



Understanding the Patterns of Exports Between Developing and Developed Countries: From the Perspective of Geoeconomics

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Abstract: Opening up their economies to the global economy has been essential in enabling many developing countries to develop competitive advantages in the manufacture of certain products. This paper would examine a certain pattern of exports between the developing and developed countries amid the emergence of complex issues vis-a-vis trade among these countries.

The world economy has seen rapid growth in recent decades, partly driven by an even faster growth in international trade. Trade growth has been the result of both technological developments and efforts to reduce trade barriers. Some developing countries have opened their economies to take full advantage of the opportunities for economic growth through trade, but many have not. Remaining trade barriers in industrial countries are concentrated in the agricultural products and labor-intensive manufactures in which developing countries have a comparative advantage. Further trade liberalization in these areas, particularly by both industrial and developing countries, would help the poorest escape from extreme poverty while also benefiting the industrial countries themselves.

The resulting integration of the world economy has raised living standards around the world. Most developing countries have shared in this prosperity; in some, incomes have risen dramatically. As a group, developing countries have become much more important in world trade—they now account for one-third of world trade, up from about a quarter in the early 1970s. Many developing countries have substantially increased their exports of manufactures and services relative to traditional commodity exports: manufactures have risen to 80 percent of developing country exports. Moreover, trade between developing countries has grown rapidly, with 40 percent of their exports now going to other developing countries.

However, the progress of integration has been uneven in recent decades. Progress has been very impressive for a number of developing countries in Asia and, to a lesser extent, in Latin America. These countries have become successful because they chose to participate in global trade, helping them to attract the bulk of foreign direct investment in developing countries. This is true of China and India since they embraced trade liberalization and other market-oriented reforms, and also of higher-income countries in Asia—like Korea and Singapore—that were themselves poor up to the 1970s.

But progress has been less rapid for many other countries, particularly in Africa and the Middle East. The poorest countries have seen their share of world trade decline substantially, and without lowering their own barriers to trade, they risk further marginalization. About 75 developing and transition economies, including virtually all of the least developed countries, fit this description. In contrast to the successful integrators, they depend disproportionately on the production and exports of traditional commodities. The reasons for their marginalization are complex, including deep-seated structural problems, weak policy frameworks and institutions, and protection at home and abroad.

Oftentimes, complex issues arise out of trade between developed and developing countries. Developing countries often have agriculture-based economies (many are tropical, as well). This causes them to rely heavily on the profits from exports of one or two crops (such as coffee, cacao, or sugar). Markets for such goods are highly competitive - that is, prices are really sensitive to every little change in demand and supply.

On the other hand, developed countries often produce manufactured goods, whose prices are frequently more stable. Therefore, as the price of its exports fluctuates, the tropical country experiences large fluctuations, often with negative effects on the domestic economy.

Trade between developing and developed countries, more specifically, the exploitation of foreign labour and of the environment, has been the subject of debate. The abandonment of domestic labor for cheaper labor by multinational corporations has been criticized. Most concerns regarding this topic revolve around the environmental impact, health and safety, rights of domestic workers, national sovereignty, etc.

Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. The evidence on this is clear. No country in recent decades has achieved economic success, in terms of substantial increases in living standards for its people, without being open to the rest of the world. In contrast, trade opening (along with opening to foreign direct investment) has been an important element in the economic success of East Asia, where the average import tariff has fallen from 30 percent to 10 percent over the past 20 years. Opening up their economies to the global economy has been essential in enabling many developing countries to develop competitive advantages in the manufacture of certain products. In these countries, defined by the World Bank as the "new globalizers," the number of people in absolute poverty declined by over 120 million (14 percent) between 1993 and 1998.

There is considerable evidence that more outward-oriented countries tend consistently to grow faster than ones that are inward-looking. Indeed, one finding is that the benefits of trade liberalization can exceed the costs by more than a factor of 10. Countries that have opened their economies in recent years, including India, Vietnam, and Uganda, have experienced faster growth and more poverty reduction. On average, those developing countries that lowered tariffs sharply in the 1980s grew more quickly in the 1990s than those that did not.

Freeing trade frequently benefits the poor especially. Developing countries can ill-afford the large implicit subsidies, often channeled to narrow privileged interests, that trade protection provides. Moreover, the increased growth that results from freer trade itself tends to increase the incomes of the poor in roughly

the same proportion as those of the population as a whole. New jobs are created for unskilled workers, raising them into the middle class. Overall, inequality among countries has been on the decline since 1990, reflecting more rapid economic growth in developing countries, in part the result of trade liberalization.

The potential gains from eliminating remaining trade barriers are considerable. Estimates of the gains from eliminating all barriers to merchandise trade range from US\$250 billion to US\$680 billion per year. About two-thirds of these gains would accrue to industrial countries. But the amount accruing to developing countries would still be more than twice the level of aid they currently receive. Moreover, developing countries would gain more from global trade liberalization as a percentage of their GDP than industrial countries, because their economies are more highly protected and because they face higher barriers.

Although there are benefits from improved access to other countries' markets, countries benefit most from liberalizing their own markets. The main benefits for industrial countries would come from the liberalization of their agricultural markets. Developing countries would gain about equally from liberalization of manufacturing and agriculture. The group of low-income countries, however, would gain most from agricultural liberalization in industrial countries because of the greater relative importance of agriculture in their economies.

These considerations point to the need to liberalize trade further. Although protection has declined substantially over the past three decades, it remains significant in both industrial and developing countries, particularly in areas such as agriculture products or labor-intensive manufactures and services (e.g., construction) where developing countries have comparative advantage.

Industrial countries maintain high protection in agriculture through an array of very high tariffs, including tariff peaks (tariffs above 15 percent), tariff escalation (tariffs that increase with the level of processing), and restrictive tariff quotas (limits on the amount that can be imported at a lower tariff rate). Average tariff protection in agriculture is about nine times higher than in manufacturing. In addition, agricultural subsidies in industrial countries, which are equivalent to 2/3 of Africa's total GDP, undermine developing countries' agricultural sectors and exports by depressing world prices and pre-empting markets.

In industrial countries, protection of manufacturing is generally low, but it remains high on many labor-intensive products produced by developing countries. Many developing countries themselves have high tariffs. On average, their tariffs on the industrial products they import are three to four times as high as those of industrial countries, and they exhibit the same characteristics of tariff peaks and escalation. Tariffs on agriculture are even higher (18 percent) than those on industrial products.

Nontraditional measures to impede trade are harder to quantify and assess, but they are becoming more significant as traditional tariff protection and such barriers as import quotas decline. Antidumping measures are on the rise in both industrial and developing countries, but are disproportionately faced by developing countries. Regulations requiring imports to conform to technical and sanitary standards comprise another important hurdle. They impose costs on exporters that can exceed the benefits to consumers.

For various reasons, preferential access schemes for poorer countries have not proven very effective at increasing market access for these countries. Such schemes often exclude, or provide less generous benefits for, the highly protected products of most interest to exporters in the poorest countries. They are often complex, nontransparent, and subject to various exemptions and conditions (including noneconomic ones) that limit benefits or terminate them once significant market access is achieved.

Further liberalization—by both industrial and developing countries—will be needed to realize trade's potential as a driving force for economic growth and development. Greater efforts by industrial countries, and the international community more broadly, are called for to remove the trade barriers facing developing countries, particularly the poorest countries.

About the Author: Ashali holds a B.A. (Hons.) in Economics from Miranda House, University of Delhi. She is currently pursuing a Master's degree in Business Analytics and Artificial Intelligence from South Asian University (SAU), New Delhi. Ashali is also a budding writer and has self-published a book on Amazon. She has further gained professional experience as a Health Ambassador with the Delhi Global Shapers Community and at the Marie Curie Cancer Research Institute in Paris.

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