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International Trade & North-South Divide

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Abstract:
Trade more particularly international trade, in the nineteenth century experience of Great Britain (Salvatore 2004:186) and even earlier experience of Japan (Stigliz 2005: 12) amply demonstrate, has throughout been a growth-propeller for economies. Thus, International trade played a significant role in many others countries such as Australia, Canada, and certain Latin American countries such as Mexico and Brazil.

However, the ever increasing development distance between the developed and developing economies and the continued subordination of the interest of the latter by the former group of nations have been of late a matter of great scholarly concern.

Here and attempt has been made to identify the reasons for subordination of the developing countries by the developed economies. Attempt has also been made to emphasize the necessity of coming closer of the economies of South for preventing such unfavorable terms of trade experienced by the countries of South.

1.1 TRADE AS THE ENGINE OF GROWTH: Trade, more particularly international trade, as the nineteenth century experience of Great Britain (Salvatore 2004:186) and the even earlier experience of Japan (Stigliz 2005: 12) amply demonstrate, has throughout been a growth-propeller for economies. By providing the productive sectors with the much needed stimulus and thereby unleashing the forces of production, trade functioned as an engine of economic growth. International trade played a significant role in many other countries such as Australia, Canada, and certain Latin American countries like Mexico and Brazil and African countries like South-Africa.

Haberler, among others, has pointed to the following important beneficial effects that international trade can on economic development:

(1) Trade can lead to the utilization of otherwise unemployed domestic resources. That is through trade, a developing nation can move from an inefficient production point inside its production frontier, with unutilized resources because of insufficient internal demand, to a point on its production frontier with trade. For such a nation trade would represent a vent for surplus, or an outlet for its potential surplus of agricultural commodities and raw materials.
(2) In addition, by expanding the size of the market, trade makes possible division of labour and economics of scale.
(3) International trade is the vehicle for the transmission of new ideas, new technology and new managerial skills.
(4) Trade also stimulates and facilitates the international flow of capital from developed to developing nations. In the case of foreign direct investment, where the foreign direct investment retains managerial control over its investment, the foreign capital is likely to be accompanied by foreign skilled personnel to operate it.
(5) In several large developing nations the importation of new manufactured products has stimulated domestic demand until efficient domestic production of these goods become feasible.
(6) Finally, international trade is an excellent antimonopoly weapon because it stimulates greater efficiency by domestic producers to meet foreign competition. This is particularly important to keep low the price of intermediate or semi-finished products used as inputs in the domestic production of other commodities.

Most of the traditional arguments for free trade are, however, based not on growth but on efficiency. The basic arguments in this regard were formalized in modern economics by Paul Samuelson (1938), who showed that free trade is superior to autarky, and later (1962) that it is also superior to any intermediate regime of trade restriction (Salvatore 2004:189).

1.2 GLOBAL TRADE SCENARIO THE NORTH-SOUTH DIVIDES: The ever increasing developing-distance between the developed countries and the developing ones and the continued subordination of the interest of the latter by the former group of nations have been of late a matter of great scholarly concern.

It was suggested that, in order to analyze the fundamental nature of the problem, one needs to focus on the multiplicity of links between the industrialized and developing countries. Based on an uncomplicated scrutiny, three variables appear to be the direct sources of such links: (Panchamukhi 1987:221).

a) The policies of industrial countries:
b) The relative strength of the developing countries: and
c) The various mechanisms which determine the ways capital flows to the developing countries and vice versa.

There are evidences suggesting that the first variable to some extent influences the other two (Panchamukhi 1987:29),. To put it otherwise, it was argued that the policies pursued by the developed countries often divulge their adverse effects on the economics of developing countries. These policies in their most general dimensions may be listed as follows:

1. Increased protectionism
2. Volatility of interest rate
3. Militaristic policies of industrialized countries and heavy embarkation on the development of sophisticated weapons.
4. Predominance of political pressure in the pursuance of their unjust economic interest (Modwel 1987: 15).

Protectionism has been the most common feature of trade policies in developed countries which have damaging impact on developing countries. Such policies limit the scope of industrial expansion in developing countries and as a result these developing countries are forced to resort to inward looking industrial policies. Naturally the consequence of these selfish protectionist policies of the first world is that developing countries are often faced with a gloomy prospect for the future growth and development (Mowdel 1987:15).

Volatility of interest rate is natural deduction from the prevailing economic policies of most industrialized countries. Economics view that the large budget deficit in industrial countries impose an important impediment to lowering of interest rate. During the latter part of seventies and almost entire eighties as a proportion of national income, combined budget deficits of nine principal countries (except the Federal Republic of Germany and Japan) went up substantially. The increase in budget deficit in USA has been phenomenal during that period. (Raipuria 1987:23).

Floating exchange rate is another means which have been widely used in developed countries to help attain their economic balance that too at the expense of the developing countries (Raipuria 1987:27).

In reality with the combination of protectionism, variable interest rate and floating exchange rate the industrialized countries transfer a portion of the social cost of their decision making to the countries that are not in a position to take any counter measure or oppose such move of the industrialized countries. In other words the countries of south are forced to finance to bail out the most unjust economic interest and decisions of countries of the north which in many ways are aimed at violating economic and political rights of developing countries (Rao 1987:116).

The complexities of the issues involved prompted holding of a conference in Paris in 1975 to work out cooperation between developed and developing countries. The idea of the conference was to devise a mechanism for the introduction of New International Economic Order. The Paris meet was attended by 27 countries. Which included 19 developing and 8 developed industrialized countries. Thus, it came to be known as North-South dialogue. The Paris Conference on International Economic Cooperation (CIEC) met for 19 months, but produced only modest results. Meanwhile, the UN General Assembly in 1975 stressed the overall objective of NIEO was to increase the capacity of developing countries, individually and collectively, to purse their development. The idea of promoting collective self reliance among the developing countries became one of the components of the NIEO (Modwel 1987:27).

When the Paris conference failed to produce any substantial results, the United Nations in November 1977, appointed an Independent Commission on International Development Issue. The Commission was headed by the former German Chancellor Willy Brandt and with 18 other eminent experts L.K. Jha (India), Edward Heath (Britain) and Olof Palme (Sweden). The Commission came to be known as Brandt Commission (Modwel 1987:28). The Un Resolution of New International Economic Order and the Programme of Action (1974) was the bases of Brandt Commission negotiations. Its report was finalized in 1979, and was presented to UN Secretary General in February 1980. The Commission submitted a long term "Programme for Survival" involving drastic changes in the global economic structure. Besides it called for an immediate summit of the leaders of the North as well as South to consider an emergency plan to avert a global disaster. The plan envisaged a large international energy study, a global food programme (Modwel 1987:28).

The Brandt Commission report pointed attention to the needs for redefining the structural elements of prevalent economic order within the framework of its proposed North-South economic cooperation and also stressed the need for expansion of South-South trade and economic relation.

1.3 CASE FOR STRENGTHING SOUTH-SOUTH TRADE RELATION: A strong case for strengthening south-south relation in trade was made by the well-known Prebisch-Singer thesis. The thesis (also sometimes the Prebisch-Singer hypothesis) is the observation that the terms of trade between primary products and manufactured goods tend to deteriorate over time. Developed independently by economists Raul Prebisch and Hans Singer in 1950, the thesis suggests that countries that export commodities (such as most developing countries) would be able to import less and less manufactured goods for a given level of exports (Salvatore 2004: 183).

Singer and Prebisch examined data over a long period of time suggesting that the terms of trade for primary commodity exporters did have a tendency to decline. A common explanation for the phenomenon is the observation that the income elasticity of demand for manufactured goods is greater than that for primary products-especially food. Therefore, as incomes rise, the demand for manufactured goods increases more rapidly than demand for primary products.

Some regard the Singer-Prebisch thesis as important because it implies that it is the very structure of the market which is responsible for the existence of inequality in the world system. This provides an interesting twist on Waller stein's neo-Marxist interpretation of the international order which faults differences in power relatuions between 'core' and 'periphery' states as the chief cause for economic and political inequality. As a result, the Singer-Prebisch Thesis enjoyed a high degree of popularity in the 1960s and 1970s with neo-Marxist developmental Economists and provided a justification for import substitution industrializing (ISI) policies and an expansion of the role of the commodity futures exchange as a tool for development (Hans Linnemann 1992:15).

The discovery of the long-term deterioration in the terms of trade for underdeveloped countries must be attributed to Hans W. Singer. His explanation, however, stressing that the terms of trade moved against the 'borrowing' (i.e. underdeveloped) and in favor of the 'investing' (i.e. developed) countries, was similar to Prebisch's observations. Thus the thesis on the deterioration in the terms of trade is known in the economic Literature as 'Prebisch-Singer Thesis' However, Prebisch specifically deals with economic cycle and highlights to a greater extent than Singer the reasons for the different behavior of wages in developed and underdeveloped countries (Hans Linnemann 1992: 17).

Development economists believed that problems in developing countries were structural and required radical government intervention to overcome. Some recent researches have found empirical support for the Singer-Prebisch thesis. The leading scholars in this field, has noted that the deterioration in the barter terms of trade for primary products is discontinuous rather than gradual, with sharp deteriorations in the 1920s and 1980s followed by periods of stability.

Prebisch argued that, due to the declining terms of trade primary producers' face, developing countries should strive to deiersify their economies and lessen dependence on primary commodity exports by developing their manufacturing industry and for trade in manufacturing products among them (Linnemann: 1922: 17).

Since the publication of the Prebisch-Singer hypothesis, references to the subject were repeatedly being made in academic parlance as well as in global for a pointing to the need for strengthening South-South cooperation in trade. A picture of development in the arena of South-South trade and cooperation is presented below:

1. In his Nobel Prize Lecture W.A Lewis argued that developing countries might be able to reach and maintain high rates of economic growth in spite of a slowing down of the traditional engine of such growth, namely, the rate of expansion in developing countries (Lewis 1980). The core of his argument was that there is a large potential for increasing inter developing countries' trade in particular in the area of trade in manufactured products. Lewis's View on trade as an engine of growth did not go undisputed (Ridel, 1988), but his theme certainly gave a new impetus to the on going debate among development economists about the desirability and feasibility of stimulating South-South trade as a means to defend and improve the rate of economic development in developing countries. (Taylor Paul 2006: 115) One reason for increased trade within the developing countries themselves is due to what Havrylyshyn and Wolf term as the chronic disease of 'dependencia' which can be cured by collective self-sufficiency as small countries can rarely survive simple self sufficiency (Taylor Paul 2006: 115). This view is reinforced by Sir Arthur Lewis who argues that the chronic slow growth into which the developing countries have already entered can be reserved if they increase trade between each other, especially

if the developed countries retreat behind protectionist walls (Taylor Paul: 2006 : 116).

2. Among the developing countries themselves, most economists are of accord that discriminatory trading arrangements, to a certain extent, are the best available means for increased liberalization, so long as the trade diversion effects of such discrimation do not exceed the effect of trade creation (TAILOR Paul 2006: 117).
3. Hughes also suggests that trade between developing countries in similar goods is very valuable due to gains obtained by economies of scale and 'learning by doing' i.e. gaining from the experience obtained through competition and specialization (Bo Sodersten 1989: 261).
4. Another proponent for increased trade between developing countries is Linder, who argues that trade particularly manufactures, will flow towards proximate and similar markets with similar demands and level of development (Tailor Paul 2006: 118). This theory depends, to a large extent, on the 'openness' of developing country markets and their trade policies – that is, whether or not they permit economies of scale, specialization and entry into the home market. Another important missing element in the discussion is the fact that not all developing countries' exports go to the industrial countries; there is a significant and growing amount of South-South trade in today's world.
5. One argument is that many developing countries need to keep the pace of their economic growth in accordance with amount of interest payments, in order to remain balance. Such incidence on the one hand is related to the possible relaxation of protectionist policies in developed countries, and on the other hand, to efforts for the expansion of trade among the developing countries. The aim here is not to suggest that developing countries should look upon the expansion of trade among themselves as alternatives to that with the developed countries. Indeed, the expansion of trade is regarded as the key element for the possible expansion of the exportable production of developing countries which can facilitate the acquisition of financial means through the utilization of domestic resources. (Sen R, Kartik, Roy and Tisdel (eds) (1992): 85).
6. The surrounding substance give some very approximate figures for the share of world trade between the "North" – industrial market and non market economy – and the "South". These matrices show that South-South trade is projected to increase from 7 percent to 9 percent of world trade between 1980 and 1990. More importantly, South-South trade will increase as a share of total exports of the South from 27 percent to 32 percent. Much of this increase is accounted for by the exports of primary products to both the oil exporters and the semi industrial countries. South-South trade in primary products is projected to increase from 8 to 11 percent of world trade. On the other hand, South-South trade in manufacture is expected to remain at about 5 percent of world trade during the decade. The easing of trade restrictions between developing countries could result in a significant increase in trade and growth (World Bank 1981:12).

Expansion of trade among developing countries is a response to economic development needs, including the mobilization of resources for development and at the same time is a response to difficulties encountered in exporting traditional as well as new products to their principal markets, the developed countries (Linnemann 1992: 21). By opening up their markets to each other firstly, developing countries could evolve a pattern of specialization among them and thereby have much greater access to economies of scale.

Secondly, developing countries would be able to push an import substitution policy of development much further collectively than each of them could individually do.

Thirdly, by expanding their mutual trade, developing countries could move their productive structure closer to structures characteristic of much larger economic areas. This, in turn, could enable them to raise their levels of real income per capita.

Fourthly, within the larger economic area, the trade of each developing country world increase, but a greater proportion of total import than before would originate in other developing countries of the region. If these imports were paid for by exports to other developing countries, they would put no net burden on the payments balances of the other countries. It is in this that trade among developing countries becomes significant as an engine of growth (Linnemann 1992: 21).

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