INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

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Abstract

This paper reviews and evaluates the relationship between international trade and the various facets of the development process. After reviewing and evaluating previous theoretical and empirical studies, the paper concludes that (1) while international trade does not, in general, operate as an engine of growth today as it did in the 19th century, it is still a very important vehicle for facilitating economic development in most developing countries today, (2) industrialization through import substitution can be important in the early stages of development for large developing countries, but eventually trade liberalization and an open market economy are necessary for continued growth and development, and (3) trade protectionism in developed countries seriously hampers economic development in developing countries.

Résumé

Cet article analyse et évalue le rapport existant entre commerce international et développement. Après avoir évalué les précedentes études théoriques et empiriques, l'article conclut que: (1) bien que le commerce international ne fait pas fonction de moteur, comme c'était le cas au 19ème siècle, il sert encore à faciliter le développement économique dans la plupart des pays en voie de développement; (2) l'industrialisation à travers la substitution des importations peut être importante pendant les premières phases de développement des grands pays en voie de développement, mais il faut avoir la libéralisation du commerce en une économie de marché ouverte, pour que la croissance et le développement continuent; (3) le protectionnisme commercial des pays développés entrave la croissance économique des pays en voie de développement.

The relationship between international trade and economic development has long interested economists. There has been a great deal of controversy, however, with some asserting that international trade plays a crucial positive role in the development process, while others believing that trade has often harmed development. In this paper, I will review and evaluate the relationship that exists between international trade and the various facets of the development process. Specifically, I will (1) review the theoretical and empirical relationship between international trade and economic development in general, (2) evaluate the alternatives of industrialization through import substitution and export promotion, (3) review the relatively recent process of trade liberalization in most developing countries, and (4) evaluate the harm that trade protectionism in developed countries inflicts on economic development in poor countries.

Space limitations do not permit the presentation of basic, background economic data, but this is readily available in the yearly World Bank's *World Development Reports*.

Relationship between international trade and economic development

During the nineteenth century, most of the world's industrial production was concentrated in Great Britain. Large increases in industrial production and population in resource-poor Britain led to a rapidly rising demand for the food and raw material exports of the so-called regions of recent settlement (the United States, Canada, Australia, New Zealand, Argentina, Uruguay, and South Africa). For example, during the century from 1815 to 1913, Britain's population tripled, its real GNP increased 10 times, and the volume of its imports increased 20 times. This growth spread to newly settled lands through the familiar accelerator-multiplier process. Thus, according to Nurkse (1959), the export sector was the leading sector and operated as an «engine of growth» for these lands during the nineteenth century.

The regions of recent settlement were able to satisfy Britain's burgeoning demand for food and raw materials (and in the process grow very rapidly) because of several favorable circumstances. First, these countries were richly endowed with natural resources, such as fertile arable land, forests, and mineral deposits. Second, workers with various skills moved in great waves from overpopulated Europe to these mostly empty lands, and so did huge amounts of capital. Though data are far from precise, it seems that from 30 to 50 percent of total capital formation (i.e., investments) in such nations as Canada, Argentina, and Australia were financed through capital inflows. The huge inflows of capital and workers made possible the construction of railroads, canals, and other facilities that allowed the opening up of new supply sources of food and raw materials. Finally, the great improvement in sea transportation enabled these new lands to satisfy the growing demand for wheat, corn, wool, leather, and a variety of other foods and raw materials more cheaply than traditional sources in Europe and elsewhere. Thus, all «ingredients» were present for rapid growth in these new lands: the demand for their products was rising rapidly; they had a great deal of unexploited natural resources; and they received huge amounts of capital and millions of workers from Europe.

The situation for the regions of recent settlement in the nineteenth century is in sharp contrast to that prevalent in the majority of developing countries today. This is due to less favorable demand and supply conditions. On the demand side, it is clear that the demand for food and raw materials is growing much less rapidly today than a century ago. There are several reasons for this. (1) The income elasticity of demand in developed nations for many of the food and raw material exports of developing countries is less (and sometimes much less than 1), so that as income rises in developed nations, their demand for the agricultural exports of developing countries increases proportionately less than the increase in income. For example, the income elasticity of demand for coffee is about 0.8, for cocoa is 0.5, for sugar is 0.4, and for tea is 0.1. (2) The development of synthetic substitutes has reduced the demand for natural raw materials; for example, synthetic rubber has reduced the demand for natural rubber, nylon and cotton, and plastic has sharply reduced the demand for hides and skins. (3) technological advances have reduced the raw-material content of many products, such as tin-plated cans and microcircuits. (4) The output of services (with lower raw material requirements) has grown faster than the output of developed nations. (5) Developed nations have imposed trade restrictions on many of the temperate exports (such as wheat, vegetables, sugar, oils, and other products) as well as on simple manufactured goods produced by developing countries.

On the supply side, it is pointed out that today's developing countries are much less well endowed with natural resources (except for petroleum-exporting countries) than were the regions of recent settlement during the nineteenth century. In addition, most of today's developing nations are over-

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populated, so that most of any increase in their output of food and raw materials is absorbed domestically rather than exported. Furthermore, the international flow of capital to developing nations is relatively much less than it was during the nineteenth century, and today's developing countries seem also to face an outflow rather than an inflow of skilled labor. Until recently, developing countries have also neglected their agriculture in favor of more rapid industrialization, thereby hampering their export (and growth) prospects.

A large number of empirical studies (including the author's - see Salvatore, 1983; and Salvatore and Hatcher, 1991) conducted during the past two decades found that while international trade (with few exceptions) has *not* operated as an engine of growth for today's developing countries as it did for the regions of recent settlement during the nineteenth century, it is has nevertheless contributed positively to the growth of most of today's developing countries. There are several important ways by which international trade contributes to economic development even under today's changed international conditions. (1) Trade can lead to the full utilization of otherwise underemployed domestic resources. That is, through trade, a developing nation can move from an inefficient production point inside its production frontier, with unutilized resources because of insufficient internal demand, to a point on its production frontier with trade. For such a nation, trade would represent a *vent for surplus*, or an outlet for its potential surplus of agricultural commodities and raw materials. This has indeed occurred in many developing nations, particularly those in Southeast Asia and West Africa.

In addition, (2) by expanding the size of the market, trade makes possible division of labor and economies of scale. This is especially important and it has actually taken place in the production of light manufactures in such economies as those of Taiwan, Hong Kong, Singapore, Korea, and other countries. (3) International trade is the vehicle for the transmission of new ideas, new technology, and new managerial and other skills. (4) Trade also stimulates and facilitates the international flow of capital from developed to developing countries. For example, in the case of foreign direct investments, where the foreign firm retains control over its investment, the foreign capital is likely to be accompanied by foreign skilled personnel to organize production. (5) In several large developing nations, such as Brazil and India, the importation of new manufactured products has stimulated domestic demand until efficient domestic production of these goods became feasible. Finally, (6) international trade is an excellent antimonopoly weapon (when allowed to operate) because it stimulates greater efficiency by domestic producers to meet foreign competition. This is particularly important to keep low the cost and price of intermediate or semifinished products used as inputs in the domestic production of other commodities.

Critics of international trade can match this impressive list of benefits with an equally impressive list of allegedly harmful effects of trade. However, since a developing nation can always refuse to trade if it gains nothing or loses, the presumption is that it must also gain from trade. It is true that when most of the gains from trade accrue to developed nations, there is a great deal of dissatisfaction and justification for demands to rectify the situation, but this should not be construed to mean that trade is actually harmful. One, of course, could always find cases where, on balance, international trade has actually hampered economic development. However, in most cases it can be expected (and the empirical evidence to date overwhelmingly seems to show) that international trade can provide invaluable assistance to the development process.

Industrialization through import substitution versus export promotion

During the 1950s and 1960s most developing nations made a deliberate attempt to industrialize rather than continuing to specialize in the production of primary commodities (food, raw materials, and minerals) for export, as prescribed by traditional trade theory. Developing countries correctly believed that while continuing to specialize in the production of primary commodities would maximize welfare in the short run, the resulting pattern of specialization and trade would relegate them to a subordinate position vis-à-vis developed nations, and keep them from reaping the *dynamic* benefits of industry and, therefore, from maximizing their welfare and growth in the long run. The dynamic benefits resulting from industrial production are a more trained labor force, more innovations, higher and more stable prices for the nation's exports, and higher income and employment for its people. If developing nations continued to specialize in primary commodities while developed nations specialized in manufactured products, all or most of the dynamic benefits of industry and trade would accrue to developed countries, leaving developing nations poor, undeveloped and dependent. This belief was reinforced by the empirical observation that all developed nations are primarily industrial while all developing countries are primarily agricultural or engaged in mineral extraction.

During the 1950 and 1960s, most develop-

ing nations, particularly the larger ones, strongly opted for a policy of import substitution to industrialize. They protected their infant industries or stimulated their birth with effective tariff rates that rose sharply with the degree of processing.
This was done at first to encourage the relatively simple step of assembling foreign parts, in the hope that subsequently more of these parts and intermediate products would be produced domestically (backward linkage). Heavy protection of domestic industries also encouraged the establishment of tariff factories in developing nations.
The policy of industrialization through import substitution generally met with only limited success or with failure.
Very high rates of effective protection, in the range of 100 to 200 percent or more, were common during the 1950s and 1960s in such nations as India, Pakistan, Argentina, and Brazil. These led to very inefficient domestic industries and very high prices for domestic consumers. Sometimes the foreign currency value of imported inputs were greater than the foreign currency value of the output produced (negative value added). Furthermore, the highest priority was usually given to construction of new factories and the purchase of new machinery, with the result of widespread idle plant capacity for lack of funds to import needed raw material and fuel.
Heavy protection to industry also led to excessive capital intensity and relatively little labor absorption. In fact, it was entirely unrealistic to expect that import substitution could have solved the unemployment and underemployment problem of developing countries. For example, even with 25 percent of the labor force in industry and 20 percent growth in industrial output per year, at most 0.5 percent (0.25 times 0.20) of the 2 or 3 percent annual increase in the labor force of developing nations could be absorbed into modern industry. The other workers had to be absorbed into agriculture and in the traditional service sector, or remain unemployed. In addition, the hope of finding high-paying jobs in the modern sector attracted many more people to the cities than could find employment, leading to overurbanization and to an explosive situation.
The effort to industrialize through import substation also led to the neglect of agriculture and other primary sectors, with the result that many developing nations experienced a decline in their earnings from traditional exports, and some (such as Brazil) were even forced to import some food products that they had previously exported. Furthermore, the policy of import substitution often aggravated the balance of payment problems of developing nations by requiring more imports of machinery, raw materials, fuels, and even food.
The overall result was that those developing countries (such as India, Pakistan, and Argentina) that stressed industrialization through import substitution fared much worse and grew at a much slower rate than the few (smaller) developing economies (such as Singapore, Taiwan, and Hong Kong) that followed from the early 1950s an export-oriented policy. It has been estimated that the policy of import substitution resulted in waste of up to 10 percent of the country's national income.
Starting in the early 1970s, an increasing number of developing countries began to pay more attention to efficiency considerations and to shift from an import substitution to an export orientation policy. Econometric research (including the author's - see Salvatore and Hatcher, 1991) showed that the economic performance of developing nations that followed or switched to an export-oriented policy was better than that for nations that continued to follow a policy of import substitution.
As **table 1** shows, the average annual growth of real value added in manufacturing and agriculture, the average share of manufacturing value added in GDP, the average share of labor force in industry, and the average growth of employment in industry - all grew or were much higher for the outward-oriented than for the inward-oriented countries, both over the 1963-1973 and the 1973-1985 periods.

Trade liberalization in developing countries

Starting in the early 1970s, an increasing number of developing countries, especially those that had adopted for an inward-oriented strategy for industrialization during the 1950s and 1960s, began to liberalize trade. This involved some mixture of reduction and simplification of import tariffs, import taxation, and quantitative restrictions, as well as attempts to reduce impediments to exports. These trade-liberalizing measures were intended to promote the more efficient use of resources in the country by (1) eliminating the static costs of protection (such as the higher prices paid by domestic consumers of the product), (2) overcoming X-inefficiencies (i.e., the cost associated with the «quiet life»), (3) taking away the incentive for such unproductive activities as lobbying to retain or impose trade regulations, (4) making economies of scale possible, and (5) stimulating the flow of investments and advanced technology from abroad.
Some countries (such as Chile, Greece, Israel, Korea, New Zealand, Singapore, and Spain) consistently pursued liberalization during the past two decades. Others (such as Argentina, Brazil, Columbia, Mexico, Pakistan, Peru, the Philippines, Sri Lanka, Turkey, and Yugoslavia) were not as consistent and their commitment to trade liberalization during some years wavered. In general, the majority of the more liberalizing countries were smaller, had a higher per capita income, and were more politically stable than those countries that were less consistent in their liberalizing efforts. In addition, while the shift from an inward-oriented to an outward-oriented strategy can best be accomplished by removing existing trade barriers and devaluing the nation's currency, many countries (mostly in the second group that was less consistent in its liberalization efforts) used export incentives without eliminating or significantly reducing their import barriers or devaluing their currency. As a result, the growth of their exports was half as large as that for

Table 1 ***Growth and industrialization in developing countries grouped by trade orientation.***

	Average annual growth of real manufacturing value added		Average annual growth of real agricultural value added		Average share of manufacturing value added in GDP		Average share of labor force in industry		Average annual growth of empioyment in manifacturing	
Trade strategy	1963-73	1973-85	1963-73	1973-85	1963	1985	1963	1980	1963-73	1973-84
Strongly outward oriented	15.6	10.0	3.0	1.6	17.1	26.3	17.5	30.0	10.6	5.1
Moderately outward oriented	9.4	4.0	3.8	3.6	20.5	21.9	12.7	21.7	4.6	4.9
Outward oriented (average)	10.3	5.2	3.7	3.3	20.1	23.0	13.2	23.0	6.1	4.9
Moderately inward oriented	9.6	5.1	3.0	3.2	10.4	15.8	15.2	23.0	4.4	4.4
Strongly inward oriented	5.3	3.1	2.4	1.4	17.6	15.9	12.1	12.6	3.0	4.0
Inward oriented (average)	6.8	4.3	2.6	2.1	15.2	15.8	12.7	14.1	3.3	4.2.

The countries included and their trade orientation in each time period is given in **table 4** in the appendix.

Source: World Bank, *World Development Report*, Washington, D.C., 1987, p. 87.

the more liberalizing countries. Furthermore, while exports grew at about the same rate as GDP in the less liberalizing countries, exports grew significantly faster than GDP in the more liberalizing countries and, therefore, behaved more like the leading sector in the latter than in the former group of countries.

Research conducted at the World Bank (1988) also showed that liberalization policies are more likely to be sustained in the long run if they are (1) initiated in the midst of macro-economic difficulties, (2) carried out in a crisis atmosphere and under international pressure, and (3) launched in a single bold move rather than with a number of small hesitant steps over time. There is also a consensus that the likelihood of success for a program of trade liberalization is much greater if trade liberalization precedes macro-economic stabilization than if it follows it, or if it is undertaken at the same time. Managing one type of stabilization at the time makes each more manageable. Furthermore, when macro-economic stability has already been achieved and prices are playing their full signaling role, it is more likely that trade liberalization will achieve its desired results. As Sachs (1987) pointed out, prior macro-economic stabilization was crucial to the success of the trade liberalization programs in Japan and Taiwan in the late 1950s and early 1960s. Empirical research on the political economy of trade liberalization by Nabli (1990) also showed that trade liberalization is more likely to succeed (1) the greater is the strength of the exporter group, (2) the smaller is the strength of the import-competing sector's opposition, (3) the smaller is the time for which the import-substitution measures were in place, (4) the smaller the size of the country, and (5) the stronger is political leadership and its commitment to a program of trade liberalization.

The World Bank has greatly facilitated the planning and the carrying out of trade liberalization programs with technical assistance and loans. The Bank began its lending for structural adjustment in 1980 and by 1990 more it had lent more than $ 15 billion to more than 50 countries for the purpose of implementing structural or sectoral reforms. The largest number of loans went to Sub-Saharan African countries, but since these loans were generally small, a much larger amount went to other developing countries.

The purpose of the Bank's loans also varied. In Sub-Saharan Africa, the loans went mostly to support agriculture (to increase producer prices and setting up or improve extension services and research) and to carry out institutional reforms in the public sector (to restructure production and finances, and for divestiture). On the other hand, in other highly indebted countries, Bank loans went mostly for trade (to remove disincentives for and to encourage exports) and for financial sector policies (such as reforming the banking system and establishing financial intermediaries).

The World Bank estimated (see **table 2**) that with credible policy actions to reduce macroeconomic imbalances within and among industrial countries (such as reduction of the twin budget and trade deficits in the United States and trade surplus of Japan and Germany) and with continued structural adjustments (including trade liberalization) in developing countries, the total merchandise export volume of the developing countries as a group would increase at an average rate of 5.1 percent in the 1988-1995 period. This is the high-growth-scenario. Without adequate effort in industrial countries to reduce their macro-economic imbalances and in the absence of continued structural adjustments in developing countries (the low-growth scenario), on the other hand, the developing countries' total merchandise export volume would increase at an average of only 4.1 percent during the 1988-1995 period. For manufactures, the respective rates of growth would be 7.4 percent and 5.7 percent, while for primary commodities the rates of growth would be 2.8 percent and 2.7 percent, respectively. While the rates of export growth under the high-growth scenario are not spectacular, they are at least as high as during the 1980s and much higher than in the 1965-1980 period (World Bank, 1991). As in the past, these average rates of export growth will probably differ widely among the various groups of developing countries. As far as merchandise imports are concerned, they exceed the developing countries' export-based capacity to import only by the amount of foreign loans, investments, and aid.

Trade protectionism in developed countries and developing countries' trade

Since the mid-1970s, developed countries, beset by slow growth and large unemployment, have increased the trade protection they provide to some of their large industries (such as textile, steel, shipbuilding, con-

Table 2 ***Developing countries' export growth, high and low scenarios, 1988-1995 (average annual percentage change).***

	High-Growth Scenario	Low Growth Scenario
Merchandise Export Volume	5.1	4.1
Manufactures	7.4	5.7
Primary goods	2.8	2.7
Merchandise Import Volume	5.7	4.6

Source: World Bank, *World Bank Report*. Washington, D.C.: World Bank, 1989, p. 20.

sumer electronic products, TV sets, shoes, and many other products) on imports from developing countries. These are the very industries in which developing countries have gained or are gaining a comparative advantage. A great deal of this new protectionism has been directed especially against the manufactured exports of newly industrializing countries (NICs). These nations (Brazil, Hong Kong, Korea, Mexico, Singapore, and Taiwan) are characterized by rapid growth in gross domestic product (GDP), in industrial production, and in manufactured exports. Over the past 20 years the ratio of the industrial exports of the NICs to the total imports of the developed countries have risen from 1 percent to 6 percent. However, it has been the timing and the type of products exported by the NICs that has led to increased trade restrictions by the developed countries.

This new protectionism by developed countries took such new forms as antidumping and countervailing duties and voluntary export restraints (VERs). The proliferation of these new forms of protectionism have more than neutralized the significant reduction in tariffs that resulted from successive rounds of multilateral negotiations concluded under the auspices of GATT during the postwar period. Developed countries thus substituted one type of trade barrier (tariffs) with another (nontariff barriers or new protectionism). Since antidumping and countervailing duty investigations allegedly serve either to rectify a wrong (dumping) or prevent the collapse of an entire industry (countervailing duty), or are «voluntary», they do not violate the letter of GATT rules. Since they are abused and have in fact been used for protectionistic purposes (the simple filing of a antidumping complaint, for example, discourages trade according the harassment thesis), however, they certainly violated the spirit of the law. It has been estimated that U.S. barriers on steel, automobiles, and textiles are equivalent to an additional import tariff of 25 percent, thus raising protection in the United States to the level of the early postwar years. The same is true for other developed countries. Nontariff barriers (NTBs) also affected more developing than developed countries' exports. The World Bank estimated that in 1987 these new types of trade barriers affected 25 percent of the exports of developing countries as compared with 21 percent of developed countries' exports. Furthermore, even though remaining tariffs on developed countries' imports are very low, they apply primarily to labor-intensive commodities that are of particular importance to low income nations. Industrial country tariff protection also exhibits tariff escalation (i.e., tariffs rise with the degree of processing and thus favor the import of raw materials and discourage processing in developing nations).

Since textiles and clothing are relatively labor intensive, industrial-countries' trade restrictions on these products are particularly detrimental to developing countries. About one half of world trade in textiles and clothing is now managed by export restraints under the aegis of the Multifiber Arrangement (MFA). MFA legitimizes bilaterally negotiated quotas designed to slow the growth of textile and clothing exports from low-cost suppliers in order to protect production and employment in developed countries. MFA has been in existence since 1959 and has become increasingly restrictive and inclusive over time. Despite this MFA, the textiles and clothing exports of developing countries are now over \$ 30 billion per year, but they could be much higher in the absence of MFA. To be noted is that this MFA harms both developed and developing countries. It harms developing countries because it prevents or slows down their industrialization and full integration into the world trading system. As reported by Abreu (1990), the abolition of this MFA would lead to welfare gains of \$ 1.0 billion for Brazil, \$ 1.4 billion for Taiwan, \$ 2.3 billion for China, and \$ 2.1 billion for Korea (but to surprisingly small gains for India and Sri Lanka and some losses to Pakistan, Singapore, Thailand, and Hong Kong since they would lose their quotas). MFA also harms developed countries because it leads to higher consumer prices and a misallocation of resources (i.e., it prevents the reallocation of resources to areas of developed countries' comparative advantage). World Bank estimates (1990) indicate that the cost of protecting each job in the textile industry in the United States is roughly four times the average employee's salary. MFA can only be explained by the political economy of protection in developed countries - that is, that the benefits or rents from protection accrue to relatively few producers and is very large (thus giving them a very strong incentive and large financial resources to lobby for their retention), while the losses in the form of higher textile prices are spread over the more or less silent majority (where each family losses are rather small and not widely known).

Developed countries' agricultural programs in the form of price support, direct payments, and supply management schemes, also seriously distort production and trade in agricultural commodities and restrict developing countries' agricultural exports to developed countries. Assistance to farmers raises the domestic production and prices of temperate products in OECD countries and results in agricultural surpluses and subsidized exports, which compete with developing countries' exports. Excise taxes on tropical products (coffee, tea, cocoa) and quantitative restrictions on imports of sugar, dairy products, fruits, groundnut, tobacco, and rice in developed countries also seriously restrict developing countries' exports of these products.

The increased protectionism has occurred in spite of the Generalized System of references (GSP), negotiated by Western European countries and Japan in 1971-1972 and by the United States in 1976, which grants preferential access to the exports of developing countries into developed coun-

Table 3	Effect of complete trade liberalization on selected developing countries.		
Middle-Income Developing Countries	Percentage Change in Exports	Low-Income Developing Countries	Percentage Change n Exports
Hong Kong	25.9	Sri Lanka	20.9
Korea, Republic of	21.6	China	13.0
Yugoslavia	14.0	Pakistan	10.7
Dominican Republic	13.0	Haiti	9.3
Tunisia	11.4	India	8.6
Mauritius	10.5	Bangladesh	− 1.0
Thailand	10.3	Tanzania	− 3.3
Morocco	8.9	Burundi	− 5.5
Singapore	7.2	Nepal	− 9.6
Brazil	6.8	Somalia	−24.3

Source: World Bank, *World Development Report*. Washington, D.C.: World Bank, 1990.

tries' markets. Currently more than 20 OECD countries operate GSP schemes with more than 140 beneficiaries. However, exception after exception to the GSP have been «voluntarily» negotiated by the United States and other developed countries for many «sensitive» products such as textile, clothing, and footwear which are of great importance to developing countries. By 1990, more than 120 such exceptions had been negotiated by the United States and other developing countries. Furthermore, the U.S. Tariff and Trade Act of 1984 authorized the President of the United States to deny GSP privileges to NICs that did not curb their own unfair trade practices and restricted U.S. exports. The act also called for «graduation» or the removal of preferential access for the exports of the most advanced of the developing nations, such as Korea and Taiwan. These conditions were included in the face of the increase in the NICs' trade surplus with the United States from just over $ 2 billion in 1981 to more than $ 30 billion in 1990. It must, however, be pointed out that while most criticism for restricting developing countries' exports is usually directed at the United States, the United States absorbs more than half of developing countries' exports. The European Community (EC), which has now larger than the U.S. economy absorbs less than one third of developing countries' exports (down from one half in 1965), while Japan, with an economy about half the size of that of the United States, takes in less that than 10 percent and this has remained practically unchanged during since 1965 (Finger and Messerlin, 1989). Most studies indicate that the GSP have a very limited effect on increasing developing countries' exports. The World Bank (1990), for example, reports that the total imports of developed countries increased by only 0.5 percent because of the GSP, the exports of developing counties are only about 1-2 percent (about $ 6.5 billion) higher, and most of the benefits accrued to a small number of middle-income developing countries or NICs.

It has been estimated that removing all trade restrictions by developed countries would lead to a 10 percent increase in developing countries' exports (of which 40 percent would be in clothing and another 10 percent in food and food products). This would raise developing countries' GNP by about 3 percent and cost developed countries 0.7 percent of their GNP or roughly double the amount that they now provide in foreign aid (Finger and Messerlin, 1989). As **table 3** shows most of the benefit from complete trade liberalization in developed countries would accrue to successful middle-income exporters, with some low-income (mostly Sub-Saharan African) countries actually losing because their existing trade preferences would disappear.

Table 4 ***Composition of trade-orientation country groups: 1963-1973 and 1973-1985.***

PERIOD I: 1963-1973

Strongly Outward Oriented:
Korea, Rep. of, Singapore

Moderately Outward Oriented:
*Colombia, Israel, *Ivory Coast, Malaysia

Moderately Inward Oriented:
El Salvador, Honduras, Kenya, Mexico, Nicaragua, *Nigeria, Philippines, Senegal, *Tunisia, Yugoslavia

Strongly Inward Oriented:
Argentina, Bangladesh, *Chile, Dominican Republic, India, *Pakistan, Peru, *Turkey, *Uruguay, Zambia

PERIOD II: 1973-1985

Strongly Outward Oriented:
Korea, Rep. of, Singapore

Moderately Outward Oriented:
*Chile, Israel, Malaysia, *Tunisia, *Turkey, *Uruguay

Moderately Inward Oriented:
*Colombia, El Salvador, Honduras, *Ivory Coast, Kenya, Mexico, Nicaragua, *Pakistan, Philippines, Senegal, Yugoslavia

Strongly Inward Oriented:
Argentina, Bangladesh, Dominican Republic, India, *Nigeria, Peru, Zambia

* Refers to countries that changed trade orientation between the two time periods.
Source: World Bank, *World Development Report 1987*, Washington, D.C.: World Bank, 1987, p. 83.

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