On the Historical, Moral and Economic Arguments for Asymmetric Trading Regimes: the case of sub-Saharan Africa[1,2]

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Abstract

The Least Developed Countries Report 2006 argued that a paradigm shift in national and international policies to promote development and poverty reduction is required because current policies are inadequate and have failed to develop productive capacities in the underdeveloped economies. However, the policies that are advocated do not deal with the fundamental question of how the new paradigm should differ in its approach to trading regimes currently in operation. In this paper we address this in terms of the arguments against the comparative advantage orthodoxy of free trade and for the acceptance of an asymmetric trading regime for sub-Saharan Africa based on the history of economic development and the underlying moral imperative.

Keywords: international trade, trade policy, trade history, economic development

1. Introduction

The neo-classical free trade paradigm, coupled with the model of comparative advantage, undergird the structural adjustment programs imposed by International Financial Institutions. The resulting exposure to international markets suggests that export promotion will lead to increased efficiency among domestic firms which can then better compete in international markets while exposing domestic markets to imports will have the same effect (Milward, 2003:116). However the underlying comparative advantage model only generates mutually beneficial outcomes if the assumptions hold. But these assumptions radically misrepresent the contemporary modern international economy. Thus these models are not general, they are instead a special case (cf *ibid*:120).[3]

The argument countering the free trade narrative sakes as a starting point the view that when economies at different levels of GDP engage in free trade there are unequal outcomes which increase global inequality (see Arghiri Emmanuel, 1972; Immanuel Wallerstein, 1989; and Samir Amin, 1980).

Analyses of international trade build on unequal exchange shows how the superior "competitive" strength of the developed economies subjugates the less developed economies sufficiently to ensure exploitative international trading relations. Recognizing this exploitation supports an important moral argument against free trade. In its place economists should argue that asymmetric trading regimes are better suited to an international economy characterised by inequalities of income, wealth and power (cf Baiman, 2006).

Even Paul A. Samuelson recanted his earlier position vis-à-vis the mutually beneficial outcomes of free trade and adopted the position that free trade exacerbates the unequal gains from trade. [Samuelson, 2004]. In addition, Schumacher (2013) seriously calls into question the validity of the assumptions that underpin the model of comparative advantage, and suggests that the model itself is 'wrong in its own terms' (p99).

Standard neoclassical histories of trade periodize capitalism in terms of a series of waves. The first

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British industrial revolution (18th century) bleeds into the next wave occurring in second half of the 19th century in the United States, Continental Europe and Japan. The third wave includes the post WWII reconstruction of Europe and Japan after the Second World War while the fourth wave extends to the so-called Asian NIC's in the late 1960s and 1970s.[4]

Despite countless gallons of neoclassical ink to the contrary, there is no evidence that any of these phases of economic development took place under a regime of free trade. Still the International Financial Institutions of the World Bank, The International Monetary Fund and the World Trade Organisation insist that contemporary underdeveloped economies engage in free trade. This policy approach is unjustified on historical, moral and economic grounds. The G7/G8 advances the same neo-liberal economic and social policies. Their arguments boil down *TINA*: **T**here **I**s **N**o **A**lternative to free market capitalism and western-style "democracy" (Milward, 2003:16). Thus it's important to show that alternatives to the current orthodox trade theory do exist and that such alternatives have sound bases in economic theory, are of greater moral repute, and rooted in the history of global capitalism.

These pre-requisites are presented here as arguments supporting of asymmetric trade resulting in mutually beneficial international exchanges. This argument directly contradicts the model of comparative advantage. The fundamental idea is that if the contemporary rich nations would continue to pursue free trade in their domestic markets, while accepting protectionism among and for the sub-Saharan economies the latter will see processes of economic growth which actually increase the living standards of the population. One cannot help but notice the irony – today's richest nations deny the efficacy of protectionism even though that is exactly the policy route they pursued to achieve their current economic status.

The argument is that in none of the earlier waves of industrialisation were based on regime of free trade. Successful national capitalist economic development requires protectionism. That is, nations attempting to develop need protectionist policies while the already rich nations continue to pursue free trade. Erecting retaliatory trade barriers in response would negate any possible economic gains from the protection and reduce the volume of world trade.

But why should the already developed economies restrict their own trade and reject the neo-liberal orthodoxy that cements their global economic hegemony?

2. Summary of Literature

The International Financial Institution's (IFI's) accept the neo-classical free trade model (e.g., the Heckscher-Ohlin-Samuelson HOS model) and base their policy prescriptions on it. They argue that exposure to competitive international markets – no tariff barriers, quotas or other obstacles to trade – means that all countries benefit directly from the flow of the more efficiently produced imports and indirectly through exports priced to compete in international markets.

Microeconomic studies suggest that trade liberalisation leads directly to more competition and thus improved economic performance. Using panel data from 96 nations, Hur *et al* (2010) found that free trade agreements doubled the volume of exports and so induced a positive impact on economic growth. However, other, similar studies have uncovered more ambiguous outcomes of the implementation of free trade policies. One study using data from 37 underdeveloped countries in the medium to long run found little evidence of improved food availability (Bezuneh & Yiheyis, 2014). Another suggests that trade liberalisation did not reduce poverty or inequality in Pakistan study (Chaudhry & Imran, 2013). A third study utilizing data from 26 African nations found only minimal effects on income (Batu & Asongu, 2015).

Numerous studies highlight the disastrous effects of free trade on a variety of economic variables. Englebert and Hoffman (1996), in a study of pre-reform Burundi in comparison to the period of structural adjustment, concluded that the impact of trade reform was limited. In a similar investigation, Swamy (1996) found no signs of improvement as a result of trade liberalisation in Kenya. These adverse results are not however confined to sub Saharan Africa. Galiani and Porto (2006) show how trade liberalisation in Argentina reduced wages and increased wage inequality. Green (1995) noted that Mexico's trade reform generated large trade deficits because consumer imports increased. Chisari *et al* (1996) found the same trade results for Argentina, where a trade surplus became a trade deficit.

Epstein *et al* observe, over the period 1950-1998, that, 'in the long term the established trade patterns favoured the growth of the rich at the expense of the poor economies across the world' (Epstein, et.al. 2007:101). These findings suggest that the existing trading relations do not lead to global income convergence (in the case of 155 countries studied) as the Hecksher-Ohlin-Samuelson model of comparative advantage suggests. To the contrary, it's widened the income gap.

Kee *et al* (2006) in constructing trade restrictive indices have argued that although poor countries are inclined to have more restrictive trade regimes, they tend to face higher barriers on their exports. This is exacerbated further for the low income primary producers as their overall trade restrictiveness index suggests that trade on a global basis faces restrictiveness of 15 per cent, but the figure for agriculture reaches 41 per cent. They also note that non-tariff barriers contribute approximately 70 per cent on average to trade restrictiveness.

Islam *et al* (2014) investigated the role of trade liberalisation in changing the trade pattern among South Asian countries in the South Asian Free Trade Agreement and found no empirical evidence of trade creation, whilst there was a substantial increase in exports from these countries.

Skarstein (2007) suggests that poor countries do not have a comparative advantage in agricultural goods. They have an absolute disadvantage in the trade of both agricultural and industrial goods so trade liberalisation harms the poorest countries.

Also of interest are Rönnbäck's findings (2015). Analysing the political influence of lobbying groups he found that interest groups are generally anti-protectionist and that they lobby western governments for trade liberalisation. The motive for this appears to be the value of gaining access to foreign markets.

3. The Extent of the Problem in Sub-Saharan Africa

The UNDP (2013) reports that the 25% of the world's population living in high-income nations receive 77% of the world's income. This helps explain why each and every cow in the EU receives a subsidy worth $2 per day (Oxfam 2002) at the same time that 1.44 billion people live on incomes at or below $1.25 per day. The 60% of the world's population in low-income countries receive only 6 per cent of world income. Of these world's 7 billion people, 4.8 billion live in low-income countries, of these 464.8 million live in sub-Saharan Africa.

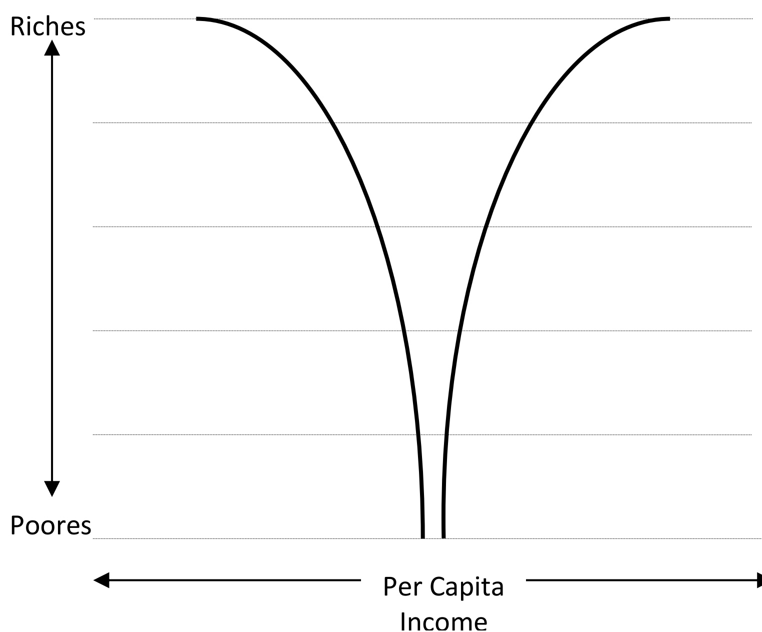


Figure 1: World Income Distributed by Percentiles of the Population

Source: Dikhanov,Y. (2005), 'Trends in global income distribution 1970-2000 and scenarios for 2015', *Human Development Report Office Occasional Paper*, New York, UNDP

Dikhanov (2005) suggests that global income distribution resembles a champagne glass as illustrated in Figure 1. Where the glass is at its widest point, the richest 20 per cent of the population hold 75 per cent of world income. At the bottom of the stem, the poorest 40 per cent hold 5 per cent of world income and the poorest 20 per cent hold just 1.4 per cent.

Since 1995 the development gap between the richest and the poorest countries has gotten wider. For example, in 1998 the average US citizen was 18.6 times richer than the average citizen of Côte d'Ivoire; in 2012, the average US citizen was 26.9 times richer. To put this into perspective, India has had relatively high rates of growth (2004-2010 8.6 per cent average), but will still take until 2106 to catch up with the high-income countries if the trend continues. If the high income countries were to stop growing today and Latin America and sub-Saharan Africa were to continue on their current growth trajectories, it would take Latin America until 2177 and sub-Saharan Africa until 2236 just to catch up. However, most underdeveloped countries are actually falling further behind. Because the absolute income inequalities between the rich and the poor countries are increasing even when underdeveloped countries have higher growth rates. For example, if average incomes grow by 3 per cent in both sub-Saharan Africa and Europe then the absolute change would be an extra $854 per person in Europe and but only an additional $51 in Africa.

Table 2: Human Development Index Trends: Sub-Saharan Africa Low Human Development 1975-2012

	1975	1980	1985	1990	1995	2000	2003	2012
Angola	..	..	..	..	..	.403	.445	.508
Benin	0.304	0.366	0.362	0.368	0.395	0.422	0.431	0.436
Burkina Faso	0.253	0.273	0.297	0.305	0.311	0.328	0.317	0.343
Burundi	0.285	0.311	0.345	0.353	0.324	0.313	0.378	0.355
Cameroon	0.416	0.463	0.505	0.514	0.494	0.500	0.497	0.495
Central African Republic	0.343	0.364	0.386	0.383	0.367	0.375	0.355	0.352
Chad	0.269	0.271	0.311	0.335	0.344	0.359	0.341	0.340
Congo	0.452	0.499	0.540	0.526	0.531	..	0.512	0.534
Congo. Dem Rep	0.414	0.423	0.431	0.422	0.393	0.431	0.385	0.534
Côte d'Ivoire	0.409	0.441	0.448	0.442	0.427	0.428	0.420	0.432
Djibouti	..	..	..	..	0.477	0.487	0.495	0.445
Eritrea	..	..	..	..	0.409	0.428	0.444	0.351
Ethiopia	..	..	0.291	0.311	0.323	0.352	0.367	0.396
Gambia	0.284	..	..	..	0.375	0.405	0.470	0.439
Ghana	0.438	0.467	0.482	0.511	0.531	0.555	0.532	0.558
Guinea	..	..	..	..	..	0.414	0.466	0.355
Guinea-Bissau	0.255	0.262	0.283	0.313	0.341	0.353	0.348	0.364
Kenya	0.461	0.509	0.530	0.546	0.524	0.499	0.474	0.519
Lesotho	0.461	0.510	0.534	0.571	0.573	0.520	0.497	0.461
Madagascar	0.400	0.437	0.436	0.446	0.458	0.469	0.499	0.483
Malawi	0.320	0.351	0.362	0.371	0.412	0.402	0.404	0.418
Mali	0.230	0.256	0.263	0.283	0.307	0.330	0.333	0.344
Mauritania	0.340	0.363	0.384	0.388	0.424	0.444	0.477	0.467
Mozambique	..	0.299	0.287	0.311	0.328	0.360	0.379	0.327
Niger	0.236	0.252	0.242	0.249	0.256	0.271	0.281	0.304
Nigeria	0.318	0.376	0.386	0.406	0.418	0.462	0.453	0.471
Rwanda	0.342	0.388	0.401	0.340	0.355	0.435	0.450	0.434
Senegal	0.311	0.339	0.375	0.403	0.421	0.444	0.458	0.470
Sierra Leone	..	..	..	..	..	0.275	0.298	0.359
Sudan	0.349	0.376	0.396	0.428	0.465	0.500	0.512	0.414
Swaziland	0.530	0.562	0.584	0.624	0.603	0.534	0.498	0.536
Tanzania	..	..	..	0.435	0.422	0.416	0.418	0.476
Togo	0.423	0.475	0.474	0.500	0.510	0.519	0.512	0.459
Uganda	..	..	0.412	0.409	0.412	0.474	0.508	0.456
Zambia	0.468	0.475	0.484	0.462	0.424	0.409	0.394	0.448
Zimbabwe	0.546	0.574	0.640	0.637	0.589	0.527	0.505	0.397

Source: UNDP *Human Development Reports Various Issues*, New York, United Nations

Table 2 illustrates that for most countries in sub-Saharan Africa development over a period of 37 years has been minimal, but for 23 countries this has included regression from a previous level of development, as represented by the HDI. Indeed, Central African Republic, Congo, Côte d'Ivoire, Zambia and Zimbabwe all have a lower HDI in 2012 than they did in 1985. Others such as Cameroon, Kenya, and Swaziland have seen regression since 1990.

Table 3 GDP per capita and Life Expectancy in Selected sub-Saharan Low Development Countries 1986-2012

	GDP per capita (PPP US$)				**Life Expectancy at Birth**		
	1998[a]	**2003[b]**	**2011[c]**		**1998[a]**	**2003[b]**	**2012[c]**
Burkina Faso	870	1,174	1,149		45	48	56
Burundi	..	648	533		43	44	51
Cameroon	1,478	2,118	2,090		55	46	52
Central African Republic	1,126	1,089	716		45	39	49
Congo. Dem Rep	825	697	329		51	43	49
Côte d'Ivoire	1,585	1,476	1,581		53	46	56
Eritrea	835	849	516		51	54	62
Ghana	1,735	2,240	1,652		60	57	65
Guinea	..	2,097	990		47	54	55
Lesotho	1,637	2,561	1,504		55	36	49
Mali	684	994	964		54	48	52
Mozambique	784	1,117	861		44	42	51
Niger	741	835	642		49	44	55
Rwanda	662	1,268	1,097		41	44	56
Sudan	1,392	1,910	1,878		55	56	62
Swaziland	3,876	4,726	5,349		61	33	49
Togo	1,377	1,696	914		49	54	58
Uganda	1,075	1,457	1,188		41	47	55
Zimbabwe	2,675	2,443	..		44	37	53

[a] Human Development Report 2000

[b] Human Development Report 2005

[c] Human Development Report 2013

This translates into economic and quality of life statistics, as illustrated in table 3 where four countries have seen their life expectancy fall in the period 1998 to 2012.

Similar results pertain to GDP per capita (18 countries recording falling per capita income). Therefore, given that these economies have been subjected to the conditionality imposed by the International Financial Institutions (free trade, free markets and 'good governance'), such policies have not led to development. They have, in fact, often resulted in social and economic regression.

4. The Moral Argument

The moral argument arises from the idea that we share a common humanity and if it is in our power to assist other human beings out of abject poverty, without risking our own position, then morally we ought to do it. This is even more true because free trade is insisted upon for the underdeveloped economies while the advanced countries maintain protective measures. This suggests that in practice protectionism that faces free trade results in economic gains for the protected economies. These gains are at the expense of the economies that practice free trade hence the term 'unequal exchange'. Indeed, even when economies at different levels of development trade freely, the processes of unequal exchange ensure enrichment of the more developed and the impoverishment of the less developed.

Thus development economists must confront the idea that it is not merely irrational, but also immoral (or at least inhumane) to fail to replace a system whose inefficiency, or sub-optimal productivity, prevents important human potentials from being realised. There is another important connection between efficiency and the morality of the free market. Consider the possibility that the civil and political-legal rights that individuals enjoy in capitalism are valuable because they are ways of coping with types of conflicts that are produced by the capitalist system. Thus basic civil and political rights (as well as distributive rights to a share in material wealth) are necessary and valuable only where there is the egoism created by capitalism's class divisions.

Such arguments alone cannot make the moral case against the free market. As Nozick has argued, the market and the market alone avoids violations of 'moral rights'. A very broad right to private property, including private property in the means of production, is for Nozick, morally fundamental and determines both the most basic principles of individual conduct and the legitimate role of the state. Therefore, value judgements determine what is morally 'good' and what is morally 'bad' (Nozick, 1988).

Such value judgements are based on the theoretical and practical arguments surrounding particular phenomena. Hence it is incumbent on the author to demonstrate why a particular course of action, or a particular policy, constitutes an immoral or unethical point of view. Here the argument is based on the historical, theoretical and empirical case against the imposition of free trade on economies at an early stage of industrial development.

The teleological argument follows Singer's: since suffering and death are bad when it is in our power to prevent the bad from happening without requiring a comparable sacrifice, then morally we ought to do it. Rich countries *can* do something to reduce the number of starving people in the world without giving up basic necessities. It follows that if free trade contributes to poverty in underdeveloped economies, then such policies should be abandoned in favour policies to alleviate that poverty, even if this comes at a price to the economies of the rich countries. Hence poverty relief via appropriate trade policies is a moral obligation arising from our common humanity.

Benn (1988) argues that there is a deontological argument in the form of the *principle of respect for persons*. This encompasses Value Centred principles that are concerned with a person's ultimate welfare and Person Centred principles concerning an individual's rights. Thus, respect is due to all other persons, which represents a minimal condition for moral relations between persons rather than an ideal. It follows therefore, that it is an obligation of humanity to provide a minimum welfare floor for all individuals, irrespective of the nation state into which they were born. If it is in the power of some to provide the minimum for others, then this is a morally correct course of action to take.

Hence if it can be demonstrated that current free trade policies actually make the situation worse for the citizens of the low income nations, then those policies are immoral.

Moral considerations of intervention on an international scale also tend to follow the common framework of humanitarian obligation. However, Wesley has suggested that a set of moral issues is required that address realist considerations. Hence, political action is pursued within a common moral community and therefore, political leaders have the moral obligation to advance the interests of their own bounded moral communities. In such a realist system of morals then three principles apply; first, the motivation is in accordance with the state's own interest; second, this is justified in terms of the principles of legitimate action and third, it is validated by reference to the principles of international order (Wesley, 2005:56). However, the realist approach has far too great a concentration on the needs of the 'haves' and too little attention is focused on the needs of the 'have nots'. Indeed, the major consideration is the justification of the nation states position *vis-à-vis* the moral considerations of its residents.

Models of economic justice recognise the difference between individual moral positions and how those should be translated into a collective moral position. Kapstein argues that there are essentially three models of economic justice; first, the communitarian model reflects concern with the effects of global pressures on domestic economies, consideration of who are the winners and losers from internationalisation in terms of the distribution of resources and the ability of domestic economies to maintain their fiscal and social policies. Second, The Liberal International model focuses on the consequences for the international community and the influence on income distribution between countries. In particular it asks the question how

trade, aid and investment should be used to promote economic development and income convergence. Third, the cosmopolitan model which is concerned with the effects of the prevailing international economic structure on the well-being of persons. Concentration within this model on the poor and disadvantaged is promoted by the prioritarian cosmopolitans, whereby the international arrangements should be reformed such that they do not promote shortfalls from minimum living standards, and reform of the international economic structure should concentrate on meeting the basic needs of the poor and the least advantaged (Kapstein, 2004:81-82). Thus this approach draws on Rawls' *maximin rule* where consideration must be focused on the position of the least advantaged. Translating this into an international context then in the Rawlsian original state, nation states bargaining for resources do so behind a 'veil of ignorance' in that they do not have knowledge of their own resource position. According to Beitz, there is no prior moral claim by states to the resources that are located on their constituency and therefore, the pattern of inequality that results from an international system will be unjust if that arrangement fails to incorporate a resource redistribution principle (Beitz, 1979).

A significant contribution to this debate is Pogge's book *World Poverty and Human Rights* (2002), in which he contends that developed countries have obligations to end world poverty through a causal contribution principle. Pogge concentrates on the ways in which governments of the affluent countries impose an international economic order on the underdeveloped economies. Emphasising the philosophical arguments, he argues that the concepts of 'harm' and 'cause' suggest that we invoke a benchmark to which the situation can be compared. That is, a subjunctive comparison between the actual position of global poverty and that which would have arisen in the absence of the causal factors. For Pogge, the benchmark is generated by the burdens imposed by the World Trade Organisation (WTO) in particular, and by the Bretton Woods Institutions in general. Thus, the question of whether global poverty has been caused by a regime of free trade depends on whether poverty would have been as great under a *just* alternative set of international trade rules.

Pogge shows that the libertarian view (in which the affluent are neither individually nor collectively responsible for harming the world's poor by causing their poverty), is not a credible argument. Rather, the 'need-based' view has much greater credence. That is, the neediness of the global poor establishes an extensive set of duties to assist them since the obligation of assistance prevails–there are therefore 'positive' human rights, including a right to have one's basic needs fulfilled.

Therefore, if it can be shown that the existing international order is indeed making the situation for the poor worse, and that there is an alternative order that could reverse the situation, then the developed countries have an obligation to introduce the alternative international order.

Hence, it follows that if free trade were to lead to economic convergence, then the initial resource inequalities would be overcome (as in the Hecksher-Ohlin-Samuelson factor endowment version of comparative advantage). However, as suggested by the arguments of unequal exchange/unequal specialisation, convergence is not the outcome. Indeed, such models appear to explain the observed *divergence* that has occurred between the developed and the underdeveloped nations.

If we then accept both the ethical the position that humanitarian obligations exist, and the cosmopolitan theory of economic justice, then if we find that the existing Washington consensus causes increasing inequality we are morally obliged to introduce the alternative system.

5. Economic Arguments

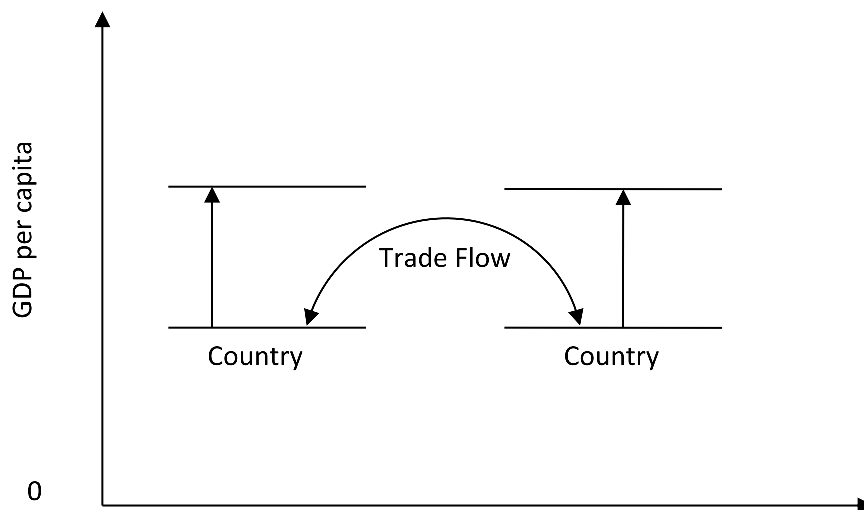
The UNCTAD Report of 1999 argues that protectionism by the rich countries has hindered the exports of the poor countries, forcing the latter to rely on excessively footloose, short-term capital to finance their growing trade deficits. Trade liberalisation it argues has, in a quarter of a century, led to rising trade deficits for the poorest countries. In addition, underdeveloped countries grew more slowly in the 1990s than in the 1970s, whilst they were unable to increase their exports due to slow growth in the industrialised economies and their insistence on protectionism. The report calculated that the poorest countries could earn approximately $700 billion per annum in low technology manufactures if the rich countries were to dismantle their trade barriers – this is equal to four times the level of capital flows in the 1990s.

The Least Developed Countries Report of 2006 argues that since the late 1980s the majority of underdeveloped economies have implemented reforms that have involved privatisation, liberalisation and macroeconomic stabilisation. These have occurred under the umbrella of structural adjustment programmes proscribed by the 'Washington Consensus' (UNCTAD, 2006:286). Since 2000 a second generation of reforms have been undertaken under the general approach of poverty reduction strategies, which were supposed to facilitate a more nationally-owned set of economic and political reforms.

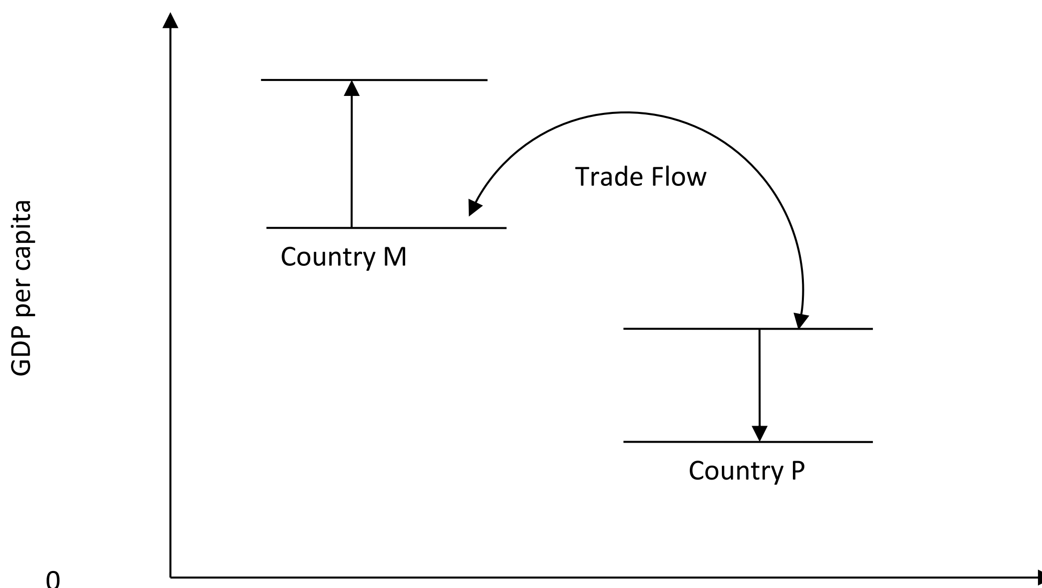
Even the World Bank has conceded that the outcomes of the first generation reforms were 'less than expected' and the move to the second generation reforms was, 'as a result of the disappointing supply response to first generation reforms' (World Bank, 2004:12). There exists a view that the first generation reforms failed due to a lack of proper implementation. However, this would appear to be unrealistic given the extent of policy reform that has taken place and a more realistic appraisal would suggest that the design of the reforms was at fault.

Figure 2 Effects of Free trade Between Nations Based on GDP per capita:

(i) Free trade between economies at similar levels of GDP



(ii) Effects of Free trade between economies at different levels of GDP



One alternative that is already in extensive use is the Preferential Trade scheme. Agreements on preferential trade have proliferated rapidly such that the number of agreements is now greater than WTO members and the trend is continuing apace. Indeed, by 2004 there were 229 preferential trade agreements in place between 174 countries with on average at least five agreements per country (Medvedev, 2006:47). However, it is argued that preferential trade does not account for a large share of world trade, actually amounting to only just under a third of the global total in the period 2000-2002 (*ibid*). Even this figure may be an overestimate as unilateral and multilateral liberalisation has led to tariff lines with zero, or low, Most Favoured Nation duties. This suggests that in these cases the margin of preference for PTA members is relatively insignificant leading to the under-utilisation of preferences and that the 'true' level of preferential trade is between one-tenth and one-sixth of the total of world trade. Within this, at a regional level, the majority of preferential trade is implemented by countries in Eastern Europe and Latin America while countries in East Asia have low preferential trade shares (*ibid*:48).

Manchin (2005) illustrates how the preference scheme operated by the EU has an inbuilt bias against the request for preferential tariff rates as the preference margin (the difference between third country and preferential tariffs) does not provide sufficient incentive for preferences to be requested. In addition, there are shown to be sectoral differences in the request for preferential access reflecting, production costs, the quality of the products, the level of competitiveness, the infrastructure and institutional qualities.[5]

Brenton and Hoppe (2005) examine the trade preferences involved in the US African Growth and Opportunity Act and their impact on Sub-Saharan Africa and find that export diversification is stimulated in only a few cases. Trade preferences extended to all products under the scheme would enhance its impact particularly as this would require the removal of tariff barriers to a range of agricultural products, textiles and a wider range of manufactured goods.

6. Thus, replicating the arguments of the Linder thesis (Linder, 1961)

In addition, Stern and Deardorff (2006) recommend that there is a strong likelihood that non-participants in trade liberalisation will lose out to those countries that do participate. In addition, preferential liberalisation has tended to divert trade from the excluded countries causing their terms of trade to worsen. Hoekman and Prowse (2005) suggest that because many underdeveloped economies cannot take advantage of trade preference programmes then preference erosion should be the response allied to the introduction of a trading system than is more supportive of economic development.

Hoekman and Özden (2005) conclude that the Special and Differential Treatment (SDT) for underdeveloped economies under the GATT/WTO agreements has not delivered what was intended, due to the limited benefits that have had a skewed distributional effect, and have only been obtained at a high cost to the trading system and to donor country consumers. The outcome has been only a marginal benefit to the underdeveloped economies. "[W]hat determines and drives performance is not what others do, but what countries do for themselves" (Hoekman & Özden, 2005:38). Hence, the idea that trade preferences could be used as aid needs to be revised towards a more transparent set of non-discriminatory trade policies. This would require a commitment by the developed countries (triad) to longer term resource shifts towards the poor economies, suggesting that greater development assistance would be both more efficient and more effective.

Somel (2004) has argued that the macroeconomic assessment of globalisation presented questions the validity of the argument that global commodity/value chain analysis represents a new perspective on the theory of development. In particular, such an analysis implies equal rates of capital accumulation in a North-South model and a stable ratio in incomes in the long-term. This proposition is shown to be untenable as the exports of the south must be aimed at markets in the north which are controlled by Northern-based multi-national companies (MNCs). Hence, this questions the judiciousness of strategies of export-led growth as the major policy instrument in a development strategy for underdeveloped economies. This, it is argued, would entail the fallacy of composition as efforts to raise productivity in underdeveloped economies would lead them to deliver better quality goods at lower prices, but would not alter significantly the power relations between the Northern MNCs and the Southern producers. Hence, it recommends that underdeveloped

economies should improve their positions in commodity chains to reduce their dependence on export earnings; in conjunction with an effort on the part of the international community (the triad) to reform trade structures that at present favour the MNCs over the underdeveloped economies.

Murphy notes that in 2000, Congress passed the Trade and Development Act which incorporates the African Growth and Opportunity Act, which was designed to reduce or eliminate US quotas and tariffs on goods from 48 sub-Saharan countries. In 2002, President Bush signed into law a trade promotion authority act that provides the President with the authority to negotiate trade agreements that could then be submitted to both houses for a majority vote (Murphy, 2002:979-80). Both pieces of legislation are designed to promote free trade relationships, but could equally be employed in the initiation of asymmetric trading relationships. However, in 2011 US imports from sub-Saharan Africa were $74 billion, representing 3.4 per cent of total US imports of $2.2 trillion. The US exported $20.3 billion to the region (1.5 per cent of total US exports. In addition, this trade was dominated by only three countries, Nigeria, Angola and South Africa, with US imports dominated by primary products.US FDI in Africa amounts to one per cent of total US FDI with South Africa receiving 63 per cent of the investment. The outflow of US FDI to sub-Saharan Africa in 2011 ($3.4 billion) was only one-third greater than the inflows of FDI to the US from the region ($2.1 billion) (Jones & Williams, 2012:7).

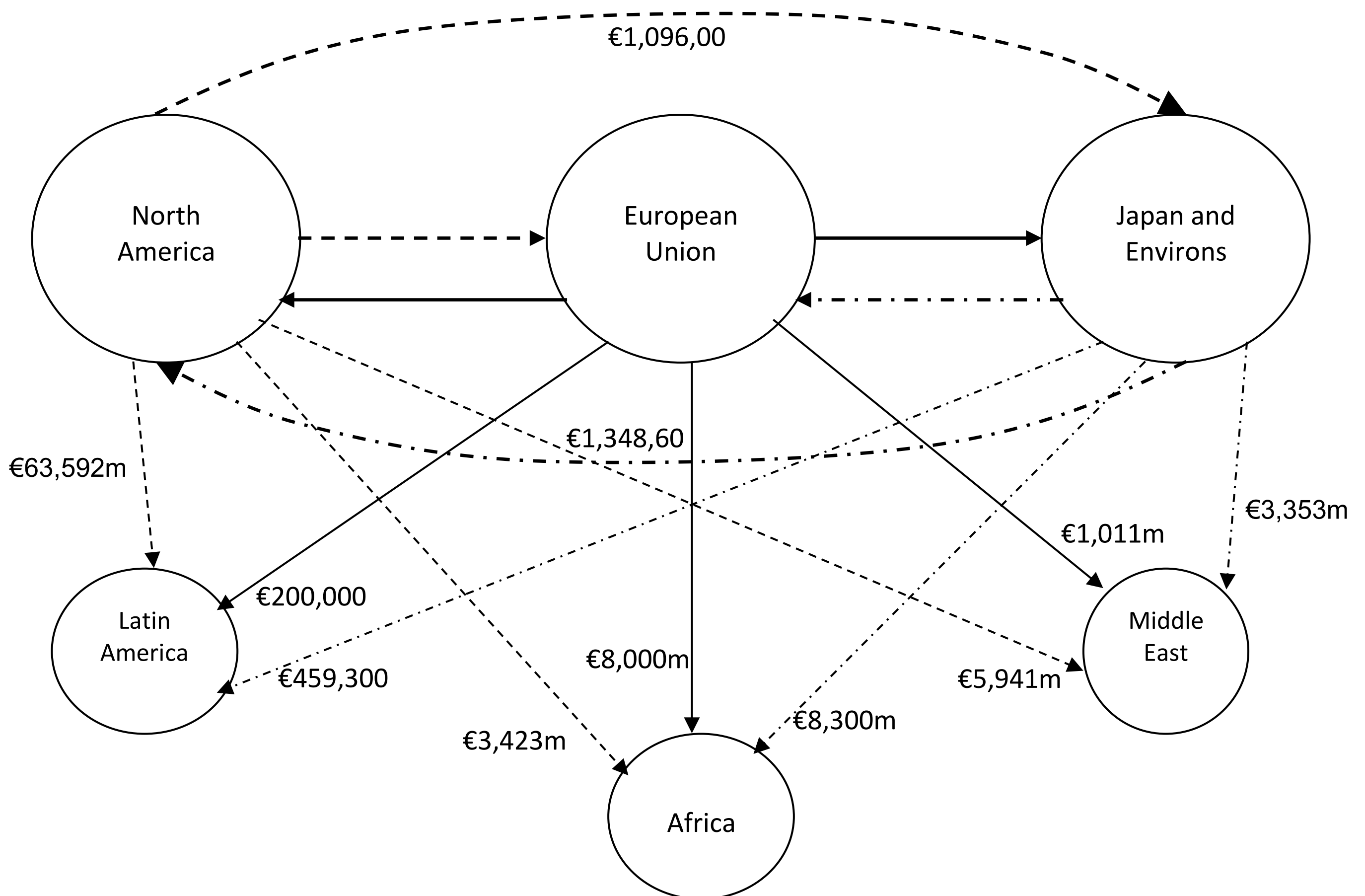
In addition, as illustrated in figure 3, FDI is dominated by intra-triadic flows. Indeed, Africa received only 0.44 per cent of total FDI in 2011, whereas the figure for the EU was 42.26 per cent, with North America receiving 22.7 per cent, Japan and its environs 17.06 per cent, Latin America, 17.72 per cent and the Middle East 0.25 per cent.

Notable also is the lack of investment in sub-Saharan Africa, totalling less than €20billion, in comparison to other underdeveloped regions (2.39 per cent of that received by Latin America). It is argued therefore that sub-Saharan Africa could engage in a strategy of increasing investable resources by increasing the level of FDI. However, the need to attract FDI on an ever increasing scale means that individual countries find themselves in competition for, necessarily finite, funds. The MNCs are attracted to invest in those economies that offer the highest level of human capital for the cheapest price (wage). Hence, FDI itself engenders dependence and the need to implement macroeconomic policies that the MNCs find the most beneficial to their own needs.

One possible response of the introduction of an asymmetric trading regime could be that the rates of return on FDI are significantly increased and therefore, the region may benefit from increased capital flows, closing the investment gap and reducing the dependency on aid. Even so, one could argue that although FDI flows are more stable than aid flows, they remain dependent on the requirements of the MNCs. It is envisaged here that asymmetric trade regimes may increase the attractiveness of economies for FDI, but enables economies to engage in independent macroeconomic policy.

Hence, what is required is the ability to create a macroeconomic environment that is conducive to economic development and therefore to an enhanced standard of living on a sustainable basis. The contention here is that this cannot be constructed from a microeconomic perspective and therefore what is required is an international trading regime that is conducive to development to be in place before determining the policies that are best suited to an individual economy. Different policies will be based on different histories, differing stages of development, skills, populations and capabilities. Hence, whether an economy follows an export oriented strategy or import substitution, or even a developmental state model must depend on individual economic and political circumstances. The point is that a stable and predictable trading regime that breaks the ties of dependence is an essential prerequisite for any developmental strategy to succeed.

Figure 3 Triadic relationship of Foreign Direct Investment (2011)



Sources: Ministry of Finance (Japan); US Census Bureau; Eurostat

Thus, an asymmetric trading regime advocates that free trade is not only promoted by the triadic nations, but is also practiced, in the sense that their economies be tariff and quota free to the goods produced in sub-Saharan Africa. In turn, the sub-Sahara African countries would be at will to impose whatever restrictions are deemed necessary to create an economic environment within which sustainable economic development can flourish; replicating the conditions under which the now advanced economies themselves developed. The level of tariffs and quotas will obviously differ depending upon the circumstances of each individual economy.

7. Conclusions

The argument is that the existing international trading regime cannot be justified on historical, moral or economic grounds and that asymmetric trading is a credible alternative. The arguments, in opposition to the Washington consensus, are strong when presented separately, and even more powerful and persuasive when integrated. From historical, moral and economic perspectives, the removal of dependency through asymmetric trading regimes could provide the macroeconomic environment required for independent and self-sustaining development in sub-Saharan Africa. Such a shift in policy on the part of the triadic nations would not present practical difficulties, but would have to overcome political opposition.

This requires hegemonic power to reject the orthodox comparative advantage model of free trade and an acceptance of an alternative model geared to the development of the contemporary underdeveloped economies. However, the arguments presented here not only affirm the moral and economic imperative, they also suggest that historically the waves of capitalism, and therefore the phases of economic development, have been driven by such an alternative model.

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One could not be so naïve as to expect altruism on the part of the triadic nations to the extent that they accept the model of asymmetric trade just to assist the underdeveloped economies out of poverty. Therefore, what is now required is a comprehensive review of the advantages that exist, not only for sub-Saharan Africa but also for the triadic states themselves in terms of, increased future demand for their goods and services as per capita income rises in the region as a whole, the social and political stability that this could engender in the region and for the MNCs seeking greater guarantees for their investments that production behind tariff barriers and quotas can achieve, certainly in the short-run.

Again, historical precedence suggests that this could be the outcome – a mutually beneficial trading regime. The experience after World War One of world depression and the rise of fascism, led the participants of the Bretton Woods Conference to instigate a new order that emphasised the need to reconstruct the devastated European and Far East economies to the mutual advantage of all Western nations. This entailed abandoning the strategy of free trade.

The argument here is essentially that such a strategy should be reinstated for the devastated economies of the 21st century, employing a sophisticated model of international trade to the benefit of all nations.

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