David Greenaway, ed., Economic Development and International Trade (Macmillan Education, London, 1988) pp. xi + 211, £30.00.

This collection of ten essays on trade and development issues is intended for use as a supplement to standard textbooks for advanced undergraduate and graduate students. Most of the essays are on old issues revisited; a few, such as the Casson–Pearce paper on intra-firm trade, and the Greenaway paper on the structure of protectionism in LDCs, address themes of more recent origin.

Of the essays in the first group, some are outstanding in terms of both coverage and presentation. There is an excellent survey by Robert Ballance of empirical attempts at operationalising the concept of comparative advantage. This has been a sorely felt lacuna in economic research. Policy-makers would for example like to know why, in the comparison of the Brazilian and S. Korean steel industries cited by the author, it is Brazil which has the iron ore, but S. Korea that has the revealed comparative advantage (RCA). Most of all, policy-makers want economists to tell them whether such an outcome is predictable a priori, i.e. whether the potential advantage to S. Korea of investing in processing a raw material not available locally could have been accurately predicted. Ballance does a good job explaining how difficult this is to do. The best contributions to empirical estimation have come from UNIDO, especially in recording inter-country variations in RCA by stage of processing, and Ballance reviews these in detail. The only lack in the chapter is a section on the kinds of information one would wish for from future studies, specifically the need to distinguish not only between unskilled and skilled labour, but between classes of skilled labour. LDC options for developing comparative advantage lie not so much between capital-intensive and labour-intensive industries, as between industries requiring low-level skills (construction), intermediate skills (apparel, steel) and advanced skills (software). Studies of RCA with industry classifications along these lines would be helpful.

The paper by David Sapsford on the Prebisch–Singer declining terms of trade hypothesis, presents the recent Singer restatement of its analytical basis, and the post-Spraos empirical rehabilitation of the hypothesis. This empirical work, much of which was contributed by Sapsford himself, emphasises the necessity of excluding petroleum from the primary group, and even more importantly for long time-series studies of this type, examining the series for evidence of instability in the underlying parameters. When the apparent upward shift in the intercept of the growth path during the war years is adjusted for, the P-S hypothesis is substantially vindicated, although perhaps Sapsford could have provided an appendix on why the result from one data series is somewhat at variance with those from the rest. There is a companion review by A.J. MacBean and D.T. Nguyen on the efforts that have been made in the last twenty years to estimate the impact of export earning fluctuations on growth. Not surprisingly, the empirical evidence is inconclusive, whether from the large number of studies which have attempted to test the relationship cross-country (MacBean and Nguyen provide a good econometric commentary on these) or from country studies.

Some of the topics selected for inclusion in the book are, however, a little dated. An example is the essay on trade versus aid, by Paul Mosley. Much water has flowed under the bridge since that ringing call was announced by UNCTAD in the sixties for trade rather than aid, and since the 1967 work by Harry Johnson which formally parameterised the choice between the two. Least important among the subsequent developments are the marginal refinements that have been made to the Johnson analysis by Thirlwall and others, which is what the essay dwells on at length. Of far greater interest are the fact that the UNCTAD call was heeded, at least in part, and the GATT articles amended to permit the Generalised System of Preferences, that such GSP schemes notwithstanding the majority of LDCs find it harder than ever to export to the developed countries, and that GSP-fatigue has already set in among a number of preference-givers. There is now a grim realisation of the difficulties of earning that export dollar, for all but a handful of high-fliers, and an aid dollar coming the way of LDCs would be quite thankfully accepted, and not just because (or even remotely because) the aid dollar is more growth-promoting for reasonable ranges of the relevant parameters. What with aid-fatigue, those aid dollars are unfortunately not very readily forthcoming either. In the face of these developments, a paper that poses trade and aid as alternatives to choose between has a quaint sixties ring.

James Riedel, in a paper on trade as an engine of growth, takes issue with those who would argue that LDCs are more vulnerable to the external environment than developed countries, on the grounds that income elasticities of demand for exports matter only for primary exports, which now account (excluding fuel) for only 20% of total LDC exports; for manufactured exports, price elasticities make LDCs less dependent on income growth in the developed countries. That is so, but LDCs in the aggregate continue to be more dependent on primary exports than developed countries, which is the comparison at issue. Riedel argues also that since imports as a percentage of GDP, and the capital goods share of imports, do not vary by per capita income, it cannot be said that LDC growth is any more trade dependent, adding as an aside that of course imports into developed countries may have close domestically-produced substitutes. That aside is the essence of the matter, I would have thought.

Among the papers on themes of more recent interest, there is a good paper by Greenaway on the structure of protection in LDCs, but he fails to caution the reader that estimates of effective protection rates (ERPs) for LDCs are based, in turn, on estimates of the tariff equivalent of non-tariff protection, and can contain wide margins of error. The 1968–1969 Indian estimates quoted, for example, substantially underestimate the ERP (by varying degrees for different industries) because the licensing system granted restricted inputs to some at premium-exclusive prices. Import protection in such situations is not uniform within an industry. There is a good section in the paper on empirical estimates of the incidence of protection on the export sector. This technique of 'incidence analysis', which provides estimates of the impact of protectionism at a more aggregative level than ERP studies, has not been very widely used, but Greenaway provides a lucid analysis of both the method and its uses for the uninitiated. The method is not really easier than ERP estimation, since aggregate rates have to be assembled from disaggregated rates anyway. But the results are of immense policy value. There is a related, and very good, review by Chris Milner on trade strategies and economic development. Milner devotes some space to positive issues, such as the measurement of IS/EP orientation, and the typical policy packages of each. Normatively, he espouses the 'liberal' case for reducing the bias against exports, while at the same time acknowledging the need for balance. (Milner also denies the existence of 'strong empirical support' for the Prebisch–Singer hypothesis, which is somewhat at odds with the Sapsford paper later in the book; the editor could perhaps have ironed out such differences).

V.N. Balasubramaniam reviews the theory and empirical evidence on the contribution of Export Processing Zones to the domestic economy, although one of the general conclusions he draws from the empirical findings, that 'the establishment of EPZs in the presence of a heavily-protected sector in the economy is likely to impose costs rather than benefits on the economy' derives from the particular case of the Philippines, where foreign firms in the EPZ were allowed to borrow in the domestic capital market at the prevailing rates, which were much below the social opportunity cost of capital. Clearly, the fact of protection in the domestic economy will not matter in the absence of such factor flows to the EPZ.

An excellent paper on a squarely modern concern is that by Mark Casson and Robert Pearce on intra-firm trade. The paper provides a systematic introduction to factors that underlie inter-industry differences in the propensity to circulate intermediate products, the propensity for these intermediates to enter into trade, and the propensity to internalise intermediate product flows within the firm, drawing on supporting evidence from a variety of sources. Such information as is available on variations in the last-mentioned propensity by source country (the only work is that by Lecraw, very useful but now over ten years old), and by host country (grouped into developing/developed), is presented. There is mention also of the need to investigate the growing phenomenon of quasi-internalisation, were the necessary data available.

In a book of supplementary readings such as this, it is obviously necessary that the standard textbook preoccupations be addressed. However, some topics of more current relevance could have been introduced in addition, if not instead. There is by now a fair accumulation of empirical work on the impact on LDCs of GSP schemes, a review of which would have answered a current policy need (and, by extension, the need for graduates with classroom exposure to the issues). A paper on protectionism in developed countries by sector or stage of processing would have been interesting in juxtaposition with the Ballance paper on RCA. None of the papers, with the single exception of that by Riedel, has any coverage at all of developed country protectionism as it affects LDCs. Case studies of anti-dumping actions against LDCs by the U.S. and E.E.C., papers on LDCs and GATT, or on LDCs and the MFA, would have provided sorely needed supplementary material on institutional aspects of the international trade environment confronted by LDCs.

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