

[14] TRADE + LDC's

$$DC's \rightarrow \frac{IMP+EXP}{GDP} \approx 42\%$$

$$LDC's \rightarrow \frac{IMP+EXP}{GDP} \approx 71\%$$



INEFFICIENT CAPITAL
MARKETS (BANKING, INFRASTRUCTURE
PROPERTY RIGHTS)

INEFFICIENT LABOR MARKETS
(POOR MOBILITY, SECTORAL STRIFE
GEOGRAPHICAL)

PRIMARY PRODUCT RELIANCE
(MINED, AGRICULTURE)

TROUBLE w/ PRIMARY PRODUCTS

- LITTLE PRICING POWER

OPINION 1: PRICES ↑

① NATURE'S LIMIT - ONLY
FINITE QUANTITIES OF STUFF

② SLOW PRODUCTIVITY GAINS
IN PRIMARY PRODUCTS
DEMAND ↑, SUPPLY ⇔

OPINION 2: PRICES ↓

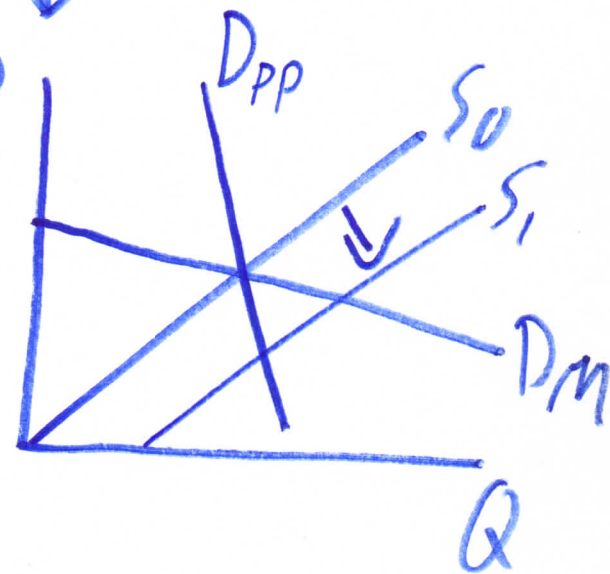
① ENGEL'S LAW

PRIMARY PRODUCTS

- INELASTIC

VALUE ADDED

- ELASTIC



SUPPLY GROWTH WILL MAKE PP
RELATIVELY CHEAPER

② SYNTHETIC SUBSTITUTES

- WOOD + METAL TOYS
- PLASTIC NOW!
- RUBBER ?
- OIL ?

POLICY OPTIONS FOR LDCs

- ① ENCOURAGE GROWTH IN PRIMARY PRODUCT EXPORTS (50% OF EXP.)
 - (- COMPARATIVE ADV. ?
 - (- NO PRICING POWER
 - (- INELASTIC FOREIGN DEMAND
 - LITTLE HELP TO MANUFACTURING
- ② EXPORT TAX ON GOODS
 - ARGENTINA AGRICULTURE

(CREATE/JOIN A CARTEL

 - OPEC

RAISE WORLD PRICES

③ RESTRICT IMPORTS OF
PARTICULAR INDUSTRIES TO
PROTECT/GROW DOMESTIC FIRMS
- WHICH INDUSTRIES?

④ SUBSIDIZE EXPORT-ORIENTED
INDUSTRIES THAT USE LOW-SKILLED
LABOR
- (CHINA TAX STRUCTURE

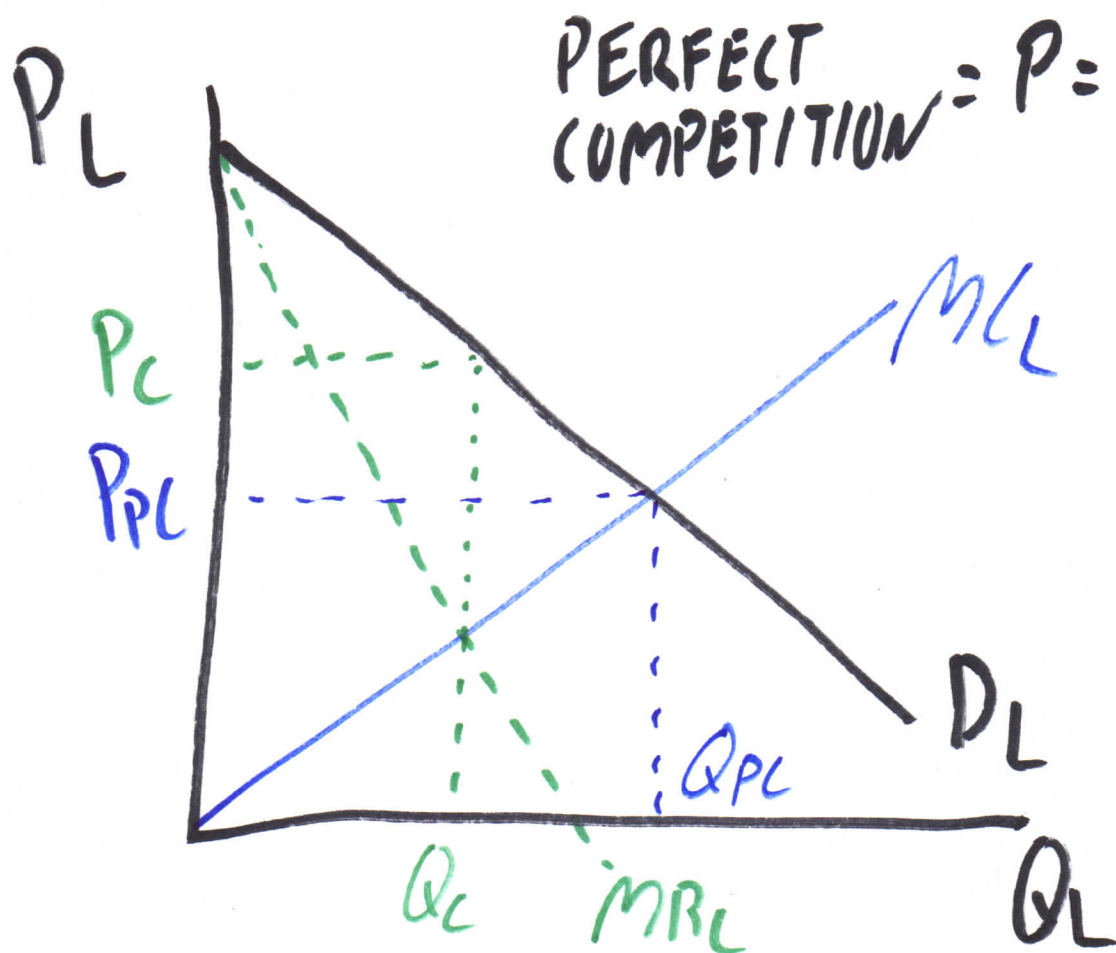
CH. 14 CARTEL

COALITION OF SELLERS WHO WORK TO KEEP PRICES HIGH

- ILLEGAL IN U.S., EU, UK, JAPAN
S. KOREA, THAILAND, AUSTRALIA
ETC...

- OPEC

- LYSINE, THE INFORMANT



CARTELS
ACT LIKE
MONOPOLIES
 $M_R = M_C$

LIMITS TO CARTEL POWER

① DEMAND WILL DECREASE
OVERTIME

- BUY A PRIVS?

② NEW SUPPLIERS OR
SUBSTITUTES

- DRILL IN ANWR

③ FALLING MARKET SHARE
OF INDUSTRY

- $Q_c \downarrow$, $Q_{nc} \uparrow$

④ CHEATING CARTEL MEMBERS

- KUWAIT

TWO PRACTICED STRATEGIES

① IMPORT-SUBSTITUTION

- PROTECT DOMESTIC FIRMS TO GROW DOMESTIC INDUSTRIES
- DECREASING IMPORT DEMAND w/ DOMESTIC SUBSTITUTES
- GENERATES TAX REV. FOR GOV'T
- NO IMMERS^{IS}ING GROWTH
 - TOT MAY BENEFIT LDC
- PROTECT INFANT INDUSTRIES
 - BANGLADESH, ARGENTINA
 - ('TIL '80) - INDIA, CHILE
 - ('TIL '83) - TURKEY

② EXPORT-ORIENTED

- DECREASE ALL TRADE BARRIERS
- OPEN NEW IMPORTS + TECHNOLOGY
- COMPARATIVE ADVANTAGE INDUSTRIES (EXPORTERS) TEND TO GROW FASTER THAN OTHER DOMESTIC FIRMS
- PRODUCTIVITY GAINS SOUGHT
- HONG KONG, SINGAPORE
S. KOREA, ESTONIA, CHINA
VIETNAM
- BETTER STRATEGY FOR GROWTH