CEPAL

REVIEW

NUMBER 51
DECEMBER 1993
SANTIAGO, CHILE

ANIBAL PINTO
Director of the Review

EUGENIO LAHERA
Technical Secretary

UNITED NATIONS

CEPAL REVIEW 51

CONTENTS

DECEMBER 1993

Old and new *trade policies*

Daniel Lederman

Staff member of the ECLAC Washington Office.

Latin American development strategies have historically been inextricably linked with trade theory and policy. The author's main argument is that the old infant industry and the new strategic trade arguments are fundamentally similar. Among their similarities is the justification of selective protection of certain economic sectors. Among their differences, the infant industry argument justifies temporary protection, while the argument in favour of strategic protection of certain industries justifies their protection on an indefinite basis. Yet, in the context of turning inward-oriented into outward-oriented economies, the difference between trade policy and industrial policy becomes nebulous. This is due to the theoretical conclusion drawn by both arguments –both of which favour protectionism– that the best, most welfare- enhancing policy choice, even for strategic sectors, is the use of subsidies. After examining the theoretical rationale of both arguments, this essay concludes with a set of observations and prescriptions concerning the economic, political and institutional implications which should be taken into account by policy-makers when attempting to design a viable, long-term strategic development plan.

I

The contemporary debate over protectionism and development in Latin America

Debates over development strategies have been permeated by theoretical discussions on trade policy. The infant-industry argument for protectionism was fundamental for the rationalization of the import-substitution strategy, which was actively pursued by Latin American States in the 1950s and later. Advocates of both heterodox and orthodox structural adjustment in the 1980s argued that export promotion (via domestic currency devaluations and market liberalization to enhance competitiveness) was needed to augment foreign currency revenues, to finance external debt service payments, and to reach equilibrium between the internal and external balances. By the second half of the 1980s, these policies had produced mixed results. Because high real international interest rates peaked in 1985, while a prolonged recession in the OECD countries reduced the growth rate of international trade and the terms of trade for exporters of primary goods worsened, the process of adjustment initially dampened the demand for imports, so that export earnings remained relatively stagnant (Bianchi, Devlin and Ramos, 1987). By the early 1990s, fast-reforming countries like Argentina and Mexico have been relying on capital inflows to finance growing current account deficits. Chile remains the only case where exports are driving economic growth, while capital inflows have helped to create upward pressures on its exchange rate.

The debate over development strategies and trade policy in Latin America now revolves around the issue of turning inwardly-oriented economies outward. The former Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), Norberto González, has concluded that turning economies outward can be understood in two different ways. On the one hand, it may focus on the export of new goods and services and the conquest of new markets. On the other hand, it may be interpreted as the dismantling of protectionism, thus allowing the free inflow of foreign commodities (González, 1988). Choosing trade policies cannot be limited exclusively to protection or openness in order to bring about beneficial structural adjustment. Moving from an inward to an outward orientation, while enhancing the marginal productivity of labour in a developing economy, cannot be achieved in these terms simply by indiscriminately liberating market forces. In this context, protectionism as a means for promoting exports is central to the debate over development strategies. The new strategic trade justification for protectionism is an emerging but tempting theory. In the present essay, this argument will be compared with the older infant-industry argument in order to assess similarities and differences. In discussing the trade policy alternatives, the menu of options will be limited to tariffs and subsidies in general. Hence the differences between "industrial policy" and "trade policy" are blurred. So-called neutral policies, such as fiscal expenditures on education and training, research and development are not addressed. This approach is justified by the fact that both the infant-industry and strategic trade arguments make a prior assumption that some sectors are superior to others in terms of the benefits that can be extracted from their protection.

The notion of comparative advantage, focusing on national differences as the driving force behind international trade, is an essential element in the neoclassical and the newer market structure theories of trade. After examining both theories, and the corresponding notions of comparative advantage, the protectionist arguments will be compared by examining the theoretical explanations of comparative advantage, and the accompanying policy prescriptions. Criticisms of the infant-industry argument will be summarized, and then applied to the strategic trade argument to assess whether the newer argument survives an old test. The final section will comment on the economic, political and institutional implications of the strategic trade argument, and will shed doubt on the need to adopt new trade theories as guidelines for trade policies.

II

Comparative advantage and international trade

According to the Ricardian model based on a single factor of production, a competitive economy will produce goods according to two principles. Producers attempt to maximize earnings, and the method of production will be determined by a country's level of technical progress. Hence, the amount of labour required for the production of a particular good is determined by the technique of production. A country's labour force is allocated according to the wage levels of the productive processes, which in this model are determined by the costs of production.

Comparative advantage is derived from national differences. In the classical model, the difference lies in the technique of production. One country is able to produce a good at a lower opportunity cost than another, in terms of its domestic relative price ratio. Thus, country "A" is said to have a comparative advantage for the production of a good "a" if this good is more cheaply produced, relatively to good "b", than in country "B". Trade occurs when countries specialize in the production of the good for which they have a comparative advantage. In classical theory, all countries derive gains from international specialization.

1. The neo-classical explanation

The Heckscher-Ohlin-Samuelson theory of trade expands on the classical model and simplifies economies into a model with two factors of production: labour and capital. However, it provides a different explanation of comparative advantage, the driving force behind international trade.

In the two-factor model, comparative advantages (or the domestic relative price ratios) are determined by a country's endowment of each factor of production. A key assumption is that techniques of production are the same for all economies. Hence the underlying assumption is that all countries have the capabilities for producing any good at the same marginal productivity of factors of production. In other words, the technology of production is one of fixed coefficients and the marginal productivity of labour and capital are the same across borders. International trade is the indirect result of differences in national factor endowments, not disparities in technological advancement. Assuming diminishing or constant returns to scale, a country will specialize in the production of goods that require the factor intensity that best fits its factor endowment.

This latter element of neo-classical theory is the principal point of departure for the new strategic trade theory, which emphasizes that costs of production, the acquisition of intermediate inputs and know-how affect the structure of particular strategic markets which provide opportunities for greater capital accumulation.

2. Market structure, history and luck [1]

Strategic trade theory explains *why* production tends to concentrate in particular geographic areas. This approach is subtly different from neo-classical theory, which tries to explain *where* production of particular types of goods is concentrated.

In seeking to redefine the explanatory objective of trade theory, Paul Krugman and others have argued that "comparative advantage need not be the whole story. Increasing returns can be an independent cause of international specialization and trade." By borrowing from models of imperfect competition that were developed in the field of industrial organization in the 1970s, strategic trade theorists were able to model the hypothesis that economies of scale may be external to firms, and that increasing returns can lead to imperfect competition. Market structure, shaped by the existence or non-existence of economies of scale and increasing returns, is hence a major determinant of the direction and composition of international trade.

[1] This section is based on Krugman (1987a, 1987b, 1988, 1990a, 1990b and 1990c).

Under this scheme, history and luck play a crucial role in determining the direction of trade. Since it is assumed that capital accumulation is indispensable for conceiving certain industries, the effect of economies of scale has been manifested in the rapid growth of international intra-industry trade throughout the postwar era. Comparative advantage is still, however, according to Krugman, a driving force of inter-industry trade. Oligopolistic, rent-seeking industries can emerge under self-perpetuating historic conditions in a particular geographic area. According to Krugman, "Whether one prefers to explain the greater initial accumulation of capital in one region by the slave trade or the Protestant ethic, this is a model in which small beginnings can have large consequences."

Perhaps the market structure explanation of international trade gives a more realistic picture of international and domestic markets. Its emphasis on imperfect competition has the virtue of incorporating factors affecting a country's productive base, but it also "offers no guarantee that potential benefits from trade will necessarily be realized". Hence it provides a clear justification for active trade policy which, according to the logic of the theory, should be designed to attract oligopolistic rents away from foreign firms. The appropriate policy instruments would therefore have to be well-focused, so as not to distort trade driven by clear comparative advantages. It is worth mentioning at this point that the aircraft and semiconductor industries and other high-technology activities are among the most popular candidates for strategic protection.

However, this approach is not the first to consider factors that affect the productive base.

III

The infant-industry argument

The traditional infant-industry argument for protectionism also incorporates production costs into the picture. Buying technology and knowhow is costly. At first, marginal costs may be greater than marginal productivity of labour and capital for certain productive activities, especially those requiring sophisticated manufacturing technology and management techniques.

The basic assumption is that some industries are "initially uncompetitive internationally, but in the longer term, and after *temporary* protection, they have a comparative advantage" (Milner, 1988). The leading theoretical question is why certain industries cannot flourish without protection from foreign competition. A common answer is that nascent firms can learn by experience and in the longer run become internationally competitive.

1. Technology, knowhow, and learning by experience

The infant-industry argument is an explicitly dynamic argument for temporary trade protection. While it assumes that firms can surpass their infant status if they are temporarily protected, it also assumes that the initial costs of protection will be outweighed by the long-run benefits. The justification for protection therefore vanishes with time.

Learning by experience may allow firms to develop if they are assisted in covering the initial costs of importing technology, training the labour force and improving management. Hence it is often argued that protecting infant industries requires an "optimal" form of protection. The objective of optimal protection is to develop industries with higher profit margins and thus expand the economy's production possibility frontier so as to increase the society's welfare in the long run (Johnson, 1966).

Trade policy instruments, such as tariffs and quotas, may not be adequate means of achieving these objectives, however.

2. Trade policy instruments and overcoming market distortions

Discussions about trade policy instruments lead to the problem of identifying the reason why the industry cannot develop without intervention. In the presence of high initial fixed costs, when marginal revenue is lower than marginal cost, trade policy alternatives may be designed to relieve this entry burden directly. Production subsidies could accomplish the task without lowering consumer welfare. Yet it has also been argued that tariffs, or for that matter quotas,[2] even if maintained indefinitely, can transform infant into competitive firms in the domestic and international markets in the long-run through learning-by-doing (Johnson, 1966, p. 30).

However, in this case trade policy aims to overcome what can be considered as a market distortion. If there were no such distortion, and infant industries were perceived by financial markets as being capable of "growing-up", financial intermediaries should provide the credit necessary for the industries to develop. Financial institutions would be able to perceive a future gain in present value terms if credit were offered for the long term, or at least for long enough to make firms capable of making service payments after having learned by experience.

Hence, the problem becomes one of resolving market distortions in the financial market, not in the goods market. If, in the words of Jagdish Bhagwati, "the foolish assumption that learning automatically follows from doing" were correct, the distortion that needs correction is that financial markets capture the full benefits of this learning process for firms in protected or promoted infant industries (Bhagwati, 1988, pp. 96, 97).

Indeed, within a hierarchy of options, the infant-industry argument would place direct trade intervention "low down in the rank order" (Milner, 1988, p. 67). Moreover, temporary subsidies would be preferable to tariffs or quotas because they would not mean altering consumption patterns. When subsidies are used, the State becomes the arbiter, and the responsibility of choosing winners over losers falls on the fiscal budget. That the infant-industry argument has been used as a justification for indefinite implementation of tariffs, and even for overall insulation of developing economies, is a "political fact, it is not always an economic necessity" (Johnson, 1966, p. 30).

Although it was oriented toward dealing with worsening long-run terms of trade for primary good exporters and structural sources of inflation, the import-substitution industrialization strategy incorporated the infant-industry argument into its defence of protectionism. Consequently, many of the criticisms of this protectionist apologia are intrinsically connected with its application through the import-substitution strategy.

3. Criticisms of the infant-industry argument and of its application through the import-substitution strategy

In 1972, Werner Baer observed that radical critiques of import substitution industrialization (ISI) could be placed under two categories. The "market" critics view ISI as an "inefficient way of using resources to develop" (Baer, 1972, p. 101). "Structural" critics point to the failure of ISI to create sufficient employment opportunities, "not only because of social problems of urban unemployment or underemployment, but also because of their implications for income distribution" (Baer, 1972, p. 107).

Moderate critics converged on several points. First, a common finding was that tariff protection was implemented indiscriminately, without considering the promotion of productive activities that exhibited potential comparative advantages. Secondly, it has been observed that autarkic development promoted inefficient, high-cost industries in economies with small markets, limited capital for investment, and unskilled labour. This was especially true of industries with high fixed costs, which required large-scale output in order to lower costs to levels similar to those in developed economies.[3] In attempts to implant domestic competition where restrictions had blocked international competition, government efforts resulted in further obstacles to the development of economies of scale, and inefficiency prevailed.

Another critique highlights the excessively high rates of "effective protection". Consumer goods were protected, and their prices rose, while imports of intermediate and capital goods were made cheaper for firms which received advantageous treatment in respect of foreign exchange controls. These benefits eliminated incentives for improving efficiency as profits skyrocketed for industries privileged by this autarkic environment.

[2] Jagdish Bhagwati has explained that in the context of models that assume (i) competitive foreign supply, (ii) perfect competition in domestic production, and (iii) a quota which is allocated so as to ensure perfect competition among the quota-holders, tariffs and quotas have the same effect on the relative price ratio of imports to domestically produced goods (Bhagwati, 1966, p. 54).

[3] Werner Baer gives two good examples: the automobile and steel industries (Baer, 1972, p. 101).

The common denominator among critiques of ISI is their emphasis on the autarkic nature of the environment that was created in Latin American economies. The indiscriminate implementation of protectionism produced inefficient firms, while the agricultural sectors –those with most obvious comparative advantage in international markets– were heavily taxed.[4] In economic terms, the infant-industry argument can only justify subsidizing production costs if financial markets are irreparably imperfect. Finally, the argument itself focuses on industries that have the potential for learning from doing, for overcoming their infant status. Only very selective protectionism is justified by the infant-industry argument.

The strategic trade argument is similar in various aspects. The most obvious similarity is contained in its name, for the word "strategic" of itself implies selectivity. Examining the rationale of this newer justification for protectionism will shed light on other similarities that it shares with its old predecessor.

IV

The strategic trade argument

Krugman, in defending selective protectionism for the United States economy, has argued that: "The issue is not one of overall competitiveness but of competition over those sectors that are of special value to an economy" (Krugman, 1987b, p. 208). International trade, he held, does not occur as a substitute for the migration of factors of production; it is due rather to the impetus for maximizing profits in a market with increasing returns to scale. Thus he turned to the identification of so-called strategic industries.

A strategic industry can be defined in two ways. First, increasing returns to scale can be achieved when competition is imperfect; when economies of scale are internal to the firm. Secondly, a sector may yield high returns indirectly when external economies of scale are generated in a differentiated product market (Krugman, 1987b, p. 230).

Hence this new argument for protectionism is not based on the trade structure of a country. Krugman does not believe in the long-run deterioration of the terms of trade for exporters of primary goods (Krugman, 1988, p. 56). Rather, the strategic trade theory focuses on potential gains from capturing a specific differentiated market. Active trade policy can enhance development, according to this logic, by achieving economies of scale irrespective of whether or not the market is imperfect.

In sharp contrast with the infant-industry argument, this justification for protectionism is static.[5] It justifies protectionism for an indefinite period of time, or until the market share is lost to foreign competitors and economies of scale disappear.

The strategic industry argument, however, claims that active trade policy is a means for promoting exports of strategic goods. In this sense, it does not make a new claim; the infant-industry argument also portrays protection as a means of tapping potential comparative advantage. The first-best policy choices are those that enable firms to reach economies of scale without distorting relative price ratios. Direct production subsidies, or public or private investment in infrastructure, for example, may do the trick. The latter is not usually considered to be a trade policy instrument, and both press the issue of fiscal spending.

In sum, we are left with one major difference: a newer static model confronts an older dynamic justification for protectionism. Subjecting the strategic trade argument to the above-mentioned criticisms of its older counterpart is another way of tasting "old wine in new bottles".

[4] Taxation of the traditional agricultural sector occurred in three ways. First, credit and investment were reallocated to industrial development, thus reducing the resources available for enhancing agricultural efficiency. Second, overvalued exchange rates (to provide cheap imported manufacturing inputs) hurt agricultural competitiveness in international markets. Third, the combination of high prices of domestically produced manufactures and price controls over agricultural goods produced a deterioration of the internal terms of trade for agricultural sectors (Baer, 1972, p. 104).

[5] It is noteworthy that Harry G. Johnson made this distinction in 1966, with reference to a comparison of the infant-industry argument with market failure arguments (Johnson, 1966, p. 27).

V

Does the strategic trade argument stand up to old criticisms?

Moderate criticisms of the infant-industry argument revolved around the issue of autarkic development. It is highly questionable whether the cost of taxing traditional sectors which are internationally competitive is outweighed in the long run by such benefits as may be obtained from indiscriminate protectionism.

Strategic protection, as mentioned above, does imply selectivity. But so did the infant-industry argument. Strategic protection implies indefinite protection in order to extract oligopolistic rent from foreigners. The infant-industry argument suggests temporary protection, but the criticisms of ISI point to the many cases of inefficient industrialization promoted by indefinite, indiscriminate protectionism. In this sense, the newer justification scores lower.

Nonetheless, it is also obvious that the infant-industry argument did not, in economic terms, justify the implementation of ISI in the way that it actually occurred. The danger of the strategic trade argument is that it justifies, in economic terms, a major and questionable component of the ISI strategy; indefinite protection of particular industries. The lesson to be drawn from this comparison has nothing to do with the virtues of trade theories, new nor old. Decisions as to the appropriate development strategies that should be pursued by Latin American States should not focus on the logic of justifications for protectionist trade policy. Instead, more emphasis should be given to the economic, political and institutional implications of the strategic trade argument.

VI

Economic, political and institutional implications

Given the similarities between the infant-industry and the strategic trade arguments, some of the economic implications of the temporary and selective protectionism they prescribe may seem applicable to both.

Market forces played an important role in deepening industrialization in Latin America during the era of import substitution (Hirschman, 1992, p. 1230). Market size allowed some of the larger economies, through backward linkages, to move from primary import substitution to secondary import substitution; from producing consumer goods to producing capital and other durable goods. This effect would probably not occur if a strategic trade policy is properly implemented, primarily because the domestic market is not the target of strategic policy.

Another insight is that import substitution was initiated in response to international shocks and deepened as domestic markets grew out of the vestiges of the Great Depression. Strategic trade, at least in theory, has long-term objectives. The dependence on the global marketplace poses dangerous obstacles for strategic policies. While strategy is designed for the long-run, global markets react to business cycles, especially those of the largest export markets, and there is a risk of becoming over-extended in periods of recession and under-funded during periods of growth. Policy designers must keep in mind that strategic policy must be federally funded and financed through taxation. It is worth recalling that non-strategic (i.e., non-selective) trade policy has often been used to solve balance of payments disequilibria in the past. The indirect link between the domestic economy and the performance of the global economy or major export markets is strengthened when pursuing long-term trade strategies. The temptation to mismatch trade policy instruments with balance of payments targets must be resisted.

The connection between fiscal policy and strategic trade leads to some political implications. On the one hand, if strategic policies succeed, increases in GDP may lead to relaxed fiscal policies, in the same way that the exuberant phase of import substitution industrialization led to over-extended public policies. If the sense of selectivity is not maintained, the national economy's tendency to overextend is exacerbated with respect to the global economy. The institutionalization of rent-seeking practices is certainly not the only explanation of how import substitution strategies lost their focus. However, such practices may have played an important role in prolonging its historic span.

The institutional implications of strategic trade are perhaps the most important. After all, the objectives are ambitious, the focus should be selective and the process must be flexible. The issue of flexibility is especially important during the initial phases of the implementation of strategic policies. The theory is vague on what constitutes a strategic sector, and the institutional process should be able to withdraw fiscal resources on a trial-and-error basis.

The problem, then, is how to deal with institutional inertia.[6] Aside from leadership, the centre of decision-making on matters of trade policy should be clearly defined. Concentrating trade policy decision-making in one institutional entity limits the channels of bureaucratic influence, thus reducing the possibility of being distracted from strategic trade objectives. The governments of Costa Rica and Colombia took steps in this direction when they recently set up specialized foreign trade ministries.

Another institutional requirement is to open up channels of communication with potential strategic sectors. This calls for a special business-government partnership based on consultation. These channels should be institutionalized in the form of public consultations and information gathering in order to prevent specific interests from dominating them. Policy-makers should constantly be reminded that previous decisions may not have been ideal, especially in the initial phases of implementing strategic policy. This system of public consultation is highly advanced in the United States, where, incidentally, the Office of the United States Trade Representative (USTR) has set up a permanent system of consultations under its legislative prerogatives. Like the foreign trade ministries of Costa Rica and Colombia, the USTR is above all an international negotiating agency.[7] In the United States, subsidies and other forms of protection are monitored and implemented by the US Department of Commerce and the Department of the Treasury. In addition, the US International Trade Commission conducts trade research investigations for Congress and the Executive upon request, and participates in the process of determining whether US industries have been hurt significantly by unfair trade practices of other countries.

In this paper, a more powerful, overarching trade policy agency than the USTR is recommended for the largest and most industrialized Latin American economies. Greater concentration of executive powers on trade issues is also justified for countries whose trade-to-GDP ratio is high.[8]

Nonetheless, it cannot be over-emphasized that certain sectors are not strategic. For instance, it is difficult to portray small agricultural economies as offering strategic options. These countries are better off not risking the stability of their fiscal policies. Their economies should specialize according to more traditional concepts of comparative advantage. It is not surprising that countries with small domestic markets were the least successful in their ISI period. For larger, more industrialized developing economies the centre of strategic trade decision-making should leave out certain sectors. In other words, departments of agriculture and domestic commerce should not be eliminated and taken over by a powerful trade institution. Nor should traditional sectors be taxed while strategic sectors are subsidized. In the end, the sectors which are more

[6] A.O. Hirschman wrote that: "Special institutions designed to supply capital and entrepreneurial guidance... became important in most of Latin America after the import substitution industrialization process had already been underway..." (Hirschman, 1971, p. 95).

[7] The lack of institutional concentration of trade negotiating authority may also cause problems. For instance, in a process of regional trade liberalization, the sequence of negotiations may be debatable. Differences may arise between the judgements of the ministries of finance, economy and external affairs, and such conflicts may produce policy deadlocks. However, this is an entirely different subject, outside the scope of this paper.

[8] In the case of the United States, this ratio is below 15%.

clearly competitive are the ones that will produce capital accumulation to finance strategic policy; consumers pay for strategic trade policy through taxation.

In conclusion, strategic trade policy requires new ways of organizing government. In terms of theory, strategic trade is too similar to past justifications for protectionism. Without new political and institutional thinking, strategic trade theory remains old wine in new bottles.

(Original: English)

Bibliography

Baer, Werner (1972): Import substitution and industrialization in Latin America: experiences and interpretations, *Latin American Research Review,* vol. VII, No. 1, Austin, Texas, The University of Texas Printing Division, Spring.

Bhagwati, Jagdish (1966): On the equivalence of tariffs and quotas, *Trade, Growth, and the Balance of Payments. Essays in Honor of Gottfried Haberler,* Chicago, IL, Rand McNally & Co.

——(1988): *Protectionism,* Cambridge, MA, MIT Press.

Bianchi, Andrés, Robert Devlin and Joseph Ramos (1987): El proceso de ajuste en la América Latina, 1981-1986, *El trimestre económico,* vol. LIV (4), No. 216, Mexico City, Fondo de Cultura Económica, October-December.

De la Torre, Rodolfo (1990): En busca de una perspectiva económica general: conversación con Jagdish Bhagwati, *El trimestre económico,* vol. LVII (4), No. 228, Mexico City, Fondo de Cultura Económica, October-December.

González, Norberto (1988): An economic policy for development, *CEPAL Review,* No. 34 (LC/G. 1521-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April.

Hirschman, A.O. (1971): The political economy of import-substitution industrialization in Latin America, *A Bias for Hope,* London, Yale University Press.

——(1992): Industrialization and its manifold discontents: West, East and South, *World Development,* vol. 20, No. 9, Oxford, United Kingdom, Pergamon Press Ltd., September.

Johnson, Harry G. (1966): Optimal trade intervention in the presence of domestic distortions, *Trade, Growth, and the Balance of Payments. Essays in Honor of Gottfried Haberler,* Chicago, IL, Rand McNally & Co.

Krugman, Paul R. (1987a): Is free trade passé?, *The Journal of Economic Perspectives,* vol. 1, No. 2, Nashville, TN, The American Economic Association, Fall.

——(1987b): Strategic sectors and international competition, in Robert M. Stern (ed.), *U.S. Trade Policies in a Changing World Economy,* Cambridge, MA, MIT Press.

——(1988): La nueva teoría del comercio internacional y los países menos desarrollados, *El trimestre económico,* vol. LV (1), No. 217, Mexico City, Fondo de Cultura Económica, January-March.

——(1990a): Import protection as export promotion: international competition in the presence of oligopoly and economies of scale, in Paul R. Krugman, *Rethinking International Trade,* Cambridge, MA, MIT Press.

——(1990b): Trade, accumulation, and uneven development, in Paul R. Krugman, *Rethinking International Trade,* Cambridge, MA, MIT Press.

——(1990c): Increasing returns and the theory of international trade, in Paul R. Krugman, *Rethinking International Trade,* Cambridge, MA, MIT Press.

Milner, Chris (1988): Trade strategies and economic development, in David Greenaway (ed.), *Economic Development and International Trade,* New York, St. Martin's Press.

Riedel, James (1988): Trade as an engine of growth: theory and evidence, in David Greenaway (ed.), *Economic Development and International Trade,* New York, St. Martin's Press.