

International Trade and Development

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- Development may be interpreted as expanding people's choices and enabling them to lead longer and healthier lives: by ensuring that they are well-nourished and have access to safe drinking water, sanitation facilities and shelter; by providing them equal opportunities to participate in economic activity through education and decent work; and by affording them the freedoms to exercise these choices and fulfill their potential.
- Trade can facilitate, promote and sustain this development process in any country.

- Trade need not be – indeed, should not be – an end in itself. Rather, it should realize a broad range of development objectives, and especially in the poorest and Least Developed Countries (LDCs) it should help to alleviate poverty and reduce deprivation.
- At the same time trade is a profit-driven activity, and there are many examples from history that demonstrate what happens when commercial gain takes precedence over well-being. For example, slavery, colonialism, apartheid, etc.

- Although trade liberalization can increase the opportunities for exports, it also exposes local producers to foreign competition that, particularly in poorer countries, they may be unable to withstand.
- While creating new opportunities, particularly in the modern sector, it can also destroy the livelihoods of people working in basic manufacturing or in agriculture.
- There are three basic building blocks: trade, development and the links between the two. Trade → growth → development → trade.
- There is thus a two-way causation: from trade to human development and back.

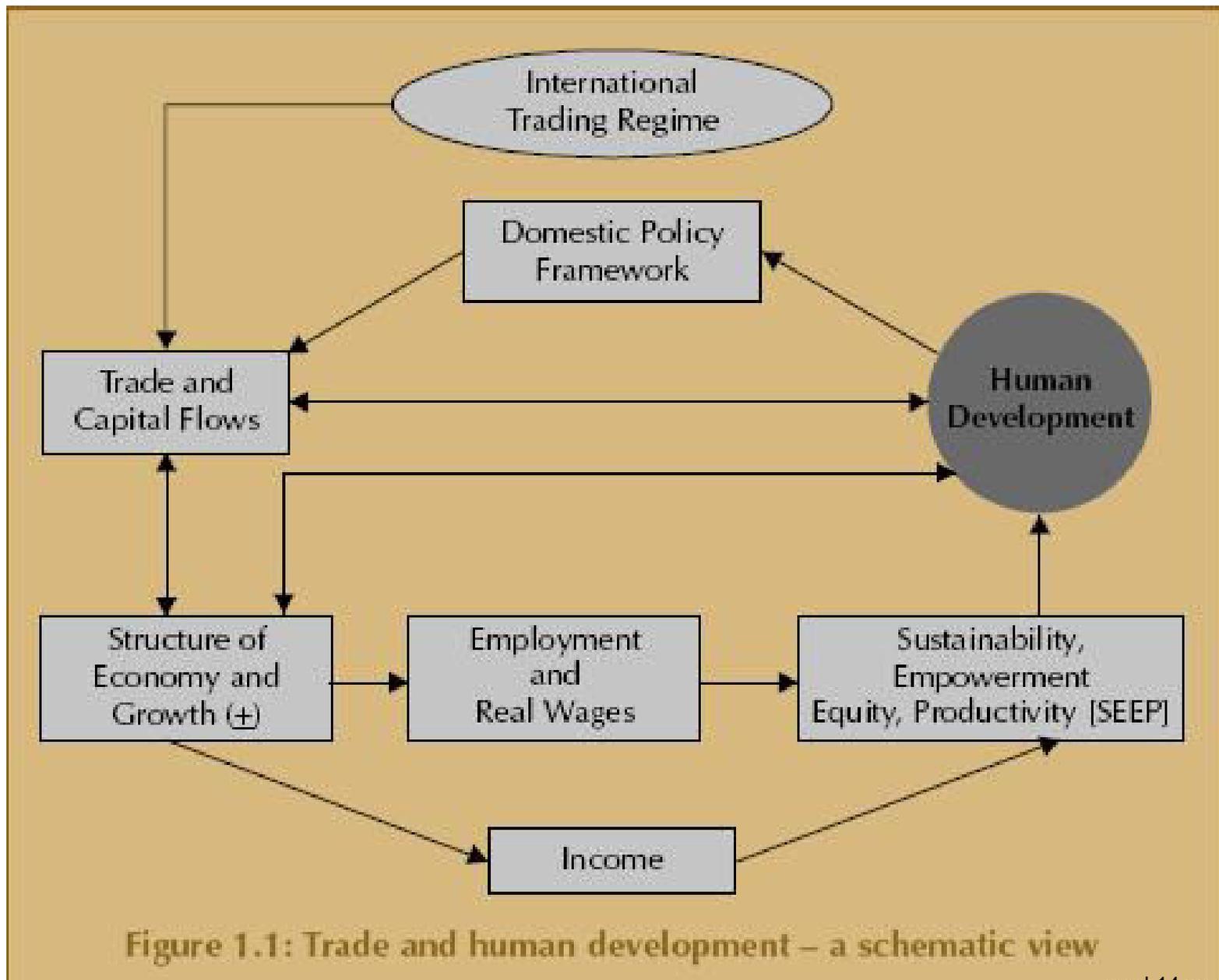


Figure 1.1: Trade and human development – a schematic view

- Trade changes the structure of the economy as well as the rate of growth, which, in turn, has implications for employment both of labour and capital.
- Trade tends to reward skilled labour more highly than unskilled labour and can lead to the adoption of capital-intensive technologies and thus deepen inequality.
- However, public policy can be used to ensure that trade benefits human development.

- There is also a feedback loop from human development to trade, which operates directly or is mediated through the domestic policy framework.
- Feedback affects work through higher income, higher technical competence and skills or through the power of advocacy on policymakers.
- Human development can also have a direct influence upon the structure of the economy, the rate of growth and trade itself.

- Experience has shown that growth can translate into higher levels of development. But not necessarily. Much depends on the nature of growth. In some cases the development outcomes may be limited, or even negative.
- In many Asia Pacific countries it is found that industry and services are growing much faster than agriculture; agricultural workers are being displaced on a large scale; rural-urban and interpersonal inequalities are widening; manufacturing growth is not creating enough new jobs, and much of the existing work is becoming more casual or informal.

- Quite often, economic growth may provides the resources to permit sustained improvements in development; on the other hand, development improvements raise people's capacities to boost economic growth.
- Trade liberalization that involves reducing protective tariffs can therefore lead to a more efficient outcome – by delinking domestic supplies from domestic production.
- Trade liberalization should also enable the poorer developing countries to make better use of their comparative advantage – an abundant supply of unskilled and inexpensive labor.

- They can specialize in the production and export of agricultural products and simple manufactured goods such as textiles and clothing. This should also increase the demand and wages for unskilled workers and thus help to reduce poverty.
- In open economy, enterprises that are more exposed to foreign competition, markets may force to increase their levels of efficiency. Reverse is also common in many countries where market is flooded with cheap imports and put local enterprises out of business.

- Moreover, instead of employing more unskilled workers, the export industries may instead further polarize 'dual labor markets' – consisting of a small formal sector where wages are influenced by government regulations and collective bargaining, and a much larger informal economy where wages tend to be linked to a subsistence level of income.
- If we assume that trade liberalization foster economic growth and government looks after the wellbeing of ordinary citizen, then this may results a considerable decrease in tariff and loss of government revenue. In a developing country it may have serious consequences.

- In addition, successful industrialization requires not only capital and technology but also a capable labor force that can manage the capital and technology and display the discipline demanded by factory production. That capability is directly related to literacy, education, and status of health.
- If growth limits or reverses development gains, then growth itself may not be sustainable.
- Most governments have, therefore, felt the need to intervene in order to achieve trading success – a process with deep historical roots.

STATE INTERVENTION IN TRADE – AN AGE-OLD PHENOMENON

In around AD 60, a trader coming from Dhaka, Bangladesh, arrived in Rome from Jeddah carrying fine muslin. He provoked a near-riot and was plied with coins, gold and silver and was even offered equally valuable horses. The Emperor, Tiberius, became worried because the demand for these goods was annually depleting the Roman coffers by almost 50 million sesterces, the trading bullion. So the Emperor banned the sale of the finest muslin. Indeed, he was so concerned that he deployed soldiers to keep the fabric out of Rome. The flow of commerce across national borders is an age-old phenomenon – but so too are State policies to control trade for public purposes.

Source: Bandyopadhyay, 2005.

- State needs to protect the vulnerable. Enhanced trade generates both winners and losers: those who get left behind may lose their livelihoods or see their incomes drop or suffer from greater insecurity (of food).
- State should be able to guide industrial strategy. With its broader vision, it should be able to assess the international context and changes in the global production system.
- In a developing country, the State may also need to find ways of counteracting the imbalances in international markets. It will need to take account, for example, of the sharp differences in national trading capabilities, the substantial disparities in the size, market presence and reserves of competing partners, and the control exercised by a small group of players from a few developed countries on various frontline technologies.

- A call-centre worker in the United Kingdom or the United States, say, whose job migrates to Delhi or Manila can be rapidly redeployed elsewhere or can use the cushion of the social security system to search for a suitable alternative job. But a Bangladeshi woman making shirts on piece rates for a garment manufacturer may have little or nothing to fall back on when told she is suddenly surplus to requirements.
- In international negotiations, countries may have not just different priorities but even opposing interests. The food-exporting countries, for example, will see things differently from the food importers; Indonesia will take a different position from that of Thailand or Viet Nam.

- The poorest countries of the region who look towards China with some trepidation – perceiving their giant neighbor as a strong competitor capable not just of capturing some of their export markets for textiles and garments, for example, but also of displacing even some of their humbler domestic industries.
- The highly developed countries will feel more at ease with global competition than the poorer ones.

Trade for development

- 1. Invest for Competitiveness**
- 2. Adopt Strategic Trade Policies**
- 3. Restore a Focus on Agriculture**
- 4. Combat Jobless Growth**
- 5. Prepare a New Tax Regime**
- 6. Maintain Stable Exchange Rates**
- 7. Persist with Multilateralism**
- 8. Cooperate with Neighbors**

Invest for Competitiveness

- Governments need to ensure that they have the roads, railways, ports and telecommunications systems that align with national needs and also with the requirement of getting goods and services quickly and cheaply to international markets.
- The most successful trading countries have invested heavily in human development – generating a healthy and well educated workforce that has the stamina, the skill and the flexibility to cope with a changing trading environment.
- China, for example, long before it started opening up to the world at the end of the 1970s, already had good basic human development indicators.

- The Republic of Korea, for example, has reaped the benefits of a huge investment in technological infrastructure and by 2004 had the world's highest university enrolment rates.

Adopt Strategic Trade Policies

- States have to identify a few sectors and industries that have long-term potential in international markets and guide enterprises towards them.

- The process should be strategically planned and carefully sequenced. Higher tariffs should be rigidly time-bound. In order to avoid creating cozy monopolies that never mature into vigorous export enterprises, tariffs should automatically be scaled down after a predetermined period.
- Tariffs should be low on essential imports such as raw materials and high-tech capital goods, higher on goods that compete with the selected strategic industries.

Restore a Focus on Agriculture

- A trade strategy based on human development, however, must have agriculture at its core. This is not because agriculture offers export opportunities, but because in many countries farming is still the primary source of income for the poor; so no trade strategy that undermines rural livelihoods can claim to be promoting human development.
- In WTO negotiations, therefore, developing countries should insist on the right to protect 'special products', including safeguard mechanisms that will be triggered when food imports reach certain prices or volumes.

Combat Jobless Growth

- More workers should steadily be absorbed into formal employment but on contracts sufficiently flexible that they can readily be deployed to other sectors or companies as trading conditions change.

Prepare a New Tax Regime

Maintain Stable Exchange Rates

Persist with Multilateralism

Cooperate with Neighbours

- Shared Resources
- Shared Development Fund