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Book Review — Digitized Version

[Book Review of] Folke, Steen: South-South trade and development: manufactures in the new international division of labour, Basingstoke, MacMillan, 1993

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Grilli, Vittorio, "Seigniorage in Europe". In: Marcello de Cecco, Alberto Giovannini (Eds.), *A European Central Bank? Perspectives on Monetary Unification after Ten Years of the EMS*. Cambridge, 1989, pp. 53–79.

Ishiyama, Yoshihide, "The Theory of Optimum Currency Areas: A Survey". *IMF Staff Papers*, Vol. 22, 1975, pp. 344–383.

Rohinton Medhora

Folke, Steen, Niels Fold, Thyge Enevoldsen, *South-South Trade and Development. Manufactures in the New International Division of Labour*. Houndmills, Basingstoke, London 1993. MacMillan Press. XIV, 267 pp.

The idea of South-South trade (SST) as an attractive alternative worth to be promoted vis-à-vis South-North trade (SNT) is an ineradicable evergreen of politicians who pay lip services to the idea of collective self-reliance but behave in terms of individual self-reliance. Since Arthur Lewis'¹ case for SST as a new engine of growth and Alice Amsden's² contribution on additional gains in productivity due to SST, economic research has frequently addressed the questions whether the direction of trade matters for developing countries' welfare and whether SST promises more welfare than SNT. The monograph of Steen Folke, Niels Fold and Thyge Enevoldsen, three scholars from the Institute of Geography, Copenhagen, mirrors the "sympathy premium" which SST trade enjoys over SNT in many developing economists' circles.

The authors depart from the statement that North-South alliances (Europe-Africa, Japan-East Asia, US-Latin America) kept the "South" divided and that nevertheless SST grew more rapidly than SNT in the seventies. The setback came in the eighties when SST declined for a number of reasons. The smaller pie of the cake was as dominated by Asian countries as they dominate SNT. This development is presented in the second chapter followed by the exposure of the failure of international bureaucracies in the UN system to implement what they had announced: to expand SST at the expense of SNT (Chapter 3). The fourth chapter confronts the two major paradigms towards SST, first, the one presented by trade economists pleading for non-discriminatory trade liberalisation and allocative efficiency. They do not see any positive externalities of SST over SNT (one dollar earned or saved in trade carries the same welfare whether or not the revenues are generated in SST or SNT). The other view supported by development economists stresses equity targets and fair distribution of gains from trade. They see such targets better achieved in SST than in SNT. While the authors do not conceal their sympathy with the latter view, especially with the latecomers in international trade, the low-income countries, they present a balanced view of the main arguments. Yet, to those familiar with the debate, this is not new and even futile, as the levels and targets of the debate are different and unbridgeable: economic efficiency versus political emancipation or equity. Unless the hypothesis that SST has positive external effects over SNT is empirically supported (this has not yet been shown), the latter group has no arguments to convince the former and to present a theoretically solid counterpiece to the neo-classical framework.

¹ **Lewis, Arthur W.**, "The Slowing Down of the Engine of Growth". *The American Economic Review*, Vol. 70, 1980, pp. 555–564.

² **Amsden, Alice**, "De-skilling, Skilled Commodities and the NICs Emerging Competitive Advantage". *The American Economic Review*, Vol. 73, 1983, pp. 333–337.

Chapter 5 presents a statistical breakdown of SST in manufactured goods since the 1960s which neither analyzes pull or push factors nor policy-induced determinants of SST (cf. discriminatory trade arrangements) or size and distance-induced variables (gravity models). Several case studies of SST (Togo, Nicaragua, Zimbabwe-Zambia, Malaysia, India) provide in-depth information down to the company level but the price paid for consulting the micro level is lack of theoretical rigour. The reader may gain the trivial impression that each case is different and that there are many explanations for the disappointing performance of SST. One must not be a defender of economic modelling to recognize that the case approach is analytically widely unsatisfactory. It is an unintended side effect of these case studies that they show how irrelevant the direction of trade is in the perception of traders provided that trade is profitable and how biased the authors argue in some parts, for instance if they argue for Malaysia, that "South-South exports in electronics are the superficial expression of intra-firm strategic considerations (of Northern multinationals, of course, R.J.L.) and therefore hold only a limited potential for an autonomous and common industrialisation process among developing countries" (p. 186). The authors fail to see that in market economies, trade potentials are always limited and subject to adjustment challenges and revision.

Summarizing their findings, the authors see lack of foreign exchange as the major stumbling bloc against the expansion of SST. Again, it remains with the traders to decide whether SST is worth to subsidise it. If this is not the case, surplus countries in SST will not forego earnings by accepting second-class Southern goods (counter trade) or by accumulating assets in Third World payments units which are inferior to hard currencies. There is no solidarity premium for SST among developing countries. With many reservations, the authors accept reality but still argue "that against all odds there is a potential in South-South trade in a development context" (p. 238). Beyond open disagreement with the efficiency-driven view on trade, it remains open what a "development context" is. The monograph can be recommended to those in search of a summary of a debate which in the mid-seventies and early eighties comprised a large part of the "New World Economic Order" literature.

Rolf J. Langhammer

Giovannini, Alberto (Ed.), *Finance and Development: Issues and Experience*. Cambridge, New York, Port Chester, Melbourne, Sydney 1993. Cambridge University Press. XVII, 361 pp.

The volume is based on a conference on "Finance and Development in Europe" held by the Centre for Economic Policy Research in December 1991. It addresses two very general questions: What are the likely effects of the single European market and of EMU? Do the changes brought about by market integration imply that a new mechanism is required to minimize poverty? The papers in the volume provide a discussion of the theoretical and empirical questions surrounding the role of finance in economic development. McKinnon and Shaw were the original exponents on the financial issues in development economics. The role of foreign capital, connections between monetary policy, financial markets and financial capital flows require an in-depth study and the book under review tries to provide it.

There are three parts: Part 1, dealing with theoretical discussions of the role of financial markets in economic development; Part 2A, concentrating on financial markets; Part 2B on government policies; Part 3 on the problems of financial intermediaries devoted to development financing; and the volume has a final, very thoughtful, overview chapter by Stiglitz.

In the first part, a paper by the editor sets the scene by providing a summary of various issues and of the main ingredients of the subsequent papers. In the next chapter, *Krugman*