The Economic Journal of Nepal
Vol.VI, No. 2, April.-June. 1983 EIC-TU

INTRA-TRADE AMONG THE DEVELOPING COUNTRIES

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1. Introduction

The developed countries impose high tariff rates on the imports from developing countries. When these tariff rates are not able to prevent the imports, quantitative restrictions are imposed to reduce the level of imports. Thus, in view of the increasing trade barriers imposed by the developed countries, intra-trade among the developing countries assumes greater importance.

There is considerable scope for intra-trade among the developing countries themselves. In the annual average of the period 1970-72, developing countries exported only 20 per cent of their total exports to one another. The percentage of their total exports to developed market economies was 74 per cent and to the Centrally Planned economies 6 per cent in the same period.

As regards trade in agricultural products, in the period 1962-64, 35 per cent of developing countries, total agricultural exports was supplied by other developing countries. For non-competing tropical commodities such as tea, coffee, cocoa, beans, bananas and raw jute, the share of intra-trade among developing countries as a percentage of their total imports ranged from 80 to 98 per cent. Re-exports from developed countries probably accounted for much of the rest. The share of intra-trade in total imports for non-competeting commodities namely dairy products, meat, wheat and wheat flour, tobacco, fats and

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The author is indebted to professor D. K. Britton, University of London. for very helpful comments on this paper.

Calculated from the Yearbook of International Trade Statistics 1972-73.

oils, sugar and raw cotton was below 50 per cent (see Table 1). The low intra-regional trade for some of the competing commodities may be partly due to the sale of these commodities at concessional terms by some developed countries.

There is potential scope for a large increase in trade in agricultural products amongst developing countries. The high growth rates of population together with the high income elasticity of demand for many agricultural products will lead to a considerable increase in their demand for agricultural products, and this will increase the import requirements of some of these countries. Table 2 shows developing countries provisioal import requirements and provisional export availabilities for selected agricultural products in 1985. The index of increase in import requirements in 1985 for all the commodities shown in the table except rice ranges from 112 to 308. Since the figures of export availabilities are higher than the corresponding figures of import requirements, supply should not be a limiting factor in the increase of trade among developing countries. If the provisional production objectives were achieved, a number of developing countries would have sizeable export availabilies, while at the same time, a number of other developing countries would be in a deficit position. Thus, it appears that for all the agricultural products, the developing countries could meet their import requirements from each other.

There is a great potential for an increase in intra-trade of the developing countries because the great diversity of natural resources and differing stages of development among them should ensure mutually profitable trade in a wide range of products. In addition to the benefit of intra-trade in terms of expansion of exports, the formation of custom unions may obtain improvement in the terms of trade with respect to non-members by offering a reduced supply of exports to and a reduced demand for imports from the non-members. Also, with the increased bargaining power of developing countries as a group, they may get more tariff reductions than if they act individually. Furthermore, regional schemes also provide scope for rational distribution of processing facilities where there are marked economics of scale to be obtained.

2. Difficulties in the intra-trade among developing countries

(a) Inadequacy of the infrastructure for trade expansion amongst developing countries.

There is a lack of international infrastructure to provide land, sea and air communication between developing countries. Transport and communication facilities among developing coun-

Table 2

Developing Countries' Imports Requirements and Export Availabilities for Selected Agricultural Products in 1985

	Imports 1962	Provisional Requirements in 1985 '000 Tons	Index of Increase in 1985 1962=100	Provisional Export Availabilities in 1985 '000 Tons
Competing Commodities				
(i) Competing with Production in Developed Countries				
Wheat/Coarse Grains	15270	22832	150	29220
Rice	3070	2722	88	15667
Fats and Oils	562	1083	193	6863
Sugar	2964	4300	145	6300
Beef and Veal	250	770	308	2740
Tobacco	48	64	133	408
Citrus Fruit	108	160	148	2680
(ii) Competing with Production in Developed Countries and Synthetics				
Cotton	222	478	215	3257
(iii) Competing with Synthetics				
Rubber	128	314	245	2601
Sisal (Including Goods)	25	n.a.	n.a.	689
Jute & Allied Fibres (inc. Goods)	486	n.a.	n.a.	3659
Non-Competing Commodities				
Coffee	97	250	258	3985
Tea	108	206	191	670
Cocoa	25	28	112	2138
Bananas	348	900	259	11000

Source : F. A O (Rome 1970) Provisional Indicative World Plan for Agricultural Development, Volume 2, Page 632.

Table 1

Trade in Selected Agricultural Products Amongs Developing Countries in 1962-64 Average

Agricultural Products	Total Exports of Developing Countries	Total Imports of Developing Countries	Intra-Trade of Developing Countries	Intra-Trade of Developing Countries as Percentage of Total Imports %
		In $ million		%
Wheat & Wheat Flour	234	1278	97	8
Coarse Grains	297	137	42	32
Rice	540	600	398	66
Dairy Products	25	388	10	3
Meat	412	168	28	17
Eggs	8	31	5	16
Sugar	1420	371	166	45
Citrus Fruits	122	23	9	39
Fats and Oils	1306	502	139	28
Coffee	2018	87	85	98
Cocoa Beans	483	14	12	86
Tea & Mate	604	137	110	80
Bananas	284	12	10	83
Tabacco (Unmfd.)	287	102	27	26
Rubber (Natural)	1203	143	137	96
Wool	254	48	14	29
Cotton (Raw)	1221	338	166	49
Jute (Raw & Mfd.)	602	156	144	92
Total of listed Products	11320	4535	1599	35

Source : F. A. O. (Rome 1970) Provisional Indicative World Plan for Agricultural Development, Volume 2, Page 642 tries are often very inferior to those linking developing countries with developed.

(b) Lack of payments arrangements for effecting multilateral trade among developing countries.

At present, trade is conducted on a bilateral basis and the movement towards multilateral trade among developing countries is restricted by the fact that individual currencies of these countries are not wanted for other than bilateral trade.

(c) Political conflicts between neighbouring countries.

These may also slow down the expansion of trade in the region concerned.

(d) Use of export aid by developed countries either by the sale of commodities on concessional terms or by giving other export subsidies.

Trade especially in agricultural products, has been impeded by the provision of commodities on concessional terms by developed countries.

(e) The growth in the practice of tying aid to purchases in the donor countries.

This certainly reduces the trade of manufactured goods among developing countries.

(f) The developed countries give credit for the purchase of imports from them.

In view of the non-availability of credit for the purchase of goods from a developing country, the developing countries tend to purchase their imports from developed countries.

(g) Tendency of individual governments to restrain imports of products which are technically feasible to produce at home, however expensive this might be.

This tendency exists because without special arrangements to that end, an increase in imports by a country does not lead to a corresponding increase in its exports.

(h) Shortage of foreign exchange.

In many developing countries this precludes the import of other than essential raw materials and capital goods.

(i) Regional trading agreements tend to generate unequal benefits and costs among member countries.

If the member countries in the region are at different stages of development, then the relatively advanced countries of the region will get more benefits because capital, labour and entrepreneurship will go to these countries because of the existence of industrial infrastructure there. Thus, the relatively advanced countries will get a larger share of the regions total exports.

It is clear that the lack of expansion of intra-trade among developing countries is not only due to trade barriers but also due to several other factors mentioned above.

3. Measures to promote Intra-trade among developing countries

(a) The wider use of tariff preferences among developing countries would encourage the expansion of intra-trade.

(b) Provision of adequate international infrastructure between developing countries is also very essential for the expansion of intra-trade. Therefore, the developing countries as a group should take measures to improve the transport and communication facilities which are now often seriously deficient. The World Bank and other international organizations can encourage the establishment of these facilities by giving cash assistance.

(c) The giving of more aid in the form of multilateral and non-project aid can help to promote trade among developing countries.

(d) Limits on the use of export aids by developed countries should be imposed in order to ensure that exporters from developing countries can compete effectively in supplying the import requirements of other developing countries.

(e) Just as the export-credit facilities offered by the developed countries tend to encourage the developing countries to buy goods from them, the provision of export credit by the exporters from developing countries would expand the intra-trade among developing countries. Here again, the international Monetary Fund and the International Development Agency could encourage the intra-trade by giving loan to the exporters from developing countries.

(f) There is a need for suitable payments arrangements to finance the imports of importing developing countries. The establishment of a special monetary agency could help to promote multi-lateral trade among the developing nations.

(g) The tendency of individual governments towards automatic self-sufficiency exists because an increase in imports by a country does not lead to a corresponding increase in its exports. This tendency could be prevented by making special arrangements to ensure that an increase in a country's exports to a member country will be associated with an increase in its imports.

(h) The problem of unequal benefits and costs could be avoided by negotiating agreements between the members which are at the same level of industrial development and are of about the same economic size. Where this is not possible, speciai arrangements such as direct financial assistance, tax concessions, subsidy arrangements and delayed introduction of tariff reductions should be made for the weaker members.

4. Conclusions

In the past, emphasis has been given on intra-trade within the regional framework. For example, several common markets have been established on a regional basis e. g. the East African Common Market, the Arab Common Market, the Latin American Free Trade Area and the Carribean Free Trade Area. On the other hand, the scope for achieving interregional trade expansion has been relatively neglected. It is disappointing that trade between developing countries has not been sufficiently explored by the governments of these countries. There is considerable potential for the expansion of trade both in agricultural and industrial products amongst developing countries. If the above measures are taken effectively there conld be a marked acceleration in the intra-trade among developing countries.

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