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Issues in Trade and Development, Outlook and Research Needs for The 1970's

ADC/RTN SEMINAR ON TRADE AND DEVELOPMENT
HELD AT MICHIGAN STATE UNIVERSITY, MAY 14-15, 1973

SHIRLEY PRYOR, GEORGE McDOWELL, AND VERNON SORENSON

Preface

The seminar on Issues in Trade and Development, Outlook and Research Needs for the 1970s, is one in a series on Trade and Development which is being supported by the Research and Training Network. This paper grew out of the seminar whose central purpose was to explore major economic factors and policies that affect the trading position of developing countries and to discuss related research needs and priorities. The program encompassed three sessions with seminar leaders and topics prepared in advance plus a wrap-up session built around comments by two of the seminar participants. The program and seminar leaders were as follows:

Session I. Industrial Country Policy and Implications for Trade Relations Between Developed and Developing Countries

A. The Effects of EEC Enlargement.
Seminar Leader: Mordechai Kreinin
Dept. of Economics
Mich. State University

B. Changes and Prospective Directions in U.S. Policy.
Seminar Leader: Charles R. Frank, Jr.
Brookings Institution

Session II. Reactions and Options Available to LDCs

A. Joint Action by LDCs—the Potential for Free Trade Areas and Common Markets.
Seminar Leader: Rodolfo Quiros
Permanent Secretariat of the General Treaty of Central American Economic Integration

B. National Policies and Options for Expansion of Exports by Developing Countries.
Seminar Leader: Bension Varon
International Bank for Reconstruction and Development

Session III. Research Needs on Trade and Development

A. Perspective on Trade-Development Research Needs and Priorities: Overseas Development Council Assessment.
Seminar Leader: Guy Erb
Overseas Development Council

B. Perspective on Trade Development Research Needs and Priorities: Problems in Agriculture.
Seminar Leader: Lawrence Witt
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Session IV. Wrap-up and Concluding Discussion.
Comments: George Trolley
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While a great deal of discussion occurred at each session no final position or conclusions were sought. The presentations by seminar leaders and discussions that followed covered a wide spectrum of problems and issues. The material that follows is an attempt to point up highlight and to capture the sense of the presentations and discussion and is not intended as an interpretation of the results of the seminar.

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Michigan State University
East Lansing, Michigan
August, 1973

SESSION I

Industrial Country Policy and Implications for Trade Relations Between Developed and Developing Countries

Discussion dealt with issues related to enlargement of the European Economic Community and its effects on trade flows. Of particular interest were the trade diversion and trade creation effects of the EEC, and its enlargement; and the General System of Preferences (GSP) and the effects that enlargement would have on them.

Examination of United States policy changes and prospective directions led to discussion of the proposed "Trade Reform Act of 1973." Of particular interest were the changes and implications of the bill with regard to a U.S. General System of Preferences, and domestic import relief and adjustment assistance.

The Effects of EEC Enlargement

It is necessary to distinguish between the static effects and the dynamic effects. There are strong reasons to believe that the dynamic effects of integration may be more important than the static effects. The present state of the arts, however, makes it difficult to measure the dynamic effects. The dynamic effects issue has been the subject of intense controversy in determining to what extent the phenomenal growth rates of the EEC in the 1960s are attributable to integration or would have taken place regardless of integration. Since little is known of the dynamic effects it is necessary to concentrate on the static effects in theoretical considerations. For this the Viner and Meade distinction between trade creation and trade diversion is appropriate.

Ex Post Effects of EEC on Trade Flows

Approaches to measuring the ex post effects of a customs union or free trade area on international trade flows, on exports of outsiders, and among outsiders, on the exports of the developing countries were considered in some detail. Measurement of such effects can be undertaken either before or after regional integration but can be done more easily ex post after observable changes have occurred.

Of the several ways of measuring trade creation and trade diversion, the most prominent way of late has been to measure changes in the import-consumption ratios. Since other factors besides economic integration, particularly income and relative prices, influence import-consumption ratios, there are several ways of approaching the estimation. Each procedure has its limitations and biases. The result is that one uses a variety of approaches, obtains some notion of an average or of an upper and lower bound and uses these as an estimate of the "ball park" in which the actual value falls.

Using 1959-1960 as a preintegration period and compared with 1969-1970 as a post integration period the "ball park" estimates of EEC impact by Kreinin are as follows:

Total Trade Diversion
approx. $1.5-2.5 billion/annum

Total Trade Creation
approx. $6.5-8.5 billion/annum

In terms of world welfare there is little doubt that the effect of the EEC has been favorable. Trade creation has been 3 to 5 times trade diversion. This does not mean that the effect of the EEC on any individual nation has been favorable; in fact outside countries lose. Of particular interest is knowing how much of the diversionary impact is sustained by the developing countries.

Such an estimate is even more difficult than measuring the overall impact because the assumptions that must be made are even more tenuous. Estimates by Kreinin for manufacturing, including processed foods, indicate that roughly one-fourth to one-third of the total trade diversion impact of the EEC is sustained by the developing countries. The major industries involved are clothing, chemicals and processed foods.

The above total impact estimates of the EEC do not include agriculture because of the special difficulty of estimating for agricultural trade flows that might have occurred without formation of the EEC. Estimates of the total agricultural trade diversion impact of the EEC are given with even less confidence than the other estimates but are as follows:

1967-1968	.75 billion dollars
1969-1970	1.3 billion dollars

With the approaches employed and acknowledging their limitations, Kreinin found no evidence of trade creation in the EEC in agriculture.

Ex Ante Effect of EEC Enlargement on Trade Flows

Discussion of EEC enlargement on trade flows must be placed in the context of a whole array of institutional arrangements. It is not possible to lump all of the developing countries together in this discussion because of the different ways in which individual countries or groups of countries relate to the EEC.

Among the special relationships the following are noteworthy.

1. EEC Sub Sahara Policy—agreements with the 19 Associated African and Malagasy States (the Yaoundé Convention)
2. EEC Mediterranean Policy
   a. Association agreement with Greece and Turkey aiming at full membership.
   b. Association agreement with Morocco and Tunisia contemplated by the Treaty of Rome.
   c. Association agreements with Malta and Cyprus calling for a free trade area subsequently.
   d. Preferential trade agreements with Spain, Israel, Egypt and Lebanon.
3. EEC Latin American Policy—Attempts are being made by the EEC to establish links with Latin American countries. These arrangements are likely to be of a nonpreferential nature.
4. EEC's General System of Preferences (GSP) This program was developed under the prodding of UNCTAD particularly by those countries in UNCTAD which considered themselves "Least Developed." Under the proposal by UNCTAD all of the developed countries are asked to give a uniform and common set of preferences to the exports of the developing countries.

   The conference view on the EEC General System of Preferences was that the restrictions in the "fine print" of the program were such as to make them of very little value to those countries to which it applied. One estimate of the GSP benefit to India was reportedly in the order of only $200,000.
5. The Enlargement of the EEC
   This will carry a whole new array of institutional arrangements. Included will be a free trade area encompassing most of western Europe. The Commonwealth countries and those of French speaking Africa will have the opportunity of becoming associated with the enlarged community, as well as other special arrangements. Specifically excluded are the large Commonwealth countries of Asia. In summary, about a half of the world gets enlarged EEC preferences and the other half is left outside.

Measuring the Effects of EEC Enlargement

In an effort to estimate the impact of EEC enlargement Kreinin has translated the institutional changes into perspective price changes. Estimates for semimanufactured and finished manufactures combined indicate that the enlargement will negatively affect the USA, the developed Commonwealth countries, other outside developed countries, and the developing countries. The major positive effects accrue to the EEC countries, the U.K., and the Continental EFTA countries. Generally, then, the impact of enlargement will result in a considerable amount of inter-penetration between the European groups with the losses accruing to outsiders.

Trade diversion will amount to approximately 3.7 billion and trade creation will amount to approximately 5.5 billion dollars for manufactured products. Estimates made by FAO indicate that enlargement will result in a 1.2 billion dollar decline in agricultural imports.

It was pointed out that since substantial amounts of LDC trade are not influenced by price change but rather by structural conditions, it is possible that the retardation of LDC trade through enlargement will be less than estimates based on traditional theoretical constructs would indicate.

Reverse Preferences

Prior to formation of the EEC, reverse preferences[1] were given only to the French by the 15 French colonies. Current EEC institutional arrangements include a number of reverse preferences. Such arrangements have become an important current issue in trade relationships. The U.S. has announced that if it is to exercise a general system of preferences it will not apply them to any country discriminating against the U.S.

Thus, a Commonwealth country like Nigeria, which under the enlargement has the option of associating with the EEC, is being informed by the French that no association with the EEC is possible without reverse preferences. It is being informed by the U.S. that no GSP is possible from the U.S. if it grants reverse preferences to the EEC. Nigeria and other countries facing this dilemma have considerable interest in the relative gains and losses of the different arrangements.

There was some feeling that the reverse preferences situation is changing rapidly and may be abandoned. A country like Italy, for example, feels that it is better served by tied credits than by reverse preferences. African countries are reportedly considering a recommendation that reverse preferences be abolished. France, however, is expected to hold out for reverse preferences for the EEC countries.

Reverse preferences can be exploited. French business with monopoly power in the country granting the reverse preference, and also with some element of monopoly power in France tends to operate in such a way as to create a transfer from the African consumers to the French exporter. EEC enlargement is expected to reduce French domination in former French colonies through increased competition from firms in other EEC countries. The French interest in reverse preferences may be expected to decline as the benefits to France decline.

Another major effect of reverse preferences is the limitation it places on inter LDC traders. India, for example, has a potential market for jute bags in French speaking Africa but is cut off through the reverse preference arrangement.

It was observed that economic arrangements with the Community seem also to permit retaining of higher cost industries such as coffee and perhaps oil palm which have existed since the colonial period. Without these ties these and other industries might have declined.

Effect of EEC Enlargement on the General System of Preferences

Just as with custom unions there are two major effects of preferences—trade diversion and trade creation. The major interest of the LDCs is in the trade diversion effects. The EEC GSP with all of its restrictions are aimed at preventing trade creation and implicitly are concerned with the trade diversion benefits. The EEC efforts in this regard are not likely to be reduced with the enlargement.

It can be expected that the EEC enlargement will result in an erosion of the value of the GSP. The GSP previously gave the LDCs an advantage with the EEC as compared with the EFTA countries, and vice versa. Expansion of the EEC will do away with that advantage. In addition, other non EEC European countries are being granted trade advantages in the EEC. Kreinin's analysis of the commodities covered under the GSP indicates that for approximately two-thirds of the commodities in question, the LDC competition is from Western Europe and GSP benefits will be virtually eliminated. Also, little gain is likely to occur vis-a-vis socialist countries. Since socialist countries trade to cover their import requirements, the evidence indicates that they will simply absorb the preferences. Thus, they cannot be considered as a part of the non-preferred world.

A third erosive effect of enlargement on the GSP results from the expected modification of the existing British and Danish GSP schemes to more closely approximate that of the EEC. Since this implies a more restricting trend, the overall effect is a further loss of GSP benefits to the LDCs.

CHANGES AND PROSPECTIVE DIRECTIONS IN U.S. POLICY

U.S. trade policy is in a state of "dynamic flux." In late 1971 the Burke-Hartke Bill with its extremely protectionist trade position was introduced in Congress. Although not really expected to pass by even its sponsors it reflects the position of strong protectionist elements in the U.S.

The Trade Reform Act of 1973 does not reflect the other extreme but is perhaps closer to a middle position. The Act, as proposed, would give a wide range of discretionary power to the President. It is couched and worded in such a way that it can be either liberal or protectionist depending on the desire of the Administration.

General System of Preferences

Whether the proposed U.S. GSP is more liberal than the EEC or Japanese GSP is debatable. As proposed, it eliminates coverage of a great portion of LDC exports to the U.S. Secondly, the GSP does not apply to products where there have already been voluntarily negotiated trade restraining agreements. Thirdly, the GSP does not apply to "sensitive" products. The discretion to determine what is or is not "sensitive" is given to the President under the proposed Act. Examples of sensitive products are steel, footwear, watches, and textiles.

[1] Preferences for industrial countries by developing countries.

A further set of exclusions are specified in the "competitive need" category. Any export to the U.S. by a developing country which exceeds $25 million is automatically excluded. If an export from a developing country exceeds 50 percent of U.S. imports of that product classification, it is also excluded. The specifications of the products, i.e., the specific product classes, used in both of these criteria can have considerable influence on how restrictive the legislation will be. The objective of this provision of the law is to foster new exports from developing countries and to give advantage to those countries entering the markets as compared to those who have achieved some degree of sophistication in production, but it could have a restrictive effect on developing country exports.

The bill further extends to the Administration almost total discretion as regards the countries which will be affected. It is expected that no country offering reverse preferences to other developed countries will be included in the U.S. GSP system. Those with long-term arrangements with the EEC thus can be eliminated.

Another exclusion principle is contained in the "rule of origin" of the bill. Under this rule the Secretary of the Treasury can set a certain percentage of value added which must take place in the exporting country. A 50 percent value added rule is currently being considered by the Administration.

One estimate of the value of LDC trade affected by the bill after exclusion is as follows:

Total LDC exports to U.S. (1971)	$12.4 billion
After exclusions applying to primary, nondutiable, and "sensitive items"	2.7 billion
After exclusions due to competitive need	1.5 billion
After reverse preference exclusions	1.2 billion
After foreign sourcing rule	.8 billion

The final value after the exclusions amounts to only 5 to 10 percent of the total. In the EEC this value is in the order of 6 percent. An estimate of the effect of the bill is to increase LDC exports to the U.S. by $400 to $450 million. Such a figure implies an elasticity of about 9 and must therefore be considered a very high estimate. The major losers under the bill's restrictive provisions would be Hong Kong, Singapore, Korea, and Mexico.

The view was expressed that because of the very limited concessions in the GSP provisions, if the LCDs can get past rhetoric regarding the erosion of preferences, they could then review their interest in gains from multilateral trade negotiations.

Import Relief and Adjustment Assistance

If LDC development is to be stimulated by encouraging trade (rather than aid) with the U.S. then there must be improved means to enable the U.S. industrial structure to adjust. The two major mechanisms for encouraging U.S. industry adjustment considered in the current bill are 1) Import Relief and 2) Adjustment Assistance.

Import Relief: The import relief or so-called safeguard provisions of the bill are different from existing "escape clause" regulations. They provide for more liberalized criteria under which the Administration may impose or increase duties or restrictions, suspend tariff schedules, or limit importation of any particular item. Since the criteria are based on a formula under which the firm must demonstrate only "substantial . . . market disruption" rather than the "primary causation" requirement of the existing regulations, this provision could have a major effect on U.S. imports from the LDCs.

A further difference is that the safeguards on import relief are to be temporary. They are initially only for five years but with extensions possible.

A third change in the proposed Act from past policy is the restriction that safeguard provisions will not be provided unless the industry involved proposes some adjustment plan. The bill, however, is rather vague as to what is an acceptable adjustment plan.

Adjustment Assistance: The proposed Trade Reform Act of 1973 was felt to imply major erosion of existing adjustment assistance provisions. Under existing legislation, benefits to workers affected are set at 65 percent of workers' weekly wage or 65 percent of all U.S. manufacturers' wage, whichever is less. The proposed Act, contrary to other proposals which have sought to liberalize these provisions, will reduce the benefits to 50 percent of the workers' average weekly wage or two-thirds of the statewide wage (*not* statewide manufacturing wage), whichever is less.

More important than the level of benefit is the duration of benefits in the proposed Act. Previously, workers received a minimum of 52 weeks of benefits if their industry was impacted through trade. The proposed bill links the period of eligibility to the period of eligibility under state unemployment insurance laws. Thus, for most states this means a maximum of 26 weeks of eligibility, although some states provide 36 weeks. Further, many trade impacted workers do not even qualify for the maximum 26 weeks of benefits. Such is the case if workers have been in unstable employment situations where they have already used unemployment benefits. Evidence cited from a Department of Labor survey indicates that the average period of unemployment of trade impacted workers is about 30 weeks.

A third change that the proposed bill will make is the complete elimination of adjustment assistance to firms. Although the past program in this regard has been ineffective, the proposed bill does not offer alternative programs. Since the import relief applications come from firms, such programs can offer alternatives to the Administration of using only the safeguard provisions of the bill in responding to trade impacted firms.

The combination of the provisions for import relief and adjustment assistance, as proposed, are such that only the safeguard or "escape clause" can be expected to be used. It was the sense of the conference that no self-respecting union would be expected to seek the adjustment assistance provisions rather than the safeguard provisions. Since there is no adjustable assistance to firms it can be expected that they will put pressure on government to obtain the safeguard provisions.

The view was expressed that it is the intent of the Administration to use the safeguard provision as a "stick" in its international negotiations as a means of obtaining an improved trading position. These issues, again, were seen within the context of a desire for greater discretion on the part of the Administration.

East-West Trade

The provisions of the proposed bill with regard to East-West trade could have substantial indirect impact on the LDCs. If the U.S. offers most favored nation treatment to the socialist states, then the U.S. could be obtaining products from that source which compete with those from the LDCs. It is possible, on the other hand, that the Administration's objective as regards this title of the bill is in terms of expanded U.S. exports and that payment from the socialist countries will be in such things as energy where strong worldwide demand exists.

General Implications of the Proposed Bill

Because of the complexity of the bill and the anticipated debate over the amount of discretionary power proposed for the executive, the view was expressed that there is little chance of passage this year. The view of the Administration is reportedly more optimistic. The GATT is operating under an assumption that negotiations will commence in the Fall of 1973; however, even the optimistic view of the bill's chances does not anticipate passage prior to the GATT conference. This would probably affect the negotiations' opening session in Tokyo but ultimately a clear negotiation authority will be required.

There was some speculation that farm organizations are unlikely to support this or any bill which could make them more vulnerable to imports. This may in part be attributable to the large amount of discretionary authority given to the Administration by the bill and the fear that this might result in U.S. agricultural policy being placed on the negotiating table.

The position of some writers who argue that if the developed countries "get their house in order" that things will work out fine for the LDCs was challenged. It was pointed out that more orderly trade conditions among the developed countries was a necessary but not sufficient condition to improved opportunities for the LDCs. Further, it was argued that many LDCs prefer a world with a fixed exchange rate system. The contribution of the proposed Trade Reform Act of 1973 to these issues was not discussed explicitly but was reflected in the general skepticism of the group regarding the bill.

SESSION II

Reactions and Options Available to LDCs

Over time countries have assumed different development strategies as well as different ways of relating to other countries. Among the schools of thought in developing countries on their external economic relations are the following:

1. Emphasis should be placed on self-reliance and on internally oriented development, giving trade a subordinate role in strategies aimed at aradication of mass poverty.
2. Policies should be designed to promote economic integration among developing countries in order to promote their own development and increase their bargaining strength with the outside world.
3. An open economy should be sought which relies heavily on markets in developed countries and on receipt of finance from international and bilateral aid institutions.

The workshop particularly looked at the latter two of the above strategies. Little emphasis was given to the first though there was some discussion of import substitution. Joint action by LDCs was extensively discussed. This was in the context of questions involving difficulties from attempts to integrate as well as with the effects of economic integration on development. Also, the open market model was discussed, assuming as it does that trade has a large role to play in development.

Joint Action by LDCs—The Potential for Free Trade Areas and Common Markets

It was hypothesized that integration among LDCs is the best alternative for trade expansion especially given the political and economic conditions in and among the developed countries. There has been a breakdown of the multilateralism that existed after World War II and an increase in international regionalism. This has had an effect on the LDCs. Trade liberalization has occurred within economic blocs at the expense of trade with the LDCs. The blocs have influenced the amount of bilateralism that the countries can participate in. Even if the general system of preferences goes into effect the 1973 GATT agreements offer little hope.

Economic integration among the LDCs can reduce their dependence on trade with industrialized countries. Thus, they may increase their bargaining power and acquire greater access to world markets. Economic integration appears to be substantially influenced by the unique socio-political as well as the economic setting of the integration countries. There, thus, appears to be no models which can provide reliable guidance. Economic integration must also be a part of the dynamic process of development and not simply a mechanism for trade expansion. Under conditions of dynamic change, institutional mechanisms become outdated and rapidly obsolete. The perpetuation of particular policy instruments can itself create new forms of protectionism, and can render the efforts of integration less effective.

Certain controversies among participants inevitably arise in the integration process. The basic question that has to be dealt with is the problem of the distribution of costs and benefits, i.e. the equality of the partnership. Imbalances arise in several forms and raise a number of questions. Some of the most important of these are: (1) Are trade imbalances to be handled by an attempt to balance the trade or to compensate for the negative trade imbalances? (2) How are problems related to concentration of capital, capital movements and balance of payments inequalities to be handled? (3) How are the differences in fiscal policies handled? (4) What method is used for planning regional industrial development? (5) How are industries assigned to particular countries and how is cut-throat competition avoided? (6) How can monetary policies also be coordinated to prevent distortion of trade flows?

The agricultural development aspects of integration also are important to keep in mind. Agricultural development is intricately intertwined with income distribution and unemployment. The percentage of people in agriculture is so large in many developing countries that the agricultural sector must be expanded to increase employment opportunities. The amount of unemployment in agriculture determines the amount of labor movement within the country and from one country to another. Integration itself has an effect on employment and income distribution through its growth effects. Integration can have, as in the case of the Central America Common Market, a detrimental effect on the peasant sector. With the widening of the market, large scale agriculture has partially displaced the peasant farmers in production of staple foods for domestic consumption. Possible explanations for this include (1) a widening of the market and exploitation of economies of scale; (2) factor price distortions arising that benefit large farmers; (3) large farmers responding to the existence of more stable prices; (4) increase in the value of land encouraging displacement of tenant farmers.

Industrial development within the common market should be accompanied by industrial planning and general development planning. For example, industries too big for the market of one country should be identified. Similarly, those basic industries such as textile where duplication could lead to cut-throat competition must be dealt with explicitly. Foreign investment in industry within the CACM was originally encouraged because it was believed that these industries would bring knowhow. However, foreign investments has displaced local entrepreneurs and in some cases the policies of the foreign investors are contrary to those of the country. Some foreign industries refuse to export despite excess capacity because they would be exporting against the same company in other countries.

There seemed to be agreement that regional integration has a role to play in development although the intricacies of the process and variations in approach that might be needed among regions were not specifically defined, although they were considered a fruitful area for research. Since there are limitations on the scope for increased trade with developed countries, a widening of the market, increased specialization and trade among LDCs through integration is needed. Major emphasis in discussion was placed on the opportunities for and the problems and issues that arise in joint development planning among countries in a common market.

NATIONAL POLICIES AND OPTIONS FOR EXPANSION OF EXPORTS BY LDCs

In contrast to regional integration, a strong export policy assumes that there is potential for trade with industrialized countries. The emphasis in this case is on proper research on export potential and access to markets of industrialized countries as well as internal policies encouraging export expansion.

The State of the Art

Generalizing from the literature on export policy the state of the art seems to be as follows: (1) The best analysis has occurred where there has already been diversification. Interest in export policy seems to increase after a country has already taken off. (2) There appears to be no agreement about the role of import substitution, private versus state control, foreign investment and the role of multinational corporations, or the extent and implication of enclaves. (3) Funding organizations have been reacting rather than leading in developing research and analysis. There has been no propensity to recommend policy packages. (4) There has been a static approach to analysis and policy; recommendations have assumed that institutions will remain the same. (5) There has been a lack of information about the implementation of policies. Visitors from funding organizations tend to talk only with high level officials whereas middle-level officials have most of the information about implementation. (6) There are some new interests in the literature: transportation bottlenecks, income distribution and employment, credit institutions, and tariff policies. Unfortunately, there has been little research that shows the way to integrate export policies into the overall development plans. Also, there has been little or no interest in identifying export oriented projects which are consistent with the resource base of a country.

National Policies

Discussing national policies is a difficult task because LDCs are not a homogenous group. Also, trade, aid and politics cannot be discussed in isolation. An important point, however, is that decisions should be made in the context of expectations for the future. Some important factors determining conditions for the future are the development of ocean resources, development of cartels similar to the Organization of Petroleum Export Countries (OPEC), increases in East-West trade and re-evaluation of competitive positions in light of new natural resource policies.

Some of the policy tools which discourage export growth are the penalizing of exports in favor of import substitution and the plowing back of export earning into areas other than export industries. Diversification is often discussed as a general approach to trade-development policy but usually without dealing with the problem of what to diversify into. Mineral resources provide an opportunity for growth in export earnings for a number of countries because there is a good demand growth for them in the developed countries. A problem that arises in many countries is that minerals are usually enclaves and hence do not contribute to broad general economic developments. This is not inherently so but all too often tends to be encouraged by internal economic policy in developing countries.

Some further suggestions are the following: (1) The approach used in making trade projections generally leads to pessimistic conclusions. Rather than concentrate on single commodities, it is more appropriate to project raw material and food requirements for two or three key developed countries. Japan has been a swing country for several commodities and should be one of the countries investigated. Also, in projecting, attempts should be made to go beyond the stated policy of the developed countries and anticipate gaps in requirements. (2) When evaluating a changing economy, expect a certain amount of disorderliness. Dynamism brings disorderliness and income distribution and employment considerations may be less important than the fact that growth is occurring. (3) Analysis and providing prescription for problems in marketing should be emphasized. (4) In many cases land and thus the export sector is in the hands of a landed gentry, and the business experience belongs to the import sector. Encouragement of those in the import sector to enter the export sector could increase efficiency.

A most important question is the place of export promotion in overall development policy. The main points raised in discussing this issue were: (1) Export maximization and export subsidization policy cannot cause as many distortions as an import substitution policy. In part, this is because subsidization can lead to high budgetary costs that impose limitations. On the other hand, imports can simply be banned at no apparent cost. (2) How influential in the promotion of export maximization policy is the debt problem? Are export earnings being encouraged so that debts can be paid to developed countries and funding agencies and would the same policies be encouraged if there were no debt problem? (3) There is a fallacy in encouraging export maximization for large numbers of countries. Market access to developed countries would be cut off if fifty LDCs switched to an export-maximization policy. It was generally agreed that the more appropriate advice is to encourage LDCs to expand their own markets through regional integration and to urge an approach that includes both efforts to expand export earnings and a judicious program of import substitution.

SESSION III

Research Needs on Trade and Development

Many aspects of research were discussed by the participants at the seminar. Increasing the research potential of LDCs, the relevancy of the research, and who should determine research priorities were some of the questions of primary importance.

Research on economic development runs the risk of being irrelevant to the problems of developing areas if it does not take explicit account of the current political-economic situation in the countries analyzed. The relevance of the work done can be enhanced by increasing the participation of LDCs in research projects. As in many other aspects of relations between developing and industrialized countries, academic and policy-oriented research is not free from paternalism. A step toward eliminating this out-dated attitude would be for financing institutions in rich countries to support more research in developing country institutions, and more scholars from the countries concerned.

The Role of Research in Development

One of the questions discussed was the role of research in policy determination in LDCs. Some of the questions raised were:

1. Are funding institutions which train researchers having any effect? Is much of the trained manpower leaving to work in developed countries? Further, are many of the trained researchers forsaking research for policymaking positions? It was maintained that perhaps there was originally a bad estimate of the dropout rate though there has been much progress towards the end of training research manpower.

2. What is the interaction taking place between researchers and policy-makers in LDCs and what should it be? What are the institutional arrangements that would improve such an interaction? It was suggested

that the role of the researcher in an LDC may not be to list alternatives but rather to advocate one of the alternatives. Some participants felt that in most countries there is no communication link worked out between researchers and policymakers which meets the need of the policymakers.

3. Do researchers in LDCs spend too much of their time writing for journals and not enough on problem solving?

Issues and Research Topics

The following are the main research issues and topics thought to need more elaboration.

Integration

1. There are various interpretations of the role of integration in development. One view holds that integration is essential for development; the other view is that it is not and is supported by the idea that the countries which have most recently developed have not been a part of any integration effort. Thus, the role of integration in development is a major research question. Does integration increase growth by providing the basis for scale economies, regional development planning, exploitation of regional comparative advantage, etc.? What are the economic and policy issues involved?

2. Concurrently, there is the question of the effect of integration on the internal economics of various countries. For example, why has the Central America Common Market had an adverse distributional effect on small farmers? Also, what is the effect of integration on production incentives? What is the relationship between economic integration and large farms?

3. Economic integration efforts seem to be more successful during economic boom times. How do trade cycles affect economic integration?

4. What are the basic ingredients for interregional trade?

5. Within the framework of the work done by Kreinin on the trade diversion and trade creation aspects of the EEC, what are these respective aspects of creation and diversion in a custom union of LDCs?

6. How does inadequate shipping and communication among countries affect integration?

Commodities

1. Because of the lack of success of commodity agreements, there seems to be a shift to commodity arrangements which involve structural questions such as the production process and market access. Not much work has been done yet on the potential success of various arrangements of this sort.

2. Many primary commodities have to compete with synthetics. Research on new uses for and improvement in quality of these commodities is most useful.

3. A global view of commodity research including complements and substitutes would aid in projecting demands for primary products in developed countries.

Access to Developed Country Markets

1. One of the important questions which must be analyzed is the impact of trade barriers in developed countries on the exports of developing countries. Analysis of this sort is necessary for LDCs to have sufficient knowledge for trade negotiations.

2. What is the effect of adjustment assistance to workers in developed countries on LDCs? What are the mechanisms at work?

3. At the recent Stockholm conference on environmental affairs, a conflict developed between industrialized countries who maintained that LDCs should concern themselves with environment affairs and LDCs who maintained that the costs were too high and it would only hold back their own development. A relevant question in this context is the distribution of costs. If the externalities (environmental effects) in producing synthetics were internalized what would be the relative price of synthetic to natural raw materials?

Theoretical Issues and Development Strategies

1. There was a need expressed to further elucidate the theoretical underpinnings of various strategies and of research. It was asserted that a lot of the research undertaken to date has little theoretical base. There is little basic understanding of the relationship between trade and development. Is trade important for development or development for trade? More work should be done to insert trade into the growth models and into development planning. How should export production and/or import substitution be incorporated into development planning? What kinds of policy issues arise especially in agriculture if trade sector and domestic planning are integrated? Another need is the inclusion of the demographic variable.

2. Private foreign investment and multinational corporations have a tremendous effect on trade flows. Large amounts of imports and exports are handled by these firms. Prices do not necessarily have to be related to resource base. How does this fit into theory?

3. Technology is perhaps the fundamental element causing changes in comparative advantage. What are some of the dynamics of comparative advantage? Who creates the new technology and who uses it?

4. Is there any way to determine optimum growth rates for development by including such variables as change in import substitution, change in import consumption rates, terms of trade and response of developed countries?

5. What are the common elements and experiences in those countries which have recently developed?? They certainly are not all special cases. What is the effect of proximity to a developed country?

6. What are the various roles of import substitution and export promotion strategies. What does the Chinese model have to offer in specifying internal LDC policy options.

7. What is the effect of export promotion on pro-

duction incentives? Taking account of externalities and price distortions in most LDCs how much export subsidization is valid?

8. What is the trade-off between growth and development if indeed there is one? It was asserted by some members of the group that perhaps there has been too much emphasis on income distribution and employment; other members disagreed with this point of view. But what is the relationship between these variables and growth? What is the effect of trade on these variables?

9. Does the enclave have a role to play in development? Do the foreign exchange potentials outweigh the distributional questions?

10. What is the role of tourist trade in development? What are the social and political effects of this type of development? These questions should be considered within the context of possible shortfalls of revenues below estimates because of exchange rate loopholes. Tourism often does not contribute as much foreign exchange as was expected in some countries.

Developed Countries. What are some of the questions which relate to the U.S. national interest? These questions are appropriately asked here because the U.S. itself is not fully developed. Furthermore, it is frequently assumed that if the U.S. deficit problem is solved it can respond more readily to urgent needs of others.

1. How would an Inter-American Common Market affect the U.S.A.? What other potential groupings are important to the U.S.? What are the U.S. trade prospects with the EEC? Japan?

2. What are the long-term trade prospects with the U.S.S.R.? Will there be long-run purchases of feed grains?

3. What are the commodities the U.S. will be demanding on world markets?

SESSION IV
Wrap-Up

The wrap-up session, in part, was devoted to discussion of issues which had been previously discussed but on which it was felt further elaboration was needed. Areas of interest and concern which had not been dealt with previously also were identified. The areas of discussion included (1) the effects of developed country policy on the LDCs; (2) the impact of internal stability on development and the problem of achieving that stability; (3) research with regard to changes in comparative advantage; (4) control of technology; (5) the need for more theoretical work on the relationship between growth and trade; (6) quantitative policy analysis; (7) the need for recognition of institutional questions in international economics as a major area for progress; (8) the need for greater interchange of information among those involved in both the study and practice of international economics. Many of these topics were themselves suggestive of further research needs.

The Effects of Developed Country Policy on the Less Developed Countries

It was observed that previous workshop discussions on this topic had not clearly identified a number of important issues. An example is that the U.S. approach to its balance of payments problems could have substantial effect on LDCs. The refusal of the U.S. to devalue the dollar would have sizable consequences on the LDCs. Agricultural price and income support policy in developed countries was discussed in relation to its implications for developing countries. A need for greater research in this area was particularly noted.

Internal Stability

A major dilemma facing LDCs is the problem of unstable world prices and their effect on internal economic stability. The view was expressed that international commodity agreements have not been particularly successful in this regard. It was felt that there was a trend toward each individual exporting country deciding how it would insulate itself from fluctuating prices in world markets. In such a situation there are possible roles for the International Monetary Fund. Research is needed to find ways for countries to better insulate themselves from instability in world markets.

World Comparative Advantage

The relevance of research to explore changes in comparative advantage was briefly discussed. In this context agricultural research now underway at Yale University was briefly described as being a fruitful effort. The question was raised whether analysis of comparative advantage provides meaningful predictive ability. The research described reportedly investigates downward shifting cost curves and the view was maintained that this led to some useful insight.

Control of Technology

Out of the discussion of comparative advantage, it was observed that the available technology in many aspects of development is often controlled by multinational corporations. Thus, shifts in cost and comparative advantage may be dependent on the actions of these firms.

Beyond the above issue the question was raised as to the control of the advancement of technology itself, i.e. are the advances such as that of the International Rice Research Institute repeatable over time? It was felt that if there was to be control over technological advance that greater multidisciplinary efforts would be required than is now underway.

Growth Theory and Trade Theory

The view was expressed that trade theory is particularly sterile with regard to growth issues. In the light of this view the emphasis by the LDCs on exports to accomplish growth was questioned at least as regards a sound theoretical basis. Difficulty in making the connection between trade and growth reflects limitations in the state of the art of growth theory.

Out of this discussion it was felt that identifying any particular sector as the "mainspring" of growth or development was questionable. Particular skepticism was raised as regards ascribing this position to the agricultural sector in the LDCs. A more prudent view would be that any particular sector could represent the limiting factor or the bottleneck to growth and development.

That more theoretical work was needed in this area was apparent.

Quantitative Policy Analysis

It was pointed out that in many developing countries substantial amounts of energy are directed toward preparing five year plans. The usefulness of efforts was strongly questioned. A more useful alternative, it was felt, would be the systematic quantitative analysis of successive policy questions which have major importance to the country. Such policy questions do not particularly come or go with five year plan intervals. Although many policy objectives would have country specific characteristics, the view was expressed that there would be some degree of commonality among them which could serve as a research agenda for scholarly effort around the world.

Institutional Issues in International Economics

The view was expressed that a majority of the fundamental questions being asked throughout the workshop were institutional questions, i.e. the institutions involved were inadequate to their task, were obsolete, or were not functioning. Therefore, if economists are to have any impact on trade, development, growth, and other aspects of international economics, they must spend more time in studying institutional alternatives.

It was further asserted that a major problem in the design and operation of institutions was that this is most often the work of politicians and that economists are often not involved. Evidence that economists had some contributions to make was found in the history of U.S. farm policy.

Considerable debate evolved over the question of the role of economic theory in addressing institutional questions. There were those who felt it had little relevance; there were others who felt that in predicting the performance of institutions with regard to economic variables it had relevance. The discussion of institutional problems and institutional analysis was felt to be consistent with the earlier discussion of quantitative policy analysis.

Information Exchange

The large amount of information about the international economy which is known by various organizations and individuals but not shared was felt to be a question of some concern. Achieving greater exchange of information was felt to be worthy of some effort. Of particular concern is the state of information available to decision makers in the LDCs.

Concluding Comments

The participants in the seminar represented a variety of experiences. The discussion ranged far and wide but there appeared some recurring themes and some central concerns which this report has attempted to reflect. A number of topics which might be fruitful for future seminar discussions was suggested. Included were the following:

1. The experience and requirements of regional integration under differing circumstances.
2. The relationship between trade and the agricultural sector in promoting development. Included in this area would be the problems of me urement and data, and an examination of what makes the "special cases" of successful development unique.
3. Problems of trade policy analysis particularly as related to the organization of data collection and its use in quantitative policy analysis.

The attached bibliography is based on submissions by participants in the seminar.

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