CHAPTER XVI
INTERNATIONAL

In this chapter an attempt is made to outline those international attributes which are instrumental in the development of the backward economies, as well as to explore ways by which the less developed countries can safeguard their development objective from international exploitations.

International trade has often played a pivotal role in the development of the contemporary world. Perhaps the best way to demonstrate the theoretical advantage of trade is to imagine what would happen to a nation's production and consumption levels in its absence. The two major theoretical benefits of foreign trade are that it enables all countries to escape from the confines of their resource endowment constraints and allows the citizens to consume commodities in combinations that lie outside their national production possibility frontiers.

The whole economic basis for international trade rests on the fact that countries differ in their resource endowments, their economic and social institutions, and their capacities for growth and development. The third World countries are no exception to this rule. Some are very populous yet deficient in natural resources and human skills. Others are sparsely populated yet endowed with abundant mineral and raw material resources. Still others are small and economically weak, having neither the human nor the material resources on which to base a sustained and largely self-sufficient economic and social development. International trade benefits all nations of the world, even though the benefits may be disproportionately distributed depending on world demand conditions and cost differences for different commodities in different countries. Foreign trade maximizes global output by permitting every country to specialise in what it does best, i.e. by concentrating on the production of those goods in which it has a comparative advantage.

The reason that a developing economy enters into relationships with the rest of the world is essentially to secure wider markets for its own products so that it may
exploit the gains from expanded scale, gain improved technical and entrepreneurial competence by competition and emulation, open avenues for the import of those capital goods, industrial raw materials and intermediate goods in which it does not have a comparative advantage, encourage the inflow of foreign capital to add to the rate of capital accumulation in the home economy, and finally, secure better technology and entrepreneurial expertise through the activities of foreign entrepreneurs who wish to invest in the national economy of the country in question.

Hence, international trade stimulates efficiency. It is not only a device for achieving productive efficiency, but it is also an "engine of growth". The advantages of trade may briefly be recounted. Firstly, trade is an important stimulator of economic growth. It enlarges a country's consumption capacities, increases world output and provides access to scarce resources and worldwide markets for

products without which poor countries would be unable to grow. Secondly, it tends to promote international and domestic equality of factor returns and raise the real incomes of trading countries by making efficient use of each nation's and the world's resources endowments - e.g. raising relative wages in labour-abundant countries and lowering them in labour-scarce nations. Thirdly, it helps countries to achieve development by promoting and rewarding those sectors of the economy where individual countries possess a comparative advantage whether in terms of labour efficiency or factor endowments. Fourthly, in a world of free trade, international prices and costs of production determine how much a country should trade in order to maximise its national welfare. Finally, in order to promote growth and development an outward looking internationalist policy is required. In all cases, autarky based on isolation is economically inferior to participation in a world of free and unlimited trade.

In actuality "free" trade exists mostly in diagrams and models of economists whereas the real world is beset by all varieties of national protection and international pricing policies. Third world countries have
benefited less from their economic dealings with developed nations and may have in fact even suffered absolutely from this association. Nonetheless, the option of not trading at all by closing their border to the rest of the world is not very feasible for under-developed countries. Not only do they lack the resources and market size to be self-sufficient, but their very existence often depends on their ability to secure foreign goods and resources. Some LDCs face annual threats of severe famine for which international assistance is an inevitable necessity. Many developing countries rely on the import of raw-materials, machinery, capital goods, intermediate producer goods and consumer products both to fuel their industrial expansion and to satisfy the rising consumption levels of their people.

The critical dimension of the trade characteristics of third world countries can be gleaned from an analysis of the commodity composition of their exports and imports. Less developed countries depend heavily on their exports of raw materials and primary products while the developed nations export primarily manufactured goods. Since the markets for primary exports are often very unstable,
dependence on exports of primary products carries with it a degree of risk and uncertainty. The concentration of export production on a relatively few major primary commodities such as cocoa, tea, sugar and coffee renders certain LDCs very vulnerable to market fluctuations. Significant price variations for these commodities can render development strategies highly uncertain.

In addition, the primary product domination is also vulnerable to a low elasticity of demand. The world demand patterns for different commodity groups tend to demonstrate that in the case of primary products the income elasticity of demand is relatively low. On the other hand, income elasticity of demand for manufactured goods is relatively high. Consequently, when incomes rise in rich countries their demand for food-products and raw materials from the third world rises rather slowly. While the worldwide demand for manufactured goods is colossal, in the production of which the developed countries dominate. Furthermore, the manufacturing sector has an edge on increasing returns, whereas the primary sector is prone to decreasing returns.

Economies of scale and decreasing costs are a pervasive factor in determining trade patterns. Economics of large scale production lead to monopolistic control of world supply condition. Moreover, this process of market domination and control is largely irreversible. Poor countries, industrially lagging, cannot compete with giant corporations. Those who are first to industrialise (the rich nations) are able to take advantage of these economies of scale and perpetuate their dominant position in world markets. It is another case of rich getting richer by holding all the economic and non-economic gamuts.

As for the distributional effects of trade, the principal benefits of world trade have accrued more to rich nations as compared to the poor nations. This reflects the highly inequalitarian institutional, social and economic ordering of the global system in which a few powerful nations and their multi-national corporations control vast amounts of world resources.

The question of price levels brings us to another important dimension of trade discrimination
historically confronted by LDCs. The total value of export earnings depends not only on the volume of exports sold abroad but also on the price paid for them. If export prices decline, a greater volume of exports will have to be sold merely to keep total earnings constant. In other words, the real or social opportunity costs of a unit of imports will rise for a country when its export prices decline relative to its import prices. Generally, the commodity terms of trade for UDCs is unfavourable because of the preponderance of primary product exports which invariably have fluctuating prices.

Commodity exports are perhaps the most important source of foreign exchange earnings in LDCs. But since the balance of payment is usually upset in most developing countries, they are unable to utilize their earnings to promote their development programmes. The UDCs are short of domestic savings and as such resort to borrowings from developed countries. Foreign aid is a controversial issue because its repercussions are both economic and political. Developing countries have a mixed feeling regarding foreign aid. On the one hand, aid is a symbol of dependence and on the other hand it is viewed as a useful means of
quickly achieving economic independence.

Foreign aid includes gifts, grants, liberal short-term and long-term loans as well as technical assistance, capital goods and foreign exchange credits to meet trade deficits. It embodies human skill too. The flow of financial resources has two main components viz. the flow of private foreign investment funds and other resources primarily via modern multi-national corporation and the flow of public resources in the form of bilateral and multilateral foreign aid. These resources inflows permit a country to undertake more investment than would be possible by relying on domestic savings alone. Simultaneously, foreign resource inflows help a developing country to overcome balance of payments constraints.

Foreign capital tends to flow into a country which has a stable and efficient government with a certain level of satisfactory repaying capacity. Therefore, to

attract foreign capital a country must establish its creditworthiness.

An underdeveloped economy in its growing phase usually needs some foreign capital inflow in order to supplement the local accumulation of capital and to finance excess imports of capital goods above its own importing capacity. But such borrowing eases the growth problem only temporarily since when repayment becomes due the economy must either create on export surplus or borrow again. The purpose of aid is to foster conditions favourable for a self-reliant growth in the aid-receiving countries and eventually to eliminate their dependence on foreign aid. As Rosenstein-Rodan states "The purpose of an international programme of aid to underdeveloped countries is to accelerate their economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. Thus, the general aim of aid is to provide in each underdeveloped country a

positive incentive to increase its rate of growth."

The net contribution of aid to productive capacity depends on the overall policies pursued by the recipient countries regarding their total disposable resources rather than on merely the form or the specific use of aid resources. The impact of aid resources on the capacity they help to create in the economy extends far beyond the point where they are applied. The creation of capacity in some lines may have a greater growth potential than in others. Further, there are many intangible factors which aid helps create whose impact on productive capacity cannot be measured.

Borrowing for sound development projects need not result in any substantial relative increases in a country's debt burden loans for productive projects would be matched by higher output. The new output may itself release foreign exchange either as export or as substitute for imports. Even when foreign loans are productively used and export earnings are expected to increase in the long run,

there may, however, be a lack of coincidence between the timing of the yields of investment and the schedule of debt service payments especially when large numbers of heavy, slow-yielding and long-gestation period investment projects are simultaneously launched; sometimes with long periods intervening between their inception and completion due to unavoidable and unforeseen circumstances. Such maladjustments are likely to cause a pressure on the debtor country's balance of payments in the short-run. Over the long-run exports of goods and services will have to increase to provide the foreign exchange necessary to meet the obligations of debt repayment.

An UDC resorting to foreign aid must be cautious because till the point self-sustained growth is not achieved, the volume of debt will continue to rise and also the corresponding interest payment obligations. Therefore, it is essential to shorten the dependency period. Inadequate aid breaks-down the pace of development. On the other hand, an overflow of aid may have inflationary repercussions on the economy. The volume of aid may exceed a country's absorptive capacity. Absorption of foreign aid depends on a host of
factors, viz. the rate of growth of other co-operating factors, adequate level of domestic savings, entrepreneurial ability, technical knowledge, and the growth of basic overhead facilities. Any negligence to effectively utilize aid will adversely impinge on the economy's development and will also burden the balance of payment by fanning inflationary trends.

Apart from the volume of aid the purpose of aid is equally meaningful. Usually the motives for providing foreign aid are grouped into three categories: (1) humanitarian (2) economic (3) political-national security. It is evident that bilateral aid programmes are predominated by the political security motive on behalf of the donor countries. Multilateral aid, i.e. aid channelled through international agencies is playing an increasingly important role as providers of both technical and financial assistance to developing countries.

Presently there is unutilised capacity in both the developed and developing countries. In the former, the unutilised capacity could be immediately put to use with an expansion of demand from the developing countries. With the
developing countries, unutilised capacity is not so much in current terms as in longer-period terms, their requirement being the creation of capacity that would expand their incomes and eventually provide a larger and enduring market not only for their own output but also for the exports of developed countries. It would be worthwhile to conclude with an excerpt from the statement of third world social scientists meet held in Santiago in 1973: "One of the dominant features of the present day world order is the unequal relationship between the developed and the developing countries. The developing countries are poor and weak and, in any international bargaining they are conveniently ignored or easily squeezed".  

CHAPTER : XVII

ECONOMIC POLICY AND DECISION - MAKING

Economic, social and political policies are instrumentalities or active counterparts of commitments through which the government regulates the system. Economic policies have a crucial role in the augmentation and regulation of economic development process. J. Tinbergen has accurately pointed out the significance of the non-economic aspects as well by stating: "The contents of economic policy are influenced by a considerable number of non-economic factors. Some of these factors may be considered to cooperate rightly: they are necessary elements in a realistic policy. Other ones seem to intervene wrongly and should be eliminated if a correct tradition of economic policy is to be established." Just because the non-economic goals are in apt to explicit identification, accords no reason for ignoring them. Nonetheless economic growth remains the nucleus of any strategy of overall development of an economy.