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This paper contains preliminary findings from research work still in progress and should not be quoted without prior approval of the author.

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In recent years, there has been a continuing effort by developing countries (LDCs) to foster economic cooperation among themselves. Apart from negotiations that include all LDCs, there have been regional attempts as well. While agreement has been reached on some measures to be adopted to increase economic cooperation among LDCs, little progress has been made in actually increasing such cooperation.1 The agreement on the Generalized System of Tariff Preferences in early 1988 has raised hopes though the agreement has yet to be ratified. But the 1980s have witnessed a slowdown of this process with hardly any increase in South-South trade. In Section I of this paper, trends in South-South trade are analyzed, while in Section II the role of South-South trade in economic development is discussed.

There has been a large increase in South-South trade in the 1970s in contrast to the experience of earlier years. This increase has been more in response to market forces than to government measures. The faster growth of LDCs than of developed countries (DCs) and the increasing openness of the LDCs in contrast to the protectionism in the DCs has meant that demand has increased more rapidly in LDCs. In particular, LDCs have paid greater attention to export promotion and have been less likely to operate over-valued exchange rate systems. This relative collective devaluation of LDC currencies in relation to the DC currencies has made LDC goods more competitive in other LDCs.

The extent of collective self-reliance among the LDCs is still quite limited and offers scope for further increase. It is argued in Section II that South-South trade is a step toward free trade. In the absence of such trade, LDCs are more likely to follow a more restrictive trade regime than to move toward freer overall trade, beset as they are by balance-of-payments (BOP) problems. Apart from this, South-South trade has important learning effects which should not be ignored. The evidence presented in Section I suggests that LDCs progress by stages, first exporting to LDCs within the region, then to other LDCs and finally to the DCs. Furthermore, there is insufficient evidence to suggest either that inward oriented economies are the most likely to gain from South-South trade or that such trade is against the long-run comparative advantage of LDCs.

Apart from its direct contribution to the economic development of LDCs, South-South trade can also act as a bargaining counter in North-South negotiations. Overall, South-South trade can be only a partial substitute for North-South trade because most of the capital goods imported by the South are from the North and collective self-reliance is the weakest. But at the sectoral level, LDCs are importing products from DCs as well as exporting to them. This factor can perhaps be used to open up DC markets to LDC exports as otherwise LDCs could close their markets to imports from DCs.

South-South cooperation in trade has made only limited progress despite the benefits noted above. The main stumbling

block has been the question of the allocation of benefits; not merely the benefits of increased trade but the contribution of this trade to economic development. The industrially more developed LDCs have not in the past been willing to make sacrifices to the less industrialized LDCs, particularly as in the 1960s and early 1970s they could rapidly increase their exports to DCs and so did not face a demand constraint in achieving more efficient production. In the changed circumstances of the 1980s, the larger LDCs might be more willing to enter into cooperative trade schemes.

I Trends in South-South Trade

1 Global Trends

The LDCs account for about a fourth of world trade, both as suppliers of exports and as importers of other countries' exports[2] (see Table 10.1). The share of LDCs in world trade is about the same as their share of world income. But their share of exports and of imports after decreasing until 1973 increased subsequently not merely because of the increase in price of petroleum and the large share of LDCs in such trade but also because LDCs increased their share of non-oil exports. Despite this reversal of the earlier declining trend, the LDC share of world exports since the end of the 1970s was roughly at the same level as in the 1950s. The increase in their share of world trade in the 1970s reflected the stagnation in the developed economies due to which demand in these markets was not expanding

as rapidly as that in developing countries, the relatively greater protection in the developed countries when compared to the movement toward more open policies in LDCs[3] and the general shift toward more export-oriented policies in LDCs. But economic difficulties in many LDCs have led to a slight decline in their share of world exports in the 1980s.

The growing importance of LDCs in world trade was accompanied by changes in the structure and the destination of their exports. In a continuation of a trend, which had started before the oil price rise, the importance of agricultural products in the exports of LDCs declined while that of manufactures increased. The share of food and beverages in total exports of LDCs was almost halved between 1960 and 1980. The case of agricultural raw materials was similar.

The shift in export structure does not seem to have resulted from a changing composition of demand in LDCs because when we look at the import side we see that LDCs remain important importers of food (see Table 10.2). The importance of LDCs as importers of food has been increasing since the early 1970s. It would, therefore, seem that the declining importance of agricultural products in LDC exports reflects a number of factors. LDCs have been successful in their efforts to reduce their dependence on primary exports since fluctuations in earnings from such exports tended to destabilize their economies. Furthermore, domestic production of food has not been able to keep pace with the increased demand resulting from growth in

incomes and population, leading either to reduced exports or to increased imports from surplus developed countries. As far as cash crops are concerned, marketing arrangements and efforts have been concentrated in markets of developed countries where it has been difficult to increase exports because of low elasticity of demand whereas the opportunities in developing countries have not been fully availed of. In contrast to their performance in agricultural products, LDCs increased their share of world exports of manufactures particularly sharply in the 1970s.

The change in the composition of the exports of developing countries has been accompanied by a change in the direction of such exports. Before 1973, the share of intra-LDC exports as a proportion of total world exports had been decreasing for all the regions (see Table 10.1). In contrast in the post-1973 period, the share in intra-LDC trade in world trade has increased for all the regions4 though the process has slowed down, and in a few cases been reversed, in the 1980s. Similarly, the situation regarding the importance of LDC markets for the developing countries was reversed in the post-1973 years as the proportion of LDC exports going to markets in LDCs increased, in contrast to earlier years when it had been declining. The increase in the importance of LDC markets has been particularly significant in the case of primary products. For instance, the proportion of total LDC exports of food and beverages going to developing markets increased from about 18 percent in 1970 to 25 percent in 1984 and of agricultural raw material from 20 percent to 31

percent. In contrast, the proportion in the case of manufactured exports after increasing from 33 percent in 1970 to only 36 percent in 1980 decreased to 29 percent in 1984 as exports to DCs increased very rapidly.

The changing direction of trade reflects the interaction of policies in different countries. In the case of manufactures, the declining share of world exports marketed in LDCs until 1970 was, in part, the result of import substitution policies. But in the 1960s, the LDCs had started increasing their share of world export markets (see Table 10.3). This suggests that while their own markets continued to be protected, the protected industries seemed to be better able to compete in world markets. Given the protection in the LDCs this improved competitiveness manifested itself mainly in increased penetration of markets in DCs. But since 1970, LDCs have increased their share of markets for manufactured goods in both developed and developing countries. The increasing penetration of markets in LDCs reflects, in part, the more open policies followed by many LDCs. As part of these policies, LDCs are less likely to have overvalued exchange rates. When two LDCs reduce the over-valuation of their exchange rates vis-a-vis the DCs, the products of each LDC become cheaper relative to those of DCs in the market of the other LDC. In addition, because of the recession and increasing protectionism in DCs, there was a shift in demand toward LDCs and so the share of LDC exports going to developing country markets increased. But the BOP problems in the 1980s has meant that penetration of

LDC markets has slowed while perhaps the necessity to earn land currencies has led to increased penetration of markets in DCs.

This shift phenomenon was of particular importance in the case of food and beverages. While the share of LDCs in world exports declined, that of LDC exports going to other LDCs increased substantially. But despite this pressure to shift and the increased demand in LDCs, developing countries have not been very successful in increasing their overall share of trade in agricultural products. The increased demand is for food products whereas the supplies from LDCs are mainly cash crops. The surplus food producing countries in Latin America have been the most successful in shifting their exports from DCs to LDCs. The lack of sufficient exportable surpluses of food in LDCs has meant that they have not been fully able to exploit the available opportunities and the share of LDC imports being supplied from LDC sources has decreased. Thus despite the larger share of agricultural exports by LDCs being marketed in LDCs, this has not meant a larger share of LDC imports.

In the case of trade in raw materials, the major effect has been due to the industrialization attempts of LDCs, particularly their attempt to increase processing of their own raw materials so that a larger part of the value added accrues to them. As a consequence, the share of developing countries' imports in world imports of raw materials of agricultural origin has been increasing. While their share of exports has been declining (see Table 10.4) the share of intra-LDC exports in total world exports

has also declined. These trends seem to imply that demand for agricultural raw materials has been increasing more quickly in the developing countries so that a large share of exports from both the DCs and the LDCs go to the LDCs, and that the LDCs are finding it difficult to maintain their exportable surpluses because of domestic demand pressure.

In the case of raw materials of industrial origin shares of LDCs in world exports and imports have been decreasing though the trend seems to have been reversed in the 1980s (see Table 10.5). But the share of intra-LDC exports in world exports has increased. This would suggest that there is a category of industrial raw materials in which trade is mainly among the developing countries, and that trade in this category has been growing rapidly.

Within the overall larger share of exports of manufactured products, the LDCs have been most successful in exports of machinery and transport equipment in which they have more than tripled their share of world exports. LDCs have also substantially increased their share of world exports of other manufactures and been least successful in increasing their share of world exports of chemicals. The 1970s witnessed an increase in intra-LDC trade in all three categories of manufactures. But in the case of chemicals, the share of intra-LDC exports in total LDC exports tended to increase even before 1970 while for machinery and transport intra-LDC trade was of decreasing importance. While the difference in relative rates of growth in

demand in the developed and developing countries has contributed to this changed pattern, it is difficult to see, at this level of aggregation, what the contribution of the supply-side factors has been.

The LDCs have had relatively greater success in penetrating markets in DCs in the case of manufactures than in agricultural products. This is, in part, due to the case of agricultural development and trade strategies followed by the LDCs. But the commercial policies of the DCs have also contributed to this result. In the past, agriculture in DCs was protected mainly by quotas, while manufactures were protected mainly by tariffs. The relative export experience of LDCs in agricultural and manufactured products suggests that it is more difficult to penetrate markets protected by quotas. The proliferation of non-tariff barriers in recent years to protect industry in DCs presages a worsening of the export environment for LDCs.

2 Trends in the Different Regions

The developing countries most successful in increasing their share of world exports have been the Asian LDCs. Their post-1970 success has built on the base laid in earlier years. In the 1970s, Asia increased its share of world exports in all the major categories - food and beverages, raw materials and manufactures. Latin American countries succeeded in the 1970s in stemming the earlier decline in their share of world exports with rapid growth of exports of manufactures. In the case of agricultural products, their only success has been in capturing a larger share

of the food market in LDCs. Relative to the Latin American LDCs, the Asian LDCs have been more successful in penetrating world markets for machinery suggesting that they are further along on the road to industrialization. In the 1970s, the Middle Eastern countries, as the Asian and Latin American countries, increased their share of world exports to both developing and developed countries, and as might have been expected were most successful in exports of chemicals. Africa seems to have been the least successful among the four developing regions in exporting to the world or to other LDCs. The increases in intra-LDC trade for the African countries is often the result of sharp declines in the region's exports to DCs.

The trends in exports of manufactures will now be examined in somewhat greater detail because of the importance given to such exports in negotiations as well as in studies on South-South trade.

The share of LDCs in world exports of manufactures has expanded substantially and that in machinery and transport equipment (SITC 7) particularly rapidly in the 1970s. The 1970s also saw the share of world exports to LDCs increase, reversing the trend of earlier years. This increase reflects the faster growth by these countries in this period as well as perhaps the opening up of trade by developing countries. The BOP difficulties of many LDCs has resulted in a decrease in the share of world exports of manufactures destined for LDCs and this decline has been mainly from DC suppliers. In accordance with

the trend of increased world exports to the LDCs, developing countries also increased their exports to LDCs. But the increase in LDC exports to LDCs was greater than the increase in world exports to LDCs so that South-South exports increased not merely as a proportion of total world exports but also of world exports to LDCs. The increasing penetration of markets in DCs suggests that the larger share of LDC markets captured by LDCs is a reflection of an improvement in their overall competitiveness.

There have also been differences in the experience of these regions regarding intra-LDC trade. As noted earlier, the importance of LDC markets increased in the post-1973 period for the group of LDCs as a whole. This is also the case for the different regions. Before 1973, the share of intra-LDC exports as a proportion of total world exports was decreasing to all the LDC regions (see Table 10.1). In contrast in the post-1973 period, the importance of intra-LDC trade in world trade has tended to increase for all the regions. The importance of developing country markets for LDCs also declined in the pre-1973 situation for all the LDC regions except Latin America. This again changed in the post-1973 years as the proportion of LDC exports sent to other LDCs increased. Intra-LDC trade is particularly important in the case of chemicals and machinery. Exports to developing countries account for about 40 percent of LDC exports of chemicals, and machinery and transport equipment, considerably larger proportions than the 30 percent for other manufactures. These sectors perhaps require a more developed

industrial base and LDCs might not yet be able to compete effectively in the markets of the DCs. Whereas the performance of Latin American and Asian LDCs has been comparable in the area of chemicals in developing and developed markets, the performance of the Asian LDCs has been better in the case of machinery and transport equipment, and their dependence on markets of other LDCs less great.

The trends studied above show that the importance of South-South trade has increased particularly in the 1970s. However, the extent of collective self-reliance in 1984 was still quite limited, being only 15 percent for chemicals and 11 percent for machinery and transport equipment. Only in the case of SITC 6 and 8 was collective self-reliance as high as 25 percent. Geographical dispersion of intra-LDC trade has also increased.5 Still the extent of diversification has been limited and showed a tendency to decline in the 1970s. The greatest diversification has been achieved by Latin American countries. The major gains, as noted below, have been made by only a few LDCs. Most of the intra-LDC trade is accounted for by a few Latin American and Asian LDCs. But even for these LDCs, most of the intra-LDC trade has been restricted to within the region. Intra-regional trade still accounts for 70-80 percent of total exports to LDCs in these regions. But this was a decline from the even higher level of intra-regional trade which had prevailed earlier. The importance of intra-regional trade has been declining for both

agricultural and manufactured products, more rapidly in the case of agriculture.

While the above trends are common among the Latin American and Asian LDCs, there are also significant differences in the importance and patterns of intra-regional trade for these groups. Most of these differences are in exports of manufactures. Intra-regional trade is of far greater importance to Latin American LDCs. In 1980, over 80 percent of exports of manufactures by developing Latin American countries to LDCs went to other Latin American LDCs, whereas for Asian developing countries the share was about 60 percent. But since then the share of intra-regional trade in Latin America has declined but in Asia has increased. The share of intra-regional trade in exports of manufactures to LDCs declined, however, from 99 percent in 1955 to 84 percent in 1980 and 71 percent in 1984 for Latin American LDCs while it has remained at about 67 percent for Asia. In addition, the performance of the Asian LDCs varies by category of manufacture. For instance in the case of chemicals, intra-regional exports account for over 80 percent of exports to LDCs while for other manufactures it is under 60 percent. For the Latin American LDCs it was about 80 percent for all the three categories until 1980. But since then importance of intra-regional trade in machinery has declined. Another feature to be noted is that Asian LDCs have diversified their exports mainly to Middle Eastern countries and have been less successful in penetrating African or Latin American markets. The extra-regional trade of the Latin American

regional trade of the Latin American LDCs has, however, been more evenly divided among the other three LDC regions.

The rapid increase in intra-LDC trade noted above has been achieved by the efforts of a few countries. Almost 60 percent of manufactures exported by LDCs to LDCs in 1980 were accounted for by Brazil, Hong Kong, Korea, Singapore and Taiwan. This was a large increase from the corresponding figure of about 40 percent in 1965. India's share declined significantly as it supplied only about 3 percent of LDC exports to LDCs in 1980 in contrast to almost 15 percent in 1965. In the case of agriculture, there have not been such sharp changes, though only three countries (Thailand, Argentina and Brazil) supply about a third of intra-LDC exports.

As far as the importance of intra-regional trade is concerned, it is more difficult to distinguish between the performance of the five leading countries (NICs) noted above and the other LDCs. However, the intra-regional market is of lesser importance to the NICs. For instance, whereas 27 percent of Brazil's exports of manufactures go outside the Latin American region, the figure is only 8 percent for the rest of the Latin American LDCs. In the Asian case the contrast is even sharper. Four Asian NICs increased the share of the extra-regional market in their total exports of manufactures to LDCs from 19 percent to 38 percent between 1965 to 1980 while for the other Asian LDCs it decreased from 50 percent to 34 percent during this period.

II Implications for South-South Trade

We have noted that while South-South trade (SST) has increased particularly in the 1970s, the pattern of increase has varied across commodity groups and regions. The increase in SST in primary products seems largely a result of being pushed out of markets in the developed countries because of increasing protectionism in these markets and the changing pattern of demand there. However, in the case of manufactures, the LDCs have an enhanced capacity to supply and compete in markets. They have increased market shares in both developed and developing countries. There appear to be stages in their penetration of world markets. By and large, LDCs first supply to intra-regional LDC markets then to other LDCs and finally to the markets of DCs. Similarly, they seem to start by exporting other products before proceeding to more demanding products in terms of technology and investment in the areas of chemicals, and machinery and transport equipment.

If intra-regional trade is a stage in the movement from import substitution development within a country to full participation in the world market then the differing trends in Asian and Latin American LDCs would suggest the following hypothesis regarding the phasing of import substitution. In the Asian LDCs import substitution has first been implemented in one sector, then that sector has started exporting to other LDCs in the region and later to the rest of the world. Meanwhile, another sector is going through the same process. The

competitiveness of sectors varies and so does their ability to penetrate regional and world markets. The almost equal importance of intra-regional trade for all three categories of manufactures for the Latin American countries suggests an import substitution strategy based less on a sectoral approach and more on a movement from less to more sophisticated or complicated segments within an industry. This hypothesis needs further analysis at a more disaggregate level.

The difference in the success of Latin American and Asian LDCs in penetrating the various regional LDC markets is difficult to interpret. On the one hand, it could be argued that the Latin American countries have not been fully able to take advantage of the booming Middle Eastern market. But on the other hand, it could be argued that the more diversified export pattern of the Latin American countries indicates their ability to compete in all markets and not merely in those in which there has been a high level of demand. Furthermore, the Latin American LDCs would be less adversely affected by the slower growth of demand in the Middle Eastern countries in the next few years. The differing role of multinationals in the various countries may also explain the difference in extra-regional trade.

The presence of multinationals might enable a country to trade with other countries in which the multinationals operate.[6] So the destination of a country's exports might be very diversified. In contrast, a national firm may not have the resources to penetrate many markets and so may concentrate on a

few. As is well known, multinationals have been more active in Latin America than in Asia and this might explain the prevalent pattern of extra-regional trade.

1 Role of South-South Trade in Development

While the above analysis examined the impact of development strategy on the pattern of SST, we now discuss the role that such trade can play in the economic development of LDCs. This depends crucially on one's view of the role of international trade in development and of the constraints to larger SST. Hawrylyshyn (forthcoming), basing his analysis on traditional customs union theory, presents succinctly the arguments against making any special effort to encourage trade among LDCs. According to him, SST would be most important for large inward-oriented countries. Such exports would tend to be more capital-intensive than exports to DCs and thus contrary to the comparative advantage of LDCs, lowering their welfare. He suggests that learning is not restricted to South-South trade but would also be associated with exports to DCs.

Customs union theory begins by assuming that relative prices for trade both within the preference area and with the rest of the world are given. But part of the rationale for fostering LDC trade is that such trade has been hindered by the lack of an appropriate infrastructure in such areas as transport, finance and information. The links have generally been between LDCs and specific metropolitan countries. A standard indivisibility of social overhead capital can be used to justify measures to

encourage greater SST. If the minimum scale of such infrastructure is larger than what can be profitably utilized currently then it might run at a loss and the private sector would not provide it. Of course, the current scale of SST might itself be restricted because of the absence of such infrastructure.

The argument then is really whether provision of such infrastructure generates its own response with larger SST. A similar argument arises in the debate about whether US railroads helped in the economic development of the country.

The alternative to greater SST is in our opinion not a move to freer overall trade but a more inward-oriented policy. For many economists and policymakers, SST is a halfway house for freer trade. At their current state of development and efficiency, LDCs cannot compete in the international market. Though one can learn from exporting to the DCs, LDCs must reach a minimum level of efficiency before they can enter the international market and benefit from such learning. Such a level of efficiency, it is argued, can only be reached when a certain level of production has been attained. Demand constraints can prevent such a scale from being reached and greater South-South trade can help in overcoming these constraints. The open questions here are what is the minimum scale necessary for reaping economies of scale and at what size does a particular industry begin exporting to other LDCs and to DCs.[7]

If the comparison is between greater South-South trade and a more inward-looking policy in LDCs then the former would be beneficial. Few developing countries have had such a long history of following an outward-oriented policy as the Pacific Asian countries and experience with liberalization attempts suggests that at the initial stages of liberalization the balance-of-payments position would deteriorate. In the current tight BOP situation in many LDCs, few could afford to liberalize across the board. Most countries that have faced severe debt repayment problems in the past few years have initially severely curtailed imports. The Indian government is also hesitating at the moment in its liberalization program because of the BOP consequences. In addition, if monopolies in DCs control North-South trade, Southern gains from such trade would be reduced.[8] If South-South trade is more competitive LDCs could gain despite the relative inefficiency of such trade as compared to competitive North-South trade. The control of Northern monopolies over trade in many primary products is well established. Greater SST in primary commodities might then be of benefit of LDCs; this is a question which needs further analysis.

Apart from the above limitations to general free trade, the character of SST does not bear out the contention of Hawrylyshyn (forthcoming). India, which is a large country following inward-oriented policies, has been one of the least successful in exporting to other LDCs, as noted above, and in this respect its performance in such trade has been worse than in exports to DCs.

Secondly, it is not clear that intra-LDC trade would be more capital-intensive than North-South trade. In their study dealing with the experience of a number of LDCs, Lall et al. (1985) find no significant difference in the capital intensity of exports to the South as compared to exports to the North.[9] Furthermore, they find that exports to the South are more skill-intensive than those to the North. Thus there seems to be a definite learning process.

Our own analysis of trends in SST also suggests that there is a learning process in exports with countries moving from intra-regional trade to extra-regional but intra-LDC trade and then to extra-LDC trade. Also countries often seem to start by producing simpler products and gradually move up the ladder to produce more sophisticated products if the move from exports of general manufactures to chemicals to machinery can be taken to represent a movement toward exporting more sophisticated products. There are also examples at the micro level. A study of Brazil's capital-good exports found that these were first sent to LDCs and then to DCs.[10] South Korean exports of motor cars were initially destined mostly for markets in developing countries. Only later did they start penetrating markets in DCs. This does not mean that exports to DCs do not have a skill component. One could perhaps agree with the conclusion of Lall et al. (1985), "S-S trade exploited accumulated skills and learning to a greater extent than S-N trade. However, this does not imply that exporting to the N does not generate skills and

capabilities of a different sort within the product categories exported . . . . What is likely is that S-S trade builds upon the learning edge of the dynamic comparative advantage of the larger NICs".

The theory of comparative advantage is very complex. With time and expenditure, a country can generate comparative advantage in products where a priori it might not seem to have it. There are instances in Japan, Korea and other countries where government intervention in particular industries resulted in such industries becoming relatively efficient and competing in world markets. The experience of India also shows that over time a country can develop comparative advantage in areas in which it may not be presumed to possess it. The relevant questions are the cost of achieving such comparative advantage as compared to the future benefits, the time preference of society and the conditions needed to bring about such a learning process.

The above analysis points to a number of areas in which further research is required. But the existing evidence does seem to suggest that economic development of LDCs can be furthered by SST.

In general, however, SST cannot resolve the BOP problems of LDCs. For an individual country, an export surplus with LDCs can be used to finance a deficit with DCs. But obviously, this is not an option for LDCs as a whole. South-South trade can only help in tackling the BOP problem of LDCs if there is a balanced increased in such trade while imports from the North are reduced.

This is unlikely to occur in the short run because, as the above analysis shows, SST in machinery is small and machinery imports are a significant part of Southern imports. Analysis shows that increased SST would require larger imports of capital and intermediate goods from the North and worsen the BOP of the LDCs.[11] Of course, over a longer period, particularly if SST is encouraged, this position might change. The question is what the required period would be.

There is greater scope for using SST as a bargaining counter in particular sectors. Exports of textiles from LDCs to DCs are about a third of DC imports while DCs in turn supply about a half of LDC requirements. Can the LDCs restrict DC access to their markets until freer access is allowed to their exports? A similar situation is appearing in steel. But more work needs to be done at a disaggregate level to examine which countries are receiving these imports and what the products are to see the degree of substitutability between Southern imports from Northern countries and their exports to them.

2 Problems in South-South Trade

Despite the possible benefits of SST noted above, growth of SST has been limited and has been more in response to market forces than government encouragement. The various regional cooperation schemes seem to have had only a limited impact. The problem has been that of a "fair" distribution of the gains. It is feared that the more industrialized countries in the regional grouping would capture most of the benefits and industry in the

less developed countries would get no encouragement. There have been attempts to rectify this unequal effect by allocating industries to different countries or by allowing the less industrialized countries to liberalize more slowly.

But the allocation mechanism has not worked and in turn has limited trade liberalization among members. The failure of the allocation scheme is that most countries wanted to establish broadly the same range of industries. For instance, agreement could not be reached about allocation in the automobile industry among the members of the Andean Group.[12] Ecuador was about to sign an agreement with Volkswagen to manufacture its A2 model for the regional market which had been assigned to it. But Venezuela did not accept the regional assignment and started to develop facilities for the A2 model; thus Ecuador abandoned its plans. The more homogeneous the group, the more severe this problem is, as the countries are at the same level of import substitution. Where countries have been at very different levels of development, the more advanced countries have not been willing to forsake the possibility of establishing any particular industry. Very often the problem has been further compounded by the existence of the same industry in a number of countries when no country is willing to tolerate the elimination of the existing units in the interest of larger group efficiency.

Even reaching an agreement has not meant the elimination of all problems. The emergence of balance-of-payments difficulties has resulted in a country imposing restrictions on imports from

other members, as Jamaica did on imports from other CARICOM members in the mid-1970s with subsequent postponement of implementation or de facto cancellation of agreements already reached. The balance-of-payments problems in many Central American Common Market countries have meant that imports from member countries have often not been paid for and such arrears have constrained further growth of CACM trade. This suggests that even in the case of Southern trading agreements, more definite and assured procedures might be necessary as well as some means of financing deficits. Sometimes decisions reached are not ratified. In the case of the Andean group, decisions regarding the engineering industry were not ratified by Colombia, Peru and Venezuela. As a result, of the eleven engineering projects established in Ecuador, only one is operating and that at one-tenth of its capacity.[13]

Also, allocating an industry to a less industrialized country does not necessarily bring about a response in the absence of other complementary factors. In the less industrialized countries, the small size of the domestic market is only one of the factors inhibiting industrial development. Freer trade by itself is not sufficient to generate industrialization. In these circumstances, either South-South trade must involve non-industrial products, in which case the current division of labor between the DCs and LDCs at the world level would be reproduced among LDCs with the least developed among them exporting primary products, or else some mechanism for

encouraging industrialization in these countries has to be devised. An alternative would be to have smaller more homogeneous groupings among LDCs. But more homogeneous groupings of countries may not necessarily involve countries that are geographically close, while reducing transport and information costs is no guarantee of economic homogeneity. Furthermore, a more homogeneous grouping might result in the group providing too small a market to exploit possible economies of scale. Also, too small a market could result in the combined market being served by one or a few firms and inefficiencies due to the presence of monopoly power would persist.

Trade patterns during the past twenty years have shown the importance of intra-industry trade, so that freeing trade between two countries will not generally imply the elimination of the industry in one country but specialization in a different segment within the industry. In such cases, companies retain the potential for competing against the product of another company so that firms might be less inclined to misuse their monopoly power. Such an evolution of trade would also avoid the problem raised by an unequal distribution of benefits when the countries are at very different levels of development. Trade liberalization among LDCs without tying industrial allocation to it might thus be expected to result in improved industrial performance and large South-South trade flows. But this might not be sufficient to encourage SST as the objective is not merely larger trade flows but also the encouragement of industrialization. Furthermore,

specialization for a small LDC in narrow industry segments might represent a large part of its total industrial sector so that anything affecting the specialized sector would have macroeconomic effects. This would reproduce the problems earlier associated with specialization in the export of a few primary products.

The above analysis points to the difficulties of devising schemes for greater SST even though such trade can play a positive role in fostering economic development. In the 1960s and 1970s when world trade was expanding rapidly, the export-oriented LDCs found that the markets in DCs sufficed and felt no need to take the costly and time-consuming steps necessary to encourage SST. Interest in greater SST reawakened in the mid to late 1970s when growth in the DCs faltered. In the 1950s and early 1960s, the interest in larger SST was partly due to fears regarding exports to DCs. But in the considerably worsened external environment of the 1980s, the debt servicing problems of many LDCs are having an adverse effect on SST. Interest in SST thus seems to be only of peripheral interest to the governments of LDCs. Its role in a possible development strategy in LDCs has not been fully explored. Furthermore, how regional schemes would affect the decision-making process in government and its ability to manage the economy and perform its national building task needs to be explored.

NOTES

1 A few of the important meetings in which some progress has been achieved include the High Level Conference on Economic Cooperation among Developing Countries (ECDC) at Caracas in 1981 which adopted a Program of Action, the Jamaica meetings on ECDC in the field of finance in 1982, and regular meetings at the UN, UNCTAD and other international organizations.

2 The OPEC countries are included in the South as, even though their oil production may result in a high per capita income, their overall economic structure and problems are more akin to those of the LDCs than to those of other countries with similar per capita income.

3 Though the shift toward more open policies has been more evident on the export side than on the import side and there have been periods when LDCs have regressed to a more restrictive trading system, broadly speaking there has been a trend in LDCs toward import liberalization. This trend is perhaps least evident in the African countries.

4 For some other studies of South trade, see Wolf and Hawrylyshyn (1983); Nayyar (1982); and Lall (1984). There is some controversy regarding whether South-South trade has increased or decreased. The answer partly depends on the period chosen for the exercise and whether petroleum is included or excluded.

5 The Theil index increased from 0.83 in 1965 to 0.88 in 1980

showing that there has been diversification. For further discussion of the Theil index, see Das and Pant (1986).

6 The role of multinationals becomes particularly important with the rapid growth in intra-firm trade. See, for instance, Helleiner (1981).

7 The role of trade as a leading sector and as permitting the exploitation of economies of scale cannot always be separated. The "Verdoorn effect" emphasizes that more rapid growth of the manufacturing sector permits faster growth of productivity in the sector. Once manufacturing output expands rapidly, the subsequent productivity increase enables the country to capture export markets thus permitting the rapid growth of output and productivity to continue. It is immaterial whether the initial spurt in output is sold in the domestic or the foreign market, and it can be difficult to disentangle the historical experience to decide whether the domestic or foreign market is more important. Even in the cases of Japan, Korea, and Taiwan, there is disagreement as to whether growth was exported or was in response to domestic demand.

8 See, for instance, Helleiner (1976).

9 See also Amsten (1980-1).

10 See Jerken (1982).

11 See Erzan, Laird, and Yeats (1986).

12 For a review of the experience with trade preference schemes, see the UNCTAD studies by Abdel and Hamza (no date) and Rana (no date).

13 Imposition of such barriers to trade can thus prove very costly to the smaller members of the group. The firms established in such countries may not be able to compete in the world market and would be too large for the domestic market leading to excess capacity and even bankruptcy of such firms. For an analysis of the Ecuadorean case, see Spurrier (1982).

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Table 1

SHARE OF LDCs IN WORLD EXPORTS
(%)

From	To World					To LDCs				
	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						24.4	22.4	18.7	23.3	23.0
LDCs	24.2	21.5	17.8	27.9	24.6	5.8	4.8	3.6	6.9	7.0
Africa	5.2	4.7	3.9	4.7	3.2	0.7	0.6	0.4	0.6	0.4
Latin America	8.3	6.8	5.4	5.5	5.9	1.5	1.2	1.1	1.4	1.5
Middle East	3.9	4.0	3.8	10.5	5.8	1.0	0.9	0.7	2.6	2.1
Asia	6.8	5.9	4.7	7.1	9.5	2.6	2.1	1.4	2.3	2.9

Note: Percentage is calculated by dividing exports from region i to region j by total world exports of that category.

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 2

SHARE OF LDCs IN EXPORTS OF LDCs
(%)

From	1955	1960	1970	1980	1984
			(a) TOTAL TRADE		
All LDCs	24.0	22.3	19.7	24.9	28.3
Africa	13.5	12.8	10.1	12.7	13.1
Latin America	18.1	17.6	18.9	26.2	24.7
Middle East	25.6	22.5	19.0	24.7	37.0
Asia	38.2	35.6	29.8	32.3	30.7
			(b) FOOD AND BEVERAGES		
All LDCs	18.6	18.2	18.4	23.0	24.6
Africa	10.2	10.1	12.5	15.9	20.2
Latin America	9.9	9.0	10.1	16.1	14.5
Middle East	44.4	37.5	31.4	42.7	60.5
Asia	42.4	40.7	33.2	38.2	38.5
			(c) MANUFACTURES		
All LDCs	50.8	42.2	33.3	37.4	29.4
Africa	32.8	39.3	29.2	29.0	37.4
Latin America	25.3	28.5	40.0	52.9	31.8
Middle East	42.2	34.7	50.9	56.3	61.5
Asia	61.7	48.7	30.6	32.6	26.1
			(d) AGRICULTURAL RAW MATERIALS		
All LDCs	19.1	17.4	19.9	28.9	31.4
Africa	14.1	11.7	12.7	11.6	21.5
Latin America	13.8	10.4	24.5	26.8	25.5
Middle East	14.0	20.0	12.0	22.4	29.1
Asia	24.2	22.7	22.9	34.5	36.0

Note: Percentage shares of LDCs in exports of LDCs are calculated by dividing a region's exports of a particular category of commodities to all developing countries by the region's total exports in the world.

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 3

SHARE OF LDCs IN WORLD AGRICULTURAL EXPORTS
(%)

To / From	World					LDCs				
	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						20.3	20.4	18.1	25.2	26.3
LDCs	40.9	35.7	30.9	28.5	30.8	7.6	6.5	5.2	7.0	7.2
Africa	9.8	8.9	7.0	4.6	3.8	1.0	0.9	0.9	0.7	0.8
Latin America	20.2	16.6	16.1	14.2	15.6	2.0	1.5	1.7	2.4	2.6
Middle East	1.8	1.6	1.5	1.2	1.5	0.8	0.6	0.5	0.5	0.9
Asia	9.2	8.6	6.0	8.0	9.4	3.9	3.5	2.1	3.2	3.9

Table 4

SHARE OF LDCs IN EXPORTS OF RAW MATERIALS OF AGRICULTURAL ORIGIN
(%)

To / From	World					LDCs				
	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						12.0	11.5	12.9	18.8	20.8
LDCs	40.3	36.2	29.9	27.2	25.5	7.7	6.3	6.0	7.9	8.0
Africa	8.6	9.2	7.8	4.1	3.7	1.2	1.1	1.0	0.5	0.8
Latin America	8.9	7.0	6.1	4.5	4.1	1.2	0.7	1.5	1.2	1.0
Middle East	1.5	1.0	2.3	1.4	1.3	0.2	0.2	0.3	0.3	0.4
Asia	21.3	19.0	13.8	17.5	16.6	5.1	4.3	3.2	6.0	6.0

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 5

SHARE OF LDCs IN EXPORTS OF RAW MATERIALS OF INDUSTRIAL ORIGIN
(%)

To / From	World 1955	1960	1970	1980	1984	LDCs 1955	1960	1970	1980	1984
World						14.4	13.0	12.0	19.7	19.5
LDCs	21.1	17.9	18.0	16.6	18.6	1.2	1.1	1.6	3.3	4.2
Africa	8.1	6.4	6.0	3.3	2.6	0.1	0.3	0.2	0.2	0.2
Latin America	9.2	7.9	8.1	6.9	8.4	0.3	0.2	0.7	1.3	1.4
Middle East	0.3	0.2	0.3	0.3	0.5	0.0	0.0	0.1	0.1	0.1
Asia	3.5	3.4	3.5	4.8	5.3	0.6	0.5	0.7	1.4	1.6

Table 6

SHARE OF LDCs IN EXPORTS OF MANUFACTURES
(%)

To / From	World 1956	1960	1970	1980	1984	LDCs 1955	1960	1970	1980	1984
World						32.3	27.9	20.7	26.3	23.8
LDCs	4.7	4.2	5.3	9.4	13.1	1.7	1.8	1.8	3.5	3.8
Africa	0.7	0.6	0.5	0.3	0.3	0.2	0.2	0.1	0.1	0.1
Latin America	0.7	0.5	1.0	1.5	2.0	0.2	0.1	0.4	0.8	0.6
Middle East	0.3	0.4	0.2	0.7	0.9	0.1	0.1	0.1	0.4	0.6
Asia	3.0	2.7	3.6	6.9	10.0	1.9	1.3	1.1	2.2	2.6

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 7

SHARE OF LDCs IN EXPORTS OF CHEMICALS
(%)

To	World					LDCs				
From	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						34.5	29.2	23.8	25.9	24.7
LDCs	5.1	4.1	4.0	6.3	7.7	1.7	1.4	2.0	3.1	3.8
Africa	0.8	0.8	0.6	0.6	0.8	0.2	0.3	0.2	0.3	0.4
Latin America	2.0	1.7	1.8	2.4	3.1	0.3	0.4	0.8	1.1	1.2
Middle East	0.1	0.2	0.2	1.0	0.7	0.0	0.1	0.2	0.4	0.5
Asia	2.1	1.3	1.3	2.3	3.1	1.0	0.8	0.8	1.3	1.6

Table 8

SHARE OF LDCs IN EXPORTS OF MACHINERY AND TRANSPORT EQUIPMENT
(%)

To	World					LDCs				
From	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						31.8	28.9	21.7	29.1	24.9
LDCs	0.7	0.7	1.6	5.4	8.7	0.5	0.5	0.7	2.5	2.7
Africa	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Latin America	0.1	0.1	0.1	1.0	1.5	0.0	0.0	0.2	0.6	0.4
Middle East	0.1	0.1	0.1	0.3	0.4	0.0	0.0	0.0	0.3	0.3
Asia	0.4	0.4	1.0	3.9	6.8	0.4	0.4	0.4	1.5	1.9

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 9

SHARE OF LDCs IN EXPORTS OF OTHER MANUFACTURES
(%)

To	World					LDCs				
From	1955	1960	1970	1980	1984	1955	1960	1970	1980	1984
World						32.1	26.1	18.2	22.4	21.6
LDCs	8.8	8.4	11.2	15.2	20.7	4.5	3.4	3.2	4.6	5.4
Africa	1.2	1.1	1.0	0.9	0.8	0.4	0.3	0.3	0.1	0.1
Latin America	0.9	0.6	1.6	2.6	3.4	0.3	0.2	0.6	1.0	0.9
Middle East	0.6	0.8	0.4	0.8	1.4	0.3	0.3	0.2	0.4	0.8
Asia	6.1	5.9	8.2	10.8	15.1	3.7	2.6	2.2	3.1	3.6

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 10

SHARE OF LDC MARKET IN EXPORTS
OF VARIOUS TYPES OF MANUFACTURES BY REGIONS

From	1955	1960	1970	1980	1984
			(a) CHEMICALS		
All LDCs	33.3	35.0	51.2	49.4	48.8
Africa	28.9	34.5	32.6	49.9	52.0
Latin America	15.6	24.6	43.2	46.7	39.2
Middle East	57.1	38.5	77.6	34.9	71.7
Asia	49.0	63.2	67.3	58.5	52.5
			(b) TRANSPORTS AND MACHINERY		
All LDCs	73.6	71.0	45.1	46.1	31.0
Africa	44.0	30.0	55.2	33.3	44.4
Latin America	46.7	35.7	50.7	62.5	29.2
Middle East	44.4	58.8	55.8	81.0	75.5
Asia	93.3	84.0	41.8	39.1	28.5
			(c) OTHER MANUFACTURES		
All LDCs	51.7	40.5	28.6	30.4	26.1
Africa	32.1	28.0	26.2	12.5	19.8
Latin America	29.3	30.7	34.7	37.4	25.6
Middle East	41.0	32.3	43.2	53.1	54.7
Asia	60.6	44.5	26.6	28.7	23.8

Note: Percentage shares of LDCs in exports of LDCs are calculated by dividing a region's exports of a particular category of commodities to all developing ccountries by the region's total exports in the world.

Source: UN, Yearbook of International Trade Statistics, various issues.

Table 11

DIRECTION OF EXPORTS TO LDCs, 1955-80
(%)

To	Latin America				Africa			
From	1955	1970	1980	1984	1955	1970	1980	1984
Latin America Total Exports	47	89	78	70	53	4	9	11
Agriculture	80	75	52	45	10	8	7	19
Manufactures	99	96	84	71	0	1	8	11
Chemicals	100	93	85	75	0	3	4	4
Machinery	100	97	80	58	0	2	13	19
Other	99	96	87	66	0	1	4	12
Asia Total Exports	5	4	8	6	8	11	9	7
Agriculture	0	1	2	1	5	8	10	14
Manufactures	11	6	9	7	16	17	13	7
Chemicals	4	1	1	1	2	8	6	5
Machinery	1	4	9	10	1	15	14	6
Other	13	7	9	5	18	20	12	8

To	Middle East				Asia			
From	1955	1970	1980	1984	1955	1970	1980	1984
Latin America Total Exports	0	1	8	10	0	7	5	10
Agriculture	5	4	20	21	5	13	10	16
Manufactures	0	0	5	11	1	3	3	7
Chemicals	0	0	7	9	0	3	3	12
Machinery	0	0	4	18	0	2	3	4
Other	0		4	9	1	3	5	13
Asia Total Exports	8	9	16	16	79	74	65	70
Agriculture	18	12	25	28	77	80	62	56
Manufactures	6	8	20	19	67	68	57	67
Chemicals	2	4	8	5	92	87	84	88
Machinery	3	6	12	9	94	75	66	75
Other	6	10	27	28	62	64	51	58

Note: Table shows percentage of region i's exports to region j's exports in total exports of region i to LDCs; numerator is exports of region i to region j and denominator is region i's exports to all LDCs.

Table 12

SHARE OF INTRA-REGIONAL EXPORTS FOR SELECTED LDCs

	Total Exports		Agriculture		Manufacturing	
	1965	1980	1965	1980	1965	1980
Latin America	88	79	79	54	98	84
Argentina	93	82	92	80	98	89
Brazil	82	57	73	25	98	73
Chile	98	85	100	77	99	98
Colombia	98	91	97	74	97	99
Mexico	67	85	34	47	98	92
Venezuela	98	95	100	98	98	66
Asia	75	68	73	58	66	63
Hong Kong	59	45	89	93	54	44
India	62	45	37	27	38	52
Korea	94	49	100	70	91	49
Malaysia	91	92	99	93	90	91
Singapore	90	79	93	92	98	77
Taiwan	66	67	44	73	72	89
Thailand	86	69	86	59	38	79

Source: UN Commodity Trade Matrix.

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1986(cont'd)

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1987

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1988

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