

Harmon Thomas. 1990. *The implications for developing countries' export earnings growth of an increase in the share of imports by developing countries from each other: a simulation analysis*. UNCTAD discussion paper no. 32 (August).

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LDCs' non-fuel imports from each other = 20% of total LDCs' non-fuel imports.

In the event of an increase in non-fuel imports from each other, LDCs' exports earnings on the whole may increase on the assumption that overall exports of each country increases.

What are the assumptions of the model?

- non-discriminatory shift in imports from each other;
- exports are demand constrained – hence, an increase in export demand can be supplied at unchanged prices;
- in the short-run, relative prices amongst LDCs suppliers will not be changed and the pattern of trade will be held constant.

What are the critiques of the model?

- what do LDCs export that may be of interest for other LDCs to import? In SSA, 9 agricultural crops account for as much as 45%-50% of SSA non-fuel exports. How many other LDCs are interested in such crops? It is not surprising that LDCs imports from each including fuel is just above 26% of total imports, and excluding fuel is just below 20% of total non-fuel imports (fuel imports equal 12% of total imports of LDCs, and almost 1/3 of total LDCs imports from each other).
- given the structure of imports of LDCs, the bulk of imports are investment goods that only a small number of LDCs can supply. Hence, it is likely that exports earnings will be highly skewed in favour of more industrialised and diversified economies of LDCs. In the simulation, of the 20 LDCs with higher export earning gains from the shift in the direction of non-fuel imports from LDCs, 11 are Asian, 8 are Latin American and 1 (the 19<sup>th</sup>) is from Sub-Saharan Africa. The first 10, in decreasing order of gains, are Brazil, Malaysia, Korea, Singapore, China, Argentina, India, Thailand, Indonesia and Mexico (Taiwan and Hong-Kong are excluded from the sample, and it is likely that they would be at the top of the list of ten). These are five of the most dynamic exporters in SEA, and the very large economies of Brazil, Argentina, Mexico, China and India.
- most LDCs, particularly in SSA, are forex constrained. This constrains their import capacity (which is often to be financed by bilateral and multilateral import support programmes), in three ways: quantity, structure and source of imports. This surely will have an effect on the ability to shift import expenditure towards other LDCs, which are unlikely to be the source of import support programmes. This factor is also likely to skew the exports gains from LDCs shifted import expenditure towards the more advanced and competitive LDCs
- if LDCs ability to import in hard currency is limited, so will it be their ability to export to other LDCs. Which country is going to forego export

earnings in hard forex for the sake of shifting import expenditure to other LDCs? This, also, gives a competitive advantage to the more competitive LDCs.

- LDCs ability to increase exports to each other significantly relies on investment – for the diversification of production, production of competitive (in price and quality terms) capital and intermediate goods, developing of communications and trading infrastructure, etc. This investment requires resources not available in LDCs alone, and also is a long-term programme. FDI may have to play a bigger role particularly in SSA, and the trick is to identify FDI projects that can result in increased trade amongst LDCs without compromising forex earnings. Again, this factor is likely to skew export gains to the more advanced LDCs.
- the poorest LDCs in SSA, Latin America and Asia, as well as the economies specialised in oil exports, are the ones likely to earn little, if anything, from a shift in the demand of non-fuel imports of LDCs from each other. From the sample, the economies with smaller or no export gains are Tanzania, Somalia, Zimbabwe, Ethiopia, Iran and El Salvador.
- it is unlikely that most LDCs, particularly those of SSA, will be able to export more to each other in the short-run without somehow affecting their ability to export more to DCs. On the other hand, LDCs, particularly the poorest ones, seek to expand their access to the export market of DC and are specialised in exporting to those markets. Although economies differ significantly, and many are very far from full employment, it is unlikely that the short-run benefits of shifting import expenditure will be captured by LDCs in some homogeneous way.

There are three problems with the model. First, exports are not only demand constrained, but also supply constrained. Second, demand is not only an aggregate quantitative concept – the question is not only how much, but how much of what, and paid with what. Hence, it is not very likely that a significant shift in import expenditure will occur. Third, it is likely that even without designed discrimination, a small number of LDCs will benefit significantly more than the vast majority. There will be embodied discrimination. All of such factors are likely to affect relative prices. Given all the factors mentioned, and the difficulty to operate a shift, in the short-run, in import expenditure, the question that arises is how meaningful it is to simulate static, short-run simulations of this sort.