar (1988, 1990)	46	36
Malawi (1986, 1991)	26	n.a.
Nigeria (1984, 1990)	35	33
Tanzania (1986, 1992)	30	33
Zaire (1984, 1990)	24	25
East Asia & Pacific		
China (1986, 1992)	38	43
Indonesia (1985, 1990)	27	22
Korea (1984, 1992)	24	10
Malaysia (1985, 1993)	n.a.	14
Philippines (1985, 1992)	28	24
Thailand (1986, 1990)	13[d]	11[d]
South Asia		
Bangladesh (1989, 1993)	94	50
India (1990, 1993)	128	71
Pakistan (1987, 1990)	69	65
Sri Lanka (1985, 1992)	31	25
Latin America		
Argentina (1988, 1992)	29	12
Brazil (1987, 1992)	51	21
Chile (1984, 1991)	35	11
Colombia (1984, 1992)	61	12
Costa Rica (1984, 1992)	53[e]	15[e]
Mexico (1985, 1990)	24[f]	13[f]
Peru (1989, 1992)	66[e]	17
Venezuela (1989, 1991)	37	19

Source: Dean et al (1994).

[a] Unweighted, rounded to nearest integer.
[b] Prior to the most recent trade reform (first date in parenthesis).
[c] Second date in parenthesis.
[d] Data are import-weighted.
[e] Includes surcharges.
[f] Production-weighted data.

Table 5 ***Quantitative restrictions (QRs) coverage***[a]**.**

	Pre-reform[b]	Post-Reform[c]
Africa		
Ghana (1983, 1991)	all[e]	2[e]
Kenya (1987, 1991)	71	0
Madagascar (1986, 1990)	100	0
Malawi (1986, 1991)	all[e]	few[e]
Nigeria (1984, 1988)	all[e]	17[e]
Tanzania (1986, 1992)	all[e]	100[e]
Zaire (1984, 1990)	100	100
East Asia & Pacific		
China (1986, 1992)	n.a.	70[f]
Indonesia (1985, 1990)	32	10
Korea (1984, 1992)	23	<5
Malaysia (1985, 1992)	<5	<5
Philippines (1983, 1992)	100	<5
Thailand (1986, 1990)	<5	<5
South Asia		
Bangladesh (1989, 1993)	40	10
India (1990, 1993)	93[d]	<50[d]
Pakistan (1980, 1986)	63[d]	33[d]
Sri Lanka (1985, 1992)	a few	0
Latin America		
Argentina (1988, 1992)	88	a few
Brazil (1987, 1992)	39	a few
Chile (1984, 1991)	a few	0
Colombia (1984, 1992)	99	1
Costa Rica (1985, 1992)	n.a.	0
Mexico (1985, 1990)	92[d]	20[d]
Peru (1988, 1992)	100	0
Venezuela (1989, 1991)	40	10

Source: Dean et al (1994).

[a] The percentage of tariff line subject to quotas, bans or licensing requirements, rounded to the nearest integer.
[b] Prior to the most recent trade reform (first date in parenthesis).
[c] Second date in parenthesis.
[d] Production-weighted data.
[e] Number of goods or categories.
[f] Data are import-weighted.

vanced nations at a faster rate than with a lower degree of openness, (2) increasing the benefits that flow from research and development (R&D); (3) leading to larger economies of scale in production, (4) reducing price distortions and leading to a more efficient use of domestic resources across sectors, and (5) encouraging greater specialization and more efficiency in the production and use of intermediate inputs.

To be sure, many of these ways by which freer trade can stimulate growth and development had been recognized earlier. Previous theorizing, however, was much more casual and less rigorous. The new theory of endogenous growth probes deeper and seeks to spell out more rigorously and in greater detail the actual channels or the ways by which lower trade barriers can stimulate growth in the long run. In particular, endogenous growth theory seeks to explain how technological advance is generated endogenously within the economic system itself and how this creates externalities which can offset any propensity to diminishing returns to capital accumulation, as postulated by neoclassical growth theory.

In spite of the progress made by the new theories of endogenous growth in spelling out theoretically the channels through which freer trade leads to faster economic growth and development in the long run, it has been difficult to test these links explicitly in the real world because of lack of more detailed data. In fact, as Edwards (1993) and Pack (1994) point out in their excellent review articles, most empirical tests to date have been based on broad cross section data for groups of countries and are not very different from the empirical studies conducted earlier. That is, these new empirical studies have generally shown that openness leads to faster growth, but they have not been able to actually test in detail the specific channels by which trade is supposed to lead to growth in the long run – which is the major theoretical contribution of endogenous growth theory. For this, more specific industry and country time series studies examining in detail the relationship between innovation, trade, and growth over time are needed.

Even though it now more or less agreed that trade liberalization leads to faster growth and development, the East Asian experience (miracle) has been used by some to conclude that trade liberalization is neither necessary nor sufficient for rapid growth (Rodrik, 1992; Romer, 1993; World Bank, 1993; Bradford, 1994; UNCTAD, 1994). The «East Asian Miracle» refers to the extremely rapid growth of international trade and output of such countries as Japan, Korea, and Taiwan during the past four decades. Such extremely rapid and sustained growth has occurred in the face of strong interference with the free flow of international trade, at least in the earlier part of the period. In fact, until at least the mid-1960s, the external sector of all these economies was highly distorted by many quantitative restrictions, high tariffs, import licensing, and multiple exchange rates. Starting in the mid-1960s, however, these countries progressively liberal-

ized their economic system and trade, to the point where today they can be classified, for the most part, as liberal. But their growth of output and trade continued at extremely high rate throughout this period, from the 1950s and in the face of high trade protection and distortions, and since then as these nations liberalized their trade and economic system. What can we possibly conclude from this East Asian Miracle with regard to the relationship between a liberal trading system and economic development? First, while rapid growth is possible under highly restrictive regimes in the early stages of development, continued rapid growth and development is almost certain to require liberalizing the economic and trade systems. Second, through heavy economic and trade intervention during the 1950s and 1960s, these nations succeeded in creating an environment of stability and predictability, discouraged rent seeking, and implemented effective demand management and supply-oriented policies that promoted the mobilization and efficient allocation of resources and rapid increase in total factor productivity. In short, these nations succeeded in creating a new paradigm, based on a forced-pace advance of industrial capitalism and growth-driven trade made possible by an impressive rate of capital accumulation under the auspices of the State. Given the almost uniformly dismal record of interventionist strategies in most other developing countries, however, one can only view government intervention as a high risk strategy – and one that, in any event, is almost certainly no longer possible or as tolerated under the new World Trade Organization rules. Thus, one can conclude that trade liberalization is all but necessary – even though by itself it is not sufficient – to stimulate rapid growth and development, especially in today's world. Growth and development are primarily determined domestically, but a liberal international trade and investment regime can provide a very strong stimulating and facilitating role.

Table 6 ***Average black market premium***[a]**.**

	Pre-reform[b]	Post-Reform[c]
Africa		
Ghana (1986)[d]	985	17
Kenya (1988)	16	16
Madagascar (1987)	37	13
Malawi (1988)	51	12
Nigeria (1986)	210	27
Tanzania (1984)	242	119[e]
Zaire (1986)	71	9
East Asia & Pacific		
China (1984)	20	88
Indonesia (1986)	8	9
Korea (1987)	4	3
Malaysia (1991)	1	0
Philippines (1986)	11	5
Thailand (1989)	-1	1
South Asia		
Bangladesh (1991)	113	113
India (1991)	12	24
Pakistan (1987)	20	8
Sri Lanka (1987)	15	19
Latin America		
Argentina (1989)	40	21
Brazil (1988)	44	52
Chile (1985)	16	16
Colombia (1985)	9	13
Costa Rica (1986)	215	17
Mexico (1985)	15	10
Peru (1989)	82	12
Venezuela (1989)	103	5

Source: Dean et al (1994).

[a] The premium was calculated as [(black market rate-official rate)/official rate]*100, rounded to the nearest integer. Data are from International Financial Statistics and World Currency Yearbook.
[b] Pre-reform averages are calculated from 1980 up to and including he reform year.
[c] Post-reform averages are calculated from the first year after reform up to and including 1992.
[d] Year of reform in parenthesis.
[e] Premium largely eliminated in 1993.

The Uruguay Round and economic development

The Uruguay Round agreement, which took effect on January 1, 1995, was the most ambitious and comprehensive multilateral trade pact in history. It established rules for checking the proliferation of the new protectionism and reverse its trend; it brought services, agriculture, and foreign investment into the system; negotiated international rules for the protection of international property rights; it improved the dispute-settlement mechanism; and it established the World Trade Organization (WTO) to oversee the operation of the international trading system. The agreement is expected to bring about significant increases in trade, investment, income, and welfare to developed and developing countries in the years to come. Developing countries will benefit from increased access to developed markets and from their own liberalization commitments.

Some of the specific provisions of the agreement of direct relevance to developing countries are the following:

1. *Tariffs* Tariffs on industrial products are to be reduced from an average of 4.7 percent to 3 percent, and the share of goods with zero tariffs is to increase from 20-22 percent to 40-45 percent; tariffs were removed altogether on pharmaceuticals, construction equipment, medical equipment, paper products, and steel.
2. *Quotas* Nations are to replace quotas on agricultural imports and imports of textiles and apparel (under the Multifiber Agreement) with less restrictive tariffs over a ten year period; tariffs on agricultural products are to be reduced by 24 percent in developing nations and by 36 percent in industrial nations, and tariffs on textiles are to be cut by 25 percent.
3. *Subsidies* The volume of subsidized agricultural exports are to be reduced by 21 percent over a six year period.
4. *Untidumping* Antidumping procedures have been tightened, making it much more difficult to use them for projectionist purposes.
5. *Safeguards* Voluntary export restraints, orderly marketing arrangements and similarly restrictive trade measures are banned; existing arrangements are to be phased out in 4 or 5 years.
6. *Intellectual property* The agreement provides for 20-year protection of patents, trademarks and copyrights, but it allows a 10-year phase in period for patent protection in pharmaceuticals for developing countries.
7. *Services* Although services were brought into the system, developed countries failed to secure access to the markets of most developing nations for their banks and security firms so as to provide time for the developing countries to develop their own services industries.
8. *Trade-related investment measures* The agreement phases out the requirement that foreign investors (such as automakers) buy supplies locally or export as much as they import.
9. *Dispute settlement mechanism* Trade disputes are to be settled by a vote of two-thirds or three-quarters of the nations rather unanimously as under GATT (which meant that the guilty nation could block any action against it).

Table 7 shows the pre-Uruguay Round, post-Uruguay Round, and percentage tariff reductions of developed countries by industrial product group (excluding petroleum) on the imports from developing countries, as well as the value of imports of developing countries in each product group and the developing countries that will benefit the most from specific tariff reductions. **Table 8** then shows the escalation of industrial countries' tariffs on the imports of developing countries by broad product group. Although the table shows signif-

Table 7 ***Uruguay Round tariff reductions of developed countries on developing country exports.***

	Imports from LDCs (billion $)	Average tariff			Countries affected
		Pre-Round	Post-Round	% reduction	
All industrial products (excluding petroleum)	169.7	6.8	4.5	34	
Textiles and clothing	33.2	14.6	11.5	21	Bangladesh, Egypt, China, Hong Kong, India, Korea, Morocco, Macau, Pakistan, Sri Lanka, Tunisia
Metals	24.4	2.7	0.9	67	Bolivia, Cameroon, Sierra Leone, Zaire, Zimbabwe
Minerals products	22.2	2.7	0.8	70	Congo, Sierra Leone, Zaire, Zimbabwe
Electrical machinery	19.2	6.3	3.5	44	Malaysia, Singapore
Leather, rubber, footwear	12.2	8.1	6.6	19	Kenya, Nigeria, Paraguay, Uruguay, Cambodia
Wood, pulp, paper & furniture	11.5	4.6	1.7	63	Cameroon, Congo, Ghana, Indonesia, Paraguay
Fish & fish products	10.6	6.5	3.4	48	Belize, Cuba, Ecuador, Honduras
Non-electric machinery	9.8	4.7	1.9	60	Mali, Singapore
Chemicals & photographic supplies	8.2	7.2	4.0	44	Jamaica, Namibia, Niger
Transport equipment	7.6	3.8	3.1	18	—
Other manufactured articles	10.9	6.5	3.4	48	—

Source: GATT, 1994.

Table 8 ***Uruguay Round tariff reductions of developed countries on developing country exports.***

	Value of imports (billion $)	Share of each stage	Tariffs		
			Pre-Uruguay Round	Post-Uruguay Round	Percentage reduction
All industrial products (excluding petroleum)					
Raw materials	37	22	2.1	0.8	62
Semimanufactures	37	21	5.3	2.8	47
Finished products	96	57	9.1	6.2	32
Total	170	100	6.8	4.3	37
All tropical industrial products					
Raw materials	5	35	0.1	0.0	100
Semimanufactures	4	30	6.3	3.5	44
Finished products	5	34	6.6	2.6	61
Total	14	100	4.2	1.9	55
Natural-resource based products					
Raw materials	15	11	3.1	2.0	35
Semimanufactures	13	40	3.5	2.0	43
Finished products	6	17	7.9	5.9	25
Total	34	100	4.0	2.7	33

Source: IMF, *World Economic Outlook*, May 1994.

icant reduction in tariffs and tariff escalation, tariff escalation remains. Finally, **table 9** shows the estimated real income effects as a percentage of GDP of the Uruguay Round on various industrial and developing countries. In terms of 1992 dollars, these benefits amount to over $200 billion, of which about $80 billion accrue to developing countries. As pointed out in Salvatore and McKibbin (1995), however, these benefits refer only the static gains and fail to capture the much larger dynamic gains from trade liberalization that result from scale economies, increased specialization, and enhanced confidence in the world trading system.

To be, sure not all developing countries benefit equally from the implementation of the agreement. Specifically, food importers may face higher prices as a result of trade liberalization in agricultural products in the face of reduced production subsidies by some exporting countries, such as those of the European Union. Some developing countries will also lose the preferential access to developed countries' markets that they had under the Generalized System of Preferences and the Lome' Convention. But with an estimated expansion of 12 percent in world trade and 80 percent LDCs textile exports, most developing countries are likely to be net gainers when all dynamic benefits (not included in the data presented in Table 9) resulting from the full implementation of the Uruguay Round over the next ten years are considered.

Table 9 ***Estimated real income effects of the Uruguay Round: percentage of GDP.***

Industrial Countries	Percentage gain	Developing Countries		Percentage gain
Australia and New Zealand	0.1	Africa:	Nigeria	–0.4
Canada	0.2		South Africa	0.6
European Union	1.4		Other Africa	–0.2
European Free Trade Association	1.4	Asia:	China	2.5
Japan	0.9		India	0.5
United States	0.2		Indonesia	–0.7
			Low-income Asia	0.6
			Upper-income Asia	2.6
Countries in Transition		Middle East	Gulf Region	0.5
Europe	0.1		Maghreb	–0.5
Former Soviet Union	0.1		Other Middle East	–0.4
		Western Hemisphere	Brazil	0.3
			Mexico	0.0
			Other L. America	0.6

Source: IMF, *World Economic Outlook*, May 1994.

Also to be pointed out is that although much was accomplished by the Uruguay Round, more needs to be done. The post-Uruguay Round agenda of importance to developing countries includes: further liberalizing agricultural production and trade, completing negotiations in key service sectors (including financial services and telecommunications), and dealing with environmental, social, and competition policies. These latter issues are very sensitive because the lofty aims of their advocates can easily be perverted to serve deep protectionist purposes (Salvatore and Klein, 1995). For example, the call by some developed countries, such as the United States and France, for a «leveling of working conditions» between developed and developing countries, to avoid «social dumping» (i.e., for developing countries competing unfairly with developed countries by denying their workers basic rights and decent wages and working conditions) can easily be captured by protectionism forces and can in fact become very dangerous instruments of protectionism in the future. It is simply impossible for working conditions and wages in developing countries to be made equal or nearly equal to those in developed countries today or in the near future. If that were possible, developing countries would already be developed rather than developing! ●

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