Trade and Economic Development

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Abstract. This paper examines how export oriented industrialization policies or policies promoting greater national income from trade can really transform the economy and eventually help countries reach the highest stage of economic development over a period of time. Based on verifiable empirical evidence this paper shows how the export based economies changed over a period of time due to policies they adopted and how those policies achieved two-dimensional unmatched economic advancement and human development. Finally this paper systematically presents in broad sense what policies should be designed by low-income countries in order to boost and help them realize their potential that ultimately help these countries to move onto the path of economic development.

1. Introduction

Recent Economic Success of few Asian Countries like China, Taiwan, South Korea have boosted the urge and focus of emphasis of other countries to follow the path of expansion of national income possibly through trade to provide launch-pad for culmination for effective utilization of available resources. Role of external sector in resolution as a major path or primary factor that had impulsive impact on national income comes along with fulfilment of various economic and political demands. It is and it will always be true that to what degree and in what proportion we do possess resources or how far we can develop it to jumpstart the economy plays a central role. But perhaps it cannot be concluded that abundance of natural resource and it efficient utilization can only bring about a radical change way the economy operates. Empirical evidence shows that over the last few decades many Asian countries driven by policies that progressively supported manufacturing, technology, infrastructure and education gradually surpassed the growth rates and the pace of technological advancement compared with advanced western countries creating a dominant place in international markets as well as enhanced the standard of living.

What matters for advancement of trade is closely related to what does it really require for economy to the operate, it is just a matter of identification of nation’s potential; but beyond all arguments isolated view or disengagement with evidence that trade is only a matter of surplus resources or something which can’t relied on to harbour by poor economies, I think is against the dogma of diligent economic management and by far a penitent mistake. Interestingly this paper examines how huge investments in human capital development can be a foundational step forward towards increasing the share of external sector in the national income based on optimum utilization of resources which remains the decisive factors combined with lot of socio-economic and political factors that will be discussed in chapter ahead.

2. Trade and Development

In pursuit of Economic Development; economists and Governments have devised and experimented host of alternatives in the last fifty years or so. A glance on these efforts accurately reveals that major constituents/emphasis in terms of testing has been exclusively high reliance on industrialization, effective labor utilization and other possibilities that stood as opportunity for realization of dream of economic development. Economic Development not of course exhaustive to exaggeration of any of the single alternatives adopted so far. By far by any stretch of imagination and mathematical argument it not at all conveys that mere dependence on industrialization or any other alternative bears the fruit of economic development. Rather collective impact of all possibilities in terms of economic and social change and cognitive effort with political stability or will would be drivers of massive economic change and prosperity. There are many connections and perquisites in the process of economic development that are to be
acknowledged and gathered in systematic format. There is no revision of attitudes towards industrialization and utilization of labor in the process of economic development, for these are the primary achievement without which process of Economic Development cannot be initialized. Pathways to economic development and change are numerous and vivid, but the intention of this paper is to elaborate in broad fashion the prospective possibilities that exist for reformation of trade and economic development and how does international trade can bring magnificent changes in the process of economic development. Normally trade or exclusive dependence on trade for subjective purpose of attainment of certain rate of growth in GNP calls for wide variety of economic, political and social complementarities indeed, for that matter view that trade can became a factor of relief in/for economic development is not an easy belief. Over the last 3 decades Asian Economics like China, Korea, Taiwan and Singapore and the like have registered significant growth rate in terms of GNP Per capita income, advancement in the level of technology and rise in standard of living mainly because the share of trade in composition of GNP has been the dominant and driven by other number of socio-economic changes. The basic philosophy of the Park Chung Hee government [Korea] was “exports first” or “nation building through export promotion”. (C Harvie, 2003) China’s international trade has experienced rapid expansion together with its dramatic economic growth which has made the country target the world as its market. The stable political system, vast natural resources and abundant skilled labor in China have made it a modern global factory. (Peng Sun, 2010) Therefore the growth story in China is formidable a product of three vital elements which can’t ignored while making assumptions and policy prescriptions for advancement of economic growth and development.

In the first case the stable political system turned unto a rock solid foundation for structuring economic policies focusing on effective resource utilisation and helped China grow its economic activities that ultimately placed closer to the path of economic development. Secondly the uniqueness of Chinese growth lies in expansion of its market base that crossed its borders and eventually became a dominant export based economy in the world. This is the result of accessing markets overseas where China maneuvered quiet wonderfully in accessing them. Capitalization on comparative Advantage or the development of comparative advantage by effectively and sensibly utilization of resources in these years have demonstrated economic advancement in China. The emergence of Taiwan's SMEs is closely related to the economic, social and educational policies adopted by the government in the past. The "Land to the Tiller" program and the Economic Construction Plan, the implementation of which began in 1953, the beginning of compulsory education in 1968, and the Ten Major Construction Projects plan, which began to be implemented in 1973, along with other measures adopted in the areas of economic development, manpower resources, social stability and public construction, have all provided SMEs with an excellent environment in which to grow and develop. (Ministry of Economic Affairs, 2014)

The Taiwanese experience so far exclusively reveals that a combination of both nation-building plans like huge investments in infrastructure, Technology, education and export promotion policies has led to rapid industrialization as well as development measured in terms of life expectancy, literacy rates, and infant mortality rates among other indicators. The connection between economic development and trade appears distant and imaginary but realistically these countries show that a multiple theories of economic development have been strategically implemented with central focus being expansion of markets and industries complementing social development altogether bringing closer to economic development.

On the other hand economic development is complex phenomenon driven by host of factors that potentially overshadows success achieved in economic indicators such as available huge foreign exchange reserves, or current account balance or just in per capita income. Economic development calls for recognition and safe-guarding of human rights together with effective system of social justice and increase in income per capita, leading to improvement in quality of life of the people.

3. Political Stability

Relationship between politics or entire political setup (or administrative machinery for that matter) and economy or working of the economy is very much stronger, much intermingled and much dependent by far. It is the political system and government that establishes ways and means of working of economy. For the
purpose of establishment of effective governance in democratic countries people rely on political system and voting. Economic activities are subjected to high degree of fragility in practice then in paper, since all economic activities are to be coordinated and subordinated by governance and a system based on equality and justice. Activities such as production, distribution and exchange for example May virtually halt on the occasion of wide spread disturbance in national political scenario thereby leading to major jolt to economy. No single economic activity can be ever performed when disturbance between existing political system and people emerges, as it is evident from experience with Western African countries like Cote D Ivoire, Liberia and Sierra Leone, to name a few.

One thing of course that deserves the right of mentioning or worth mentioning is the law that state formulates. In reality governmental and institutional set up assists in what it does requires for stability in economic functions and maintainability of same, the same can be invariably classified in to 3 broad categories:

a. Functioning of Authority
b. Absence of violent political tussle
c. Prevalence of law and order

Even the Classical Economists Argued for maintenance of law and order by the state in their definition and specification of role of government. Adam Smith in his Magnum opus Wealth of Nations published in 1776 said that,

“The first duty of the sovereign [is] that of protecting the society from the violence and invasion of the other independent societies........ The second duty of the sovereign [is] that of protecting, as far as possible. Every member of the society from the injustice or oppression of every other member of it”

Nothing new can be evolved in terms of our perception in context with that of the central role had been played by government and the political system, but in search for progressive growth rate of economy, proactive and liberal attitudes for the flourishment of ethical political system that perspires in their effort in dragging the economic wheels on the desired and possible tracks. Like other economic activities trade is also an integral part of economy that can be prospective source of economic expansion where we can see expansion of labor markets in terms of opportunities for employment and rise in income level and thereby in rise in standard of living guided with stable political system and political will. Recent political crises in Egypt, Syria and other African countries act as a source of conformity that virtually affected everyone leading to much larger and much adverse repercussions on the economy.

Political crisis brings along with them massive economic damage in terms of destruction of established infrastructure directly affecting transportation, procurement, production, employment and income whereby it naturally stalls the process and invites severe slowdown and ultimately the economy withers away. Many countries engulfed by civil unrest all over the world have shown minimalistic economic activity over the year that has led to widespread social unrest, poverty mainly driven by agitation and unemployment due to intolerable socio-political conditions.

Syrian Industry Minister Kamaleddine Tohme said, The Syrian industrial sector has lost $2.2 billion since the war began. The private industrial sector has lost $1.5 billion, while public industry has lost $700 million. More than 120,000 people have been killed in Syria’s war and millions more forced to flee their homes. Further UN reported that more than half the Syrian population is now living in poverty.
So the necessary condition for the promotion of economic activity and social peace is resolving civil and ethnic conflicts in the country that shockingly stand out as the most devastative factors hampering the social-political and economic set up of a country.

4. Resource Endowments

The second most crucial factor that determines the fate of nation for its participation in international trade is the resource endowments. Not all nations face scheme of equivalence when it comes to resources, and it’s been empirically tested that variations in such endowments are natural. Trade is something which cannot be merely rightly reasoned for having abundance in natural resources and other resources that were developed as economy expanded, but it eloquently calls for skillful utilization. But the developing countries are in quandary of deficit of investment and managerial ability, so are unable to discover most promising reward for economy. Investment being macroeconomic in nature will have remarkable observation on various factors like employment, level of income and also trade. Many countries in the world are lucky in terms of having a comparative advantage in production of one or more commodities. Level of dexterity in terms of production of manufactured goods is handy to advance economies whereas developing countries are at a contrast. This is calls for huge public investment in institutions providing training, skills enhancement education development of skills in line with requirements in the country which will bring about major different in the years to come. Because even resource rich countries ultimately relies on skilled and technically sound labor force in order to make complete utilization of whatever resources they are endowed with therefore it’s not surprising to say that their exist iron strong relationship between nationwide skill development program and trade. At first the link might look somewhat mere exaggeration of the two factors but in reality human resource development has played a key role in activating economic progress which undoubtedly leads to expansion of markets as in case of China.

At the end of August, about 200 unemployed Saudi university graduates congregated in front of the Education Ministry, in Riyadh. The young men were there to demand government jobs; they held a banner calling for an end to their "oppression." The rare public protest highlighted the tensions and expectations that make higher-education reform in this kingdom a daunting prospect, despite the hundreds of billions of dollars the government is dedicating to the endeavor.

A few weeks before the protest, the Saudi Council of Ministers, which sets national policies, passed the country’s latest five-year development plan. It calls for spending about $200-billion on expanding access to schools and universities, and for substantially increasing vocational training by 2014. Mohammad Al-Ouali, deputy minister of educational affairs, says that is why the Ministry of Higher Education has placed "more emphasis in the last three or four years on technical, engineering, science and medical programs," as well as "fields of study related to the job market," such as administration and computer science. "These are the main focus of the new universities we have established," he says. The plan also suggests spending $240-million in grants for research projects each year, and calls for the establishment of dozens of research centres and technology incubators at universities. Saudi education officials regularly invoke their determination to turn the kingdom into a "knowledge economy." In 2009, the king created the King Abdullah University of Science and Technology, or Kaust, as it's known, and personally donated its $10-billion endowment, saying he hoped it would "become one of the world's great institutions of research." (Lindsey, 2010)

On the contrary heavy investment in research and development activities and technological evolution in terms of methods of production, clever applicability of abundant resource like labor (for example China) can bring the desired change. Production of series of innovative products, together with resource endowments go in for a logical pronouncement over prospective role of trade in national economies. Policies that promote resource enhancement should be designed and implemented rather than policies that view resources as scare which eventually over a period of time loses focus from advancement of trade and development.

5. Comparative Advantage

Nature cannot be the cause for opportunity always; something somewhere must be done to strike a balance between human ability and nature. There mainly exist two prominent theories of trade based on
comparative advantage the ricardian theory and H-O model of trade. The Ricardian theory assumes that comparative advantage arises from differences in technology across different countries while the H-O model of trade theory suggests that technologies are same across the countries. Instead, the H-O model attributes comparative advantage to cost differences resulting from differences in factor prices across countries, or in other words H-O model attributes international trade for the uneven geographic distribution of productive resources. Again it can be said that even if a country was not having any significant advantage in the production of any commodity but it could gain considerable expertise with broadening of economic base or technology or other factor which will cultivate something it doesn’t had earlier.

Only thing that can be done is advancement in technology and discovery and clever utilization of exiting sources. Over time; the deficiency of comparative advantage could be resolved and nation might attain new rung on the ladder of advantage. If we look at the central aspect of the highly admired Schumpeterian economics innovation and invention emerges the dominant source thriving the entire economic activity after completion of each cycle from trough to peak and helps reinstate economy back on the track. But countries struggling to speed up the whole economic process can’t rely on invention and innovation to gain momentum but rather investment in resources available like labor, strengthen of market based system, assisting institutions to work for the benefit of the country.

6. Diplomatic Relations

One the most crucial non-economic factor that virtually stands as a foundation for trade between nations is diplomatic relations among themselves, which can undermine the underlying significance of economic needs between nations. It’s not just interplay of demand and supply or scarcity and abundance that has precise impact on trade and capacity to enter international markets, but perhaps diplomatic relations are undeniably at the center of potential to trade. *Ceteris Paribus*, it has been observed that in the recent days, trade relations are not the definitions and adjectives of needs and counter-needs, there has been an apparent deviation in mathematical reasoning for trade. In much broader extent (I have discussed decisive factors in determination of trade in my paper *HYPOTHETICAL CASE*) trade needs stronger diplomatic relations along with other perquisites.

Over the last century there has been constructive and considerable development of trade that perhaps in a big way was responsible of deep-rooted mutations in characteristics of trade or international trade but also simultaneously solidified the fate of participating nations.

In the recent past economic relations whether bilateral or multilateral seems to be more objective-oriented and politically stimulated or diplomatic in nature According to classical economics, nations trade
and should trade freely without any artificial barriers or scientific evolution such as governmental dialogue or interest based commerce or further bureaucratic bolster. In the wake of strained or broken diplomacy it alters or even damages the course of relation from economic stand-point.

Most obvious and often-distinguished example of broken diplomacy and following a sequence of shackles that emerged between US-Cuba relations. According to Council on Foreign Relations, relations between US and Cuba today are virtually non-existent; US mission in Havana has minimal communications with Cuban Government. Since 1960 Americans have been barred from trading with, investing in, or travelling to Cuba. Economic sanctions or isolation in the field of commerce is nothing but economic deprivation and that leads to failure of utilization of resources, declining investment, rising unemployment, squanders the prodigy of labor and ultimately creates poverty.

7. Competitiveness

Competitiveness in relative sense can be defined as comparison of a country’s performance with another country, in absolute sense in can be said Ceteris Paribus, competitiveness is economic soul of the nation where-in due to its absence trade composure of the nation grows obsolete and traditional or even more; depended on primary commodities. Perhaps it cannot be denied that to achieve price-based, service-based, product-based and technology-based edge in international markets it is a requisite to enhance complementarities to competitiveness. The OECD’s Definition of competitiveness it refers to a countries ability to sell goods in global markets “while simultaneously maintaining and expanding the real incomes of its people over the long term” (Thomas Farole, 2010)

Many empirical studies show a strong correlation between a country’s trade share and its economic performance. This relation runs in both directions: the richer countries become richer and richer the more they trade but on the flip side countries with export based growth strategies grow richer more quickly. The East Asian experience of export-led growth over the past three decades provides powerful real –world evidence of the potential for trade to be an engine of growth and poverty reduction. (Thomas Farole, 2010)Most of developing countries in the African Continent and Asian region are labor-intensive whose export prima facia, are characterized by primary goods; in this connection exports by Andorra during 2005-06 gives us vital information. In the year 2005, live animals, vegetable products, prepared foodstuff, tobacco substitutes and mineral products constituted some of the few major items exported by Andorra. (Databases, 2010)

And on the other hand East Asian economies accomplished remarkable success both in economic and non-economic perspectives, but story never ended here, along with these economic astonishments they presented a far reaching, out-smarting example of originating competitive edge in commodities they sold. Innovation, technological advancement and research on multiple platforms so as to broaden what a country produces and finishes are key ingredients for and to maintain competitiveness because nation’s ability to export in the long term relies ultimately on these extremely sensitive factors. Whether evolution of tendency to compete with labor or product, is directly determined by quality of human resources a country has. We may have abundant supply of labor so that cost of production can be brought down and increase competitive spirit in the short term but in the long term we cannot rely on skill-less labor to push the export-engine further. So there is an iron-strong connection between primary factor of production, trade and national income. The more skillful and more intelligent the labor the sweeter the fruits in income, and further according to this notion, competitiveness ultimately depends upon degree of human resource development. Education, economic entitlements, and social freedom are the foundation for competitiveness, trade, growth and economic development. Japan achieved sustained growth in per capita income between 1880s and 1970 through industrialization. As a result of these domestic advances, Japan was well positioned to take up the western challenge. It harnessed its infrastructure, its high level of literacy and its proto-industrial distribution network to the task of emulating western organizational forms and western techniques in energy production, first and foremost enlisting inorganic energy sources like coal and other fossil fuels to generate steam power. (Victoria, 2013)

8. Development
In historical parlance; both development and growth were one and the same. Dogma of differences emerged between the two recently as it is evident from empirical evidence that development is enriches the lives of the people and growth enriches the people. (Material enrichment)

According to Human Development report 2006, Published by the United Nations Development Program “human development is the end—economic growth a means”. (Bank, 2010)The objective of this section is to present in brief the interconnections and interdependencies that are in much larger perspective, required to shape trade as a defining factor for increase in national income and share of labor income. It may be noted that employment creation and boosting level of income not at all suffice that what is required for development, by enlarging financial capacity of the society we cannot assume that task has been done. As discussed above to reach higher ranks on the ladder of economic development, education, freedom of opportunities, and equal representation of minorities, driven by strong political will are absolute requirements. Development or Economic development starts with human development and this starts with provision of elementary or satisfaction of natural human needs. For example, opportunity to learn very much depends on how far a family can bear the expenses of even elementary or and Secondly schooling of young children largely depends availability affordable education especially in rural remote areas, accessibility to affordable health care, removal of cultural lags, socio-economic shackles like illiteracy, child marriage, ethnic conflicts, inevitably leads to vicious income poverty trap (though, illiteracy is not sole responsible for widespread poverty) and further, gender bias, prevalence of racism and other discriminations that directly and indirectly impacts available and justified opportunities must be eradicated. These are the few hindrances along with various factors that are needed to be considered to enhance the human capacity so that new ideas and innovative spirit evolve over time leading to development and strengthening nation’s terms of trade. Trade in all its guises, in the long term needs radical affirmative approach from all the corners that directly or indirectly has a bearing on enriching the capacity to produce, maintain competitiveness and recognize the apparatus of socio-economic change. The view that international commerce is a matter of resource endowments or a matter of differences in technology used in the production is completely a different analogy when it comes to development of what we don’t have today or what we can have tomorrow.

9. Conclusion

At the outset smooth operation of economic activities demands stable political conditions that promotes business activity, development of human capital unless we deliver these vital perquisites economic activity collapses and leads to widespread disturbances. For example the near collapse of Syrian economy as discussed above. Harmonization of state-public relations and reduction of ethnic conflicts are the main source of increased business activity as well as socio-political peace in the country that directly invites normalcy acting as a platform for prosperity. Furthermore lawlessness, suppression of rights, unequal representation of ethnic groups, social discrimination, economic polarization where productive resources are exclusively subjected to the richer sections of the society which inarguably leads to disastrous outcomes.
All armed conflicts lead to poverty, indeed this is because the root cause of some or most of the civil conflicts ironically lies in economic issues, that eventually leads to dreadful consequences waning social peace and economic integrity. Poverty and armed conflict are closely related in sense that during the time of ongoing crises and post-crisis period capacity to earn a better living and lead a healthy life diminishes to great extent. Econometric evidence shows that countries that experienced the sharpest drop in growth after 1975 were those with divided societies [as measured by indicators of inequality, ethnic fragmentation and so forth] and with weak institutions of conflict management [proxied by indicators of the quality of governmental institutions rule of law, democratic rights and social nets]. (Conceicao, 2010) Social peace and political stability are the 2 fundamental necessities for the promotion of economic activity which ironically should start with human development. Investment in human development is creation of new resource and a preparation for prosperous future opening up multitude of opportunities for economic expansion and markets.

The second most decisive factor which comes under the realm of economic planning is resource utilization, because economic growth is naturally driven by strategic action plan maximizing resources. As in case of India with a population of more than a billion still it finds difficult to reduce imports and fix its current account balance even after 6 decades of independence is really a product of negligent planning missing the importance of pivotal factors that can bring lot of economic change. India had been recording sustained trade deficits due to low exports base and high imports of coal and oil for its energy needs. (India Balance of Trade)

So in order to internationalize domestic markets investment in and identification of capabilities of a nation measured in terms of proportion of underutilized resources that can be a potential source for speeding up economic activity is a necessary condition that shouldn’t be overlooked by planning mechanism. The third most decisive factor for speeding up in economic growth is establishment of research and development institutes funded by government in key sectors like pharmaceuticals, technology, and electronics. Innovation is a complex development of discoveries and inventions [e.g. new machinery.] brought into business and social development [e.g. introduced on the market] that hopefully leads to diffusion [adoption of new users]. Most of the sectors and industries are currently experiencing “Schumpeterian renaissance”: innovation is today the crucial source of effective competition, of economic development and transformation of society. (Torun, 2007)

But on the contrary low-income countries like Pakistan, Brunei, and Algeria lack financial resources to step-up investment in this sector so in this case governments should promote business development activity by removing regulatory hurdles for establishing businesses faced by young entrepreneurs as to facilitate development of strong market and evolution of competitive instinct. Needless to say, connection between trade and development is strong and possibilities are high that will bring radical transformation to the economy but the real success truly depends on degree optimism of policy makers, identification and
development of potential resources, investment and will to revolutionize investment economy into export based economies.

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