

**UNEVEN DEVELOPMENT AND THE TERMS OF TRADE:
A THEORETICAL AND EMPIRICAL ANALYSIS**

My dissertation explores the emergence and reproduction of growing inequality among countries, with a special focus on the patterns of international specialization and the movements in international terms of trade. It focuses on variations in terms of trade and divergence/convergence of growth rates under a global North-South balance of payments constraint. I illustrate how the movements in terms of trade not only reflect, but also shape the changes in relative growth rates between the advanced and developing economies. In particular, I examine the conditions under which growth divergence and/or terms-of-trade deterioration emerge in a two-region trade/growth model based on the Prebisch-Singer Thesis. After specifying these conditions, I reformulate and extend the Thesis to cover a range of situations with contemporary relevance, including sustained trade deficits, incomplete specialization, technological change, and structural differentiation within the South. These extensions provide a coherent basis upon which I derive my major hypotheses to be empirically tested. The dissertation consists of five chapters. A brief description of the chapters follows:

Chapter 1: Introduction

This chapter begins with a theoretical survey of growth and development in trade models. I present the static gains from trade argument as part of the comparative advantage theory, contrasting it with a long-run view of dynamic gains from trade that are central to structuralist analyses of trade and development. Unequal exchange theory and the concept of immiserizing growth are also examined to establish the theoretical connections between international exchange and uneven development. The chapter continues with a literature review of North-South models paying special attention to the channels of interdependence. It concludes with a review of empirical studies on the controversy around terms of trade deterioration as well as a review of empirical estimates of North-South models.

Chapter 2: North-South Terms of Trade Trends from 1960 to 2006

This chapter examines the tendency for the developing country terms of trade to deteriorate due to country-specific and product-specific factors. The combination of these factors, I demonstrate, creates adverse terms-of-trade movements for developing countries, especially the least developed and indebted ones. The empirical analysis reveals that the North-South terms of trade have turned against the South since the 1960s, deteriorating annually over 1% and amounting to a cumulative decline of about 47%. However, the terms-of-trade deterioration has been neither continuous nor evenly distributed over different country groupings. The data show that factors related to the worldwide liberalizations around the mid-to-late 1970s led to a structural break in the North-South terms of trade, which deteriorated at a rate of almost 1.5% per year in the post-break period.

Chapter 3: Growth and Immiseration in a Prebisch Framework

This chapter examines the failure of trade and industrial liberalization to deliver the outcome of income convergence across countries. The evidence suggests that the income gap between advanced and developing economies has increased further since the liberalizations gained speed. To address the question of growth divergence in the global economy and its relationship to terms-of-trade trends, I formalize, reformulate, and extend the Prebisch-Singer Thesis. This allows me, among other things, to connect the Thesis to the concept of 'immiserizing growth' and other formal models

of North-South trade/growth relations. Using panel data from 57 developing countries and their major trading partners, I estimate income- and price-elasticity differentials since the 1960s, and find evidence for the widening differentials that have contributed to the overall worsening of the income-gaps between the global North and South. After all, these differentials are a reflection of national competitiveness in growing world markets. While a fraction of the South has been able to transform its productive capabilities structurally and succeeded in reaching expanding markets, the majority has failed to do so – partly due to the success of the faster growing countries, i.e. the ‘fallacy of composition’ problem.

Chapter 4: The Role of the Developmental State: Turkey and Malaysia

Effectively implemented trade and other policies at the national level can help to counter the adverse effects while taking advantage of the positive effects of external economic relations. This chapter analyses the role of state policies in economic development of two distinct, yet comparable countries, Turkey and Malaysia. The criteria for selection of these countries was their similar initial conditions in the 1960s, in terms of (a) per capita income level, (b) size, (c) trade structure (i.e. shares of exports and imports to GDP, and share of primary goods to total exports), (d) proximity/distance (both geographical and political) to the North. The chapter combines a quantitative analytic comparison with a qualitative study of trade and industrial policies across the two countries to analyze their impacts in terms of differential growth performance, balance of payments outcomes, and terms-of-trade variations.

Chapter 5: Conclusions, Policy Implications, and Possible Lines of Future Research

This section concludes driving policy implications from the previous chapters and outlines a set of extensions as possible lines of future research. One of the conclusions based on my analysis of North-South terms-of-trade trends is that it displayed a significant deteriorating trend for the developing countries as a whole as well as for various sub-categories especially since the mid-to-late 1970s. The empirical evidence that deterioration was even worse for the major exporters of manufactures (compared to all non-oil exporters) shows that manufactured goods are not immune to falling relative prices. Indeed, the simultaneous entry of many developing countries easily saturates these markets, resulting in steep declines in prices. On the other hand, the producers of raw materials and other simple products saw their prices decline much more than those of manufacture-exporters. The policy implication of these trends is that while industrialization efforts do not necessarily provide an escape from unequal exchange relations, its absence or ineffectual implementation creates even more dire conditions for commodity-dependent countries. Diversifying exports towards more high-tech manufactures while promoting dynamic comparative advantage through active state investment in infrastructure, skill-building, etc. can be effective in counteracting negative impact of adverse terms-of-trade movements. Yet, one should keep in mind that what works for countries with a first-mover advantage might not work for others, and what benefits the developing countries as a whole might not be favorable for individual countries. Thus, one of the conclusions derived from my comparative structural analysis of Turkey and Malaysia is that the slower speed of industrial upgrading and lower degree of internal integration in the former—partly as a consequence of fast liberalization and inadequate internal linkages—generated chronic trade deficits, increased external dependence, and macroeconomic instability that substantially undermined its success in diversification relative to the latter.