

Role developing
countries world trade
a liberal perspective
economics essay



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Since liberalism is the most influential perspective in international political economy (IPE) and keystone international economic organizations (KIEO) like World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank are based on liberal principles, it comes naturally for liberals to view international economic relations in a positive aspect.

Liberals believe that economical interaction between states is a positive-sum game, meaning mutual beneficial of states if they operate freely. They judge that all states can gain from open economic relationships but they leave in shadow the fact that states do not gain equally or that states are quite different from one another in size and wealth and that this influences economic relationships.

From a liberal perspective less-developed countries (LDC) face today what developed countries (DP) faced during the ninetieth century. According to them LCDs in order to achieve development have to follow the same steps as DCs did to develop. They also think that LDCs today have more opportunities than the ones that DCs had before them, because now they can benefit from advanced technology and different successful forms of organization of DCs.

Hence integration and cooperation with DCs centers of activity contributes to LDCs economic growth and modernization while on the contrary isolation will lead to further backwardness. Liberals believe that the purpose of international economic activity is to attain the best use of world's resources and to maximize economic growth and efficiency. Thus they think that absolute gains are more important than relative gains between states.[1]

Domestic factors are considered to be very important to liberals especially to orthodox ones in the development of states, therefore they relate economic problems of LDCs with the inefficient policies implemented by them. They believe that DCs achieved economical growth by abandoning old practices and that in order for LDCs to develop they must do the same.

LDCs must replace their ways with the ones that are found in the west, this way institutions based in the western model will help attain development. Although they acknowledge the difficulties of change and the hardship it may produce they argue that the gain and opportunities for societies who modernize are great. Even though it is argued by many scholars that modern values are not always better than traditional values and that the development of LDCs cannot just repeat the path of DCs because of factors like globalization and multinational corporations, orthodox liberals continue to assert the weight of domestic factors in LDCs hindering.[2]

As we said above liberals see the world trade as a positive-sum game so they reject the responsibility of the north towards the poverty of the south. They argue that south can catch up with north and that LDCs which have integrated more into world trade are better than the ones that have few linkages with DCs.

With closer integration in world trade LDCs can gain from foreign investments, export markets, advanced technology and of course world trade will enable them to specialize in products they can produce with more efficiency. Orthodox liberals attribute East Asian rapid development in the 1960s to 1980s to the factors stated above and argue that other LDCs have

not had the same experiences precisely because they have not followed the export-led model.

Interventionist liberals make basically the same assumptions as orthodox liberals but they emphasize the idea that economic forces should not be left without control because they will lead to more inequalities between DCs and LDCs.[3]

It is important to understand also the shortcomings of liberal point of view. Liberals are criticized by realists and historical structuralists that they marginalize power and distributional issues. Realists argue that more powerful states legitimize inequalities and exploitation and that trade is rarely free and equal. It is also criticized the idea that technology, transportation and communication are the answers to the most urgent economic problems.

They assert that even with the technological advances there is a growing competitiveness for vital resources such as energy. Even more inequalities can be produced by technological advances because rich states and with more technology increase productivity faster than states which are poor.

Another important shortcoming is that liberals do not take into account DCs and LDCs political power relationships. This political power relationship is highly asymmetrical and it is clear that LDCs are depended on DC which provides them with a potent source of power over the south. Even though this is the case liberals tend to diminish the effects of power by arguing that world trade is a positive-sum game in which everyone benefits.[4]

Trade liberalization is not the basic problem that LDCs face in the trade system but is more a question of how best to take the elements within the system that promote development.[5] While this is true for the last decade it was not always like this, because in the early stages of multilateral trade negotiations after World War II the main participants were DCs.

Between the 1940s and 1960s LDCs were less involved in the multilateral trade negotiations; this happened because at the time there weren't so many countries as today, and they followed more protectionist policies for their economies but also because the General Agreement on Tariffs and Trade (GATT) did not pay much attention to development issues.

In the 1950s most LDCs in order to replace industrial imports with domestic production implemented protectionist import substitution industrialization (ISI) policies which were much supported by Prebisch. Even though LDCs wanted GATT to grant them more special and differential treatment (SDT) this was not possible because their influence in the 1950s was very limited.

Changes occurred during the 1960s to early 1970s, first ISI policies were modified by LDCs to export-led growth policies and the power of the south increased. ISI policies were changed to export-led growth economies because most LDCs had economic troubles and these policies proved to be ineffective.

Also with the process of decolonization the South increased its numbers, thus was better able to press its demands for SDT. In 1963 the G-77 was established by the South and in 1964 was formed the United Nations

Conference on Trade and Development (UNCTAD); although it was never a <https://assignbuster.com/role-developing-countries-world-trade-a-liberal-perspective-economics-essay/>

serious threat to GATT it helped directing more attention to South issues. In 1971 DCs established a generalized system of preferences (GSP) which helped some LDCs like South Korea and Taiwan more than others, in fact it helped just a few of them.[6]

The early 1970s to 1980 are characterized by increased confrontation between North and South. The South called for a New International Economic Order (NIEO) when the Organization of Petroleum Exporting Countries (OPEC) successfully increased oil prices. This success was a major factor that encouraged the South in their demands. Even though the North made some concessions to the South (the UN passed some resolutions requested by LDCs) most of these concessions were never implemented.

What happened was that in 1980 with the foreign debt crisis the power of the South to influence the North precipitated. During 1980s to 1995 more LDCs participated to the new GATT round in Uruguay. The increased role of the LDCs in the Uruguay round was related to the liberalization of the South trade policies during the 1980s. In order for the North to include services, intellectual property and investment in the negotiations was promised to the South to include issues of interest such as agriculture and trade in textiles.

During the Uruguay round the South continued receiving SDT but in view of acceptance of all Uruguay round agreements LDCs accepted a weakening of SDT for better market access and strengthened rules. In the Uruguay round the South received more SDT including longer transition times for implementing agreements, some flexibility in fulfilling commitments and technical assistance from the north.

According to liberals LDCs will benefit in the long term from the Uruguay round and although they made concessions to DCs in intellectual property, services trade and investments they gained in textiles and agriculture. They also point to the benefit from STD like more flexible implementation timetables and from North's technical assistance. In sum liberals believe that the Uruguay round was beneficial to the South.[7]

In 1995 GATT changed into the World Trade Organization (WTO) which is a more powerful organization. Countries member of the WTO have to abide to the rules of the organization or they can be taken into court. More countries joined WTO since 1995 which means that the number of LDCs has increased thus also the influential power.

Even though the WTO is a democratic institution it is lead by DCs and even though the LDCs make up three-fourths of WTO and their influence power have increased they still cannot influence the outcome of the organization because most LDCs economies are heavily dependent on the economies of DCs.[8]

LDCs are disillusioned by the Uruguay round because they realized that they made stronger commitments and received weaker ones from the North; this can be seen in the Doha round where the negotiations have come to a stop.

The Doha round was suspended in 2006 because the North demands reduced barriers for non-agricultural imports from the South and wants to strengthen the agreements for services trade and intellectual property rights; while the South wants stronger commitment in agricultural and textiles issues and demands more SDT and technical assistance. Unless <https://assignbuster.com/role-developing-countries-world-trade-a-liberal-perspective-economics-essay/>

North and South find a common language the WTO round will not be concluded successfully.[9]