The world trade since 1960 has expanded at a spectacular rate and so has been the unprecedented growth of Direct Foreign Investment in the world economy. It was the year 1973 of oil shock that the real breakthrough in exports as well as in DFI occurred in the different countries of the world. Some of the countries of South and South East Asia viz. Hongkong, Malaysia, South Korea, Thailand, Taiwan, Singapore, followed by Indonesia, Mexico attained high rates of growth during the last two decades particularly due to export-led growth strategy. This study was undertaken to examine both on theoretical and empirical grounds the impact of total and manufactured exports and DFI on the process of industrialisation and economic development in the selected third world countries, particularly India, under the current international economic scenario and recommend suitable policy measures in the near future which could be taken to meet effectively the problems confronted by them in the areas of trade, investment and economic growth.

The analysis is largely based on the techniques viz. simple and partial
correlation, simple and multiple regression, both in simple and log linear form, on the time-series data. The period of study pertains to 1960-90.

A group of 21 countries from the South for which the adequate data was available has been selected, which have been further classified into three categories taking seven countries in each group, on the basis of per capita GDP in 1992: namely (a) Low Income Developing countries below $300, (b) Middle Income Developing countries between $300 - $675, and (c) High Income Developing countries above $675. The LID countries consist of: Burundi, Chad, Ethiopia, Malawi, Nepal, Tanzania, and Uganda; the MID countries consist of: China, India, Indonesia, Kenya, Nigeria, Pakistan, and Sri Lanka; in the HID countries there are Hongkong, Malaysia, Mexico, Philippines, Singapore, Korea Republic and Thailand. The countries were also classified as strongly export-oriented, moderately export-oriented, poorly export-oriented and negatively export-oriented. The whole period of study has been primarily sub-divided into three sub-periods viz. 1960-70, 1970-80 and 1980-90 for analysing the whole problem, because of the turmoil in international trade since, 1973, collapse of the BrettonWoods System, oil price shocks of 1973 and 1979 resulting in the world wide recession, double digit rates of inflation, and the mounting debt problem particularly for the least developed developing countries.
The following specification has been used to test these relationships:

\[ Y = f(X, DF) \]  \hspace{1cm} (i)

where \( Y \) = rate of growth of real income \( X \) = rate of growth of exports, \( DF \) = ratio of Direct Foreign Investment to total Investment or their rates of growth

\[ IIP = f(X) \]  \hspace{1cm} (ii)

where \( IIP \) = index of Industrial Production in the whole and sub-periods.

and

\[ r = \frac{\sum xy}{N \cdot \sigma_x \cdot \sigma_y} \]  \hspace{1cm} (iii)

where \( r \) = coefficient of correlation, \( x, y \) = deviations from their respective means, \( \sigma_x, \sigma_y \) = standard deviations of \( x \) and \( y \), \( N \) = number of observations.

The main findings of the study are summarised below:

The world economy has witnessed an unprecedented growth of real output and trade since 1960’s, in general, and 1990 in particular where the rates of growth of exports have been higher than real output. Postwar rapid growth in manufactured exports at the international level is fuelled by the liberalisation of international trade under the GATT and increasing integration of the world economy through Structural Adjustment Programme. But the unprecedented rate of industrial expansion and remarkable growth of world trade, since 1960s, have remained highly biased towards developed market economy countries, and high income and newly industrialised developing countries. The TWCs experienced less than

The study, on the basis of estimated equations, through the ordinary least square method of regression (OLS), reveals that the co-efficient of exports of manufactures is more important than the total co-efficient of total quantum of exports in stimulating the process of industrialisation and economic growth for all country groups of developing countries, including India, except in a few cases viz. Burundi, Chad, Ethiopia, Uganda and Tanzania, in both the periods lending support to the view that on the average, open trade policies did benefit most of the countries.

Though in general, and as a whole, it is found that total exports and GDP and per capita real GDP are highly correlated but some of the countries, particularly from low income countries viz. Burundi, Chad, Ethiopia, Nepal, and Tanzania have had high growth rates of exports along with low growth rates of GDP. It implies that an increase in the rate of growth of exports is a necessary condition but not a sufficient condition for stimulating long-run economic growth: Other factors are also important in generating the process of growth and industrialisation particularly institutional in nature. Turning to the impact of DFI, the co-efficient of DFI, was positive and significant only in the high income developing countries. The equations were also estimated by taking into account the DFI with other variables exports, manufactured exports also.
The relationship between exports, manufactured exports, and DFIs jointly and separately on per capita income is more significant and higher than in the case of GDP. This relationship is particularly important in the case of high income developing countries. The role of exports and DFIs in economic development, in the case of most of the low income developing countries, is somewhat limited and even weak as compared even to middle income countries and high income developing countries. The poorest of the poor nations do not benefit much from DFIs due to the poor state of their infra-structure and limited size of the market.

The degree of "openness" as defined by the average of the sum of values of exports and imports, which has increased over time in India and most of the countries except for LID countries, ignoring minor deviations, is highly correlated to total and per capita gross domestic product during the periods 1960-90, 1960-75 and 1976-90. Also the relationship between export-growth and output-growth was further examined on the basis of export-orientation i.e. the rate of growth of exports, it was found positive, though weak in some countries such as Burundi and Nepal during 1950-60; Burundi, Nepal and Chad during 1960-70; Chad and Ethiopia during 1970-80; Bangladesh, Bhutan and Mexico 1980-90.

Regarding the influence of manufactured exports on the process of industrialisation, the estimated equations show that the co-efficient is
positive and significant, implying that manufactured exports did play an important role in accelerating the process of industrialisation.

The terms of trade could be taken roughly an indication of the gains from trade over a period of time. No definite and conclusive trend of terms of trade as measured by the rate of volume, unit value is found during the period 1960-91 and its sub-periods 1960-75 and 1976-91. For some of the fast growing countries viz. Indonesia and Mexico, the trend values of gross and income TOT of both are found to be positive. On the other hand countries such as Malaysia, Korea Republic and Thailand having higher average annual growth rate of GDP than that of Indonesia and Mexico, give negative trend values in some periods. The same is the situation for middle income and low income developing countries. It shows that despite high growth rates of exports, the terms of trade of some of the countries particularly of low income and middle income countries deteriorated very fast. It obviously means that the real rate of growth of GDP would have been much higher had the terms of trade been favourable to them.

The worsening terms of trade of most of the countries falling in the different categories, for the different periods, could be partly explained in terms of falling international demand. At the international level the emergence of economic powerful groups viz. EC-92, NAFTA, comprising of USA,
Canada, Mexico, and APEC, have changed the very complexion of international trading system. This is contrary to the spirit of GATT/WTO; and has been working against the economic interests of South. Besides this, USA recently has entered into various bilateral trade arrangements with countries of the Caribbean, Brazil and Israel. All these powerful blocs, have clearly frustrated the efforts of South to increase exports and affected the terms of trade adversely. Non-tariff barriers imposed by the North, further have been severely impairing the export promotion efforts of the South. Most of the non-tariff barriers viz. VER and OMA, fall heavily on textiles, oil seeds, tea, coffee etc. which are the major items of high and middle income third world countries. All these suggest that the developing countries should go in for South-South co-operation and strengthen SAPTA in which India can take a lead as there is a vast scope of increasing trade among themselves. The HID countries among the developing world may give tariff concession to the low income and middle income countries in the group, in increasing their export potential as had been in the case of other successful groupings.

There has been a marked improvement in the total exports and manufactured exports and the ratio of manufactured exports to total exports or in GDP in the high income and middle income developing countries. But the low income countries, particularly Ethiopia, Chad, Burundi, Uganda, Tanzania, Nepal and Malawi, remained more or less marginal partners in third world countries trade and their share in total world exports
declined to just 0.05 per cent in 1990. Also these changes are accompanied by increasing inequalities measured in terms of per capita income, commercial energy consumed, life expectancy, health and sanitation between the developed market economy countries and Third World Countries on the one hand and within third world countries between high income and low income developing countries on the other. It implies that the countries of the third world, must adopt appropriate both fiscal and monetary policies at the international level to reduce the inequalities in income and wealth, along with their efforts to increase exports.

Regarding DFI, by 1992 the global stock of DFI increased markedly and the flows into the third world since 1990 have been the largest single component of external finance both for TWCs and India, but the countrywise distribution is highly skewed and the DFI boom concentrated on the most dynamic markets of South-East Asia and in the regions with the most intensive reforms programme. DFI flows are determined by economic growth of a region, future perceptions and the profitability. Asian Latin American nations have attracted more DFIs only on this account while several most of the African countries remained unaffected. High income host countries also recorded comparatively high shares of DFI in their overall investment mostly in manufacturing industries in general and consumer goods industries in particular.

The decade of 1980’s has witnessed the emergence of the outbreak of the debt crisis for most of the countries selected in the sample. This
actually has been endangering the stability of the growth process and efforts of the South. Though weak macro domestic policies are responsible, but some of the studies have confirmed that macro economic linkages and macro economic shocks at the world level have been partly responsible for this sorry state of affairs. This suggests that the North must make all efforts to make trade free, fair and non-discriminatory and adopt domestic policies not on the basis of narrow economic interest but for a global interest.

At present due to the rapidly opening of the external sector in India, MNCs are coming in almost all the sectors of the economy, and all the efforts are being made by the developing countries to increase exports. The problem which the third world countries are facing is to protect the environment by all means and solve the problems of unemployment, under-employment and poverty. The consumer goods sector offers the maximum scope for increasing employment opportunities. And if the DFI flows are allowed in small scale sector, it might create more unemployment and pollution. Hence the state must see that DFIs do not concentrate in consumer goods industries to tap up the emerging consumer culture with sophistication, both in terms of rate of consumption and the pattern of consumption. The demand for foreign goods for consumption may further go up leading to already existing deficits in the balance of payments and aggravating the uneven income distribution. The role of State under such circumstances has become more important than ever before.

The DFI inflows must move into priority areas such as power
generation, oil refinery etc. which have large scope for the transfer of technology or enhancing national technological capacity. We could not find any concrete evidence in this regard. The other channels of transfer of technology must not be undermined. The gap between DFI approvals and actuals in India should be curbed. The State must go for strategic intervention to develop research and development and allow only friendly technologies.

During the last 15 years, most of the developing countries selected in the sample, and India since 1991, have taken far reaching measures both at the internal as well through Structural Adjustment Programme to become a part of the international trading and financial system. The analysis suggests that export-led growth strategy under the present international economic scenario exclusively will not be able to accelerate the process of economic growth with equity, due to unfavourable and unfriendly external envirornment. Under the circumstances the South must make all out efforts to increase intra-regional trade among themselves as it will help them in promoting output and income collectively at the regional level. The SAARC, of which India is a founder member, is a loose entity, beset with inter-rivalries and, as things are, it will take longer time than is currently visualised to become a trading bloc in the real sense, the agreement on SAPTA and the proposed SAFTA notwithstanding. A review of our policy to go the whole-hog not only to strengthen SAARC and the proposed Indian Ocean Rim Countries Cooperation but also to establish closer linkages with such groupings as APEC and the ASEAN is urgently

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called for. With the latter, India is already associated as a full dialogue partner, but that is not enough. A major break-through in our relations - specially economic relations - is needed. Secondly, prudent economic policies at the macro level viz., anti-inflationary monetary policy, a sound fiscal discipline can, besides reducing TWCs' exposure to external shocks, increase its flexibility in response to them when they do occur. Thirdly, the South should collectively stress the need, more than ever before at the WTO for increasing access to the markets of North for making multilateral trading system more fair and favourable to South. India should take the lead in this regard, also. The State must evolve clear-cut policies regarding their equity, repatriation of profits, capital, technology transfers, with regard to TRIPs and TRIMs and as far as possible in the light manufactures and small scale industries MNCs be discouraged where India has acquired remarkable expertise by way of exports over the years and also in the areas which happen to provide maximum employment to the maximum number of people. Fourthly, Brudland Report stresses on the issue of protecting environment and when too much stress is laid on industrialisation and exports which have become inevitable under liberalisation and globalisation as we are trying our best to get the infinite from the finite and if this trend continues, there are apprehensions that generations to come would suffer heavily. Therefore, under the policy of 'red carpet welcome' to DFIs the governments of the developing countries should remember that their environment is not polluted and their culture is not robbed off. Hence the state has a role to play in checking and
regulating the unchecked and unregulated inflow of DFIs. Fifthly, there is an urgent need for a comprehensive and clearly defined counter-trade policy in order to promote Indian exports. The importance of counter trade needs to be recognised. It is estimated that over 20 per cent of the world trade is currently being accounted for by this mode of transaction. In case of India, counter trade is expected to provide quick and tangible benefits. Such a mechanism will help make use of our bulk buying power for promoting exports. Sixthly, to achieve the desired result, the policy should have a provision to earmark a part of the canalised products including POL products as well as restricted items for the purpose of counter trading even by non-public sector enterprises. It is stated, so far not enough attention has been paid to attract foreign investment to step up exports and generate foreign exchange earnings. India’s as well as low income and middle income developing countries’ foreign investment policy too needs to be remodelled with a view to focussing attention on export investment. This can be brought about not by imposition of any compulsion, which cannot be done in any case under the WTO, but by providing some built-in incentives such as opening up of those sectors which have large export potentials for foreign investment, some of which need to be reserved for small scale industries to generate employment. Lastly, the success of export effort is very much dependent on regular flow of information with regard to business opportunities overseas, existing and emerging and clear understanding of the strength and the strategies of our competitor, market trends etc. Since a new long term Exim policy,
as a co-terminus to the Ninth Five-Year Plan in India, would become effective from April 1, 1997, the current policy should be reviewed and recast wherever necessary to fall in line with other export promotion task and the target. The Exim Policy should have a built-in proviso to make export trading a rewarding proposition. In other words, the policy should be so fine-tuned as to prompt Indian enterprises to take up marketing overseas as a natural instinct of business and not get lured, as is the case at present, by the attraction of the domestic market. In short, a reasonable return from export business-wherever feasible should be at least on par if not higher than selling in the domestic market.