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Competitiveness of Developing and State Trading Countries

by Andreas Lenel, La Paz*

The foreign trade policies of the industrialized countries have become increasingly complex. The states in question do not apply uniform policies to all other countries but operate different arrangements for different groups of countries. The divergencies can be easily adduced as evidence in support of charges of discrimination against one group of countries for the benefit of another group. The state trading countries for instance claim – in partial explanation of their relatively small export achievements – that the foreign trade policy of the industrialized western countries puts them at a disadvantage compared with the developing countries. Is this charge justified? The following study answers this question for the EC which is the most important market for both these groups of countries in the industrialized world¹.

The developing and state trading countries account for relatively small parts of all imports into the EC. Table 1 shows that in 1976 23.28 % of all EC imports originated in developing countries and no more than 3.96 % came from state trading countries. The share of the two groups of countries in the EC imports of manufactured goods is even smaller. The highest percentage figures – 11.29 and 3.87 % respectively – were recorded in 1976 for imports of “miscellaneous manufactured goods” (SITC 6 + 8).

A comparison of the relative figures of the developing and state trading countries for 1970 and 1976 as in Table 1 shows no startling changes. Their share of the EC's imports of raw materials and food, beverages and tobacco has gone down while their share of mineral fuels, machinery and transport equipment and miscellaneous manufactured goods has risen. Of interest are the changes in the relative competitiveness of the two groups of countries which is to be examined here in greater detail. The changes in the share of a country or group of countries in the EC import market are being used as indicators of competitiveness. This indicator is often used in the literature although its shortcomings need keeping in mind². These shortcomings have to be accepted for lack of adequate studies of individual markets. The EC imports from the developing and state trading countries are being used

here as the basis of reference³ as the analysis is confined to the changes in the competitiveness of these two groups of countries. Improved competitiveness is shown by an increase of a country's or a group of countries' share of the total EC imports from developing and state trading countries.

In Tables 2-4 the developing countries have been divided into regional groups while figures for individual state trading countries will only be given later⁴.

Table 2 shows that the state trading countries achieved relative market gains in chemical products – from 44.50 to 51.65 %. The American developing

¹ The inquiry is confined to the exports of manufactures in the limited period from 1970 to 1976. To ensure data uniformity statistics are used for the imports of the EC which differ usually from the figures given in the export statistics of developing and state trading countries. All computations are based on: OECD: Trade by Commodities, Series C, Market Summaries: Imports, various years. To allow for the enlargement of the EC the imports into Denmark, Great Britain and Ireland have been added to the EC imports in 1970.

² This is the indicator used, for instance, in J.M. Fleming, S.C. Tsing: Changes in Competitive Strength and Export Shares of Major Industrial Countries, IMF Staff Papers, Vol. 5 (1956/57), p. 219. On the shortcomings of this indicator cf. A. Lenel: Zur Konkurrenz der Entwicklungs- und Staatshandelsländer auf den Absatzmärkten der EG (On the competition between the developing and state trading countries in the EC markets), doctor thesis, Berlin 1980, p. 8 ff. and 54 ff.

³ Total EC imports from developing and state trading countries = 100.

⁴ The group of state trading countries includes not only the European members of the CMEA but the Asian members as well as China. The developing countries in Oceania are not shown separately because they carry very little weight; the total of the individual figures of the developing countries therefore differs slightly from the share of all developing countries together.

Table 1
Share of the Developing and State Trading Countries in Total Imports into the EC
 in 1970 and 1976 (in %)

	Developing Countries	State Trading Countries		
Total	19.13	23.28	3.38	3.96
Food, beverages, tobacco (SITC 0+1)	27.57	24.23	4.51	2.88
Raw materials (SITC 2+4)	25.88	25.09	6.68	6.62
Mineral fuels (SITC 3)	69.95	70.40	4.80	6.92
Chemicals (SITC 5)	3.34	2.60	2.68	2.78
Machinery and transport equipment (SITC 7)	1.04	2.31	0.96	1.27
Miscellaneous manufactured goods (SITC 6 + 8)	11.13	11.29	2.78	3.87

Table 2
SITC 5: Chemicals: Share of the Developing Countries (DC) by Regional Groups and the State Trading Countries in the Total Imports into the EC from these Groups of Countries
 in 1970 and 1976 (in %)

	1970	1976
State Trading Countries	44.50	51.65
Developing Countries	55.50	48.35
DC Europe	5.09	4.18
DC Africa	7.62	10.05
DC Asia: Middle East	3.57	6.08
DC Asia: Far East	3.83	5.70
DC America	35.39	22.33

Table 3
SITC 7: Machinery and Transport Equipment: Share of the Developing Countries (DC) by Regional Groups and the State Trading Countries in the Total Imports into the EC from these Groups of Countries
 in 1970 and 1976 (in %)

	1970	1976
State Trading Countries	47.79	35.51
Developing Countries	52.21	64.49
DC Europe	13.99	12.07
DC Africa	4.91	3.76
DC Asia: Middle East	7.37	6.96
DC Asia: Far East	16.09	34.25
DC America	7.37	7.41

countries and – to a lesser extent – the European ones lost ground while those in Africa and Asia raised their share.

It emerges from Table 3 that the competitiveness of the Far East Asian developing countries increased greatly – from 16.09 to 34.25 % – in the field of machinery and transport equipment whereas the state

Table 4
SITC 6 + 8: Miscellaneous Manufactured Goods: Share of the Developing Countries (DC) by Regional Groups and the State Trading Countries in the Total Imports into the EC from these Groups of Countries
 in 1970 and 1976 (in %)

	1970	1976
State Trading Countries	20.01	25.54
Developing Countries	79.99	74.46
DC Europe	6.50	6.36
DC Africa	28.79	12.72
DC Asia: Middle East	4.88	4.59
DC Asia: Far East	21.82	39.38
DC America	16.62	10.34

trading countries suffered here a relative decline – from 47.79 to 35.51 %. The other groups held their relative position by and large between 1970 and 1976.

From Table 4 it is seen that the competitiveness of the state trading countries has risen compared with that of the developing countries in miscellaneous manufactured goods, but considerable changes have taken place in the period under review within the group of the developing countries. Striking is the great market gain of the Far East Asian developing countries – from 21.82 to 39.38 %. All other developing country regions suffered relative market losses.

The figures for miscellaneous manufactured goods indicate that the state trading countries did not fare as well as the especially successful Far East Asian developing countries in making use of opportunities for increasing their exports. This group of developing countries has been able to decide the competitive race for expansion potential in its favour, although their gains did not involve an absolute shortfall for the state trading countries, as can be seen from Table 1. The African and American developing countries did suffer large absolute and relative market losses. Further detailed studies of individual markets are required to find out at whose expense the Far East Asian developing countries and the state trading countries achieved their export successes between 1970 and 1976.

Major Exporters of Manufactured Goods

In the light of Tables 5-7 it is possible to make more detailed statements about the changes in the competitiveness of the countries under review between 1970 and 1976. They list the 12 countries which in 1976 made the largest contribution to the total exports to the EC from the two groups of countries. This itemization permits a better assessment of the importance of the state trading countries; as there are so few of them compared with the large number of developing countries, an inter-group comparison shows them to be

relatively unimportant. Another advantage of examining individual countries is that it reveals changes in competitiveness within the groups.

The big gain of market share by the state trading countries in chemical products shown by Table 2 is attributable in the main to the Soviet Union, as appears from Table 5. Its share of total chemical imports into the EC from the two groups of countries rose between 1970 and 1976 from 8.40 to 19.30 %. All the other state trading countries, except Hungary which increased its share to a relatively small degree, suffered relative losses in the period under review. Among developing countries Tunisia recorded a big increase of chemical exports to the EC.

As regards machinery and transport equipment (Table 6) almost the entire increase of the share of the Far East Asian developing countries – from 16.09 to 34.25 % according to Table 3 – is due to the enormous rise of exports from Singapore, South Korea and Taiwan and the far above average increase of supplies from Hongkong. Although the state trading countries as a group recorded a relative decline in this division between 1970 and 1976, Poland achieved a considerable expansion of exports; the shares of the CSSR and the GDR, which in 1970 had been very important suppliers, dwindled and the Soviet Union, Romania and Hungary suffered slight relative losses. Yugoslavia suffered a relative loss but was still the largest supplier among the considered countries as far as this division is concerned.

The great export efforts of the South-east Asian developing countries are also reflected by the deliveries of miscellaneous manufactured goods shown in Table 7. South Korea and Taiwan recorded the greatest relative gains but Hongkong and India also increased their share. The great shortfalls of Zaire, Chile and Zambia are explained by changes in non-ferrous metals (SITC 68). They account for almost the whole of the exports of SITC 6 + 8 products from these three countries, and the demand for them has not risen substantially although the three countries are still the principal suppliers. Among the state trading countries the Soviet Union, Poland and Romania were able to raise their share of miscellaneous manufactured goods ⁵.

A country-by-country review reveals the importance of most state trading countries as EC suppliers. They are in all commodity groups among the most important exporters in the two groups of countries. The competitiveness of individual state trading countries varied however during the period under review. Poland and, in some positions, the Soviet Union recorded a

considerable increase of their exports of manufactures to the EC whereas the competitiveness of the CSSR and the GDR declined according to the specified calculations.

Among the developing countries the Far East Asian countries were the most successful exporters; their importance increased greatly. Especially striking is the rising share of Hongkong, Singapore, South Korea and Taiwan in total EC imports from the two groups of countries.

The Impact of the EC's Trade Policy

The restrictive trade policy of the EC is often mentioned as explaining in great measure the relatively small export achievement of developing and state trading countries alike. It may therefore be considered here as a possible determinant of the different degrees of competitiveness among developing and state trading countries. The inquiry is confined to the tariff policy, and even in this limited field it is impossible to deal with all the individual items. An analysis of the various rates for individual SITC items alone would allow differentiated statements on the influence of the EC's trade policy on the competitiveness of the countries in question. The findings of the present inquiry set out here must be regarded as no more than a first step and may have to be amended in the light of a more detailed analysis of individual items.

The tariff policy of the EC as applied to different groups of countries may be presented as a "preference hierarchy"⁶ with the countries considered here at various levels of this preference hierarchy. Other things remaining equal, the grant of different tariff preferences can result in a diversion of trade to the disadvantage of the less favoured countries.

As far as the developing and state trading countries are concerned, the preference hierarchy comprises three levels: (1) no preferences, (2) generalized preferences, (3) specialized preferences.

Since 1971 the EC has granted to almost all developing countries easier market access, compared with its normal trade policy, under the Generalized System of Preferences (GSP). This scheme applies to

⁵ Of countries not included among the 12 largest suppliers in both groups of countries together, the GDR raised its share in EC imports from the two groups from 1.54 to 1.78 %, Hungary from 2.01 to 2.94 % and China from 1.76 to 2.51 % whereas the share of Bulgaria decreased slightly, from 1.05 to 0.78 %.

⁶ The idea of the preference hierarchy was first evolved by T. Murray: *Trade Preferences for Developing Countries*, London 1977, p. 119. It was applied extensively to the EC by A. Borrmann, C. Borrmann, M. Stegger: *Das Allgemeine Zollpräferenzsystem der EG* (The Generalized System of Tariff Preferences of the EC), Hamburg 1979, p. 158.

Table 5

SITC 5: Chemicals: Share of the Major Exporters among State Trading and Developing Countries in 1976 in the Total Imports into the EC from these Groups of Countries
in 1970 and 1976 (in %)

	1970	1976
1. Soviet Union	8.40	19.30
2. GDR	7.36	6.22
3. Poland	6.09	5.82
4. China	6.65	5.78
5. CSSR	6.47	5.39
6. Israel	3.32	5.08
7. Yugoslavia	5.05	4.10
8. Romania	5.02	4.05
9. Tunisia	1.49	3.99
10. Surinam	2.66	3.86
11. Hungary	2.62	3.80
12. Mexico	4.94	3.17

Table 6

SITC 7: Machinery and Transport Equipment: Share of the Major Exporters among State Trading and Developing Countries in 1976 in the Total Imports into the EC from these Groups of Countries
in 1970 and 1976 (in %)

	1970	1976
1. Yugoslavia	13.19	11.41
2. Hongkong	7.03	9.54
3. Poland	4.47	8.89
4. Singapore	2.57	8.59
5. Soviet Union	8.00	7.52
6. Taiwan	2.58	7.03
7. CSSR	16.46	6.59
8. GDR	9.42	4.17
9. South Korea	0.26	4.07
10. Brazil	4.08	3.77
11. Romania	3.31	3.27
12. Hungary	4.21	3.14

all non-European developing countries except Israel and Taiwan. Among European countries Yugoslavia and, since 1974 and for certain products, Romania are enjoying the same advantages. The GSP provides for duty-free access of manufactures from favoured countries subject to certain reservations. Quantitative limits apply to individual categories of goods; the full most favoured nation tariff rates have to be paid if they are exceeded.

Selected developing countries have been granted a better position in the preference hierarchy under special agreements with the EC which allow for easier access to the EC market compared with other developing countries. Most important among these agreements is the Lomé Convention with all African developing countries south of the Sahara and several Caribbean and Pacific islands; the second Lomé Convention dates from 1979. The EC has also made special arrangements with almost all Mediterranean countries; these provide for greater concessions than available

Table 7

SITC 6 + 8: Miscellaneous Manufactured Goods: Share of the Major Exporters among State Trading and Developing Countries in 1976 in the Total Imports into the EC from these Groups of Countries
in 1970 and 1976 (in %)

	1970	1976
1. Hongkong	11.12	13.57
2. India	3.66	6.29
3. South Korea	0.69	6.14
4. Soviet Union	4.52	6.11
5. Yugoslavia	5.93	5.49
6. Taiwan	1.15	4.48
7. Zaire	11.74	4.33
8. Poland	2.55	3.72
9. CSSR	3.69	3.67
10. Romania	2.55	3.65
11. Chile	11.53	3.65
12. Zambia	11.81	3.02

under the GSP but are too diverse to be described here in detail⁷.

Most state trading countries which do not fall under the GSP occupy a lower level of the preference hierarchy than almost all developing countries. So do Taiwan and Israel. They have to pay the normal tariffs for their manufactures. Developing countries exceeding the partial GSP limits receive no preferential treatment either for their exports in excess of these limits.

If the trade policy had had a decisive impact on the competitiveness of the countries under review, the market share of those enjoying special preferences in the EC should have risen more between 1970 and 1976 than that of the other developing countries. Furthermore, all developing countries should have experienced a bigger increase of their exports to the EC than the state trading countries. The empirical analysis shows however that this has not happened. The Far East Asian developing countries which derived relatively little benefit from the foreign trade policy and the state trading countries were in fact more highly competitive between 1970 and 1976 than the developing countries enjoying special EC preferences. Taiwan, on the lowest level of the preference hierarchy, was one of the most successful exporters. The African countries which are especially favoured by the foreign trade policy recorded below-average export successes. The EC's tariff policy, it is seen, was not the decisive determinant of the competitiveness of the countries under review. The true significance of the EC's trade policy for the export potential of the developing and state trading countries cannot, however, be judged on the strength of this inquiry which makes no allowance

⁷ For a discussion of the differences between the EC's generalized and special preference systems cf. A. Borrmann, C. Borrmann, M. Stegger, *ibid.*, p. 163 ff.

for other changes. This would require consideration of many variables left out of account here and a far greater disaggregation of the export figures.

Reasons for the Differences in Competitiveness

Tables 5 to 7 show that while there are altogether well over a hundred developing and state trading countries very few of them are successful as suppliers to the EC markets, and it is interesting to note that these few countries play a role in several of the examined categories of goods. This is confirmed by a much more disaggregated inquiry by the present author; in this all four-digit SITC classification figures for miscellaneous manufactured articles (SITC 8) were evaluated in the case of which the developing and state trading countries together accounted for more than 5 % of all EC imports. It emerged that, for example, Hongkong is among the five largest exporters in the two groups of countries for 20 out of a total of 22 analysed goods categories⁸. There is little evidence of specialization in certain categories of goods on the part of individual countries. Why then, it may be asked, are these few countries so highly competitive in so many categories?

The sub-division of the EC imports of SITC 8 (Miscellaneous Manufactured Articles) shows that there is relatively little specialization between developing and state trading countries. A comparison with the total imports into the EC reveals a relatively close resemblance between the export patterns of the developing and state trading countries. Table 8 shows clothing to be the major export article in this category in both groups of countries. The four three-digit groups comprising clothing (SITC 841), footwear (SITC 851), toys (SITC 894) and manufactured articles n.e.s. (SITC 899) account for 82.34 % of the EC's SITC 8 imports from developing countries and 67.54 % of those from state trading countries. The two groups of countries are thus seen to concentrate on a few products and in great measure even on the same products.

In the light of these empirical findings it may be asked why the developing and state trading countries, two

groups differing relatively widely in economic structure and level of development, show certain similarities in the pattern of their exports to the EC. The traditional theory of foreign trade offers no ready answer to this question since it can hardly be shown that the factor endowment of the two groups of countries is similar.

It may be asked whether the developing and state trading countries have perhaps concentrated on a few product groups because these are the only ones in which they enjoy comparative cost advantages. But it is unlikely that the few developing and state trading countries which are successful as exporters of manufactures to the EC, and frequently for the same categories of goods as well, have equal comparative cost advantages, whereas the others, which do not export significant quantities of manufactures, have no comparative cost advantages in any of these products.

The empirical findings presented here and the difficulty of explaining them by the traditional theory point to limitations of this theory.

Technologies the Salient Factor

More recent work on the theory of foreign trade linked to work on the theory of competition offers an alternative to the traditional theory as a means of explaining the empirical findings. So far this work has been chiefly applied to an elucidation of trade between the industrialized western countries⁹. Contrary to the

Table 8
SITC 8: Miscellaneous Manufactured Articles:
Share of Individual Product Groups
(SITC three-digit figures) in the Total Imports
into the EC and in EC Imports from Developing
Countries (DC) and State Trading Countries (STC)
in 1975 (in %)

SITC Groups	DC	STC	Total
812 Sanitary fittings	0.61	1.43	2.88
821 Furniture	1.65	13.72	8.05
831 Travel goods	2.64	2.34	1.44
841 Clothing	68.96	47.37	30.98
842 Fur clothing	1.44	2.10	1.02
851 Footwear	5.09	9.21	7.13
861 Optical instruments	3.84	3.53	13.31
862 Photographic supplies	0.11	0.12	3.77
863 Developed cinematographic film	0.14	0.06	0.20
864 Watches and clocks	1.02	1.73	2.86
891 Musical instruments	2.05	3.01	6.01
892 Printed matter	0.80	1.86	5.50
893 Plastics articles	1.25	0.37	5.25
894 Toys, etc.	4.94	5.13	4.30
895 Office and stationery supplies	0.08	0.26	0.89
896 Works of art	0.77	1.13	1.80
897 Jewellery	1.26	0.80	1.35
899 Manufactured articles, n.e.s.	3.35	5.83	3.26
	100.00	100.00	100.00

⁸ Cf. A. Lenei, op. cit., p. 237.

⁹ For a review of more recent theoretical work cf. H.G. Johnson: Comparative Cost and Commercial Policy Theory for a Developing World Economy, Stockholm 1968, p. 14 ff. and F. Weiss, F. Wolter: New Approaches in the Consideration of the Implications for Industry of the Industrialization Process in Developing Countries. A Review of Economic Literature, in: OECD: Labour and Skill Intensity of Industrial Activities, Paris 1979, p. 38 ff. For an application of this approach to the economic relations between the industrialized western countries cf. E. Minx: Von der Liberalisierungs- zur Wettbewerbspolitik. Internationale Wirtschaftspolitik zwischen Industrieländern nach dem Zweiten Weltkrieg (From the policy of liberalization to the policy of competition. International economic policy between industrial countries after the Second World War), Berlin, New York 1980.

traditional theory, foreign trade flows are held to be due to specific production and marketing technology availabilities and not to certain kinds of factor endowment. The possession of an appropriate and not universally available technology is deemed a precondition for exportation of a certain article. Theoretically available cost advantages – perhaps from low wages – cannot be utilized if the technology required for the production or sale of the product is not available.

It can be demonstrated that the similarity between the export patterns of the developing and state trading countries can be satisfactorily explained by the recent work on the theory of foreign trade¹⁰. The two groups of countries dispose – for different reasons – to a lesser extent of production and marketing technologies than the industrialized western countries. These relative deficiencies are chiefly due to the less advanced state of development of the developing countries and the particular economic system of the state trading countries which offers no proper incentives for innovation in production and marketing technologies.

This technological backwardness limits the range of goods which can be exported to the industrialized western countries. Both groups of countries are compelled to concentrate their export efforts on goods which make relatively low demands in regard to advanced production and marketing technologies. As there are, however, not many products meeting these requirements, state trading and developing countries are often in competition with each other in these product groups. The concentration of both groups of countries on a few categories of goods indicated by Table 8 can be explained in this way.

That a few countries account for such a large part of the exports of manufactures from developing and state trading countries is another pointer to the importance of technology availability. Chenery and Keesing noted in this context: "It is striking that a large majority of LDC exports of clothing come from just three countries in this group – Hongkong, Republic of Korea and Taiwan – perhaps because they have accumulated the necessary information links and experience in getting the product together and delivering reliably on time, even though several of the other LDCs that are trying to export clothing have lower wages and all have fewer

problems with quotas"¹¹. The concentration on a few countries may in great measure be explained by the fact that they alone have managed to assimilate the technologies required for success in the markets of the industrialized western countries.

Cooperation with Foreign Firms

Assistance by foreign firms must be considered an important factor for successful export efforts by the countries under review. Such assistance can take the form of direct investment or be given under cooperation agreements as in operation in economic relations with the state trading countries and, of late also increasingly, in North-South relations. Foreign firms can transfer production technologies to the countries under review and look after the sales in their own markets of goods made under contract in the other country. This enables the developing and state trading countries concerned to extend the range of goods they can offer for export and enhance their competitiveness in foreign markets. It is not always certain, however, that this assistance will work out entirely to the benefit of the exporting country.

There is reason to suppose that the differences in competitiveness between individual developing and state trading countries are in part due to differences in the level of activity of foreign firms in these countries¹². Unfortunately so far there exist no statistics showing the influence of foreign firms on export flows which could be used as empirical evidence of their importance for the competitiveness of developing and state trading countries. Such statistics would have to indicate the exports due to foreign direct investment as well as those made possible by cooperation agreements.

An approach of this kind to the elucidation of the export flows from developing and state trading countries promises to lead to a more adequate explanation of the determinants of differences in competitiveness than the traditional theory of foreign trade. The latter has the advantage that it works with macro-economic variables which can be obtained relatively easily. The approach suggested here, on the other hand, requires extensive specific studies to provide the data for an empirical elucidation of the differences in competitiveness. But the fact that it is relatively easier to earn empirical laurels by using explanations that are based on the traditional theory of foreign trade should not induce us to adhere to an approach which does not do justice to reality.

¹⁰ For a detailed review cf. A. L e n e l, op. cit., p. 76 ff. The use of recent foreign trade theory on the basis of the theory of competition for the elucidation of the exports from developing and state trading countries rests chiefly on the theoretical approach of D. L o r e n z: *Dynamische Theorie der internationalen Arbeitsteilung* (Dynamic theory of international division of labour), Berlin 1967.

¹¹ H.B. C h e n e r y, D.B. K e e s i n g: *The Changing Composition of Developing Country Exports*, World Bank Staff Working Paper No. 314, Washington 1979, p. 25.

¹² Cf. A. L e n e l, op. cit., p. 147 ff.