

Good economics- share of benefits essay example

[Technology](#), [Development](#)



International trade forms a very important part of every economy's financial structure. Trade activities and negotiations with other countries are the main source of earning foreign currency and also strengthening ties and building international relationships. Such activities come under the purview of the World Trade Organization, which is the regulatory authority and organization to ensure that fair practices prevail between all countries of the world.

International trade can also be seen as a participative activity in which developed as well as developing economies both are actively involved.

However, it is vital to note that, in many cases, developing countries are not able to obtain the real benefits of international trade.

The purpose of this paper is to assess the role that government can play in ensuring that developing countries obtain a fair share of the benefits of international trade. The state, in every economy, plays various roles.

Depending on the nature of that economy, the level of interference by the state also differs. However, to be able to obtain the benefits of international trade, the level of interference by the government should also be limited.

(Katz, Lawrence F. and Bruce D. Meyer. 1990) The government should play a supervisory role like laying down the framework for import and export policies. Currently most economies follow an extremely stringent policy for their import and export activities that involve getting a lot of clearances and meeting requirements. In such a scenario, a number of smaller economies get discourage or are rejected since they are not able to meet the basic decisive factor laid down by developed countries. Liberalization of trade policies to some extent is required at the moment, especially in light of the global recession. This would provide an incentive to weaker economies to

participate in international trade activities and thus, they would also be able to obtain the fruits of international trade.

It has been in talks for some time whether this kind of liberalization would actually provide an incentive and would appear as the answer for stronger international trade practices or not. In evaluating the pros and cons of this argument, one thing comes to the surface that the government has to be more participative with the production and tertiary sector. Only then would it be possible to make international trade successful for the developing economies.

In her paper titled, " Trade between developed and developing countries: The decade ahead", Bela Balassa has finely recognized that data on trade between developed and developing economies provides an indication of the growing interdependence between the two. This parallel increase in trade activities shows that there is an immense scope for a participative and bilateral practice of trade between the two groups of economies. With the increase in their ratio of imports, most developing countries have become the target markets of many companies that operate on a global scale. Many developing countries like India are considered as the largest consumer base for automobiles, engineering products etc. On a relative scale, the ratio of exports has been low, which needs to be promoted, and this can be accomplished only through incentives by the state.

The World Trade Organization has recognized the role that lower government interference and motivation to developing economies can play a better role. The Agreement Establishment is a sincere effort towards encouraging weaker developing economies to gain the benefits of growth in international

trade. (Jacobson, Louis. 2009) The Doha Ministerial Declaration in 2001 which has been laid down in the Doha Development Agenda is focused on multilateral trade negotiations between developed and developing economies. In the Agreement Establishing the WTO, it has been clearly mentioned and stated, " There is a need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development."

This statement in the agreement recognizes the importance of international trade practices in ensuring the success of the economy and also in ensuring its stability. Liberalization practices, which were first initiated during 1991, have also played an important role in this. However, because some of the trade activities in developed countries like the United States enjoy high levels of protectionism by the state, the effectiveness of such agreements and initiatives by the World Trade Organization has been limited. Carbaugh, in his book " International Economies" has recognized that global trade practices are dominated by developed and larger economies because they are in a stronger and financial position to strengthen their manufacturing sector. Some critics who have been quoted in the book by the author have said that the WTO has been largely ineffective in controlling the dominance of such economies and countries and, so the agreements that are laid down by WTO do not produce the desired results.

In another argument, it has been said that subsidies by the government should not be seen as government intervention because it motivates industrialists to set up production units and provides them with inflow of

resources to start their own production concerns which in turn benefits the economy. The Japanese government made use of such protectionism and subsidies during the early years of its development, and these laid the foundation for the strong trade practices that the economy enjoys today. Other Asian countries have also used a similar industrial policy to encourage more investment in the manufacturing sector. Industrial policies, including sector-specific interventions, selective protection, economic and fiscal incentives and subsidies, have been highly significant, even decisive factors in the economic performance of those countries (Amsden, 1985; Amsden, 1989; Amsden, 1990; Johnson, 1982; Wade, 1990).

An interesting perspective, in relation to developing economies, has been the fact that such economies are the highest exporters of primary goods. Carbaugh has noted in his book, " Dependence on export of primary products can create instability for these countries as the prices of these commodities tend to vacillate on international markets." A very important factor, related to such export and import methods of the developing countries is that while developing economies rely heavily on export of primary goods, they also import secondary goods from developed economies and in order to fund these imports they borrow from international financial institutions such as the World Bank. Such funds from the World Bank and the IMF are provided on fulfillment of certain conditions, one of which is the liberalization of domestic economies. This can be seen as an intervention from such financial institutions and pressure from their end on developing economies to function in their favor. Conditionality is designed to serve the dual purpose of compelling developing countries to " put their economic

houses in order" while serving the interests of the lending institutions that want to assure loans are paid back (Carbaugh, 2013).

In such a scenario, one can conclude that economies require a higher level of freedom in market activity without interference of monitoring from government or financial institutions and lenders. Especially developing economies need to focus more on strengthening their production activities and adopting a more self-sustaining practice. Heavy reliance on imports from developed countries puts them in a difficult position with relation to their balance of payments. The WTO's initiative to increase trade between developed and developing economies between 1990 and 2008 has shown a marked increase in trade activities which shows that these agreements have been effective. A higher level of success can be achieved in these initiatives if the state of all economies adopts a more participative attitude and allows a higher degree of freedom to companies to perform trade practices.

(Hutchens, Robert. 1981) In the case of developing countries, it has been identified that not all developing countries participate equally in trade activities. Asia has been recognized as the largest contributor to international trade while Africa and other regions have shown the least support. Along with working on strengthening of international relations, it also needs to be seen where these economies can increase their support to reduce trade barriers. Through a significant opening of trade routes and the reinforcement of disciplines in areas like subsidies, developing countries would benefit from more opportunities to enhance their share and support level in world trade and would thereby be in a much stronger position to use trade as an engine for growth and development.

References:

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