CHAPTER NO. 2

FOREIGN TRADE AND ECONOMIC GROWTH
The Economic Growth in Developed and Developing Nations.

1. Introduction:

Perhaps no subject has fully engaged the minds and energies of economists from the very beginning than the search for the satisfactorily explanation of economic growth. As a distinctive epoch in economic organisation, modern economic growth dates from the 18th century, when its beginnings in Western Europe can first clearly be discerned. Growth is not an end of economic activity. It can be also called as desire because, although it is the means for achieving a number of ends, economic and non-economic, it is itself the end result of a series of economic process. It can therefore properly be regarded as an objective of economic policy. Only relatively recently has growth become a fashionable work in economic discussion. It is true that the classicists knew about it and so did more modern economists such as Alfred Marshall.

Growth and development are often used synonymously in economic discussion, and this usage is entirely acceptable. But where these two words exists, there is point in seeking to draw a distinction between them. Implied in general usage, and explicit in what follows, economic growth means more output, and economic development implies both more output and changes in the technical and institutional arrangements by which it is produced. Growth may
well imply not only more output, but also more inputs and more efficiently, i.e. and increase in output per unit of input. Development goes beyond these to imply changes in the structure of output and in the allocation of inputs by sectors. By analogy with the human being, to stress growth involves focussing on height and weight, while to emphasize development draws attention to the change in functional capacity — in physical co-ordination for example, or hearing capacity growth and development go together. Of course at least upto a point where the economy loses its capacity to adopt changed circumstances. In the early stages, any economy that grows in likely to develop, and vice-versa. But the problem of countries have achieved a considerable measure development and growth is to keep on growing. This is currently the focus of interest in the United States and Western Europe. In the less developed parts of the world i.e. in countries that have low incomes or that find difficulty in adopting to the economic opportunities available to them, growth and development go hand in hand. Growth without development for example; more and more Coffie in Brazil leads nowhere. It is virtually impossible to complete development without growth because change in function requires a change in size. Until an economy can produce a margin above its food, through growth, it will be unable to allocate a position of its resources to other type of activities.
Less developed countries and low income countries are not exactly identical, although the categories overlap to a great extent. Sparsely settled countries like Australia and Canada at the turn of the 20th century or the United States in 1850, may be underdeveloped but not poor; another example of the country rich but underdeveloped is Kuwait, with its enormous oil royalties and its high average income per capita, but with the vast majority of the population making no contribution to the high return. On the other hand, it was thought until recently that such countries as Japan and Israel might be developed but poor because of the sparsity of their natural resources.

Economic growth is essentially a modern concept, a chief of our dynamic age. A few decades ago, in the midst of successive fluctuations and economic crises, the most developed countries with the support of their leading economists, directed their attention primarily to achieving an equilibrium. Even in evaluating economic statistics growth was of little significance up to the Second World War. Today however economic growth is an issue that enjoys widest publicity beyond academic circles and forms the subject of government programmes etc. The efficiency of social and economic systems, the success or failure of economic policy are measured in terms of economic growth, involving the movement of the entire economy rather than the gains or losses of individuals.
Is it possible to work out a general theory of growth? In other words, we can say what are the factors behind the economic progress in a particular country? To put it slightly different, is economic growth a function of a particular variable or a set of variables? If it is a function of a particular variable, what is that variable? Can we predict quantitative and qualitative roles of such variable or variables as the case may be? These are some of the pertinent questions relevant to the theory of growth, which would try to explore in the analysis if following growth models. Keeping this in mind, we shall first present the basic outlines of some of the more relevant growth theories of an earlier days and then examine, again in necessarily broad terms, the status of the present day theory of growth.

The classicists—though there exists considerable differences as between Smith, Ricardo, Malthus, and Mill—thought in terms of the three factors of production—land, labour, and capital—cooperating to produce national output, and growth, consequently, was seen as determined by what happens to land, labour and capital over time. Adam Smith visualised growth through his theory of market and within the framework of this key parameter followed other ingredients of development. David Ricardo was also pessimistic about growth being a smooth process for, he maintained, as the population rose with
the growth of the capitalist sector, it would extend and increasing pressure on land, the quality and the productivity power of which was limited. Ricardo had seriously under rated the role of technical progress in economic development and has also wrongly tied the issues of population growth with economic progress. The basic elements Malthus used in his theory are very similar to Smith. Malthus argued, under the influence of Lauderdale, that in order to produce a demand pattern suitable for development, division of labour was necessary. Internal and external commerce were necessary in order to achieve a sufficiently high level of demand. He also stressed on the maintenance of an adequate proportion of society employed as unproductive labourers i.e. in personal services.¹

J.R. Maculloch's writings on growth were in some way, even more distinctively Smithian.² His whole stress on movable psychological substance broke the Ricardian link between population, wages and the margin. Although Maculloch was a growth economist who believed that onward-going was the desirable state and who wanted to avoid the stationary state, he was far from behind the fact that economic growth was not solely productive of benefit for all. He seems to have come to doubt whether the rate of profit was declining.

¹ Malthus, Principles (2nd edition 1836) Bk. II Ch.1 pp.309-437.² For full discussion of Maculloch's view of the growth process see O'Brien, J.R. Maculloch, Ch.XII.
J.S. Mill's principles was basically the result of an attempt at producing a Wealth of Nations after the Industrial Revolution had manifested itself for more fully than it had done in Smith's time. His treatment as influenced by four major apart from Smith. The first of these was **competition**. The second was Charles Babbage, and the third was John Rae, the fourth was Ricardo. Mill saw capital as a stock of previously accumulated products of labour affording a means of future production. Capital, the result of saving, was demand for labour. Demand of commodities was not demand for labour. How much capital was saved depended upon the amount of the fund from which savings could be made and the strength of the deposits to save.\(^3\)

Thus classical theory of distribution is enextricably intertwined with the concept of diminishing returns to increased dosages of labourer (and capital) on the fixed land. As acreage that is less and less productive is brought under cultivation, the incremental output declines and the incremental return on the least productive land determines the return to land, or rent. The total position of total output left after rents have been paid is then distributed between workers and capitalists, with workers paid

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at or near the substantially determined subsistence wage level. Since the classicists assured that workers, being inherently poor, are not able to save and that landlords, being inherently wastrel, do not choose to save, the entire burden of savings and investing falls on capitalists and their profits. With declining profits, capital accumulation is increasingly squeezed, finally culminating in the cessation of further growth.

Karl Marx too visualised growth through capital accumulation, but for a different reason than Ricardo or Adam Smith. He saw in this accumulation a growing misery of the working population who because of the growth of technical progress, would be systematically replaced. Marx is more concerned with changes in technology altering the proportions in which capital and labour are combined to produce output. It is his view that all innovations are by nature very labour saving, in the sense that they raise the capital-labour ratio and displace employed labour. It is this exogenously determined population growth, which contributes to the creation of the "reserve army of the unemployed", which in turn, deprives workers of all bargaining power. Capitalists will try to rescue the profit rate by using their dominant bargaining strength in the labour market to make employees work harder and further to reduce the wage, but the drive for capital accumulation finally reduces the rate of profit to a level which brings

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the capitalist system to a half.

Thus Marx's theory of capitalist development has been accepted by his followers as a gospel truth while it has been severally criticised by his opponents for the many reasons. Marx does not explain what happens next. It does not explain why should there be such a rapid rise on the organic composition of capital when there is not enough demand in the market. Marx's system is less directly applicable to problems of underdeveloped countries. His sociological and political theory, however, provided some clue to the economic history of underdeveloped countries.

Perhaps Marx's greatest contribution to growth theory was his emphasis on the importance of technological change in the production process. This emphasis was carried forward by Joseph Schumpeter expanding the concept of innovation to include not only changes in technique but also changes in quality. In markets and in supply source, unlike Marx he sees a continuously growing rate of economic development through technical progress and innovations,\(^5\) and more importantly, in his model the fruits of such progress are also enjoyed by the working population in the shape of raising per capita income and standard of living. So we find that Schumpeterian Theory of economic growth is concerned with the historic-evolutionary process of capitalism from the beginning.

\(^5\) Higgins, Benjamin; Economic Development (1975) p.126
onwards. The most important feature of his system as the role of a person who innovates i.e. Entrepreneur. There are the important problem which he has tried to solve in his theory of "economic evolution". In the comparative study of Schumpeterian model with the classical economists we find that the classical economists have presented a very gloomy picture about the future, they could not foresee the most impact of the technological development on economic evolution. Actually we observe that Schumpeter has narrowed down the scope of theory of economic development by only stressing the factor of innovation as a principal lever of economic development. Schumpeter is not quite sure whether his theory would be applicable to the conditions of the advanced capitalist countries. Schumpeter also very much influenced by Marx in his theory of economic development following the same mechanism. His tools were designed on the basis of Bawerkian system. Schumpeter's theory depends on Austrian teaching and gains its strength from that system. The mechanism of economic change of Schumpeter and Marx are basically different in that while the former regards innovations in the economic system as the autonomous factors leading to economic change, the latter


7. Ibid. Ch.XI on Schumpeter and Marx.
thinks them to be the phenomena associated with the process of accumulation which is the compelling motive of the bourgeoisie.

In connection we would like to say that Schumpeterian theories of development is the result of dissatisfaction with the general theory of equilibrium as a tool for analysing the developing process of capitalism from the beginning onwards. It does not explain as to why innovators have not appeared in poor economies. The truth we find is that every theorist suffers from some phobia and Schumpeter apparently suffered from the innovation-fobia and made it a key factor in his growth model perhaps not much realising the fact that growth is a much more complicated process than to be explained with the help of innovators alone.

Where contemporary growth theory also is concerned with the performance of the mature industrial society, it differs from the earlier attempts in that it is both less ambitious and more precise. Post war growth theorists have been content to relegate theories of population growth of changes in the organisational or institutional framework, sometimes even of technological change to other disciplines or to accept changes in these rather crucial dimensions as given, rather than to be explained within the framework of the growth theory itself. At the same time there is a conscious
attempt to be more rigorous, to learn more heavily on modern methods of model construction, i.e. structural relationships supplemented by behaviouristic relationships based on casual observation but insists increasingly on statistical verification including the estimation of the key parameters involved. It is thus greatly indebted both to the development of the national income accounting system during the 1930s and to Keynes, who while himself primarily concerned with other, short run stability matters, employed this system, more general theory construction and statistical implementation. This can perhaps best be demonstrated by examining a particular view of growth, the so called Harrod Domar model, as a prototype of post-Keynesian growth theory. While it represents a rather early and relatively simple formulation of the problem, much of contemporary growth theory which follows can be said to represent departures from the basic theme using more realistic behaviouristic assumptions.

Harrod's initial concern was with the time path of equilibrium level of income. Savings depended on income but investment, he thought was determined by an accelerator, which in a boom would lead to an expansion of income above the equilibrium path, to run the economy up against output ceilings or in depression, to contraction, which would halt growth by keeping realised growth below the warranted potential. Domer's independent working out

of the same formula also laid stress on the delicate nature of
balance along the equilibrium path but focussed on the enlarged
capacity made available for growth in $t+1$ by investment in period $t$.
This Harrod-Domar view of the world serves as a point of departure
for much modern growth theory, not only as applied to the developed
but also to the less developed world.

A first and major modification of the Harrod-

The Modification Domar would result from the explicit recognition that there exists more than one factor of
of Modern Growth production and that there is a strong possibility
Theories not only of joint inputs of labour and capital but of their substitu-
tability in producing a given output. This is the view typical of
the so-called neo-classical growth theory represented by Solow and
Swan.

A second major modification of the Harrod-Domar world
questions the implied irrelevance for aggregate savings of how in-
come is distributed among the various economic agents. The dis-
cussion of contemporary growth theory has thus far been concerned
only with the consequences of larger quantities of inputs partici-
pating, perhaps in different combinations in the production process.
Thus a third and a major modification of the simple Harrod-Domar
formulation must be the reintroduction of technological change.
Kaldor objected to both the instability of the Harrod-Domar model
and the scope from it through factor substitution.
In the same year R. Solow using a three factor production function with constant returns to scale, the third factor being 'time' or technological change, found that only 15% of recent per-capita output growth in U.S. can be explained by increases in the capital stock; 85% must be ascribed to technological change. Hicks define neutral technological change as one which raises the marginal productivity of labour and of capital at the same rate; a labour saving technological change as one which increases the marginal productivity of capital more than that of labour; and symmetrically for a capital-saving technological change.

Finally other models focus attention on changes in the quality of the labour force affecting either all vintages or only the latest entrants. Denison includes elements of both approaches. Moreover there remains the question whether technological change, embodied or disembodied, is to be treated exogenously perhaps as a free good or endogenously, i.e. shipping from some action of the system in the previous period.

Thus far we have dealt mainly with the Case of Developing Nations theory of growth in the mature or industrial economy. A second, and no less important, component of the post-World War II revival of interest in growth is the concern with economic progress, or the absence of such progress, in the so-called underdeveloped or non-industrial economies.
The attempt to formulate a theory of growth applicable to such countries essentially may be viewed as another strand from the same basic framework of inquiry identified here as the post-Keynesian theory of growth. Patently there must exist a large measure of transferability in the way economic progress is viewed among contexts.

Though the study of economic development has attracted the attention of the economists right from the Mercantalist School and Adam Smith, down to Karl Marx and J.M. Keynes; yet they were essentially European framework of social and cultural institutions. It is however, we find, in the forties of the present century that economists started devoting the attention towards analysing the problems of underdeveloped countries. Their interest in the economists of development has been further stimulated by the wave of principal resurgence that swept the Asian and African nations after the Second World War. However a study of the Poverty of Nations and the methods of removing poverty can not be based on the experience of the rich nations. Opinions given by Prof. Myrdal, is clear to us that he was in favour of using the term "underdeveloped" countries in his propounded Economic Theory of Underdeveloped Regions. The recent economic literature, a more respectable term "the developing countries" has come to be used in place of "underdeveloped countries".

11. Mrs. Hicks, Ursula; Development, Finance, Planning and Control,
One difficulty standing in the way of a viable theory of growth for the less developed world is that most of the considerable post-world war II efforts have been directed towards meeting the pressing problems of improved decision making the immediate present and heavily tinged with the flavor of a country's, or a region's, particular economic and institutional characteristics. One of the notable exceptions is Rostow's stages theory (1960), which moves directly from an interpretation of the history of the new advanced countries to a general theory of growth in terms of sequential stages; including the famous "take-off" into self sustaining growth.

Most of the theoretical insights start with the premise that the underdeveloped system initially finds itself in some sort of trap escape from which requires a major effort or considerable structural change. Rosenstein Rodan 13 was arguing for the case that 'the whole of the to be created' in eastern and south-eastern Europe should be treated and planned like one huge firm or trust'.

Leibenstein (1957) points to the need to overcome the gravitational pull of stagnation, mainly the forces of accelerated population growth, as the system departs from quasi equilibrium. Nurkse (1953) sees the need for balanced growth between industries and


sectors to ensure the simultaneous creation of markets and sources of supply for a sufficient number of hesitant entrepreneurs to move forward together. Hirschman (1958), on the other hand, hopes to solve the same decision-making bottleneck via imbalance between direct private and social overhead activity, a strategy which forces expansion on the system.

While such ideas are essentially policy-focused, they patently can not be divorced from some underlying view of how the typical underdeveloped system behaves. Formulations which recognize, implicitly condition called dualism in many of these economies are especially helpful in this respect.

Quite early Rosenstein-Rodan (1943) and Nurkse (1953) recognized that the disguised unemployed in the subsistence or agricultural sector, sharing equally in the extended family's produce but contributing little or nothing to it, represent a form of "hidden saving", or surplus, which can be mobilized through its reallocation to productive activity elsewhere. W. Arthur Lewis (1954) advanced the notion that growth in this sort of dualistic economy is a function of the rate at which the "unlimited supply" of low (or zero) productivity agricultural workers in one sector can be re-allocated to higher productivity, commercialized activities in the other. With real wages, in agriculture institutionally anchored, Lewis attention is focused largely on the creation of employment oppor-
tunities in the industrial sector, which would exercise a demand for the realised agricultural workers at the same (or a slightly higher) constant level of real wages. Jorgenson (1961) and Fei and Ranis (1964) follow this up by examining the development process in terms of the interaction between the two sectors over time.

It should, of course, be recognized that the labour surplus economy, while representing a common species of underdevelopment, i.e. by no means typical of all such systems. Some underdeveloped economies, for instance, still have exploitable free land and experience year-round labour shortages. Others have no large traditional sectors but suffer from a colonial pattern of trade.

In spite these weaknesses, the technique of unbalanced growth has come to be recognised as a novel technique for the development of underdeveloped countries. Russia was the first country to adopt it and has been successful in accelerating its rate of economic growth. Within a short period of time India has also followed suit by adopting this technique with the Second Five Year Plan. Whereas Russia could succeed by creating large surpluses in the heavy industries sector and by keeping down the consumption levels, in India such an extreme policy is impracticable. Here investments in heavy industries are being kept up at a high level in the five year plans and at the same time every effort is being made to step up production of consumer goods. But nothing is done to keep the
consumption level low in order to generate large economic surplus. The continuous rise in price level however tends to keep the real consumption standards low. Unless the government controls the inflationary pressure, planning with unbalanced growth will fail to achieve the goal of self sustaining growth.

2.2 International Trade Theories and Economic Growth.

The great upsurge of interest in the economics of development over the past decades represents a renewal of the ancient concern of economists and with the causes of the wealth of nations. In recent years economists have been increasingly concerned with a better assessment of the impact of foreign trade on the development of poor as well as rich countries, the relevance of orthodox theory to the special problems of underdevelopment, and the integration of trade and growth theory in a broader dynamic framework. In recent interest in the trade-development relationship is a such needed remedy to the relative neglect of this important aspect of the development process.

We find that this neglect can be attributed to the propensity of economic theorists, at least until recently, to exclude foreign trade from their growth models for the sake of simplicity.
Although we see that the attention was diverted from this central aspect of the growth process by a group of economists influenced in the developing countries who argued that foreign trade and investment have adverse effects on the economic growth of the poor countries and on the distribution of world income between rich and poor nations. Finally, during the earlier post-war period, when accumulated foreign exchange reserves were being spent, the balance of payments constraint on the growth of the poor countries had not yet acquired the urgency it now has for policy makers and economists. One of the central problems facing the developing countries we find, is whether the policy conclusions derived from classical trade theory or modern growth theory are more operationally useful and relevant in the design of an effective development policy. In the early post war years the classical prescription of free trade and specialization was rejected by most economists and policy makers in the developing countries. In their minds, production and export on the basis of comparative advantage means continued dependence on the production of agricultural and mineral products and unreliable foreign markets for their economic development. Indeed, encouraged by the progress made during the 1930's and World War II toward the installation of local industries, the developing countries concentrated resources on import replacement basic infrastructure, and the future expansion of existing industry. Developing countries have come to recognise that their growth has been trade limited and
that a new more relevant development policy is required in which agriculture and export expansion must play a key role.

The aim of this part is to make readily accessible a careful analytical study of the most important essays on the trade-development relationship in context of developed as well as developing countries which have appeared recently and which reflect the current state of thought on this vital subject. I have tried to include those contributions that have advanced the discussion, have employed a general rather than highly technical approach to the subject and it presents arguments on both sides of the important theoretical issues. Judging from the rapid growth of literature, there is no lack of interest in the dynamic aspects of trade theory. Dynamic "fragments" and unverified conjectures abound but do not add up to a dynamic theory applicable to the developing countries. Although we find much criticism of the static nature of traditional theory, modern critics have contributed little beyond their criticism to their formulation of a dynamic theory of international trade. During the next decade some important theoretical advances may be expected as economists analyse, synthesise and subject to empirical verification the price-argument and relate them to a broader framework.

In the Western World today some widely accepted doctrines of trade and development are still to a large extent influenced by the experience of the 19th century. as we see 19th century model of world trade is one
minds as something like the normal or ideal. As it recedes in time, it appears more and more clearly to have been the product of very peculiar circumstances. Most present-day underdeveloped or semi-industrial countries were primary export economies in the 19th century and still retain a strong foreign trade orientation.

During the last century trade was the transmission belt of growth from the dynamic industrializing centre to the poor, outlying areas: a step rise in the demand for raw materials and food stuffs by the centre led to the export of capital and migration of labour to the poor areas to ensure supply. In the 20th century this process of growth transmission has broken down. The main reason for the altered conditions of world trade in this century is the lagging world demand for the primary exports of underdeveloped countries which is the result of factors of work in the developed importing countries such as rising share of industries with low import content in total output, low income elasticity of consumer demand for many agricultural products and economies in the use of natural materials and growing use of synthetic substitutes.

Haberler's point of view, substantially free trade with marginal in-substantial corrections and deviations, is the best


policy from the point of view of economic development. The tremendous importance of trade for the underdeveloped countries follows from the classical theory of comparative cost in conjunction with the fact that the comparative differences in cost of production of industrial products and food and raw materials between developed countries and underdeveloped countries are obviously very great in many cases, in fact, infinite in the sense that countries of either group just could not produce what buy from the other.

However, identifies the following dynamic benefits of trade accruing to the poor countries: the provision of essential capital goods, raw semifinished materials; the dissemination of technological knowledge, the transmission of skills, managerial talent and entrepreneurship; the attraction of capital through international investment; and the stimulating effects of import competition. He takes the stand that free trade subject to some important qualifications, is the best trade policy for the underdeveloped countries.

The arguments and issues raised in the essays of Nurkse and Haberler concerning the contribution, trade can make in the middle of the 20th century to the development of the poor countries are analysed carefully by Cairncross. In many underdeveloped countries one of the most important task of economic development is to quite the subsistence and the market sectors of the economy and in

so during provide fresh opportunities of development. This task is facilitated by the pressure of export demand provided the fruits of high prices abroad are passed on the native producers. In post war years this condition has not always been fulfilled.

Cairncross finds little evidence that it was demand rather than supply factors which have restricted the growth of primary exports of the poor countries. He subjects to critical scrutiny the various factors which claims "explain" the alleged lag in the exports of the poor countries and rejects the explanatory power most of them. Nurkse also criticised by Cairncross for leaving out the price factor in his analysis. The development of the poor primary producers can not but be an immensely more difficult task than was the development of the richer.

Cairncross rightly said that one very good reason why the primary exports of the poor countries grow slowly is the fact that the prices of their primary products are high. This has been a powerful incentive for the industrialized countries to develop domestic supplies of primary goods, economize on imported materials, and search for cheaper substitutes.

Let us turn next to second main query suggested by the very different treatment of growth transmission by Prof. Haberler in his Cairo lectures on 'International Trade and Economic Development': Cairncross feels that Haberler exaggerates the benefits accruing to

17. Weckstein, ibid. pp.97-136
poor countries through free commercial intercourse with rich and prosperous countries. Trade does much more than provide a market and encourage the growth or reallocation of the resources necessary in order to supply it. It also transmits experience and ideas, changes attitudes and institutions, and blow up obstacles to further development. The continuous development of the industrial countries may take the "take-off" of the poor countries more difficult rather than easier especially in the early stages of development. The domestic factory-owners, isolated and lacking knowledge of rapidly changing technique may find import competition increasingly stiff unless industrialization is advanced. Of course Haberler and Nurkse approaches their subject much more belligerently, but still we feel that neither Haberler nor Nurkse has settled the primary issue: how far a shortage of foreign exchange (as contrasted with capital, skill labour, land etc.) is a limiting factor in economic development. The majority of the underdeveloped countries are monocultures, dependent for their earnings of foreign exchange on a single commodity or at most two or three. For them the scale of industrial investment is limited by the foreign exchange available for importing plant and machinery.

The modern contribution to growth theory, especially the concepts of "balanced" and "unbalanced" growth, have stimulated a reconsideration of orthodox theory of trade. Many economists have
challenged the realism of classical trade theory when applied to the underdeveloped countries, where as others have taken the extreme position that in the past-trade has operated to inhibit the development of the poor countries. Now we see that great upsurge of interest in the economics of development over the past decades represents a renewal of the ancient concern economists with the causes of the wealth of nations. In recent years economists have been increasingly concerned with a better assessment of the impact of foreign trade on the development of poor countries, the relevance of orthodox theory to the special problems underdevelopment, and the integration of trade and growth theory in a broader dynamic framework. Now let we go through some of the trade theories dating back from classical models and approaching towards the neoclassical approaches to analyse the role of trade in economic growth of the developing countries. The following survey of the implications of growth theory for trade and development is divided into two sub-parts, Part (a) is related to the survey of theories of the West. Part (b) offers a hypothesis to why all these trade models are each inadequate to serve as explanatory scheme for the major trends in the relations between the foreign trade and economic growth of developing countries now a days.

(a) The Theory of West:

In assessing the impact of growth on trade and development, I find it useful to consider the doctrinal history of the subject
Modern growth theory is usefully taken to begin with R.F. Harrod's essay in 1939, but we should not forget that Adam Smith and David Ricardo were also growth theorists too. The classical theory of international trade essentially grew out of the work of Adam Smith.

Adam Smith put forward a theory of the international trade and economic growth. According to Myint's description in his book 'Theories of Welfare Economics', for Adam Smith, free competition through foreign trade was not merely a 'lightening up' process operating in a given static framework of fixed resources which simply reallocated these scarce resources so as to equate the forces of demand and supply. Actually we find that Adam Smith's analysis of foreign trade at a given cross section of time is based on absolute differences in costs. While this 'absolute advantage' theory lacks the formal rigour of the comparative cost analysis, it enables Smith to state clearly the advantages a free trade in terms of the efficient allocation of resources. It should be stresses that it was only Smith who saw trade in these terms. Smith's theory of international trade is frequently criticized for being mixed up with various other doctrines which do not lend themselves to a clear and constant interpretation.

18. H. Myint; Theories of Welfare Economics (London 1948- in Linder B.S.

The second consideration to which this view of trade led was that trade was essentially a means of disposing of surplus produce obtained by extending the division of labour beyond the scope which the domestic market would support. This is so called "Vent-for-Surplus" doctrine. The idea is important and it was propounded by both Smith and McCulloch although J.S. Mill, who actually gave the term, dismissed it. He regarded Smith's 'Vent-for-Surplus' doctrine as 'a surviving relic of the Mercantile Theory' (Principles p.579). But as a weapon in the argument for freedom of trade the 'vent-for-surplus' doctrine is something of a two-edge weapon.

The next stage in the development of the classical theory of international trade is the emergence of the theory of comparative cost advantage. It was apparently first stated by Robert Torrens in 1855. As early as 1701 the advantages of import from abroad had been stated in comparative cost terms. Ricardo argued that superiority in comparative rather than absolute real costs should and under free trade would determine what commodities a country produced. A country which could produce all commodities at lower(or

22. See D.B.O. Brine, Opct; pp.197-204
24. Viner; Studies, p.440.
at higher) real costs that other countries would nevertheless gain from trade if it specialized in those commodities for which its comparative cost advantage was greatest (or its cost advantage was least). Ricardo presented doctrine in unqualified and highly abstract form. His exposition of the laws governing trade between two nations was extremely concise, and not entirely free from ambiguity. He failed, however, to bring out adequately the relation between his comparative cost doctrine and his general theory of international equilibrium. Thus the modern approach, can incorporate theories of production of an desired degree of complexity and specifically allows alternative opportunity cost of vary with changes in the production pattern. However, as soon as more than one factor of production is introduced, the analysis of the effects of trade on economic welfare becomes more complex than in the classical system, and the demonstration of gains from trade requires considerable more conceptual sophistication. This theory provides a strong argument for free trade- and indeed for a leisure fair attitude with respect of trade. The supporting argument is simple: specialization and free exchange among nations yield higher real income for the participants.

In actual fact, of course specially the underdeveloped countries often maintain permanent tariff and similar protectionist
measures. But we find that the task of expanding or revising the theory to take account of differences of wages in different occupations and of their cost factors than labour is still far from accomplishment but some of the writers in the classical traditions, especially Longfield, Cairns and Taussig, have made important contributions. Ohlin follows mainly the neo-classical tradition by adopting the re-allocation approach in dealing his own developed model of international trade.

The modern approach to the question of the gains from trade recognizes that the inauguration of trade or a change in the conditions of trade, such as that involved in the erection or removal of tariff barriers, will have differential effects on the welfare of individuals—either by changing the relative prices facing them as consumers or by changing the relative price paid for the factors of production. The evaluation of gain of loss therefore necessitates international welfare comparisons, which must be excluded as illegitimate.

The gains from international trade are obviously dependent on the difference between prices for exports in terms of imports established in international trade ("the commodity terms of trade") and the prices that would rule in a closed economy. Of the various

terms of trade concepts that have been developed, the most defensi-
ble and reliable is the commodity terms of trade— the price of
imports in terms of exports or its reciprocal.

The growth aspect, fortunately, has not been neglected in
the writings of the modern economists. I find that they have fully
recognised the vital role that export trade plays in the onset of
the process of growth. The existence of the differences in comp-
parative costs underlying international trade, however was merely
assumed and not explained by the classical trade theory of inter-
national trade. The theory originated with Heckscher,26 but was
significantly elaborated by Ohlin(1933)27 in its contemporary from
it owes a great deal to analytical techniques and propositions con-
tributed by Samuelson (1940)28. As commonly expounded and applied
the theory employs a simple but elegant model of production and
distribution in the national economy, usually referred to as the
Heckscher-Ohlin model, although its mechanics are, as mentioned,
largely the work of Samuelson. Model represents two theorems as:
a) International differences in relative commodity prices, thus

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of International Trade (edit: Howard, S. Ellis and Lloyd, A.M.)
Philadelphia: Blakiston

27. Ohlin, B. (1933); Interregional and International Trade.
Univ. Press.

of Factor Prices, - Economic Journal 1958, pp.163-184
making international trade possible. (b) Not only commodity prices, but also factor prices are realized, or tend to be equalised, through trade. The introduction of this model made it possible to study problems which the then existing theory did not attempt to solve except in a fragment fashion.

Kravis has pointed out the influence of "availability" (existence and elasticity of marginal supplies) on trade between advanced nations. S.B. Linder hypothesized that industry develops to supply the home market, adapts its products to the income level of that market, and exports primarily to countries with similar income levels. Travis and Johnson have called attention to the influence of tariff structure on pattern of international trade. Others have emphasized such elements in industrial competitiveness as economies of scale, technological superiority based on research and development expenditure and the availability of skilled labour (human capital). Vernon has attempted to integrate a number of these factors into a dynamic "product cycle" theory of international trade and investment.

A very able presentation of the 'growth from trade' has also been made by G. Haberler. We find from his article on 'International Trade and Economic Development' as he followed the true classical approach in analysing his trade model. His provocative essay takes the position that international trade has contributed powerfully to the development of the underdeveloped countries in the 19th and 20th century and can be expected to continue to do so the future if it is unhampered. He stresses both the traditional static gains from trade resulting from more efficient resource allocation and the significant indirect or dynamic benefits noted by the 19th century classical writers and represented by an downward shift in the production possibility curve. He takes the stand that free trade, subject to some important qualification is the best trade policy for the underdeveloped countries.

b) Trade and Growth in Developing Countries:

Thus we come into conclusion from above description, that classical trade models neither help in explaining the dynamic growth process in the developing countries, nor they suggest workable policy measures for such economies. There has been a considerable amount of controversy concerning the applicability of the 'classical theory of international trade' to developing countries. Some economists criticise:

that the '19th century pattern' of international trade, thereby the underdeveloped countries export raw materials and import manufactured goods, has been unfavourable to the economic development of these countries. We find that they concentrated their attacks on the 'classical theory' which they believe to be responsible for the unfavourable pattern of trade. Of course these orthodox economists then come to the defence of the classical theory by reiterating the principle of comparative costs which they claim to be applicable both to the developed and the underdeveloped countries. It will be argued in this part that this has led to the neglect of those other elements in the classical and neo-classical theory of international trade, which are much nearer to the realities and ideologies of the 19th century expansion of international trade to the underdeveloped countries.

The classical theory of international trade

**Absolute-Cost-Advantage and Growth of Developing Countries.**

essentially grew out of the work of Adam Smith from that locus classical of the free doctrine, the Wealth of Nations. Smith's 'productivity' doctrine is instructive more in relation to the ideological than to the actual economic forces which characterised the 19th century expansion of international trade to the underdeveloped countries. 34 We find that both the total value and the physical output of the exports of these countries expanded rapidly. The 19th century expansion of

international trade in the underdeveloped countries seems to approximate to a simpler process based on constant returns and fairly rigid combinations of factors. Such a process of expansion could continue smoothly only if it could feed on additional supplies of factors in the required proportions.

The second consideration to which this view of trade led growth was that trade was essentially a means of disposing of surplus produce obtained by extending the division of labour beyond the scope which domestic market would support. This is so called vent for surplus doctrine.

The following three main reasons due to which the 'Vent-for-surplus' theory became effective approach than the conventional theory of this type of expansion of international trade in the underdeveloped countries: a) the characteristic high rates of expansion which can be observed in the export production of many underdeveloped countries cannot really be explained in terms of the comparative cost theory based on the assumption of given resources and given techniques. Nor can we attribute any significant part of the expansion to revolutionary changes in techniques and expansion process which kept itself going by drawing and increasing

volume of hitherto unused or surplus resources into export production. b) International Trade between the developing countries and advanced countries has grown out of sharp difference in geography and climate resulting absolute differences in costs. In this context, the older comparative cost theory, which is usually formulated in terms of qualitative differences in the resources of the trading countries, tends stress the obvious geographical differences to the neglect of the more interesting quantitative differences in the factor endowments of countries passing approximately the same type of climate and geography. Here we find that 'Vent for Surplus' theory which attracts our attention to population density as a major determinant of export capacity has an advantage over the conventional theory. c) We see that the economic framework of the underdeveloped countries is a much cruder apparatus which can make only rough- and ready adjustments. In particular, with their meagre technical and capital resources, the underdeveloped countries operate under conditions nearer to those of fixed technical coefficients than of variable technical coefficients. Nor can they make important adjustment through changes in the outputs of different commodities requiring different proportions of factors because of the inelastic demand for their domestic production, mainly consisting of basic food stuff and for their export commodities, mainly

consisting of industrial raw materials. Here again we find that 'Vent for Surplus' theory provides a more effective approach to the international trade of underdeveloped countries. So all of this was productive of a classical case for freedom of trade.  

The next stage in the development of the classical theory of international trade is the emergence of the theory of comparative advantage. The controversy over the compatibility of the doctrine of comparative cost with development needs of today's economically less developed countries has reached exaggerated proportions and one borders on redundancy in discussing it. Yet, the mass of literature on the subject notwithstanding, the controversy continues to provide little guidance for the commercial policy of underdeveloped countries. We find that doctrine is static in nature. It seeks to maximize the aggregate output at a particular point of time in respect of the rate of growth.  

The theory takes into consideration only the production side, it tells how the total world production can be maximized. It does


take into account the distribution side. In evaluating the effect of a policy on world economic welfare, its effect on the distribution of world income is no less important than on total world production. In an underdeveloped country the acceleration of the rate of growth is more important than the maximization of current output.

It may be in the interest of an underdeveloped country to invest resources in certain industries which accelerate the growth even if the same resources can produce a larger current output in some other industries with accelerating the rate of growth. Myrdal claims that the theory applies only to the developed countries. In less developed countries the small size of the domestic market and of the productive units, in addition to the lack of social overhead capital, tends to render un-profitable manufacturing and commercial activities that would be very lucrative in rich countries, according to Myrdal. 39

Nevertheless some countries have tried it and succeeded. But it appears that countries with limited natural resources are forced to rely on comparative advantage because they can not hope to produce the whole range of manufactures and primary products that the consuming public desires. Small countries have an addi-

tional problem in that the size of the domestic market is too small for efficient sized factors for some products. Such as autos, steel and machinery. Recent experience in export and the state of a country's foreign reserve and borrowing capacity also been directly on a country's ability to compete in world markets.

The Heckscher-Ohlin version has also been widely recommended as a basis for development because it does not depend on the existence of perfect competition in the domestic markets of trading partners. This theory has the additional advantage of not requiring that markets be in equilibrium at the start.

But the greatest weakness of both classical and Heckscher-Ohlin versions of trade theory is their inability to explain how production efficiency, market prices, and economic structure change over time. Modern theory is concerned with just these things.

Thus we find that comparative cost doctrine suffers from many defects. In determining the appropriate place of the production of a commodity, it takes into account only the current costs of production in different countries. It does not pay due consideration to the long term costs of production.

There are various assumptions which invalidates the theory of comparative advantage related to underdeveloped countries.

The above array of modifications to the doctrine of comparative costs should have at least left the impression that the unqualified application of comparative cost analysis is preposterously unsounded.⁴¹

From above description we see that what is needed to us now is the modification of the classical trade theory approach in the light of the actually prevailing conditions in the developing countries, and this modification should aim that it will supplement the growth theory used as the basis for development policy with complete co-ordination among them. We have seen as in above description that comparative cost advantage theory is static in nature, because it has traditionally been formulated as a theorem concerning the determination of traded commodities into exports and imports in a static, analytical framework. This is certainly true of the two major theories, Ricardian and Heckscher-Ohlin, that have dominated this field. It presents only a timeless 'cross-section' view of comparative costs and fails to take into account dynamic elements, that is, the facts

of organic path and development. The economics of most countries are changing and developing and that the theory should take account of that fact. Trade provides material means (capital goods, machinery and raw/semi-finished materials) indispensable for economic development. Trade is also the vehicle for the international movement of capital especially from the developed to the underdeveloped countries. The economic growth of developing is a dynamic operation and in this place this static theory can not that insight and policy decisions that are required in a changing economic order. Considerations are quite different for an underdeveloped countries— that is, a country with a low per capita income, with limited industry and typically relying on the export of one, or two agricultural or mineral primary products. Today all such underdeveloped countries are forced to direct policies toward growth and higher living standards. Progress is commonly viewed in terms of industry growth and diversification. Many underdeveloped countries are in a painful: they depend on their exchanges with richer countries for survival, and yet they suspect that this foreign trade is a form of exploitation. In general, the poorer nations have had limited success in the attempt to foster the development of their domestic industries by means of restrictions of foreign trade, and most economists are disdainful of the infant industry argument that tariffs and similar protections are
effective means of generating industrial growth. So it is true that without the introduction of a dynamic element the dynamic needs of change and development cannot be injected in the economies which are trying to develop through industrialisation. At present, agricultural trade patterns are disadvantageous from the point of view of the poor countries. Developing countries have sought to expand manufactured exports, as this promises to offset the uncertainties and fluctuations in their primary export receipts.

The modern trade theories related to developing countries fall under two categories. In one category we find the basis of reallocation approach as we find it in Haberler's trade model. Haberler's main contribution we find in his analysis showing that a reallocation of consumption expenditure, if factor price rigidity does not force the resources toward underemployment. This had not been realised before. The practical importance of Haberler's analysis is that it broadens the scope of the current gains from trade, so that even countries with poor allocative capacity in sphere of production can hope to secure gains from foreign-trade or at least, this is what his analysis

42. See also: Haberler's; The Relevance of the classical theory under modern conditions. -- American Economic Review, May 1954 pp. 543-51.
appears to do.\textsuperscript{43} The simplest explanation of the law of comparative costs and of the Ohlin theory can not be applied to the complex real life situation.

In the second category comes Viner\textsuperscript{\textsuperscript{\textsuperscript{4}}}s model of trade, expresses his conviction that it would be a mistake to carry its rehabilitation so far to claim for it, even its improved modernised form, adequately as a theory to guide policy in the present day world.\textsuperscript{44} Viner, in his Brazilian lectures, has given exactly this application to Haberler\textsuperscript{\textsuperscript{\textsuperscript{4}}}s result.\textsuperscript{45} Although we find that the possible reasons for factor price rigidity are discussed by neither Haberler nor Viner, both have neglected the fact that it nearly all the developing economies we have rigidity of factor prices.

A Swedish economist S.\textsuperscript{2}L. Linder, built a theory of trade in manufactures on the basis of similar consumer tastes. His theory is that country at roughly the same level of income will trade a great deal with each other, exchanging one sort of differentiated product for another. Gains from their export and import trade are relatively limited. Therefore faster growth of trade

\textsuperscript{43} Viner, J. \textit{International Economics} (Free Press: Glencoe, III, 1951), p.16

\textsuperscript{44} Linder, S.\textsuperscript{2}L.; \textit{Op. Cit.} p.27.

\textsuperscript{45} Myrdal, G.; An International Economy (Hutchledge and Kegan Paul) 1956. p. 231.
among the developed countries than between the developed and developing countries is not conclusive proof of more rapid gains from trade. In his theory world trade flows are related to the world structure of per capita income.

Unfortunately, if Linder's theory is correct, that would be very bad news for the world. It follows from the theory that we may expect trade to widen the income gap between rich and poor countries. The greater the difference in the income of these two classes of countries, the less they will trade with each other, relatively, and hence the less opportunity there is for the transmission of either static or dynamic benefits from trade. The theory in fact provides a strong basis for Myrdal's pessimistic view of world trade than is provided by Myrdal himself.

Myrdal has also overdrawn the significance of the argument that poor countries have suffered a long-term deterioration in their commodity terms of trade and that has inhibited their development. Although he leaves the actual historical trend of prices as a root question, Nonetheless believes that "most of the underdeveloped countries are saddled with a basket of traditional goods, the prices of which have been lagging behind". And in giving

46. Myrdal, G.; Loc. Cit.

content to the assertion that for underdeveloped countries the general level of their export prices has been too low. If participation in international trade fails to transform the economies of less developed nations, the cause may be the unreadyness of such countries for the 'take-off' into self-sustaining growth rather than any inherent defect in the mechanism of trade itself.

We find that Myrdal and Meier both emphasize the weak spread effects of trade or, as Meier puts it, the failure to establish the pre conditions required for economic development. But international trade should make a contribution to welfare, development, and the equalization of world factor incomes without first requiring the achievement of internal economic development. If the later is a pre-requisite for the beneficial operation of international trade, we may as well acknowledge that the rich countries will grow richer and the poor, poorer under actual conditions, inspite of world trade.

Prof. Johnson has recently advanced the proposition that under neutral technical progress in one industry, the technology of the other and the total factor endowment remaining unchanged the output of the other industry must actually fall under constant relative commodity prices. It may be of interest to note that

under biased progress as well it is possible to establish condi-
tions under which the output of the non-innovating industry will
contract. For measuring the behaviour of the terms of trade
of an underdeveloped country with a developed one we shall evolve
an apparatus on the basis of Harry Johnson's equation which he
has laid down for measuring the export ratio over time of a country
vis-a-vis another. In this equation the variables are the export
ratio over time, rate of change of export prices in the two coun-
tries, rate of change of real income in the two countries, and
the income- and price-elasticities of demand. However, Prof.
Johnson's equation is highly simplified in that he assumes each
country to be producing only one commodity \( Y \) with a fixed supply
of labour continuously employed. This enables him to do away
with the problem of population growth, changes in effective demand,
and the reallocation of resources. Any change in the output of
\( Y \) is due to technical progress and capital accumulation. Thus
for him the rate of change of productivity is the same as the rate
of change of output. This a very difficult condition to fulfill
in the real world; and if one has to use the equation for statis-
tical verification one will have to be more realistic. The total
real production \( Y \) in a country, has therefore been defined in
this study as being determined by such factors as the growth of
population technical progress and reallocation of resources. This
\( Y \) has little to do with the rate of change of productivity in the
country.
Dr. Singer and Prof. Prebisch have tried to find a logical explanation of the secular tendency to fall of the commodity terms of trade between primary and manufactured products. While doing so they have also put forth an explanation of the ever-widening gap between the standard of living of the primary producing and manufacturing countries and have worked up a theory of exploitation of the former by the latter.  

The essence of their propositions is the difference of the behaviour of income and price trends in the developed and underdeveloped countries in response to changes in productivity. Prebisch attributes this phenomenon to the presence of monopoly elements in the factor markets of the 'centre'. We find that Prebisch puts his analysis mainly, in terms of the behaviour of the wages, yet he is not dogmatic about it.

In his analysis Prebisch shows the minimum or binding conditions which will make the primary producer's terms of trade unfavourable while he is laying down the maximum area in which the terms of trade can be favourable. Singer accuses the foreign investments as being "foreign enclaves" geographically situated


50. Singer, H.W.; Ibid. p.75.
in the underdeveloped countries. The foreign investors never tried to industrialize the underdeveloped countries. Rather all the secondary benefits arising from these investments in the form of expanded production, employment, high productivity aid benefits of technical progress were transferred to the countries of investors. The dynamic impulse which was radiating from the growing primary industries was enjoyed abroad. However, we find that Singer, Prebisch nor their critics (like Kindleberger, Theodore Morgan and P.T. Ellsworth) have checked upon the behaviour of the terms of trade nor any one has empirically correlated the productivity trends with the income price changes in the trading countries.

Thus we find that the traditional free trade doctrine has been received with distrust and hostility in most underdeveloped countries. At a semi-popular but influential level, the antagonistic attitude towards free international trade may be traced to a number of powerful sentiments. First there is the reaction against the 'colonial' or 19th century pattern of international division of labour under which the underdeveloped countries specialised in the production of primary exports. Secondly related to it is the identification of economic development with the growth of manufacturing for economic development can be provided only by a policy of promoting domestic industrialization. Thirdly there is the general distrust of the market forces and the reliance on govern-
ment planning to promote economic development. This is strengthened by a desire to use economic planning as a protective shell to insulate the domestic economy from the disturbing inferences of outside economic forces which might undermine national economic independence.

We find that contemporary interest in the economic development of the underdeveloped countries has revived both these arguments for protection especially the infant industry argument, which has been broadened into an infant economic argument—and has added a new argument the so called Manciulesco argument.51 This argument we find bases a case for industrial protection on the assertion that wages in the industrial sector of backward countries exceed the alternative opportunity cost of labour, either because labour in the industrial sector receives a wage differential over agricultural labour that is not justified by skill or cost of living differences or because in present agricultural labour receives a share of output equal to its average product and in excess of its marginal product.

Prof. Viner noted that protection of manufactured products would increase real income if a country had 'comparative labour advantage' in them but monopoly hold wages too high in manufacturing that imports could undersell them. He added that free trade, which force the monopolists to reduce their wages and cause the comparative advantage of manufacturing to be revealed in market prices, would accomplish the same effect. Haberler also favours the theory of protection related to developing countries. The most important case of an external economy is, in his opinion the creation of skilled labour force in the broad sense, including supervisory and entrepreneurial labour.

More recently Prof. Hagen has formulated the argument related to protection of developing countries in more general terms based on the observed divergence between agricultural and industrial wages, which does not depend on the assumption of a rural labour surplus and disguised rural unemployment. Due to disparity, Hagen argues that under free trade industry would be enabled to compete with imports even if it possessed a comparative advantage. A policy of industrial protection could be employed to offset this disparity and raise real income in the country.53


Hagen attempted a difficult task, but he has made it even more difficult for himself failing to draw upon the observed interplay of the rural and industrial sectors in the U.S. Anthony, Y.C. Koo comments to the Hagen theory on protectionism. We find that Koo's criticism of Hagen tends to lend some support to moderate protection or subsidy of industry but questions the practical utility of Hagen's model for the underdeveloped countries.


It is quite clear to us from above discussion that traditional economic theory, more particularly the theory of international trade, fails to provide a satisfactory explanation of the growth of international disparities. The reason for this inadequacy of the theoretical structure is the fallacious assumption on which it is based. As we find the developing countries have pursued trade and commercial policies which have generally been regarded as highly protectionist by the development economist of the rich countries. The OECD and the IBRD (or World Bank) have sponsored a number of studies into the trade structure of

54. Ibid. p. 498
the developing countries, and the researchers concerned have reached strikingly similar conclusions. For a very wide range of LDC's they estimated that the degree of protection to domestic industries was quite high and that the inter-sectoral price distortion which has been introduced by trade and commercial policy had considerably worsened the terms of trade of the agriculture sector. Through the 19th century the then European and American countries adopted policies that protected domestic industries, policies for which Frederich List and a number of other economists belonging to German Historical School provided academic justification. Only slowly and haltingly have the protectionist well been lowered among the developed countries, though even here it is dangerous to indulge in generalisation, for to date the tariff reductions within Europe remain the only success story where as the U.S. and especially Japan have in recent years shown little enthusiasm for trade liberalisation. The LDCs have reached to developed country protection by attempting to produce an increasing proportion of their import requirements domestically. The policy of rapid import substitution has also been viewed as a key factor determining the rate of industrial growth, a theory to which Chenery gave empirical support in his famous article in

57. Ballasa, B. etal; The Structure of Protection in Developing Countries (Baltimore, IBRD, 1971)
But we find that import substitution can only occur if a high protectionist well is erected to allow local industry to develop. The important question from the point of view of economic development is not the absolute level of protection of a particular industry, but rather the effect of protection on the competitiveness of that industry.

The cost of protection to the LDCs have been high due to the artificial reduction of the relative price of agricultural commodities on the one hand and to the restriction of imports on the other. It is easy for us to assess what the cost of protection is to a particular country. The dynamic, i.e. long run, effects can not be adequately assessed by means of the methodology that is currently employed to measure the cost of protection.

The unwillingness of developing countries to protect production processes which promise to lead to the development of appropriate technologies has had serious consequences. The technological developments that have taken place in recent times have been geared to the needs and the resources of the developed world, so that modern technological and scientific progress and products are generally quite unsuitable for the LDCs. The protectionist policies have aimed at promoting the rapid industrialization of the LDCs, but the type of industrialization that they have in fact promoted has been entailed at heavy cost in

terms of economic efficiency. Such industrialization we find has usually had a negative impact on the pattern of income distribution within the developing countries.

The present trend to increasing protectionism in developed countries, the experts regard as one of the most serious threats to the structural changes in world production and trade that are necessary for continuing growth and development. It adversely affects the economic health of the North as much as the South, and that trade in manufactures between North and South has had a positive net effect on employment in the industrialised countries.

Many LDCs have not responded very favourably to the advice and recommendations of the economists of World Bank and the OECD and have sought to improve their bargaining position in world markets by establishing producer associations committed to obtaining more revenue from the flow of scarce resources from developing countries. They are also calling for basic changes in the relations of rich and poor countries -- a "New International Economic Order".


The main elements of the 'new order' consisted in a call for a set of inter-related policies and performance targets on the part of the international community, to promote the self-reliant development of the developing countries. Principally they included improvement in the quantum and quality of aid, the creation and distribution of international liquidity in conformity with the needs of the developing countries, action for stabilising and improving export prices of primary commodities and for the diversification of economies heavily dependent on them, increased access to trade in commodities, assistance for industrialization and the national companies, food production and food sufficiency. Most importantly the NIEO was not a list of demands from the South for the 'kind consideration' of North. It was rather an assertion, at a political level, of the South's belief in the necessity... and possibility of structural change in the management of international economic relations, as they operate in the main markets in which the South is a 'buyer' (money and finance, capital goods and technology) and those in which it is a seller (primary commodities, manufactures and labour). Essentially, thus the NIEO is a charter calling for a freer, fuller and a more equal participation for the South in the World economy and in international institution.

The political wing of the developing countries, which has found expression in the "group of 77" is a significant factor in
the establishment of the new world economic order. But this political factor must be translated into economic relations to become real influence in the shaping of international relations. NIEO has all the potentialities to remove the impediments to industrialization and modernization of the developing countries which need market for their products. Rapid expansion of trade exchanges between North and South on terms of equality and mutual benefit will be an essential ingredient in the new order where co-operation would be watch-word for the conduct of affairs. The success of the NIEO also depends on the level of economic integration among developing countries itself.

The developing countries have become disillusion with institution like GATT and I.M.F. and consider that they can not serve as the forum where a meaningful dialogue on international economic restructuring can be conducted. UNCTAD is generally regarded as the place where the rich and poor countries can meet on a more equal basis, hence the 3rd world has been firm in its support for UNCTAD since the birth of this organisation.

UNCTAD has provided a forum for the poor countries to express their views on international trading arrangement and on the economic policies of the rich countries in general. However, UNCTAD's achievements in the course of the last ten years have not
been as spectacular as the optimists expected. In the field of international pioneering in 1971 of the G.S.P. (Generalised System of Preference) designed to cover the manufacturing exports of the poor countries (i.e. manufacturing exports from developing countries should be given preferential access) to the markets of the rich countries. 61

However, in a sense it is erroneous to talk of the G.S.P. as an entity, because the rich countries were not able to agree on one single scheme. They all come up with different preference schemes, which differ with regard to product coverage and the method of preferential treatment. On top of all limitations there is the further problem that there is no legal guarantee that the rich countries will in fact implement and continue the schemes that they have formulated.

Lastly, we find that the developing countries, however, are in favour of schemes and agreements which do not infringe their national sovereignty. An over riding objective of the establishment of the New International Economic Order to emphasise the importance of recognising the sovereign equality of States. They are thus unlikely to agree to measures which involve the granting of discretionary control to the rich countries.

61. For details see: Tracy Murray; Trade Preference for Developing Countries (Macmillan Press, Ltd., 1977).
Policies of confrontation and bilateral accommodation that have characterised rich-poor trading policies since the comming of the energy crisis should give way to generalised and universal schemes which seek to contribute to both world economic expansion and the development of the Third World. Tokyo Round of GATT negotiations and the IVth UNCTAD conference provided and excellent opportunity for moving over from confrontation to co-operation in world trade.

But in the final analysis, the initiatives taken on the international front, even with co-operation from the developing countries, will have a minor impact in comparasion to the job needs to be done. The major benefits will be derived from measures taken within the developing countries themselves-- measures that these nations have the power to implement with or without international co-operation. These are measures that must be taken before developing countries can significantly accelerate their rates of economic growth, with or without international programmes of assistance.