SOUTH-SOUTH JOURNAL OF CULTURE AND DEVELOPMENT

ISSN 1595-0298

VOLUME 6 No. 2 DECEMBER 2004

AN INTERNATIONAL MULTI-DISCIPLINARY JOURNAL OF CULTURE AND DEVELOPMENT

"COMPARATIVE POLITICAL ECONOMY: A COMPARATIVE STUDY OF THE TRADE POLICIES OF THE RICH AND POOR COUNTRIES"

BY

PETER A. ESSOH
Faculty of Social Sciences
University of Uyo
Uyo – Nigeria

Summary

The main thrust of this paper is not only to show the significance of foreign trade and investment sector in the political economy of developing countries but also to note the extent to which disparities in trade policies of both rich and poor countries have had on the social, cultural, economic and political development of the LDCs.

Despite the discriminatory trade policies of the rich countries of the world, the poor countries – found mostly in the southern hemisphere – trade with the rich to the neglect of their trade policy of integrating on regional basis. This policy of unequal exchange in trade between the north and south breeds tension and calls for not only Regional Economic Integration among countries of the south but a move towards reorganizing world economic relations in what is

popularly known as the North – South Dialogue and the NIEO (New International Economic Order). This, the paper notes, is better appreciated in comparative terms.

INTRODUCTION

The current economic crisis is a major concern for all students of political economy, and especially those studying development problems. Theorists investigate the flaws in our approaches and institutions, which gave birth to this present crisis. Why are some countries rich and others poor? Can there ever be a balance between the two polar opposites in materialist terms? This, and a lot more, is embedded in what we know in political economy, as the Theory of Modernization and Imperialism. Policy makers query the institutions and the rules, which govern and shape economic life in contemporary world system. But the common man often seeks an insight into the working of the national and international economy in order to understand the implications of the crisis and the chaos thus created.

Arising from the above therefore, the basic essence of this paper is not only to show the significance of foreign trade and investment sector in the political economy of developing countries but also see the extent to which the disparities in trade policies of both rich and poor countries have in their social, cultural, economic and political development. And this, it is hope, can be better appreciated in comparative terms.

TRADE POLICIES OF THE RICH COUNTRIES

This section is intended to address the specific trade policies pursued by the rich countries. This will assist us to identify the sort of changes that could increase the impact of trade on development.

Beside the oil producing countries, the international economy in the 1970s up to the '80s was characterized by a sharp division between the rich and poor countries. Between that time and now, the gap has been increasing at an accelerated rate. If international trade is to be restructured so as to enable the poor countries orient their production structures towards specialization in light manufactures and processed commodities, and to use their primary exports as a proper basis for development, the rich countries, it is proposed in this paper, must be prepared to actively encourage such a reorientation. The UN International Development strategy for the two decades of 1970s and 80s emphasized the importance of implementing the General System of Preferences (GSP) negotiated through the UN Conference on Trade and Development (UNCTAD) and of eliminating tariff and non-tariff restrictions on exports from the developing countries. The conference also called for an increased flow of relevant technological knowledge to poor countries. But one is quick to ask, is the international economic system

evolving in accordance with these objectives? These are the issues to examine as we take on items of trade policies of rich countries over the poor countries and vice-versa.

1. TRADE ON PRIMARY COMMODITIES:

Hans Singer and Ansari (1978:73ff) note that the predominant role of primary commodities in the trade of the LDCs (Less Developed Countries) cannot be ignored, for they note further that if the broad category of primary products include raw materials, fuels and unprocessed edibles, exports of primary products constitute over 80% of the export earnings of the LDCs in contemporary times.

It is imperative to point out here that by almost any standards, the protection rates of the rich countries against the exports of the LDCs are excessive. Levels of agricultural protection are substantial. The Common Agricultural Policy (CAP) of the EEC, (now EU) maintains high domestic prices for agricultural commodities by a system of variable levels which ensure that prices do not fall below those specified by CAP, although among EU members, not much restrictions are noticed.

The United States also has a highly protectionist policy concerning agricultural trade, giving much support to domestic farm policies through import quotas. The national agricultural policies of the rich countries constitute the most important impediment in the way of liberalizing trade in agricultural commodities. Such policies have entailed substantial cost to the rich countries themselves. The rich EU countries, USA and Japan, for example, have devised farm policies in order to increase the income of their rural population and to reduce dependence on food imports from the LDCs. This, they do, by raising the price of the agricultural goods and limiting the input of agricultural commodities into the economy. S.G. Johnson (1972) paints a gloomy picture when he says that the trade pattern are disadvantageous to the LDCs, indicating further that the rich countries are dominating international agricultural trade both as sources of exports and as destinations of imports.

The existence of tariffs, administrative barriers, quota restrictions, etc. on the imports of agricultural goods do quite often hamper trade relations between the rich and poor countries. It is commonly recognized, for example, that little or no political or economic disadvantage would accrue to the developed countries if trade restrictions on coffee, cocoa and spices were to be considerably lowered. This is so, as many political economists would concede, because these products do not compete with commodities produced in the industrial countries have synthetic substitutes for coffee, cocoa and spices.

However, some synthetic fabrics, synthetic rubber and synthetic leather, although they have economies of scale, are all part of 'petrochemical' production and their production processes have the

technical and financial characteristics of the petrochemical industry which basically are:

1. It is a highly sophisticated technology
2. It exhibits marked economies of scale
3. It has a long gestation period
4. It requires heavy financial investment
5. It is highly capital intensive
6. It is dominated by large international concerns and the financial barriers to entry are formidable.

Arising from the above therefore, it is not surprising that the products of such an industry has important technological competitive advantages over the natural or primary products of perhaps the most backward sector of the poorer countries.

One or two conclusion(s) can be reached from issues arising from Trade on primary commodities as a policy of the rich countries. That is, that if export diversification has become possible for a large majority of the LDCs, it is clear that international co-operation and co-ordination are inevitably required.

Secondly, it is much more important to tackle the problem of price and revenue instability which confronts the primary exporters.

2. TRADE ON MANUFACTURES:

Political Economists, Economists and other Development Experts are agreed that a number of developing countries have sought to expand manufactured exports as this promises to offset the uncertainties and fluctuations in their primary export receipts. In 1964, for example, the major theme at the first UNCTAD conference was the need for both the rich and poor countries to take measures aimed at the rich countries expanding their exports of manufactured goods to the poor nations. A review of Raul Prebisch's Towards A New Trade Policy for Development (1964), himself Secretary General of UNCTAD, indicates the problem of accelerating industrialization in poorer countries, emphasizing mainly on:

(a) the difficulties created by policies of import substitution based on excessive protectionism; and
(b) the consequent uncompetitiveness of so many products in world markets.

Prebisch's Conference report drew attention to the substantial tariff and non-tariff barriers in the industrialized countries against the import of manufactured goods produced in the poor countries.

The duties and other restrictions on the import of manufactured goods from the poor countries are still relatively high. During the 3rd quarter of the last century, the effective rate of protection on all manufactured imports into rich countries was 19.2% but on manufactured goods from poor countries was 33.4%. This implies, in effect, that the poor countries in general produced and exported goods that had higher import duties. It must also be noted that Textiles,

Cloth; and light manufactures constitute about half of the total manufactured exports of the poor countries. Rich countries, on the other hand, export mainly heavy engineering products.

The textile and clothing industries as well as industries included in the light manufacturing category, are generally speaking labour – intensive. Besides clothing, the poor countries export foot wear, sports goods, travel goods, toys, etc. the differential growth rate is explained by the commercial policies of the rich countries. Whereas textile imports into the rich countries are restricted by high tariffs and also are subject to discriminatory quotas and quantitative limits, the labour intensive nature of other manufactures may encounter high effective tariff barriers.

The trade policies of the rich countries can best be analyzed through looking at the way they operate in world markets. It is in these markets that the rich and poor bargain with each other and it is this bargaining process which determines the relative shares of the total gains from trade. From our discourses thus far, we notice the rich countries are in a stronger position to bargain and set the pace in the process which the weak poor countries toe. A close look at the conduct and practice of international trade in different world markets reveals the shocking and striking facts that the development needs of the poor countries are very rarely taken into consideration and that trade in manufactures and in primary goods is not in general organized in lines that facilitate the development of the LDCs.

TRADE POLICIES OF THE POOR COUNTRIES

The developing countries have pursued trade and commercial policies which have generally been regarded as being protectionist by Political Economist, Development economists, etc of the rich countries. Singer et al (1978) opin that the OECD and IBRD or World Bank have sponsored a number of studies into the trade structure of the developing countries which tended to reach similar conclusions. The study estimated that for a wide range of the LDCs, the degree of protection to domestic industries was quite high and that the intersectoral price distortion which had been introduced by trade and commercial policies had considerably worsened the terms of trade of the agricultural sector.

The rich countries have particularly strong protectionist policies against the kinds of agricultural and manufactured exports which the developing countries are most successful at producing. B. Balasa (1971) notes that the LDCs have reacted to developed country protection by attempting to produce an increasing proportion of their import requirements domestically, except of course for the OPEC countries which have put little or no restrictions on imports. In addition, the policy of rapid import substitution has also been viewed as a key factor determining the rate of industrial growth, a theory to which Chenery gave

empirical support in his 1960 article. In summary, two outstanding features of the structures of protection in the LDCs may be noted thus:

(a) the level of protection is high and has in all probability been increasing over time; and

(c) the structure of protection discriminates in favour of import – substituting manufacturing industries.

We note here as did Balassa (1971:61) and to which Singer et al (1978:10) agree that the rationale of such a trade policy lies in a desire to achieve industrialization. Since the infant manufacturing sector is small and weak, socio-economic policy has been used to manipulate the structure of prices prevailing within the economy so as to facilitate the development of industry. However, the cost that is incurred by the economy as a whole for accelerated industrial expansion is substantial. But whether or not the recent developments in international commodity trade are sufficient to induce the LDCs to reorientate their trade policies depends ultimately on the extent to which these countries feel that existing commodities can be stabilized in relation to the prices of manufactured goods. If, in the long run, the international system cannot guarantee such a stabilization, the costly and generally inefficient trade policies of the LDCs will, in the main, remain unchanged.

ECONOMIC INTEGRATION AMONG THE POOR COUNTRIES: SOME CASE STUDIES:

Programmes of industrial development within the LDCs are severally constrained by both supply and demand conditions. On the supply side, there is a general scarcity of capital, managerial ability, technical know-how and skilled labour. On the demand side, the smallness of the domestic market thwarts growth and expansion. The size of the market is primarily determined by income levels and based on this, such large countries as India, Pakistan and Bangladesh have significant demand constraints on industrial expansion. One possible solution to the problem of market size is offered by the establishment of common markets and economic integration. Thus, as posited by Singer et al (1978:110), regional economic integration among developing countries implies the necessity of developing new economic relations between the LDCs, which in itself is a long drawn-out process.

In this paper, it is intended to present a submission on two regional unions among developing countries. The two case studies are the Latin American Free-Trade Association (LAFTA) and the East African Community (EAC). Such questions as to what extent are these unions successful in establishing new economic relationship between their members with the gradual reduction of their dependence on the

metropolitan countries in whose periphery they at present are?

THE LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

LAFTA was established in 1961. Its founding members were Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The Monterideo Treaty, signed in 1960, which led to the formation of LAFTA, considered the establishment of a Free Trade area to be a first step in the evolution of a Latin American economic community. The treaty provided that within 12 years of its existence, LAFTA member states would abolish virtually all restrictions on trade within the area. As reported by Singer et al (1978:110), in order to attain the objective of LAFTA, periodic negotiations were to be arranged between the member states on both a bilateral and multilateral levels. Special arrangements were agreed upon to discriminate in favour of Bolivia, Ecuador, Paraguay and Uruguay – who are the relatively poorer members. That agreement envisaged that the member countries would attempt to co-ordinate their industrialization policies and would develop complementary lines of industrial production.

Despite the obvious need for co-ordination of national economic policies by the member countries, little progress has been made by LAFTA in the direction of complete integration. In the absence of a common external tariff, it was necessary to negotiate area-of-origin agreements in order to ensure the equitable distribution of benefits from free trade. There was also a need for the co-ordination of import policies and the harmonization of fiscal, monetary and industrial policies.

Accounts by Little et al (1970) and Balassa (1971) have both agreed that trade among LAFTA members tended to grow at an uneven rate ranging between 11-12% and even at this, is concentrated between a few large neigbouring LAFTA countries which in the main consists mainly of primary products.

The limitations, however, to the success of LAFTA emanated mainly from two angles or sources viz:

(a) its organizational defects
(b) the economic conditions of its member countries.

Reference (a) above, it is obvious that the methods used and the institutions established by LAFTA are by their nature rather inadequate for the comprehensive integration of the national economies of the region. With regards to (b), most of the member states of LAFTA do not have complementary production and trade structures because they remain basically oriented towards Europe and USA. Besides, transportation and communication among and between member states can be very cumbersome, difficult and expensive due to the geographical structure of the Latin American countries.

All in all, to some extent, LAFTA has achieved some degree of success in their trade union/associations for what seems difficult with the developed world are liberalized among the LAFTA members. It thus therefore heavily complements the burdens of the policies they confront with the developed economies.

THE EAST AFRICAN COMMUNITY (EAC)

The EAC Treaty was signed in 1967 but the component members – Kenya, Uganda and Tanzania – had been associated before in one of the oldest economic integration systems among the LDCs. The EAC was a common currency area during the days of UK administration of the area as its colonial confine.

At that time, international trade accounted for 20% of the total area trade, of which half consisted of industrial goods. The independence of the three countries in the region led to a disintegration of economic relationships as economic integration had been achieved by a colonial administration and had little relevance to the development needs of the individual countries of the region. It would appear, moreover, that the distribution of benefits was very unequal.

Kenya, because of its more advanced socio-economic infrastructures, attracted most of the investments and hence benefited the most from regional free trade.

Apart from the treaty of the EAC aiming at the development of a common external tariff structure, it also envisages harmonization in the area of fiscal policy. It also calls for the establishment of a common excise tax within the region as well as proposing a transfer of tax. The community also aims at protecting the less developed industries in the region. It serves as a common market for East Africans which in effect helps to spread the pattern of industrialization in the region with the setting up of an East African Development Bank which contribute towards a redistribution of the gains from the free trade in the region (Singer 1978:113).

Han Singer and other students of development studies agree that the effects of setting up the EAC through the 1967 agreement have generally been positive. This is so because it has helped in some sort of co-ordination or Development plans which achieves remarkable successes. Furthermore, the effect is shown in the way in which the EAC does not specify the procedure by which harmonization is attainable nor does it suggest specific measures for the allocation of industries and the co-ordination of industrial projects. A large section of agricultural production is excluded from the common market.

Nevertheless, interregional trade within the EAC remains high, going by reports from the literature. A number of neighbouring countries to the Community e.g. Burundi, Ethiopia, Somalia, Rwanda and Zambia – have applied for membership in the EAC. The

important point of interest to Political Economists and other Development experts, is that despite occasional political tension between Tanzania and Uganda (especially during the Julius Nyerere – Idi Amin era), neither country has opted to withdraw from the EAC.

The EAC, like its Latin American counterpart-LAFTA-has established itself and is playing very dominant roles in the development of the countries of East Africa. ECOWAS, in the West Coast, is equally playing formidable role in the integration of West Africa, although a discourse on this is not under our consideration in this analysis. (See my article in the West African Journal of Agric and Social Studies Vol.).

PROSPECTS FOR REGIONAL COLLABORATION

The two cases which I have discussed above – i.e. LAFTA and EAC seem from indications to illustrate some of the major constraints or problems which the LDCs face in their effort towards economic integration. Inspite of such difficulties, attempts at economic integration in poor countries are common features.

Between 1975 and 1995, a minimum of 15 major schemes envisaging some form of economic union among the LDCs could be identified. In Latin America, the Central American Common Market (CACM), the Punta del Este programme, the Caribbean Free Trade Assocition and LAFTA; in Africa – the EAC, ECOWAS, the West African Custom Union and the Maghreb Permanent Consultative Committee; in Asia – the Arab Common Market, the Regional Co-operation for Development (RCD – comprising Iran, Turkey and Pakistan; the Asian and Pacific Council (ASPAC), the Association of South East Asia (ASEA) and the Association of South East Asian Nations (ASEAN) can be readily identified.

The progress that has been made towards regional integration in these schemes is rather small. Most regional groupings have low and widely fluctuating intra regional export levels and the proportion of intra regional exports to total regional exports is also small. A few large countries tend to dominate intra regional trade e.g. Pakistan accounts for more than 80% of exports within the RCD; Malaysia for 61% of exports within ASEA just at Kenya and Nigeria dominate in EAC and ECOWAS, trade zones respectively. Tony Killick (1967) for instance, notes that the smallest countries in regional collaboration which often times have high participation ratio in intra regional trade activities do complain bitterly about the methods and criteria of benefit distribution.

Even in the face of this, the larger countries tend to have low level of participation in trade integration, as they tend to export largely to non-member countries e.g. the USA absorbs most of the exports of LAFTA, CACM and ASPAC and together with Japan, also of ASEA and ASEAN. Japan is also the main trading partner of the RCD region. In the same vein, USA, Britain and France are dominant trading partners with the ECOWAS counties particularly Nigeria, Ghana and Liberia just as Britain is with the EAC countries

especially Kenya. It thus boils down to saying that trade between different regional groupings of LDCs like that between individual LDCs remain largely significant.

Considering the evidence produced above, it becomes rather absurd to understand why the LDCs keep on trying to build schemes of regional co-ordination. The low trade levels reflect the similarity of the production structures of most LDCs i.e. they tend only to produce and trade in the same type of goods, so that as a group, they fail to produce what they need to import. However, problems such as these need not obscure the fact that the fundamental rationale for economic integration among the LDCs is founded in the advantages of industrial co-ordination and market expansion. It must be noted as I submit here that economic unions are established because, given the existing patterns of world trade and the existing policies of the rich countries, they appear to provide one of the few solutions to the problem of dependence on developed rich countries which is experienced by the majority of developing countries. Be that as it may, customs unions or economic integration by the LDCs provide a useful channel to increase the bargaining power of the poor countries in world markets.

THE LIMITATIONS OF TRADE POLICIES AND SUGGESTIONS FOR IMPROVEMENTS

A careful perusal of the submissions so far made in this comparative studies will bring out a number of startling revelations concerning the limits of trade policies of the two worlds – i.e. rich and poor. In many developing countries, for instance, the import substitution strategy of industrialization has run into serious difficulties. Export earnings arising from erratic trade policies have been both fluctuating and unpredictable in both worlds. Attempts at economic integration have proved slow in yielding results. One needs be reminded that trade policy can only yield effective results if monetary, fiscal and general planning measures are used to support them. Unfortunately, in quite a number of the LDCs, they have tended to use conflicting domestic and external economic policies and rarely have they attempted to rationalize these policies in accordance with the economic objectives laid down in their national development plans. Hence, the impact of trade policy measures has been reduced due to the lack of overall economic co-ordination.

The overall economic dependence of the poor countries on the developed rich countries obviously accounts as the most significant reason for the ineffectiveness of their own trade policies. The greater this dependence, the lower the ability of the LDCs to undertake comprehensive programmes of economic reforms and re-orientation. This means that their

effective inputs to international growth, development, industrialization and trade unit which the New International Economic Order (NIEO) sponsored by the poorer (or the South) members of the UNO to facilitate technology transfer and economic turn around cum relations between the developed and underdeveloped world are not about to be realized. The way forward for both worlds could be that each national governments in the LDCs should embark on deliberate policy of trade partnership with their common markets. The advanced economies should liberalize their trade policies to open up developing economies to their markets at favourable and less protectionist rates. The principle of international division of labour based on comparative advantage among nations be allowed to operate in international or world markets. Collaborative efforts should be devised to enable the poor countries move towards the path of development through trade on specialized wares.

CONCLUSION

In embarking on this comparative studies, attempts have been to show the direction in which policy thrusts on international trade is going between the rich and the poor countries of the world. Much of Western Europe, North America and Japan represent the rich countries whose trade policies towards the poor is more protectionist to the disfavour of the poor. The poor countries on the other hand are found in

Southern America, Asia and Africa and who in the face of knot-tightening policies of the rich, attempt moving towards economic integration among themselves and between themselves. There are however exceptions to the rule for, even among countries in continents designated as poor, are found fairly better and richer countries who treat with levity efforts at economic integration.

It is however seen that inspite of discriminatory trade policies of the rich countries, the poor countries trade mostly with the rich to the neglect of their trade policy of integrating on regional basis. All in all, the trade policies of the rich and poor counties bring out far reaching consequences in international economic, political and cultural relations, which in the long run breed not healthy competition, but generate tension and a call towards reorganizing world economic relations in what is now popularly known as the North-south Dialogue and the NIEO (New International Economic Order).

REFERENCES

Balassa, B. et al (1971): The Structure of Protection in Developing Countries Baltimore, IBRD.

Chenery, N. B. (1960): 'Patterns of Industrial Growth' in American Economic Review, May.

D. Gale Johnson (172): World Agriculture in Disarray. London, Fontana.

Hans Singer et al (1978): Rich and Poor Countries London, George Allen and Unwin

Scitvsky, Little and Scott (1970): Industry and Trade in some Developing Countries. Prepared in the OECD Development Centre. London, Oxford University Press.

Tony Killick (1967): 'Commodity Agreements as International Aid' in West Minister Bank Review, February.

W. Schmidt (1972): "An Enlarged European Community and Agricultural Trade Policy Choices for Third World Countries" Paper Presented to the Agricultural Economic Society.