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THE OBJECTIVES AND FEASIBILITY OF A PREFERENTIAL

TRADING SYSTEM AMONG DEVELOPING COUNTRIES

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VRIJE UNIVERSITEIT
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EN ECONOMETRIE
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THE OBJECTIVES AND FEASIBILITY
OF A PREFERENTIAL TRADING SYSTEM
AMONG DEVELOPING COUNTRIES

Pitou van Dijck

CONTENTS

1. INTRODUCTION

The proposal for a Global System of Trade Preferences among developing countries (henceforth GSTP) is the most ambitious attempt to create a preferential trading system among developing countries as of now.
Through the implementation of preferential margins in the system of protection against imports in the participating countries, this preferential system aims at the stimulation of trade among developing countries and at supporting the collective self reliance of this group of countries. An initial effort to implement such a preferential trading system has been undertaken under the auspices of GATT since 1971. However, since 1976 a new effort has been initiated by the Group of 77. The implementation of a preferential system was seen by developing countries as part of a much wider scheme of activities to stimulate their economic co-operation.
However, after more than ten years of preparations and negotiations within UNCTAD, the plan still is in its embroynatic stage and far from effective. For that reason it is not possible to make a realistic assessment of the viability of this proposal and of the possible impact that the implementation of such a system may have on the participating countries as well as on other countries. In fact, it is not even clear at this stage what the nature and extent of the concessions will be. The experience with many integration schemes implemented in groups of developing and developed countries shows that almost invariably a series of specific bottlenecks occurs during the initial stages of such schemes, and that specific conditions have to be met to enable a successful operation of a trade preferential system. It seems all too likely that the ambitious proposal for a GSTP, that includes countries that have only limited economic relations among each other in the pre-integration stage, and that differ widely in economic structure and government performance will end up as a non-entity if insufficient notice is taken of such potential bottlenecks.

This paper attempts to shed light on the possibility to further the process of integration and liberalization in developing countries, particularly through the establishment of a preferential trading system. We review different models of economic integration and their objectives, and particular emphasis is given to bottlenecks that may frustrate the efficient operation of a preferential trading system.

2. MODELS OF INTEGRATION

In its broadest sense economic integration of countries can be conceived as the removal of discrimination between the economic agents in the participating countries and the co-ordination of economic policies.[1]
The broadest division between models of integration is between the negative and the positive approach to integration. Characteristic of the negative approach to integration is the liberalization of markets by the group-wise reduction of national rule systems. The liberalization approach aims particularly at the removal of instruments that discriminate between domestically produced goods and services and those produced in partner countries, and on the abolishment of restrictions on the free movement of factors of production. In the extreme case of fully integrated economies the law of one price holds for all tradables, and factors of production that are perfectly mobile and substitutable will have equal levels of marginal productivity and remuneration.

Positive integration - the dirigiste approach - aims at modifying the prevalent trade and industrialization regimes by creating a new rule system according to which intervention in market forces takes place. Such a rule system may be implemented to correct the distributional effects of trade liberalization so as to obtain an equitable distribution of gains and losses among the countries participating in the integration scheme. These corrections may be brought about through compensatory fiscal measures, the operation of regional development banks, or an agency to allocate industrial activity among the partner countries. Alternatively, the purpose of a rule system may be more comprehensive when integration is to be brought about through sectoral and regional planning, investment co-ordination and the regulation of foreign investment. Such models of integration aim at a programmed and joined selection of novel activities.

Focusing now on the liberalization of economic activity and the reduction of discrimination in a group of countries in a co-ordinated fashion, several stages can be distinguished as regards the extent to which preferences are granted and policies are co-ordinated. In each subsequent stage of integration national governments cede part of their autonomy to shape the trade and industrialization regime. In a free-trade area intra-area obstacles to trade such as tariff and non-tariff barriers are removed but governments can pursue an independent trade policy *vis-à-vis* third countries provided such policies donot inflict with regulations to avoid deflection. No additional harmonization of

economic policies is required and there is consequently hardly any need of an intergovernmental agency to harmonize policy. In a customs union trade policies of the member countries *vis-à-vis* the rest of the world are harmonized by means of common external tariff and non-tariff barriers in addition to the intra-regional removal of trade barriers. In a common market not only the movement of goods is liberalized as in a customs union but also obstacles to the movement of factors of production are removed. In an economic union a more fully regional substitution for domestic policies is obtained through the unification of exchange-rate policy, monetary and fiscal stabilization policies and the provision of union-wide public goods.

Integration through the liberalization of markets rather than through projects or sectoral planning has been the avenue most frequently pursued by developing countries as well as developed countries. Many of such liberalization attempts have failed to contribute significantly to the stated objectives of the integration schemes. Most of such preferential systems have not fully developed into free-trade areas or customs unions but stagnated as limited preferential arrangements.

3. OBJECTIVES OF LIBERALIZATION AND INTEGRATION

3.1 Effects of liberalization.

We study the objectives of a preferential trading system by considering it, first of all, a particular model of trade liberalization. Therefore we start by reviewing the objectives of liberalization as such and proceed by discussing more particularly the objectives of a preferential trading system. Whenever reference is made in this study to trade liberalization the term is used in its traditional meaning *i.e.* the reduction of tariffs or non-tariff barriers. In some studies, however, liberalization refers to the substitution of price measures such as import tariffs for administrative import controls such as quota.[2] A distinction may be made between the static and dynamic effects of trade liberalization on welfare and economic growth. The traditional, static gains from trade consist of gains due to a shift in trade and consumption and a shift in the allocation of factors of production. These are the so-called once-and-for-all welfare effects of trade liberalization.

In the modern literature on liberalization and welfare much attention is paid to the effect of the abolishment of quantitative controls on rent-seeking. The allocation of resources for rent-seeking activities may be considered a loss to society as resources are withdrawn from productive activities, *i.e.* the production of goods and services. Two types of directly unproductive activities may be distinguished : lobbying for specific (trade) policies and rent-seeking once imports are controlled by licenses. Lobby activities take place when government is not exclusively guided by the objective of maximizing welfare for society at large but is sensitive to the claims of pressure groups. In such cases, the visible hand of government that manipulates the market, is manipulated itself. Costs of rent-seeking activities vary according to the way import licenses are distributed. As indicated by Krueger, import licenses for intermediate goods may be allocated in proportion to production capacity, and this may warrant the creation of excess capacity up to the point where the rate of return on import licenses is equal to the rate of return on alternative investments. The creation of excess capacity for the sake of obtaining import licenses is a directly unproductive activity. Also, import licenses for consumer goods may be allocated in proportion to the application for those licenses from importers-wholesalers. This induces firms to invest in trading activities resulting in a situation in which imports are handled by a large number of firms that are operating at sub-optimal costs levels. Again, the investment made for the sake of obtaining licenses is a directly unproductive way of allocating resources. Alternatively, licenses are distributed on the discretion of officials, and the costs to be made in order to influence their decision and increase the change of receiving an import license is again a directly unproductive allocation of resources.[3] These costs of directly unproductive rent-seeking activities should be incorporated into the analyses of the effects of liberalization on welfare. By definition it holds that withdrawing available resources from the process of production results in a less than maximal level of production. In such cases society is not on the production possibility curve but within its boundaries. Srinivasan has even suggested that in a situation in which directly unproductive activities prevail to shape import restricting policies, the level of domestic import-competing production may be lower than in the free-trade equilibrium position or a situation in which trade policy is designed costlessly.[4]

The point made here is illustrated in Figure 1 with production possibility curve QQ^1 and a set of community indifference curves. At prevailing world market prices and with all domestic resources allocated in directly productive activities production is at P* and consumption at C*.

Figure 1.   The gains from trade
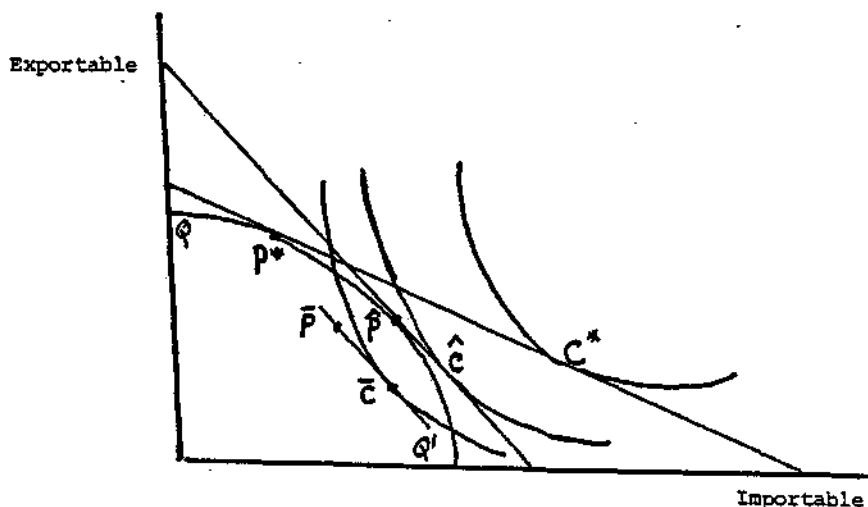
Suppose that the domestic price ratio differs from the international price ratio due to a tariff or non-tariff barrier. In case producers wouldnot have allocated resources to lobby for protection, domestic production would be at $\hat{P}$ and consumption at $\hat{C}$. If, however, resources would have been allocated to lobby for protection or to appropriate import licenses, production would be at - a point within the boundaries of the production function, at $\bar{P}$, and consumption at $\bar{C}$. Opening the economy and abandoning a policy of protection induced by lobby groups would release resources to increase welfare, the effect of which would come on top of the traditional static gains from trade.

Apart from the aforementioned static effects of liberalization we may distinguish dynamic effects. These effects, however, cannot be derived in a straightforward fashion from neoclassical production theory. In the literature different views have been developed on these effects. For analytical purposes we shall distinguish here dynamic effects of export expansion and import penetration. First, export expansion removes the limits to the volume of production set by the size of the domestic market and allows for the fuller development of specialization in production. This may result in the exploitation of economies of scale that are internal to the export sector. Second, production for competitive world markets may give incentives for

technological improvements and product development, and may stimulate efficiency in production. To the extent that technological knowledge and newly developed skills of marketing and design spread from the export sector to other sectors of the economy, there are positive external economies to be reaped as well. Such knowledge and skills, once they are used as inputs in other sectors, · result in a more general increase of efficiency and factor productivity. In case such knowledge and skills become available to the rest of the economy for free, *i.e.* as a public good, there is an argument to stimulate the export sector through subsidies.[5]

The effects related to increased international competition may also occur in the liberalized import-competing sector. Summarizing, the economic objective of liberalization, and *ipso facto* of a preferential trading area, is to reap gains from trade. These gains may be brought about through (1) increased efficiency due to specialization according to comparative advantage; (2) increased welfare due to the release of factors of production, previously used in directly unproductive activities; (3) exploitation of economies of scale in the expanding export sector; (4) increased efficiency due to international competition in the export sector and import-competing sector with possible spread effects throughout the rest of economy.

It should be noted that not all effects mentioned here necessarily take place simultaneously. On the contrary, it is highly questionable that these arguments for liberalization are additive or reinforcing.[6] Exploitation of economies of scale by the most efficient firms may reduce instead of increase competition. Also, liberalization may lead to a concentration of production in firms that are not at the lowest costs curve but produce at lower costs than more efficient firms in countries with smaller markets, due to their larger production volume in the pre-liberalization period. This then would be a perverse effect of liberalization.[7]

3.2 Objectives of a preferential trading system.

If the sole purpose of a government were to reap gains from trade as discussed earlier, there would be no rationale to bring about the transformation from a protectionist towards a free-trade regime in a way that discriminates among trading partners. While liberalization creates new trade flows among the partners of the preferential trading system, discrimination may divert flows from the more efficient supplier outside the preferential area toward a less efficient trading partner who is member of the preferential

system. The loss of welfare due to this trade diversion effect could have been avoided by liberalizing the trade regime in a non-discriminatory fashion. Thus, there must be a rationale for the creation of a preferential trading system beyond the mere objective of a group of governments to liberalize the trade regime since they could have done so without discriminating non-member countries.

Economic schemes of integration are proposed an implemented to serve a mix of political and economic objectives, and a comprehensive analysis of integration requires an assessment of the political and economic costs an benefits of integration. Even if the objectives of integration are merely political by nature the economic consequences of such a regime transformation should be assessed. It has frequently been claimed that the objectives of integration among developing countries differ from those among developed countries and that consequently the impact of integration should be assessed in a different way. Axline, for instance, claims that integration in developed countries aims at the static benefits of liberalization while in developing countries emphasis is on the dynamic growth effects.[8] For that reason, an assessment of integration among developing countries focusing merely on trade creation and diversion effects falls short and is inappropriate. A similar position is taken by Robson, Vaitsos, Peñaherrera, Cooper and Massell, and others.[9] The static gains take place in the short term whereas the dynamic effects are bound to take place in the longer term. Although there is no adequate procedure to relate directly changes in the economic performance in the course of time to integration, it is generally assumed that the longer-term effects are of greater significance than the short-term effects.

When discussing the objectives of integration it should be kept in mind that the frustrating experience with many an integration effort is caused by differences between partner countries in the intensity and hierarchy of motivations for integration and their different capacities to realize similar objectives. Basically, two distinct approaches may be distinguished as regards the rationale of preferential trading systems. In the first approach, integration is conceived as a fundamental change in economic policy in the partner countries. In this approach it is assumed that the existing trade and industrialization regime that centres around the application of tariff and non-tariff barriers to imports has to be altered since it does not allow society to gain maximum welfare. The existing regime, therefore, is considered inferior to a regime, to be implemented, that allows for a pattern of specialization that is more in line with comparative advantage. The effectiveness of the

integration effort is then assessed by comparing its trade creation and diversion effects. Analyses along this line fail to explain why a country opts for discriminatory liberalization instead of non-discriminatory liberalization. Trade diversion appears to be the costs of an irrational policy.

The alternative approach assumes that the existing trade and industrialization regime is a rational regime, tariffs being rational instruments that are applied for economic and non-economic reasons. By focusing on the economic objectives of the existing trade and industrialization regime, and the limited options to serve these objectives through the application of alternative instruments, the rationale of integration is seen from an entirely different perspective and the valuation of trade creation and diversion effects is entirely distinct. In this approach there is no change in the economic objective of government policy before and after the creation of the preferential trading system. The main objective is promotion of manufacturing industry.[10] This approach will be dealt with in two successive steps. First we shall deal briefly with the rationale of government intervention in the trade regime to stimulate manufacturing industry. Next step will be to discuss the rationale of establishing a preferential trading system.

3.2.1 The rationale of government intervention in the trade regime.

There may be good reasons for government to intervene in markets in the presence of domestic distortions *i.e.* in situations where prices deviate from opportunity costs. However, as Johnson has indicated, such situations do not necessarily warrant government intervention in the trade regime and protectionist measures may further reduce economic welfare because of the distorting impact of this type of instrument.[11] Stimulation of infant industries is the main classical exception to the superiority of free trade. The other exception, the optimal tariff, need not be discussed in the context of this study. Although the 'infant industry' argument has been applied widely as a rationale for tariff protection - and provides the basis for the exceptional position granted to developing countries in the GATT rules - it is often used in a somewhat loose and inaccurate way. Without going into details of this classical argument some remarks are in place regarding its validity and application. To arrive at a sound argument for protection, the infant industry should create a positive external effect that accrues to society as a free good. In such a case the social rate of return on the investment in industry exceeds the private rate of return. Production may then be stimulated from the level

which is optimal from the level which is optimal from the private investor's point of view to the level which is optimal from the point of view of society. The widest application possible of this argument is formulated by Corden and also by Keesing when they refer to atmosphere-creation. As formulated by Corden: "This atmosphere-creating effect may well provide a strong basis-possibly the strongest of all - for an 'infant economy' argument for generalized protection of manufacturing ..." in developing countries.[12] The key of the argument for infant-industry stimulation relates to technological externalities.[13] There is a case for infant-industry stimulation when an investment in a process of knowledge acquisition is socially more profitably than privately because the private investor cannot appropriate the whole of the social return from the investment.[14] Johnson and Baldwin have scrutinized the case of infant-industry stimulation and have concluded that for many types of knowledge acquisition the problem of externalities doesnot exist.[15] However, when such conditions do occur the divergence between private and social benefits of knowledge creation may be substantial.[16] The same point is stressed by Westphal: the effects of technological mastery by a firm spread through society and enhance its technological basis.[17] In such circumstances government intervention is warranted to obtain an optimal allocation of investment and level of production.

The infant-industry argument as defined above provides a rationale for government intervention, not necessarily for government intervention in the trade regime through tariff and non-tariff barriers. The latter type of intervention is only superior to intervention through subsidization in case the collection and distribution costs of tariffs are lower than those of subsidies which may typically be the case in developing countries, as pointed out by Corden.[18]

Apart from the economic arguments for government intervention there are non-economic arguments that are probably of greater relevance for understanding the role of government in the real world. In the case of economic arguments, government intervention is warranted to maximize the level of welfare, i.e. real product, measured in terms of goods and services for individual consumption. In the case of non-economic arguments, government intervention is required to maximize "utility" as derived from the consumption of private and public goods and services. The non-economic objectives of economic policy may be added to the economic objectives in the social utility function or be treated as additional constraints.[19] Fulfilling the non-economic objectives contributes to the overall level of welfare, measured in terms of utility, be it at the expense of the volume of privately appropriable goods and services.

Bhagwati and Srinivasan distinguish four types of non-economic objectives of government policy: the production of a good should not fall below a certain level; the consumption of a good should not exceed a certain level; the import or export of a good should not exceed a certain level; the level of factor use in a good should exceed a certain level.[20]

Following Bhagwati and Srinivasan we discuss the case of society's non-economic objective to raise the level of industrial production above the free-trade level. As illustrated in Figure 2, in the absence of government intervention the volume of industrial productions is Q1 and society is at P on the production possibility curve QQ[1]. Consumption is at C. Assume the prefered level of industrial production is Q2. To raise industrial production an shift resources from the non-industrial sector to industry government could use production taxes and subsidies that would not affect the price ratio for consumers. Production shifts to P* and consumption to C*. In case the objective is realized by using a tariff on imports of industrial goods, consumption would shift to Ĉ, indicating a further loss of private consumption.

Figure 2. Non-economic objectives of government intervention.
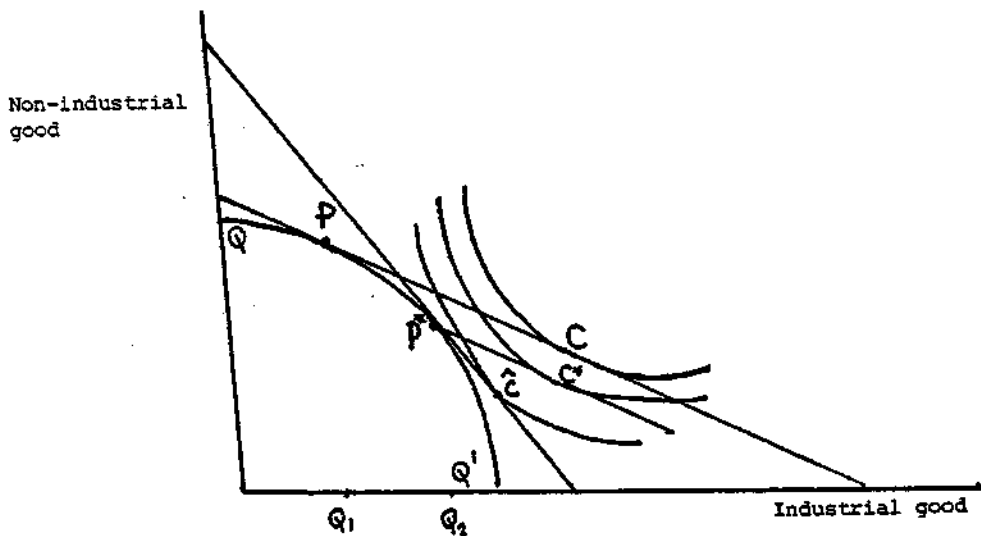
As indicated earlier, only in specific cases tariffs are first-best instruments to fulfil non-economic policy objectives. To stimulate industrial production or reduce consumption to the required level, taxes an subsidies are preferable over tariffs, provided that collection and distribution costs of the different systems of intervention are identical. However, to reduce dependence on foreign markets and stimulate self reliance, taxes on trade are first-best policy and superior to other taxes and subsidies.
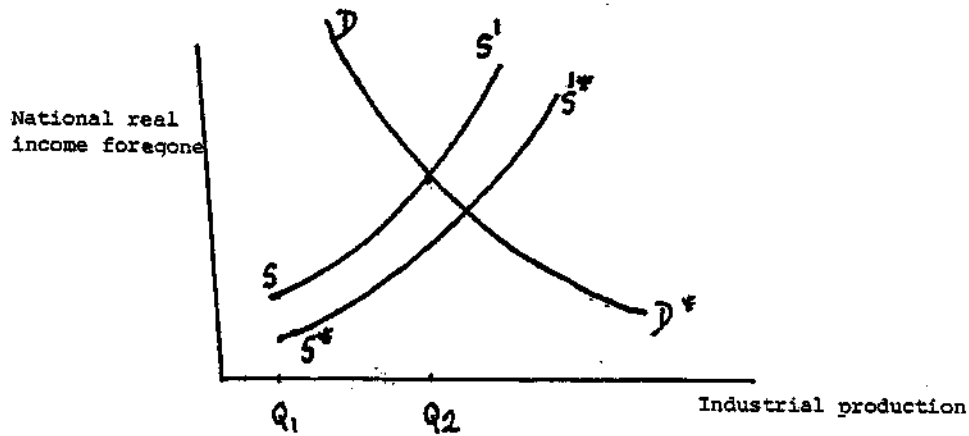
3.2.2 Preferential trading systems with industry as a public good.

The essential point in the second approach of the rationale of a preferential trading system is that industry is seen as a public good. It is assumed that there is a collective preference for industry as such - not for particular industrial products - and that society is willing to accept a reduction of real income to obtain units of government intervention through tariffs or other instruments. The underlying reasons for stimulating industry may be manifold. In many countries, development has virtually been identified with industrialization. Industry has been seen as a motor of growth, spreading modernization through linkages with the rest of the economy and creating new employment opportunities. Society will allocate resources to expand production of the public good industry up to the point where the marginal utility per unit of resources spent on private goods equals that on the public good.[21]

The rationale of the creation of a preferential trading system with industry as a public good is to reduce national real income foregone per unit of industry. By creating a preferential trading system and reallocating industrial activities among the partner countries according to efficiency criteria, all partner countries can obtain a higher level of real income, given the demanded level of industrial activity. Essentially, such a system shifts the supply curve of industry to the right as depicted in Figure 3. The demand curve DD^1 shows the decreasing marginal propensity of society to accept an additional reduction of real income to obtain an additional unit of industry. Supply curve SS^1 shows the increasing marginal costs attached to obtaining an additional unit of industry beyond Q_1, which is the level of industry in case government does not intervene in market forces either through domestic taxes, subsidies or import barriers. The level of industrial activity Q_2 may be obtained at reduced social costs in case industrial production is stimulated in the context of a preferential trading system. The shift of the industrial supply curve from SS^1

to S^*S^{1*} is essentially caused by gains from trade that are reaped through the creation of a preferential trading system. Some division of labour based on comparative advantage, and some exploitation of economies of scale may have some positive welfare effects.

Figure 3. Costs of expanding production of public good industry

The division of industrial activities among the partner countries in the preferential trading system is at the heart of Cooper and Massell's theory of customs unions.[22] Products may be distinguished by kind and country of origin. Each product in each country is produced at a different production function. This creates a hierarchy of industries in each of the partner countries in terms of real income foregone per unit of production. Depending on the shape of the supply curves of industrial products in the partner countries, a new hierarchy of industries for the market of the preferential trading area is created. An efficient kind of industrial development.- in terms of minimizing real income foregone - is obtained when the total level of industrial production is realized by having the lowest-cost product produced in the lowest-cost country. If production can be divided among partner countries without a reduction of the pre-integration-level of total industrial production in all partner countries, and the allocation of production is efficient *i.e.* minimizes real income foregone, integration is optimal and efficient. However,

such a division of labour among partner countries will not be feasible in all cases. In case an efficient allocation implies that the level of total industrial production is redistributed among partner countries in such a way that total industrial production in a country is below the level demanded (Q_2), allocation is efficient, not optimal. An optimal division of industrial activity among partner countries - actual production is at the level demanded - may require a less than efficient pattern of product specialization since the selection of industries (products) is no longer based on the lowest-cost products in the overall preferential trading area. Countries then produce up to the level demanded according to the lowest cost curve of each country. Such an optimal distribution of production is quasi efficient. However, this quasi-efficient allocation of production may not be feasible when a country is no lowest-cost producer of any product within the preferential area. In that case the actual level of industrial production in the country concerned in the integration stage will be below the level demanded.

The Cooper-Massell model assumes constant costs per unit of output in each industry. If allowance is made for economies of scale, the costs-reducing affect of a preferential trading system on the expansion of industrial production beyond the free-trade level may be even more significant. However, the possible occurrence of perverse specialization among partners might prevent the full exploitation of this costs-reducing effect as shown by Robson.[23]

The approach presented here departs from society's preference to stimulate industry beyond the level reached in the absence of government intervention, and the rationale of a preferential trading system is to reduce real income foregone per additional unit of industry. However, welfare theory suggests that given the non-economic objective of expanding industry, the application of tariffs and the creation of a preferential trading system is not *a priori* the most efficient way to realize this objective. As suggested earlier, a subsidy on industrial production is preferable over alternative instruments. Rather than creating a preferential trading system, (export) subsidies could be used to stimulate production and export. However, for a number of reasons the use of (export) subsidies may be problematic. Collection and distribution costs may be high as compared to a system of tariffs. A system of subsidization may be more difficult to control for trading partners and may lead to unfair competition among partner countries. Also, the use of export subsidies is restrained by GATT rules and challenged by trade partners. Only if alternative instruments such as (export)subsidies are not available or the costs

of their use are prohibitive would a preferential trading system be preferable. However, a system of collective protection with internal free trade is preferable over a trade policy of industrial protection in each partner country separately.[24]

3.2.3 Sources of demand for protection of industry.

In the context of the previous analysis of the role of industry as a public good some remarks are in place regarding the sources of demand for government intervention in the trade regime to expand industrial production beyond the free-trade level. The traditional approach of trade policy in economic theory has been that government intervenes in the interest of society at large. Government is considered to be all wise and to apply instruments in a scientific fashion. It aims at maximizing social welfare and has perfect knowledge of the functioning of markets and instruments. This approach leads us to the position that government applies tariffs to stimulate industry to satisfy society's preferences for industry in a first-best way, given limitations in the application of alternative instruments.

Essentially, this is also the approach followed by Cooper and Massell as well as Johnson in their theory of customs union formation in developing countries. Cooper and Massell's analysis is base on the assumption that there is a social preference for industry and that the electorate is willing to accept a reduction in income to achieve an increase in industrial production. Tariffs reflect this preference. Johnson starts from the same premise. Industry yields a flow of satisfaction to the electorate and the structure of tariff protection reflects society's preferences for specific industries.[25]

Alternatively, government may be seen as pursuing its-self-interest which may be regarded as an interest in survival. The political market may be seen as an market where competing interest groups operate to influence government so as to obtain rents, government being in a monopoly position in the formulation of policies and the application of instruments. In an undistorted democracy, government's survival is determined by voting. However, the political market may be imperfect like any other market, and other factors than group size may determine the impact of groups on government. If that were the case, protection reflects the capacity of industry to influence government and override the preferences of other groups, rather than the preferences of

society. Industry will allocate resources in lobbying for protection to the point where the marginal costs of lobbying equals the marginal benefits of an increase of protection.[26] Since protection has some of the characteristics of a public good - all firms in a sector benefit from it irrespective of their contribution to the lobby for it - firms tend to reduce the private costs of lobbying. The possibilities for firms to take a free ride are particularly large when the protectionist measures are broad in scope, favouring many products and firms, while the opposite is true when these measures are highly specific. However, as Baldwin indicates, protection differs from a pure public good since the benefits that accrue from it depend on the price elasticity of supply of the firm.[27] Sectors with only a limited number of firms, a few of which dominate production and employment, tend to be successful in lobbying for protection. Other factors that may increase the effectiveness of a lobby are the sector's economic and strategic importance, the size of its labour force, and the geographical concentration in a sensitive area.[28] Finally, the lobbying sector may receive widespread support from different segments of society that do not have a direct interest in the specific case but have a high preference for a process of development undisturbed by external factors. When society is characterized by a conservative welfare function, widespread support for protection is based on solidarity *cum* self-interest, and society is willing to sacrifice private consumption to protect itself against import competition.[29]

Our review of economic and non-economic factors underlying protection shows that in different countries protection may be the reflection of different preferences and differences in the capability of government to meet these preferences. Therefore, what is an "optimal tariff" - as refered to by Johnson, Cooper and Massell, and Feenstra and Bhagwati - differs according to the premises made with respect to society's preferences and capabilities.[30] This has implications for the feasibility of liberalization and the creation of a preferential trading area, as will be discussed in the next section.

4 THE FEASIBILITY OF A PREFERENTIAL TRADING SYSTEM

4.1 Introduction

From here onwards the main focus shall be on obstacles to the formation of a preferential trading system and on adjustment problems that may occur in the process of creating such a system. Some of the obstacles and problems discussed here are more general by nature pertaining to the process of trade liberalization as such, but the emphasis will be on factors that obstruct particularly the creation of a trade preferential system among developing countries. While some of these obstacles are merely transitional, others are more persistent and have disrupted the entire process of integration through the formation of a free-trade area or customs union in the past. It should be clear that by shifting the focus from the theoretical argument in favour of trade liberalization towards the complexities that assert themselves in the actual formation of preferential trading systems, we donot intend to provide arguments for not undertaking an endeavour towards the liberalization of trade regimes.

Before we disembark on a review of obstacles to the creation of preferential trading systems, some remarks are in place with respect to tariff and non-tariff barriers and the effect of a change in these trade barriers on domestic prices. The trade and industrialization regime in many developing countries is characterized by an extensive use of tariffs and non-tariff barriers. The presumed effects of these instruments are that domestic demand for imports and import substitutes is reduced, domestic supply of import substitutes is stimulated, and consequently the self-sufficiency ratio is raised. The difference between domestic prices and world market prices brings about a reduction in consumer surplus and an increase in producer surplus and government income from taxes on trade. In general it holds that the less developed a country, the less developed its industrial infrastructure and the more industry needs stimulation. At the same time, government's dependence on taxes on trade trends to be high and the administrative infrastructure tends to be weak in countries and low levels of overall development. Consequently it is typical for less developed countries that tariff and non-tariff barriers create a price differential between domestic prices and world market prices and a bias against imports and exports.

As indicated earlier, liberalization is conceived here as a reduction of tariff and non-tariff barriers to imports, and is assumed to create gains from trade. However, gains from trade donot occur when a reduction of import barriers doesnot result in a reduction of domestic prices. Up to now, it has simply be assumed that domestic prices equal world market prices plus the price effect of tariff and non-tariff barriers, and that domestic industry fully responds to this price effect, in the sense that domestic production is increased at the expense of imports to the point where the marginal private costs of domestic production equal the domestic price. However, tariff reduction doesnot lower domestic prices in all circumstances. In case an excess margin of protection is given, tariff reduction may be inconsequential. Assume a monopoly supplies the domestic market. It will maximize profit by expanding production to the point where private marginal costs equal marginal revenue. The tariff that is optimal from the point of view of the monopoly allows production to expand to this point, *i.e.* it equals the difference between the profit-maximizing price and the international supply price. A tariff rate that would exceed the optimal tariff rate is redundant and lowering the tariff rate to the level of the optimal rate will not have any effect on production and trade.[31] Second, when the distribution of imports is organized by a local producer who controls the domestic market, the impact of tariff reduction on domestic prices may be limited, particularly in the initial stage of liberalization.[32] Third, tariff reduction may be inconsequential when the tariff is "dominated" by a non-tariff barrier such as a quota that prevents the quantity of imports to increase and prices to lower. Also other barriers may prevent tariff reduction to have an impact on domestic prices such as quality regulations and government procurement policies. Fourth, the price effect of a tariff reduction may be relatively small in case the tariff equivalent of transportation costs is high. Finally, if foreign supply is less than perfectly elastic, the effect of tariff reduction is reduced somewhat by the increased international supply price.

Assume now that tariff reduction does result in a change in domestic prices *i.e.* reduces the excess of domestic prices over international prices. The general equilibrium model traditionally used in trade theory analysis suggests an instantaneous reaction at the production and consumption side of the economy. However, rather than being timeless and smooth, the process of adjustment may be time-consuming and costly, particularly so in developing countries. It is likely that the process of production contraction in the import-competing sector will proceed at a higher speed than the process of production expansion

in the export sector. Consequently, during the period of transition the economy does not move along the production function but operates at less efficient points within the production frontier. Some capital and labour in the sector of tradables will not be fully employed and the loss of income in these sectors will be transmitted to the sector of non-tradables through multiplier effects.[33] Particularly in developing countries the substitutability between import-competing goods, export goods and non-traded goods will be low. Contraction in the import-competing sector does not automatically release resources for the expansion of other sectors because of wide differences in product mix, skill requirements and machinery.[34] To facilitate the transition, labour has to be retrained and investments have to be made in new plants and machinery. The less mobile resources are, *i.e.* the more degenerate the actual production function of the economy is, the longer the transition period takes and the higher the short-term costs of trade liberalization are. These transition costs are not necessarily an obstacle to liberalization and therefore they are dealt with somewhat separately. However, a costly and long transition process may evoke resistance and endanger the full implementation of the liberalization programme.

4.2   The gains from trade : trade creation and trade diversion.

No matter what the economic or non-economic arguments may have been for creating a trade preferential system, an obstacle to its development may arise when the welfare effects - as conceived in the traditional Vinerian approach- turn out to be negative. When the welfare effects for the partner countries as a group are expected to be negative, this might prevent the system from being established at all. Analysis of the conditions that determine the welfare effects of a preferential trading system suggests that welfare gains will be greater when import demand is price elastic, price differences among partner countries are large and the price difference between the partner country and the world market is small. Alternatively, the more imports are supplied in the pre-integration stage by countries outside the preferential area, and the larger the costs advantage the countries have over partner countries, the larger trade diversion effects will be. When products are not at all produced by partner countries, or when partner countries cannot expand supply adequately, tariff preferences donot create trade flows.

Tariff preferences are often not granted across-the-board but in a discriminate manner. To reduce foreign competition to domestic industry for reasons to be discussed later, countries may steer negotiations in a way that confines the so-called concessions - tariff preferences to partners - to products for which there is only limited domestic demand or hardly any domestic supply. In such cases the resulting system will have only very limited trade creation effects.[35] For the reasons mentioned above, preferential trading systems among developing countries are often expected to have only little and probably negative welfare effects, as measured in terms of trade creation and trade diversion.[36]

A prevential trading system may have a positive welfare affect on the group of countries as a whole but one or more partner countries may nevertheless experience a negative welfare affect. In that case, the prevential system is potentially beneficial but some additional instruments are required to prevent the loss of welfare or to compensate. More in general it holds that the distribution of costs and benefit appears to be a major cause of conflict among partner countries.[37] Inadequate provisions for an acceptable distribution of the net welfare gains among partners may limit the viability of the overall scheme, and may induce countries to erode so-called concessions through the application of alternative protective devices such as quality regulations, administrative delays, government procurement practices, insurance and guarantee requirements, and foreign-exchange regulations.[38] The problem may be tackled in several ways. First, mechanisms such as tax transfers may be created to compensate for undesirable outcomes of market forus. Alternatively, temporary concessions such as a free-rider position may be offered to partner countries to avoid undesired outcomes. Also, a country's potential to gain from trade may be enhanced by subsidized investments. Finally, to avoid the problem of an undesired distribution of gains and losses, membership of the preferential trading system could be limited to countries at a comparable level of industrial development and international competitiveness.[39] Elkan suggests that an undesirable distribution of net benefits of economic integration, so-called backwash effects, should be prevented rather than compensated. However since there is no perfect knowledge and foresight with respect to the response at the demand and supply sides to a tariff reduction, the size of the effects is hard to determine, left alone to agree about among governments of partner countries.[40]

4.3 The gains from trade: industrial expansion

In the previous section the effects of integration have been discussed in terms of trade creation and trade diversion as suggested by the Vinerian approach. However, the Cooper-Massell approach as well as Johnson's analysis of the rationale of economic integration suggest that the effects should not be measured in terms of changes in the size of trade flows but in terms of changes in manufacturing output. Thus, the distribution among partner countries of the costs and benefits of integration should be analyzed in terms of the contraction and growth of manufacturing sectors, and changes in the location of manufacturing activities. The following analysis of the factors that may have a significant impact on the distribution of costs and benefits among partner countries is based on the premise that the objective of integration is to expand industrial production in the enlarged protected market at reduced excess costs.

To start with, the more similar the degree of preference for industrial production beyond the free-trade level, the stronger the basis for a preferential trading system.[41] The effect of integration on production expansion is determined by two factors. First, the competitiveness of industry *vis a vis* competitors in partner countries determines the domestic supply response to integration. Second, the size of the integrated market as compared to the domestic market determines the scope for market expansion.

Figure 4. Factors affecting the scope for industrial expansion

|	*negative*	*positive*
competitiveness *vis-à-vis* partner countries	weak	strong
relative market size of partner countries	small	large

As illustrated in Figure 4, the more competitive domestic industry and the larger the markets of partner countries as compared to the domestic market, the more attractive integration. Thus, participation in a preferential system is

an attractive option for small countries with a relatively well developed industrial sector, the more so if potential partners have a large domestic market while their industry is relatively inefficient. However, in these partner countries liberalization will result in increased import competition while their supply response to increased export opportunities is small. Integration may only be acceptable to them if proposals for tariff reductions are complemented by policies to strengthen the competitiveness of their industry or by compensation schemes. More or less comparable levels of industrial development therefore appear to be a favorable condition for the creation of a preferential trading scheme. The more heterogeneous countries are in terms of industrial development, the more compensation schemes and other facilities are required.[42]

A sizeable domestic market may make a large country an attractive partner since it creates substantial possibilities for small partners to expand industrial production, provided industry in these countries has reached a sufficient level of competitiveness. Large countries consequently have a strong bargaining position in the formation of a preferential trading area. However, small countries may face the obstacle that their industry will be outcompeted by the industry in the larger partner even if that country's industry is less efficient. This form of perverse specialization among countries is illustrated in Figure 5. The demand curve in the large country is $D_1 D_1'$ and in the small country $D_2 D_2'$. Production in the large and small country is under conditions of economies of scale. Industry in the large country is relatively inefficient as depicted by the position of the supply curves $S_1 D_1'$ and $S_2 S_2'$. Nevertheless, production costs at the pre-integration stage are lower in the large country due to large-scale production. The case of perverse specialization suggests that the large country may benefit form integration not only when its industry is efficient but also when it is not.

Figure 5. The case of perverse specialization
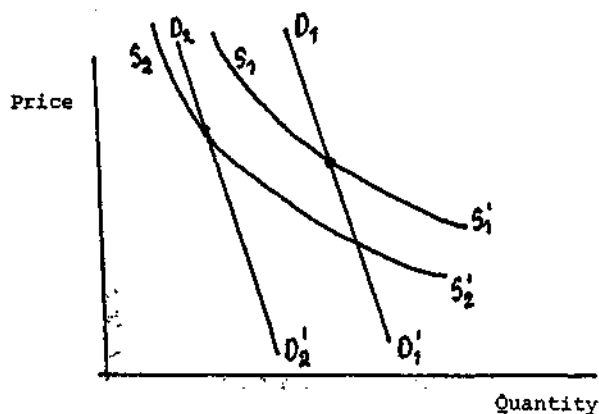
4.4 The role of domestic interest groups

In the previous sections we have reviewed conditions that affect the capacity of countries to fulfil objectives of economic policy - formulated in an orthodox and heterodox way- through the participation in a preferential trading area. Thus far the emphasis has been on economic conditions only. Although attention has been paid earlier to the role of domestic interest groups in the formulation of trade policy and particularly in the erection of import barriers, their role in the formation of a preferential trading area, be it supportive or obstructive, has not been dealt with. If we were to accept the view that trade policy is the outcome of competition among rivaling interest groups, a shift in trade policy toward participation in a preferential trading area would reflect a change in the effectiveness of interest groups to lobby, or a change in the perception of such groups of their interest, or a change in government's attitude towards interest groups. Economic theory has become more perceptive for the role of non-economic factors in the formulation of the objectives of economic policy and the choice of instruments as has been shown earlier. However, the economic approach in this area is essentially static and partial, and offers little to understand th dynamics of economic policy formulation, left alone the reasons for a shift from a unilateral inward-oriented policy toward the formation of a preferential trading area. Essentially, both types of

government interventions are not optimal and the economic rationale of such policies can only be established in the context of market imperfections, the preference for a public good, and constraints on the government to use first-best instruments. The reasons for this preference and the causes of the constraints on government behaviour are considered exogenous factors rather than objects of analysis. In the context of our study of factors that may obstruct the full development of a preferential trading area among developing countries, we shall present the findings of some studies that have focused on obstacles to regional integration.

Reviewing some integration efforts among developing countries Vaitswos makes the following observations with respect to LAFTA. In the three larger countries (Argentina, Brazil and Mexico) there was no significant industrial group with an interest in a larger, more competitive regional market. The domestic markets were considered sufficiently large and well protected, and offered a satisfactory rate of return on investment. Also, industrialists didnot favour a common industrial policy and sectoral industrial development programmes and prefered a restrained government in this respect. In the medium-sized countries (especially Colombia and Chile) industrialists viewed the prospects of a relatively open and competitive regional market with skepticism. They expected to be outcompeted by industry in the larger and often more developed countries. Industrialists favoured a mild form of common industrial policy. The smaller and less developed countries (especially Bolivia, Ecuador and Paraguay) attempted to obtain some kind of preferential treatment in the markets of the larger countries in exchange for opening their markets. From this Vaitsos concludes that "... no major local industrial group in LAFTA wanted effective trade liberalization", nor were foreign firms operating in the region interested in it.[43] According to Puyana, the industrialists of Argentina, Brazil and Mexico, as well as those in Peru, Uruguay and Paraguay were in frank opposition to the creation of a Latin American free trade area.[44] The limited impact of LAFTA trade flows and industrial development in Latin America may be ascribed to industrialists that pressured their governments to protect their interests. Tariff concessions were negotiated bilaterally and productwise, tariff cuts were limited and frequently delayed, and many exceptions and company-imposed restrictions on regional transactions were made.[45] To the extent that trade flows were induced by tariff concessions they were "advantageous" for the larger and industrially more advanced partners. The frustrations over the unequal distribution of the gains and losses, and the unsuccessful negotiations over the second stage of the LAFTA common list lead to the creation of the ANDEAN pact in 1969.

The ANDEAN pact was characterized by a combination of negative and positive integration measures. To stimulate a balanced and "harmonious" development, tariff reductions were combined with sectoral development programmes, and special provisions were made for less developed countries such as Bolivia and Ecuador. These two countries were entitled to slower the process of tariff reduction.[46] Reviewing the positions of the ANDEAN countries with respect to negative and positive integration measures the following observations can be made. Chile and Colombia showed a preference for trade liberalization. In this combination of countries they supported a comprehensive programme of accelerated and automatic tariff reduction. Also, they favoured industrial programming in some sectors. Peru and Venezuela favoured the maintenance of high tariffs and emphasized the role of industrial development planning. Industrialists in Bolivia and Ecuador had a preference for industrial planning and opted for minimal tariff reductions. The Venezuelan industrialists seem to have rejected both tariff liberalization and industrial planning.[47]

As compared to the LAFTA initiative, the ANDEAN pact had an ambitious programme to stimulate integration. However, the results, as measured in terms of overall tariff reduction, (net) trade creation and inducement of industrial development were rather limited. With respect to the liberalization of imports, three groups of products were distinguished. Tariffs on products not produced domestically were to be suppressed completely. Reduction of tariffs on products produced in a number of member countries was dependent on the outcome of negotiations on the rationalization of production. A programme of automatic intra-regional tariff cuts applied to a third group of products. This programme aimed at reducing tariffs to a maximum of 100 *per cent* in 1971, cutting them further by 10 *per cent* annually until 1976 and by 6 *per cent* annually afterwards. Non-tariff barriers, however, were not abolished.[48] However, many products were removed from the programme for fear of disruption of industrial development. Also, countries imposed non-tariff barriers to protect domestic industries faced with reduced tariff protection. Finally, negotiations on products not included in the automatic tariff-cutting programme were organized product-wise. These negotiations proceeded at a disappointingly low speed and were frequently delayed.[49]

The negotiations on a common external tariff did not turn to be successful. During the 1970's, a minimum common external tariff was maintained but by the mid-1970's, the members still had failed to agree upon a common external tariff. By 1976 the plan was altogether abandoned and replaced by a proposal

for a "tariff band".[50] The lack of success in this respect was due to wide differenus among countries in the preference for protection. Peru favoured an effective rate of protection not higher than 40 *per cent* although it was prepared to accept Colombia's proposal of 60 *per cent*. Ecuador and Venezuela preferred a rate of effective protection not below 80 *per cent.* This contrasted with the position of Chile. This country had been in a process of (unilateral) trade liberalization since the end of 1973 and its rates of protection for industry were relatively low. By 1975 the Chilean Advisory Committee on Tariff Policy made a proposal for a common external tariff with an unweighted average rate of effective protection for manufacturing industry of 26 *per cent*. Chile has continued its liberalization effort unilaterally and withdrew from the ANDEAN pact in 1976.[51]

The experiences of LAFTA and the ANDEAN pact show that an initiative towards integration and trade liberalization, if not sufficiently supported by domestic industrialists, is unlikely to have a significant economic impact. Reviewing the often shortlived and marginal experiments with preferential trading systems, the question rises to what extent economic gains are an objective of economic integration schemes. According to El-Agraa, nearly all such schemes have been established to serve political objectives although the arguments frequently have been put forward in terms of potential economic gains.[52] A major political objective in this context may be to create closer relations between countries. The key factor to success then is a strong common preference for political co-operation. However, one might question the appropriateness of liberalization as an instrument to serve this political objective since liberalization itself tends to create conflicts between partners.[53] To serve the purpose of political integration, a slow implementation of liberalization measures, selectivity in tariff cuts, a host of compensating measures and supporting programmes may be vital, although such measures may reduce significantly the economic impact of the liberalization programme.[54]

4.5 The role of multilateral institutions

So far the making of trade policy has been conceived as the exclusive privilege of governments. However, many governments no longer have an exclusive and unrestricted monopoly position in the formulation of policy targets and the selection of instruments, and they are no longer in a position to choose fully independently how to tackle external shocks or to respond to domestic interest groups. The room for decision making has become somewhat restricted by multilateral institutions such as GATT and particularly the IMF and The World

Bank. Therefore some observations are in place regarding the actual role of these institutions in the management of balance-of-payments problems and the formulation of trade policy.

During the 1970's and early 1980's some external shocks had a de-stabilizing effect on many developing countries and caused serious balance-of-payments problems. Oil price increases, the deterioration of the terms of trade, a recession in developed countries, increased protectionism and rising interest rates. "caused" current account deficits and increased the need for external savings. In some developing countries such as Argentina, Mexico and Venezuela problems were aggravated by capital flight. A large share of these foreign savings were channeled through the international banking system on relaxed conditions which enabled countries to postpone somewhat stabilization and adjustment policies. However, particularly during the 1980's private banks have restricted considerably net sovereign lending to developing countries and new loans have only been made available on the condition that countries pursued a stabilization and adjustment policy arranged in co-operation with the IMF . At this stage, the IMF has become pivotal not only in arranging stabilization and adjustment policies in developing countries but also as a supplier of new credits.

The theoretical basis underlying the IMF stabilization and adjustment policies is the monetary approach to the balance of payments. Nevertheless, the stabilization programmes do not purely reflect a monetarist approach and can as well be couched in Keynesian terms.[55] The somewhat eclectic nature of the IMF approach is reflected by the differences in programmes between countries, although all of these programmes have some central features in common such as a reduction of total credit expansion, and particularly a reduction of government's demand for credits, a reduction of government interventions in markets and a liberalization of the exchange control regime.[56]

In the monetary approach to the balance of payments the external disequilibrium of developing countries results form an excess supply of credit. In an open economy the excess money supply creates an excess demand for goods and services which causes a rise of the prices of non-tradables, an uncrease of the volume of imports and a decrease of the volume of exports. Control of domestic credit expansion is the single most important an most frequently applied instrument in IMF supported programmes. Cutting domestic expenditure reduces the gap between domestic absorption and production, and restors equilibrium in the current account of the balance of payments. In many

programmes measures to reduce domestic expenditure are complemented by measures to switch domestic expenditure. Exchange rate adjustment is not essential to the monetary approach to the balance of payments but about half of all IMF programmes include a devaluation. By shifting the domestic terms of trade in favour of tradables, domestic supply of import substitutes and exportables is stimulated and domestic demand for tradables is reduced. In a situation where quantitative import controls are used, a devaluation may absorb part of the rents instead of raising the domestic price of imports. If, at the same time, the domestic price of exportables has increased as a consequence of devaluation, the domestic terms of trade have changed in favour of exportables, thus improving the current account balance.

In many programmes attempts have been made to substitute tariffs for non-tariff barriers and reduce the variance of tariff barriers so as to reduce price distortions, strengthen the relationship between international and domestic prices and increase government revenue at the expense of rent seekers. Reduction of the variance of the nominal rate of protection lessens distortions at the consumption side, while a reduction in the variance of the effective rate of protection reduces distortions at the production side. However, by combining reduction of trade barriers with devaluation-so-called compensated devaluation- the overall net effective rate of protection for domestic industry may remain unaffected.

Defining now liberalization of the exchange control regime as the reduced reliance on quantitative controls as done by Krueger and Bhagwati, it may be observed that there has not been a general trend towards liberalization in developing countries.[57] Killick has shown that even in countries where a series of IMF programmes have been pursued, no consistent and significant liberalization process has been observable.[58] However, particularly during the 1980's many countries have made, willingly or contre coeur, stand-by arrangements with the IMF. At the same time the leverage of the IMF has increased. Therefore it seems likely that the impact of the IMF on the design of policy has increased and that trade regimes will be liberalized in more and more developing countries.

Independently but not entirely separately from the IMF operates The World Bank in the area of trade-policy design in developing countries. The programmes of structural adjustment loans and sector adjustment loans, both in operation since 1980, aim at strengthening the supply side of the sectors of tradables and particularly the export sector. In the area of trade policy the

programmes focus on export incentives and improved institutional support, adjustment of the exchange rate, tariff reform and the liberalization of the exchange control system.[59]

GATT, IMF and The World Bank are three multilateral institutions that contribute to the design of liberal trade policy and promote the development of an open undiscriminating international trading system. To the extent that the liberalization of the trade regime - in the sense of the reduction of effective protection against imports - creates trade flows among developing countries, a unilateral approach to liberalization stimulates integration among developing countries be it in a non-preferential way. However, at the same time a unilateral reduction of tariffs and non-tariff barriers reduces the scope for and rationale of preferential trading areas among developing countries.

NOTES

1. See B. Balassa, 1976, pp 17,18.

2. A.O. Krieger, 1978, and J.N. Bhagwati, 1978

3. A.O. Krueger, 1974, pp 291-293

4. T.N. Srinivasan, 1985, pp 48,49.

5. W.M. Corden, 1978, pp 268, 269; D.B. Keesing, 1979, pp 47,48.

6. P. Streeten, 1986, pp 226,227.

7. P. Robson, 1987, pp 39,40.

8. W.A. Axline, p 8.

9. P.Robson, 1978; C.V. Vaitsos, 1978; G.S. Peñaherrera, 1980;
   C.A. Cooper and B.F. Massell, 1965.

10. G.S. Peñaherrera, 1980, p 71; C.A. Cooper and B.F. Massell, 1965.

11. H.G. Johnson, 1981.

12. W.M. Corden, 1978, p 264. For a specific application of the "infant
    industry" argument to export industries see also W.M. Corden, 1974,
    pp 268,269 and B.F. Keesing, 1979, pp 47,48.

13. In his study *Optimal Trade Intervention in the Presence of Domestic
    Distortions*, Johnson discusses a series of cases in which infant
    industry stimulation may be warranted. However, in the study
    A New View of the Infant Industry Argument the same author delineates
    the case for infant-industry stimulation more narrowly.

14. H.G. Johnson, 1971.

15. H.G. Johnson, 1971 and 1981; R.E. Baldwin, 1969.

16. R.E. Baldwin, 1969, pp 297,298.

17. L.E. Westphal, 1981, p 10.

18. W.M. Corden, 1978, pp 42-57.

19. J.N. Bhagwati and T.N. Srinivasan, 1983, p 233.

20. J.N. Bhagwati and T.N. Srinivasan, 1983, p 234.

21. H.G. Johnson, 1965, p 261.

22. C.A. Cooper and B.F. Massell, 1965.

23. P. Robson, 1987, pp 48-52.

24. M.B. Krauss, 1972, p 428.

25. H.G. Johnson, 1965, p 258.

26. R.E. Baldwin, 1982, p 275.

27. R.E. Baldwin, 1982, p 271.

28. K. Anderson and R.E. Baldwin, 1986, pp 5, 6, 14; see also J.J. Pincus, 1975, pp 758-760.

29. R.E. Baldwin, 1982, p 272; W.M. Corden, 1978, pp 107-109.

30. H.G. Johnson, 1965; C.A. Cooper and B.F. Massell, 1965; R.C. Feenstra and J.N. Bhagwati, 1982.

31. W.M. Corden, 1978, pp 201-205.

32. J. Ramos, 1986, pp 88-91.

33. T. Addison and L. Demery, 1986, p 47.

34. A.D. Crockett, 1981, p 59.

35. C. Michalopoulos, 1974-1975, p 314.

36. P. Robson, 1987, p 195.

37. B. Balassa and A. Stoutjesdijk, 1975-1976, p 43; G.S. Peñaherrera, 1980, p 71.

38. C.V. Vaitsos, 1978, p 746.

39. B. Balassa and A. Stoutjesdijk, 1975-1976, pp 43,44.

40. P.G. Elkan, 1975-1976, p 59.

41. H.G. Johnson, 1965, p 93.

42. H.G. Johnson, 1965, pp 93, 94; G.S. Peñaherrera, 1980, p 179.

43. C.V. Vaitsos, 1978, p 723.

44. A. Puyana, 1982, p 170.

45. C.V. Vaitsos, 1978, p 723.

46. D.E. Hojman, 1981, p 140.

47. C.V. Vaitsos, 1978, p 724; A. Puyana, 1982, p 6.

48. D.E. Hoiman, 1981, p 140.

49. K.J. Middlebook, 1978, p 78.

50. A. Puyana, 1982, p 10.

51. D.E. Hojman, 1981, pp 147, 148.

52. A.M. El-Agraa, 19.., p 7.

53. P. Einzig, 1971, pp 21, 25, 26.

54. P. Streeten, 1964, pp 11, 12.

55. G. Bird, 1987, p 149.

56. IMF, 1986; T. Killick (ed.), 1984, pp 183-269.

57. A.O. Krueger, 1978, figure 2.1, p 38; World Development Report, 1987, fig. 5.3, p. 86, fig. 6.1, pp 96, 97.

58. T. Killick (ed.), 1984, Figure 7.1, p 237.

59. E. Stern, 1983; P. van Dijck, 1987, pp 86-97.

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