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Determining the Potential for Growth Through Trade Among Developing Countries

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Introduction

A desire for rapid economic growth in developing countries raised many questions about the relationship between trade and growth. The Less Developed Countries(LDCs) attitude towards trade is intimately related to their concern about their economic development. How can trade help them to achieve their ultimate goal of development? The theory of comparative advantage is supposed to be applicable to all countries in every stage of development. The gains from trade are shared with all participants. Many development economist are sceptical about this. Much of the debate on the role of international trade (which historical has involved developing countries exporting primary products to developed countries and importing manufacturing goods from them) has, in fact arisen from what some view as, the apparent failure of such trade to act as an `engine of growth' in many, but by no means all, developing countries. The initial expansion of the export sector in LDCs often failed to stimulate widespread growth and development and indeed it has been argued that its overall impact may have been harmful - with the result that in a large number of LDCs, the export sector was an 'enclave of development' amid the largely traditional subsistence economy.

While not contradicting the neoclassical view of gains from trade, some have argued that such gains are unlikely to be significant among LDCs because they are less developed (lacking in the relevant markets and lacking the responsiveness to the market opportunities and dynamic influences of international trade found in developed market economies)

Others have argued that the market opportunities open to LDCs limit the possibility of gains from 'international trade'. They point to the slow growth of export earnings from primary commodities, the risk attendant in LDCs current degree of specialisation in such exports and the difficulties of obtaining access to overseas markets for more diversified range of export products. Many LDCs are faced with deteriorating terms of trade. Salvatore(1995) argued that the failure in developing countries of productivity gains to be translated into higher wages is part of the problem. Indeed the possibility for improving the terms of trade situation in developing countries seems even more bleak when the work of Chichilnisky(1981) is considered. Chichilnisky argued that under conditions of dualism in the production of goods and abundant labour supply in the South, an increase in the volume of exports in the South may bring about a worsening of the South=s terms of trade with the North even if this increase in exports is due to a positive shift in demand from the North. So that the LDC dependence on industrial markets means a dependence on exports of primary commodities, with their declining terms of trade and, in consequent, slow export growth and retarded industrialisation.

A more radical view is that international trade or more specifically trade between rich and poor countries is actually harmful to LDCs' development. The unequal exchange thesis, (Arghiri Emmanual, 1972) for instance, suggests that such trade is carried out at the expense of poor countries. According to the cumulative causation thesis in countries experienced a virtuous circle, in which lower growth in output, lower rates of investment, lower rates of transformation and technical change, lead to still lower growth of net exports and so on. Similarly, higher rates of growth in demand results in higher rates of growth of investment, transformation, technical progress and high net exports and so on. Foreign trade creates interdependence among countries and serves to transmit any competitive advantage in terms of growth, transformation and technical change, these are compounded and there is a tendency towards unequal growth.

Another thesis is that, patterns of production, consumption and income distribution in LDCs are distorted by the dependence engendered by rich-poor trade, in technologies imported from and evolved in developed countries (Stewart, 1976).

The apparent undesirability of continuing trade relations between rich and poor countries has prompted a number of LDCs to pursue inward-looking strategies. The results of an import substitution, industrialisation strategy however have been disappointing in most countries. Indeed the narrowness of most LDCs internal markets and their limited range of productive resources would inevitably impose severe constraints on their development possibilities if they attempted an autarkic strategy. In this sense the choice between an outward looking or inward looking development strategy is unreal for most LDCs (as it is for most countries). The arguments outlined above suggest that there are limits to LDCs gains from trade with developed market economies.

The various arguments relating to the limitations on the gains that may be expected from rich-poor trade, the difficulties of multilateral solutions to LDCs trade problems and the likely cost of individual autarkic solutions raise the question of the possibility of developing trade among LDCs. Can there be an escape route through trade among LDCs? There are many who believe that there is. Various agencies within the United Nations and elsewhere have had an active programme to promote the view that greater cooperation among developing countries is highly desirable, with trade being the main focus of this greater cooperation. The apparent upward surge in such trade since the mid-seventies and in light of the declining strength of northern economies have served to further boost popular opinion that such trade is a viable alternative for less developed countries in their bid to accelerate their growth.

It is argued that dynamic gains arise from trade among developing countries. Attention is paid to the actual or potential trade among less developing countries(LDCs) in a variety of manufactures. A survey of the major new works in development economics attest to the perceived desirability of South-South trade as a means of revamping the international division of labour and reducing the dependence of LDCs on the industrialized economies. Frances Stewart (1976) in a paper on the redirection of international trade on a South-South basis, argued that such trade is of the highest importance from several points of view, and not least, in the present context, as regards a strategy for industrial development and the related problems of the generation and transfer of suitable technologies within the Third World.

Opponents of greater South-South trade have questioned the current low levels of this trade, in light of the perceived benefits, that are said to exist. Indeed, the view that current levels of South-South trade is in some sense "too low" given the apparent benefits is accepted by its proponents, but they argue that this reflects biases against this trade channel. Stewart (1976) argues that colonial and neocolonial coercion have forced developing countries to trade less with one another than they should. The consequences are excessive specialisation and consequent vulnerability, on the one hand, and a loss of the dynamic benefits of trade with one another, on the other. Arguments of welfare gains from South-South trade lends support to trading arrangements among developing countries. It has been found that such arrangements have implications for the direction and commodity characteristics of trade. The question of why developing countries are not trading among themselves as much as is expected raises the question; what are the determinants of direction of exports/trade, in particular, the size, direction and composition of trade flows.

A comprehensive picture of the determinants of size, direction and composition of South-South trade flows emerges from the literature. The following is a survey of the literature, which examines many of these issues mentioned above, but the primary focus will be on the arguments for and against South-South trade as a development strategy for developing countries. We begin with a look at the theoretical debate on the determinants of the direction of exports, followed by a review of the literature on the welfare effects of the direction of trade and the evidence.

A Survey of the Literature

1. Determinants of the Direction of Exports

The most widely used predictive theory of trade, Heckscher-Ohlin, does not, in its customary two-country form, deal with the direction of trade (see Havrylyshyn and Wolf, 1987). Studies extending the theory to a multi-country world have concluded that a country will import capital intensive goods from countries better endowed with capital than itself and import labour-intensive goods from countries less well-endowed with capital (Krueger, 1977; Baldwin, 1979; Havrylyshyn and Wolf, 1987). Direction is determined by the factor endowment of the importing country. The implication of this, is that the most important opportunity for trade will be between developing and industrial countries. There is however some agreement that if we add more factors such as labour with different skills it would increase the opportunity for trade between any two developing countries with some differences in factor endowment. According to the basic framework (Heckscher-Ohlin) trade will occur between countries with substantial differences in factor endowment. In this situation the only possibility for trade among developing countries would be in natural resource based goods, given that differences among developing countries on natural resource endowments among developing countries are likely to be large.

The existence of trading barriers would also explain differences in the factor intensity of export bundles in different directions. The trading barrier of the importing country- that might limit the export of any good also produced in the importing country. It is suggested that the principal constraint to more South-South trade lay in the developing countries' high level of protection (Hughes, 1980). Protection has risen in recent times and is concentrated on items which developing countries are in a position to produce and are likely to be those most suitable for other developing countries to export. Attempts to create integrated arrangements such as free trade areas or custom unions represent a departure from the general story of commercial policy barriers in developing countries (Havrylyshyn and Wolf, 1987). While the benefits and viability of these schemes have been questioned (Balassa and Stoutjesdijk, 1975 and Vaitos, 1978), there is some agreement that such arrangements have increased the volume of trade among developing country members, whether through trade creation and or diversion. The existence of such arrangements are likely to increase the exports of capital-intensive goods from more to less advanced members, thus increasing the weight of such exports in the total exports of the former group of countries and widening the difference between their exports in different directions.

Barriers imposed by industrial countries affected trade by direction. Recent reductions in tariffs indicating lower levels of protection by developed countries to the exports of developing countries means a reduction in the limitations on the potential for developing countries to export to industrial countries. The counter-argument has been that this reduction in tariffs has been matched by an increase in non-tariff barriers, which represents a major stumbling bloc to developing countries exports' to industrial countries.

The policies of exporters other than those aimed at protecting their domestic industries can influence trade by direction. Policies to develop and promote exports of more capital-intensive goods are likely to increase the difference between export bundles in different directions, as well as the weight in total exports of capital-intensive exports to poorer countries.

The barriers to imports imposed by developing and industrial countries have important implications not only for direction of trade, but for its characteristics (Havrylyshyn and Wolf, 1987). Exports would tend to go to the more open markets. Because relatively open markets are found in the more successful industrial countries, the more successful exporters will tend to shift toward the labour-intensive goods in which they enjoy a comparative advantage over the industrial countries. Meanwhile, the more restrictive commercial policies of developing countries will tend to restrict trade in manufactures to goods not produced by a particular importing country. Thus, much of this trade will consist of exports of relatively capital-intensive commodities from more to less advanced countries. At the same time, regional liberalization among developing countries will increase the proportion of a member's trade, that is, with developing countries, and the opportunities, not only for intra-industry trade, but also, for expanded exports of goods in which a country does not possess a comparative advantage from a global point of view.

Policy and natural barriers influence the direction of trade (Havrylyshyn and Wolf, 1987). The high cost of transport and communications, which may be thought of as including financial networks and currency clearing arrangements, provide a barrier to increased trade among developing countries. These problems are circular, since better connections, lower transport costs, and improved financial facilities are as much dependent on increased trade as increased trade is dependent on them. Closer proximity to each other not just physically but cultural should suggest a natural tendency to trade among them. Trade among developing countries is also likely to be affected by an absence in the importing country of key institutions such as retailers, specialized importers, and wholesalers.

Intra-industry trade is likely to create a situation where there is trade in both directions in commodities where the factor intensity rankings in the trading partners are similar (when using the general factors of production). Intra-industry is however not a theory but an observation- one which challenges the Heckscher-Ohlin paradigm. To incorporating this into the Heckscher-Ohlin framework, the assumption of constant returns to scale or knowledge being common to all countries and firms would have to be relaxed. In this case a rationale for trade in manufactures among developing countries emerges, with the existence of economies of scale and firm-specific knowledge.

Linder (1961) suggested another determinant of the direction of trade, namely similarity between the pattern of domestic demand. According to this hypothesis trade flows should radiate out to proximate and similar markets. The greater the similarity between the pattern of domestic demand, the greater the trade between two countries. Since developing countries are more similar to one another than to industrial countries, and the latter are similar to each other, the implication is a large amount of trade, all things being equal, among industrial countries and among developing countries, and relatively little between the two groups. One reason why this might occur is inward-looking industrialisation in the exporting country: with such a pattern, the structure and characteristics of production will be determined by those of demand. Exports are then likely to go to countries with broadly similar demand patterns which are either not yet able to produce the goods or which follow relatively liberal trade policies with respect to the exporter.

Market size also has an extremely important role to play in determining the direction of trade flows but it is only if the pattern of demand matches the actual or potential comparative advantage of the exporter that aggregate growth creates important opportunities. Indeed the export pessimism of the 1950s depended as much on the presumed inability of developing countries to diversify away from primary commodities that have poor growth prospects as on the aggregate growth potential of industrial countries. The greater growth of developing country markets will tend to increase the opportunities for exports of more capital- and skill-intensive manufactured goods, thus favouring the more advanced developing country exporters.

2. The Welfare Effects of the Direction of Trade

It has been argued that-at least in manufactures-trade with industrial countries is more beneficial to developing countries than that with developing countries. Given the labour intensity of developing countries exports to industrial countries compared to their exports to other developing countries, increased trade with industrial countries would serve to alleviate the current high level of unemployment in these countries (Krueger, 1978). This argument has been faulted on the grounds that the assumptions that labour is in surplus and the demand in industrial countries for exports of developing countries is elastic are questionable. The surplus labour is not true of some developing countries- several newly industrializing economies (for eg. Hong Kong, Singapore, the Republic of Korea and Taiwan) where evidence of upward wage pressures suggests a proximity to full employment. (This indiscriminate lumping of developing countries as though there are a homogeneous group, especially as it relates to resource endowment can only lead to faulty conclusions).

South-South trade is likely also to be beneficial from the point of view of reducing the cost of infant industry protection. If developing countries traded only with industrial countries more capital-intensive and sophisticated goods can initially be produced only for the home market, requiring protection (an infant industry argument) and its associated cost. The existence of other poorer countries, however, creates a natural comparative advantage for exports from the country's next generation of more capital-intensive industries. In this way the costs of infant industry promotion are lowered, and, in the process, growth should be somewhat accelerated. South-South trade allows more advanced developing countries to move to a different stage.

One can link the argument of the dynamic benefits of trade among developing countries to the "dependency" argument which stresses the need for diversification of developing countries exports. One of the results of diversification in the direction of trade is diversification in the product traded. Diversification of trade, in turn, entails more diversified domestic production. From a social point of view, diversification may be beneficial simply as insurance against adverse developments in major products.

Diversification may also provide social benefits because it ensures a wider range of skills and knowledge.

The structure of their arguments are slightly different from the export pessimists, since the issue is set in a dynamic context, in which the goal is a certain rate of growth for developing countries and the constraint is the rate of growth and pattern of global demand. The superiority of trade among developing countries at the margin over that with industrial countries is not necessary to the argument, as with the export pessimist. Rather, the view is that a certain rate of growth is essential for almost all developing countries. Lewis (1980) sees South-South trade as a mechanism to stabilize Third World growth in the face of a slowed down Northern engine. Slow growth in industrial countries limits the rate of growth of primary exports by developing countries, without major relative price declines, and of manufactured exports, largely because of protectionism. The required overall growth of trade can then be achieved only by accelerated growth of trade among developing countries. The argument states, therefore, that, although all trade is equally beneficial in itself, the value of any one market opportunity increases as others decline. This means that the costs of the barriers to trade among developing countries are higher in the present circumstances than when industrial countries were more dynamic. Within the framework of these arguments preferential trading arrangements among developing countries constitutes a step in the right direction.

An improved overall terms of trade argument in relation to industrial countries would be a spin-off from increased trade among developing countries. To the extent that such trade is a substitute for trade with industrial countries, the effect will be an upward shift in the export supply curves to the industrial countries- reduce export volumes and improve overall terms of trade in relation to industrial countries (Havrylyshyn and Wolf, 1987).

Stewart (1984) in an examination of some of the recent theories of international trade noted that while most of the new trade theories have been specifically designed to explain North-North trade and provides no explanation for existing trade patterns of developing countries they do nonetheless offer a large number of insights for future trading patterns and policies for the South. According to Stewart South-South trade would offer a potential way for the South to gain from the types of trade being considered in the new trade theories - in products for countries with similar preferences, in differentiated products and in intermediate products. Stewart argues that the potential gains from such trade are great and notes that:

> "these gains stem from:
>
> (i) extending the choice of product for south consumers, through South countries specialising in differentiated products and exchanging them without running into a chronic balance of payment problems, which tends to arise if product variety comes from importing differentiated products from the North;
>
> (ii) extending the gains from specialisation, increasing division of labour and economies of scale through trade in intermediate goods and trade in differentiated consumer goods within the South.

Both (i) and (ii) represent classic gains from specialization through trade, but on a South-South basis.

(iii) permitting a more appropriate direction of technology change in product and processes;

(iv) making the terms of trade more 'equal',than for North-South trade".

Greenaway (1991) lends some support to Stewart's argument. In a paper on the new trade theories and developing countries he concludes that while these theories do not explain existing patterns of developing countries trade they will have an increasingly important part to play in the future determination of the direction and commodity composition of those economies which are currently not newly industrialised developing countries. He does not however feel that new arguments for protection are valid.

While Stewart's arguments of dynamic comparative advantage favouring South-South trade seems plausible they are for the most part speculative and need to be researched fully. Arguments can be made for and against the proposition that trade among developing countries is more or less valuable than other sorts of trade but before any policy prescriptions can be made it is necessary to examine the evidence. The problem is how do we assess the potential of South-South trade, to accelerate the growth processes of developing countries. Firstly we must examine the link between trade and growth.

3. Trade and Growth

Economic growth requires either continuous growth in factor inputs(that is injection of capital and labour) or in the productivity of these factor inputs. For productivity gains to result in growth it must be accompanied by a proportionate increase in earnings. This is where the strength of income elasticity becomes important as it allows prices to rise despite decreasing cost. In most developing countries the external income elasticity of demand for their product falls below unity, as demand increases less than incremental income. Demand elasticity can fall to zero or below, becoming completely inelastic, so that demand for their exports actually falls as income increases. In developing countries efforts made to increase capital and labour productivity are actually frustrated by falling prices for the additional output as external demand declines. This increases productivity could only be beneficial where fewer workers are employed in the traditional export activities and where surplus is transferred to other productive activities. In developed countries the productivity gains are passed on to workers in the form of higher incomes. This reflects the strength of the trade unions in these countries in an environment of scarce labour. On the other hand in developing countries with relatively weaker trade unions, productivity gains are only reflected in lower prices. This explains why these countries have failed to grow. Many developing countries have a narrow production and export base. In general the economy that is better place to shift resources into the types of products facing dynamic demand growth and rising prices while the product is in its growth phase of demand, have a greater potential for growth. This is expressed as the cumulative causation thesis. Some activities have a greater opportunity for increased efficiency, that is the accumulation of experience and mastery and technical progress.

These activities will have a greater potential for increased efficiency and economy wide growth. This learning process is critical to the growth process as successful growth requires that solutions be found to those problems. The growth in demands determine the growth of output and leads to a rising efficiency of production; whether the process keeps its momentum and becomes cumulative or gets stopped(and probably reversed) depends on the next round of demand, on the response of demand to inducement to further growth provided by the rise in efficiency. The rise in efficiency that results from industrial expansion, leads to growth of consumer demand through the rise in real income and through the expansion of consumption to lower brackets of the income distribution structure.

Trade creates interdependence among countries allowing for the transmission of the economic forces between countries. This means that any competitive advantage in terms of growth, transformation and technical change are compounded and there is a tendency towards unequal growth. The weak countries will be faced with a cumulative downturn and as the growth of these countries are held back the overall expansion of the world economy slows down. This is normally offset by the faster growth of the strong countries enabling the weak countries to grow faster than they would otherwise, but at the same time the pattern of unequal growth makes for cross country differentials in competitiveness to grow wider. The growth of weak countries will be further constrained by BOP disequilibrium, which will be compounded by any slowing of the growth of the strong countries. The lower growth in effective demand will be spread from country to country.

In the normal operation of markets as between advanced and poor countries the pattern of specialisation tends to be perpetuated and the corresponding differential and efficiency tends to grow wider over time; due to the operation of dynamic economies of scale, industrial activities tend to concentrate in a few established centres which benefit from the freeing and widening of markets at the expense of industrial development of backward countries. In other words the free play of market forces work towards inequality. The production process in developing countries is characterised by a low degree of mechanism, sectoral interdependence and diversification. Exports are centred on primary products and a few manufactured goods with a rather low and unstable demand while the opportunity for efficiency is nil. This does not argue well for developing countries such as those in the region. If we accept that the structure of net exports of a country at any point in time reflects the past process of development, learning and technical change and both the potential for market expansion and the opportunity for efficiency, then the outcome for many developing countries is a very grim one. Indeed there are many proponents of the view that South-North trade, given the nature and structure of the South exports, is less than beneficial to the South, even under apparently favourable conditions.

The work of Chichilnisky(1981) reached a similar conclusion. He argued that under conditions of duality and abundant labour, more growth of the North worsens further, rather than improves, the terms of trade for the South. It also tends to increase the North-South wealth gap as well as reinforce inequalities within the South if the South follows export-led policies. Under the conditions mentioned by the writer more growth in the North may not be a necessary or favourable condition, for more growth of the South, or for better distributions. These results differ from some other works, notably the immiserising growth literature with respect to their possible implications for the relationship between the growth of the South and that of the North. In the literature it is only detrimental for the South, if it attempts to grow at a faster rate than the North. This implies that the growth of the North is a pre-condition for the growth of the South, resulting in improving terms of trade. This analysis is based on the assumptions that differ from Chichilnisky, namely, that there exist different international elasticities of demand for goods in which the North and South specialise: the exports of the South are assumed to have inelastic demand internationally while the exports of the North have a more elastic demands. Therefore as the South attempts to grow more than the North, the prices of the exports of the South fall significantly, thus undermining its growth efforts.

The terms of trade of developing countries also deteriorate because demand for their product also tends to grow slower than that of developed countries. Producers of manufactured goods benefit from the higher income elasticity of demand for manufactured goods. Under these conditions trade can be make some developing countries worse off.

4. The Evidence

Can South-South trade provide an alternative growth stimulus? Attempts have been made to provide an answer to this question. Havrylyshyn (1984) analysed the characteristics of South-South trade in manufactures and recent changes in the level of such trade to help clarify the potential of greater self-reliance within the South. Using a sample of 45 developing countries he investigated whether there were any differences in the factor characteristic of trade by direction and found that the factor content of the trade basket differed markedly by destination for human and physical capital through the period 1963 to 1978. He found South-South trade to be more intensive in the use of both physical and human capital than South-North trade, and he concludes, less rational from a static comparative advantage viewpoint than South-North trade.

More importantly, Havrylyshyn found that there was limited evidence that increased trade among developing countries had provided the more dynamic opportunities for export expansion in the last decade and furthermore there was indirect but strong evidence that the exporting countries with greatest orientation towards the south were those with greater distortion, less rapid movements up the ladder of comparative advantage, and weaker export performance. According to Havrylyshyn the most successful exporters in this period were not those countries that shifted away from industrial markets toward developing ones. Rather, they were exporters that had done well in all markets, but with a continuing major focus on those of industrial countries. Havrylyshyn concluded that while South-South trade of about the present magnitude - one of greater developing country exports - was certainly rational, there was little evidence to support views that greater South-South trade should be especially promoted.

Havrylyshyn and Wolf, however went on to admit that if future analysis reveals that there are differences in factor content for technology-intensive and skill-intensive goods which are subject to substantial learning-by-doing dynamic externalities (providing that such exist) which can be exploited more through South-South trade than South-North, then policies which discriminate in favour of South-South trade would be justified.

This is the position taken by Amsden (1984). In a paper on the direction of trade in manufactures among developing countries she sought to assess the gains if any that could be realised from such trade. Amsden argued that South-South trade was composed of a bundle of commodities that are relatively more skill-intensive and only marginally more capital intensive, if at all than South-North trade. A view which Amsden noted was supported by Richards (1983). Amsden argued that if South-South trade was encouraged it will become increasingly characterized by commodities that are high in skill content rather than commodities that are science-based, provide few jobs and have little hope of becoming internationally competitive and there are technological reasons for supposing this. Skill is a resource which Southern economies have in abundance and in as much as skilled trades are relatively small in scale and less dependent on science-based R&D to obtain international competitiveness then LDCs are better placed to produce skill-intensive goods. According, to Amsden an abundant supply of skilled labour in the NICs is an outcome, not the origin of skilled production. Skill is accumulated through a combination of formal education and experience. Skilled-intensive goods would find a ready market in the South. As Amsden (1984) notes and Stewart (1976) argues these products are likely to be more adaptable to southern conditions - Southern economies with their low incomes require commodities with low income characteristics - less sophisticated than commodities designed for higher income consumers. Southern manufactures of lower quality capital goods therefore are likely to find amenable markets in the south, at least initially. An additional incentive to trade would be the lower entry cost which would result from the increased risk involved in penetrating southern markets.

Concluding, Amsden argued that South-South trade was more skill-intensive than South-North trade. Moreover, given that learning effects are greater, the greater the skill and capital content of technology then the gains from South-South trade will be greater than those from South-North trade. South-South trade embodies both high learning and high rent effects while South-North trade harbours only high rents. The greater learning effects or dynamic gains which come from more skill-intensive production arise because some skill and knowledge can only be acquired in the course of production - largely because technology is tacit and can never be entirely explicit and codifiable.

Amsden has emphasized the skill-intensive character of South-South trade. If skills are regarded, not as pre-condition, but rather as a product of trade, South-South trade would contribute to the learning process which characterizes the adaptation/generation of technology in semi-industrialized countries (Stewart, 1982; Katz, 1984; Teitel, 1984).

Havrylyshyn's (1984) work brings into question the validity of the arguments for greater South-south trade and the efforts of developing countries at fostering such trade which he argues creates greater distortions within these economies. On the other hand Amsden's

(1984) work provide us with strong arguments for increasing the levels of South-South trade for reasons which Havrylyshyn agrees were justifiable under the circumstance. Attention must however be drawn to the fact that Amsden focussed exclusively on the newly industrializing countries (NIC). One can hardly fault the writer for this since for the most part manufactured exports from developing countries to whatever destination are almost exclusively undertaken by these countries. One must however question the extent to which she can infer from an examination of the NICs (who can hardly be described as representative of the rest of the developing world) the nature of trade that would emerge among southern economies. The NICs (South Korea, Singapore, Taiwan and Hong Kong) invested heavily in developing their human resource base and as a result currently have an abundance of skilled labour. The same cannot be said of other developing countries. Havrylyshyn and Wolf (1987) conclude that hard evidence attesting to the dynamic benefits of developing-country exports of relatively sophisticated products to other developing countries is scanty. They do not however question the fact that some countries have succeeded with exports of skill and capital-intensive goods and services to developing countries- with intra-industry trade being important here.

The evidence on factor intensities by direction has quite a long history (focussing on capital and labour). Studies by Khanna (1982) and Richards (1982) indicate that exports to developing countries are significantly more capital-intensive than those to industrial countries. Tatemoto and Ichimura reported this finding for Japan in 1959, as a result of their testing for the leontieff paradox. Krueger on the employment effects of developing-country exports reported similar findings. World Bank research on the basis of the application of India's coefficients for the ratios of physical capital to labour, it was found that for the forty-five countries analysed exports to developing countries in 1978 were 25% more capital intensive than those to industrial countries. Interestingly enough such trade was also found to be significantly more human capital-intensive than that to industrial countries (the difference was 21%).

Conclusion

The survey of the literature reveals a number of arguments both for and against South-South trade. It seems plausible to say that some benefits can be derived from this trade, as from any form of trade. The question of whether these benefits are potentially greater than trade in another direction is a bit more difficult to address. Arguments of dynamic gains from such trade which outweigh the gains of trade with industrial countries have been made. The suggestion is that increased benefits can be derived from the potential to trade in commodities that embody more skill with their associated benefits. The evidence however attesting to the dynamic benefits of such trade is fragmented and inconclusive. This however does not discount the apparent logic of many of these arguments.

According to Stewart, South-South trade in products for which other developing countries have a similar preference, in differentiated products and intermediate products, would be of greater benefit to developing countries, especially if we accept that the possibility for trade with industrial countries or more precisely of existing patterns of trade, are limited. It is within this framework that regional trading arrangements among developing countries, in general, and CARICOM in particular represents a viable strategy for the development(export-led) of the region. As an avenue to expand trade in goods of the type mentioned by Stewart and Greenaway, with their associated benefits. As a means of extending the gains from specialisation, increasing division of labour and economies of scale through trade in intermediate goods. There is also the additional benefit derived from diversification of their export product.

The question which now remains to be answered is to what extent has this been the case for CARICOM, a regional trading arrangement among developing countries of the Caribbean. What has been the nature/structure of trade among CARICOM countries? To what extent has this trade strategy benefitted those involved? These are the question which the writer will seek to address in subsequent research. A cursory glance at the nature and structure of regional trade does not suggest any dynamic gain to be made. There are basically two models of comparative advantage operating in the region; they are primary resource-based and labour intensive manufacturing. The significance of primary goods in South-South trade underscores the significance of the complementary of natural resources.

The regional growth experience which has been for the most part relatively sluggish also does not attest to the existence of any dynamic gains from South-South. There is need for further research. This paper is the first phase of an attempt to assess the future potential of this type of trade in accelerating the growth process of regional economies. Future research will examine the nature and structure of CARICOM trade, in which the factor intensities of the various commodities traded in the region will be identified. This would allow for an assessment of the possible for dynamic gains of the type mentioned by Stewart and Greenaway. In the final analysis it is hoped that this research will provide a clear indication of what are the benefits to the region of CARICOM or any similar arrangement predicated on the grounds that trade among developing countries is more beneficial to those involved..

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