TERMS OF TRADE AND THE ECONOMIC DEVELOPMENT OF LESS DEVELOPED COUNTRIES

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Introduction

The biggest problem the world confronted after the end of World War II has been that of the economic development of less developed countries. Despite large international cooperation and efforts, it is difficult, however, to say that the originally anticipated results have been attained. The principal reasons are that the less developed countries do not possess various conditions necessary for the development of their domestic economies, and that external economic conditions continue to grow more unfavourable. These unfavourable economic conditions were brought about chiefly by the deterioration of trade terms caused by changes in the international demand structure for primary products. In recent years, the amount of losses suffered by less developed countries due to the continuous deterioration of their terms of trade is said to exceed the huge amount of financial and economic assistance provided by industrially advanced countries.

Several reasons can be pointed out, the principal being the change in the structure of production due to the great progress of science and technology. It goes without saying that the growth and expansion of a country's economy depends on the rise in demand which acts as a stimulant for increased production. It was traditionally thought that an increase in demand was influenced primarily by price fluctuations. However, even without consulting Schumpeter's works, it is competition coming from new products, new technology, new supply sources and new organizational types that is actually the most influential factor. It is a well-known fact that from the 17th century to the beginning of the 18th century science emerged as a new production function for agriculture and industry, playing a vital role in the economic development of Western Europe. The great progress witnessed by the advanced industrial countries after the World War II was due chiefly to the advance in scientific knowledge as a production function. Needless to say, a structural change in demand for primary products is brought about by the progress of science and the resultant change in the

production structure. However, this development has been achieved in developed nations at a great sacrifice to the less developed countries. A moving force in the economic growth of advanced countries during the period of industrial revolution was provided by the lateral expansion of the world market made possible by the development of markets in less developed countries. But after the World War II, advanced countries adopted a form of economic cooperation through the horizontal division of labour for the development of world markets; as a result, less developed nations were completely shut out from sharing the fruits of such a development.

The purpose of this article is not to delve into theoretical studies on ways to develop the economies of less developed countries in the current international environment. It intends to explain what serious effects structural changes in demand and supply of primany products have had on less developed countries; what the countries themselves plan to do to cope with this problem; what the numerous international agencies envision in order to rectify this situation; and how under these circumstances the theory of the less developed countries' development should be considered. Analyzing these problems, the future problems which are likely to occur, will be reviewed.

I. TERMS OF TRADE AND ECONOMIC GROWTH RATE

Between 1913 and 1928, the expansion of world trade was accomplished primarily by the increase in exports of primary products from less developed to advanced countries. After the last war, the tremendous expansion of world trade was due chiefly to the increase in trade volume among industrially advanced countries centreing on trade in heavy and chemical industry products.

Statistically speaking, less developed areas shared 27.1 per cent of the world trade in 1955; this share dropped to 20.7 per cent in 1961. On the other hand, the advanced countries' share increased from 61.7 per cent in 1955 to 67.6 per cent in 1961. The ratio of exports from industrially advanced area to less developed areas against world exports was 20.7 per cent in 1953, and declined to 16.3 per cent in 1961. The export ratio among less developed countries also dropped from 8.1 per cent to 4.7 per cent. On the other hand, trade between industrially advanced areas rose drastically from 36.5 per cent in 1953 to 47.2 per cent in 1961.

What categories of products were transacted and what were their

shares in world trade? The share of primary products declined. For example, whereas trade in manufactured goods among advanced areas increased by 36 per cent during the three-year period from 1957 to 1960, the rate of increase of primary products exports from less developed areas to advanced areas was less than 0.3 per cent. Even trade among less developed areas in primary products as well as manufactured goods showed a slight decline.

Table 1. FLUCTUATION IN EXPORT VOLUME AND EXPORT PRICES

(1958=100)

	Export Volume		Export Prices		Value of Exports (increase-decrease ratio against previous year)	
	1960	1961	1960	1961	1960 (%)	1961 (%)
Latin America	111	112	95	95	3	−1
Africa	120	129	94	90	4	3
West Asia	120	125	91	89	8	3
Southeast Asia	107	114	111	103	7	−2

Source: United Nations, *World Economic Survey 1961*, New York, 1962, p. 150.

A new phenomenon, in relation to the drop in demand for primary products, is the decrease of export value due to the decline in export prices, although the export volume increases. (See Table 1) The traditional theory holds that there exists a multiplication effect between the price movements of primary products and the volume of the products. Since 1953, export volume and export prices indicate completely contrary movements. This is not due to the effects of short-term economic fluctuations in industrial countries, but primarily to the structural changes in both demand and supply. Because of the long-term deterioration of terms of trade, the classical theory that national specialization of primary products contributes to the economic growth of less developed countries through foreigh trade, is now refuted.

The structural changes in the world import demand of primary products as well as the deterioration of terms of trade caused by such changes, naturally affect greatly the economic growth of less developed countries. Considering their strong dependency on exports, foreign factors, it is believed, play a more dominant role than domestic factors.

All less developed countries have little domestic industries; if they do, the principal products manufactured are consumer goods. Consequently, most of the capital goods necessary for economic development must be imported. If exports are not sufficient to cover imports of

capital goods, domestic savings will bring about an undesirable increase in inventories or a reduction in production, instead of capital formation and economic growth. In other words, the principal factors which determine the potential growth rate of a less developed country are greatly influenced by the long-term growth rate of advanced countries and the trend of import demand in the latter countries.

When the relationship between national income and import demand in industrialized countries differs from that in less developed countries, the latter countries will not be able to secure, through international trade, necessary foreign exchange reserves for preventing the relative increase in the gaps of national incomes. Conversely, in order to maintain a balance in the international economy, it would be necessary for the economic growth rates of the countries in the two groups to be in reciprocal relations with the degree of response of import demand against the changes in income. If the income elasticity of import demand of industrial countries is placed at 1 and that of less developed countries at 2, the latter, in order to maintain equilibrium in their trade balance, will attempt to confine their economic growth rate to half that of the advanced nations. On the contrary, if the less developed countries attempt to attain an economic growth rate similar to that of advanced nations, the deficit of their trade balance will increase continually.

It goes without saying that long-term capital and grants play a considerable role in replenishing trade balance deficit. Their aggregate amount, from 1951 to 1959, totalled $54,000 million.[1] Of this amount, one-third was in the form of grants and one-fourth in the form of loans by governments and banks. These funds not only were in the form of goods (plus services), but their value was considerably more than the monetary assistance extended to less developed countries. This aid not only increases production and income in less developed countries but also enables them to increase their imports and thereby satisfy part of the great demand for foreign products. It is said nevertheless that the amount of loss caused by the current deterioration of terms of trade exceeds the amount of aid.

What are the effects of these trends on the economic growth rates of less developed countries? Their average annual growth rate of national income during the past 10 years was 3.2 per cent.[2] It is beli-

1 United Nations, *International Flow of Long-term Capital and Official Donation, 1951–1959*, New York, 1961.

2 United Nations, *The United Nations Development Decade*, Proposals for Action, Report by the Secretary General, E/3613, New York, 1962, Part 1.

eved that the per capita income increase rate was only about 1 per cent. In Asian countries, according to ECAFE statistics, the annual average growth rate of national income during the past 10 years has been approximately 4 per cent, and the per capita increase rate was estimated at 1.4 per cent.[1] This 4 per cent increase in the growth rate is phenomenally high and was never seen before in this area; in terms of gross growth, it compares favourabley with that of advanced countries. It is, however, necessary to examine the statistical manipulation of the growth rate. Statistics on national income in less developed countries are generally conservative and underevaluated. One of the reasons is that there were large omissions in the statistics compiled during the days of non-currency economy; when these omissions are corrected it is likely that the growth rate comes out higher than in reality. If such is the case, the per capita income growth rate in Asia would be near the one per cent growth rate estimated by the United Nations.

The increase rate of agricultural production which occupies the most important place in the economies of these areas, was considerably lower. The per capita production of foodstuff alone as classified by areas during the 1959–1960 showed the following dismal figures. If we take 1937–1938 as the base period, Asia declined from 108 to 107, Latin America from 103 to 102; Africa remained at 95. Considering the fact that the average per capita production of foodstuff in the world increased from 94 to 108 it can be seen in what a difficult situation the less developed countries are placed today in regard to the production of foodstuff.

On the other hand, the growth rate of industrial production in less developed countries has substantially risen in recent years. From 1953 to 1960 the mining and manufacturing production in Southeast Asian countries rose by an annual average of 9.9 per cent. The manufacturing industries witnessed a production increase rate of 9.7 per cent.

The share of mining and manufacturing industries in the national economy of all less developed countries, is still exceedingly small. In Asia, it is about 10 per cent. Even in India where the industrialization rate is relatively high, the share (including construction) in 1959 was only 17 per cent. The share of less developed countries was only 15 per cent of all the non-communist countries' industrial production in 1950, and 17 per cent in 1960.

1 ECAFE, *Economic Development and Planning in Asia and the Far East*, 1961, p. 20.

Although the growth rate of industrial production in less developed countries has exceeded that of advanced countries during the past 10 years, that of other sectors, particularly agriculture, has remained considerably lower. It is no wonder that in less developed countries the growth rate of the economy as a whole was low.

II. STRUCTURAL CHANGES IN IMPORT DEMAND AND THEIR MAIN CAUSES

The United Nations *World Economic Surveys* for 1955 and 1958 contain detailed accounts of the structural changes in import demand and their main causes. Ragnar Nurkse[1] has selected the following six points similar to the ones mentioned in the U.N. surveys:

(1) The growth of heavy industries which economize in imported raw material; (2) Increases of the added value rate of the industries of advanced countries; (3) The decline of the income elasticity of consumer demand for many agricultural commodities; (4) Agricultural protection policies of advanced countries: (5) Substantial economies achieved in industrial uses of natural materials; and (6) Dissemination of synthetic and other man-made substitutes for natural raw materials

A.K. Cairncross refuted Nurkse's principal reasons.[2] Points (2) and (3), he wrote, did not suddenly exert their influence in the 20th century. If the influence of (5) has become stronger in recent years, it is because of the rise in the price of nonferrous metals. (4) does not apply to tropical agricultural products, and protective measures are also enforced in the case of industrial products. In the case of (1), even if heavy and chemical industrialization in advanced countries should proceed at a rapid pace, it does not mean that light industries will be wiped out, but that they will be concentrated in less developed countries. Its effect on raw material trade is a difficult question requiring consideration of various related problems. In regard to (6), Cairncross declares that it definitely obstructs trade in primary products. However, the substitution by synthetic raw materials is seen not only for high-priced natural raw materials but also for those whose prices have risen drastically since prewar years. This also applies to (5). Further, Cairncross points out that (5) and (6) cannot be consi-

1 Ragnar Nurkse, *Patterns of Trade and Development*, Stockholm, Almqvist & Wiksell, 1959, p. 23.

2 A.K. Cairncross, *International Trade and Economic Development*, Kyklos, Vol. 13, Fase. 4, 1960, pp. 584–549.

dered as separate from price changes. To summarize, Cairncross believes that the phenomenal expansion of trade in primary products during the 19th century was not caused by the increase in import demand on the part of the advanced countries, but due primarily to the worldwide changes in the demand structure including price fluctuations. And there was no structural change in the 20th century because international specialization in the form of an exchange of primary products with manufactured goods could not continue indefinitely. The primary production activities in industrial countries would place a limit. However, prior to this stage, the law of diminishing returns and the population increase will tend to reduce the advantages in production costs enjoyed by countries producing primary products. Political, military and social resistance against excessive specialization will become stronger. Advanced countries can hope to compete in terms of price only for a small number of primary products produced by less developed countries.

Putting aside the question of the validity of Cairncross' theory that the future of trade in primary products is influenced greatly by the price factor and that it is the change in the structure of supply rather than the lack of demand which is the biggest factor in deciding the future of such trade, it must be admitted that we cannot deny the changes which have occurred in both demand and supply due to the progress of modern science. This overall conclusion can be derived from the six points mentioned by Nurkse.

Let us examine how fast in the 1950's the emergence of various new artificial substitutes spoiled the market for primary products. And let us concentrate on Southeast Asia's principal exports goods such as rubber, jute, flax, cotton, vegetable oils, and other raw materials. The world demand for rubber is increasing tremendously every year with the development and expansion of the automobile and aircraft manufacturing industries. The growth rate of rubber consumption during the past 10 years was as high as 65 per cent. However, during the same period, the consumption ratio of natural rubber dropped from 74.8 per cent to 53.3, and that of synthetic rubber increased from 25.2 per cent to 46.7. (See Table 2) An identical trend is witnessed in Japan as the consumption of synthetic rubber has risen from 0.1 per cent in 1950 to 32.2 per cent in 1961. International supremacy of synthetic rubber is strengthened by the stability of its price. But the biggest advantage is that whereas the properties of natural rubber cannot be changed, synthetic rubber is indispensable where certain conditions such as extreme

Table 2. WORLD PRODUCTION AND CONSUMPTION OF SYNTHETIC AND NATURAL RUBBER

Year	Production			Consumption		
	1,000L/T	Ratio (%)		1,000L/T	Ratio (%)	
		Natural	Synthetic		Natural	Synthetic
1950	2,395	77.7	22.3	2,303	74.8	25.2
1951	2,793	67.5	32.5	2,328	65.1	34.9
1952	2,668	67.1	32.9	2,355	62.4	37.6
1953	2,663	64.9	35.1	2,528	65.6	34.5
1954	2,526	71.7	28.3	2,520	70.6	29.4
1955	3,003	63.8	36.2	2,888	63.2	36.8
1956	3,099	60.9	39.1	3,043	62.8	37.2
1957	3,166	60.1	39.9	3,155	60.1	39.9
1958	3,200	61.2	38.8	3,255	61.5	38.5
1959	3,680	55.4	45.6	3,693	57.4	42.6
1960	3,885	51.5	48.5	3,815	53.3	46.7

Source: International Rubber Study Group, *Rubber Statistical Bulletin*, London, March, 1961.

heat-resistance, cold-resistance, chemical-resistance, oil-resistance etc., are required. The consumption ratio of synthetic rubber in the United States has already reached a high level of 72 per cent and in Canada 64 per cent. This tendency is expected to be further accelerated in the future.[1]

Table 3. WORLD PRODUCTION OF ARTIFICIAL AND NATURAL FIBRES

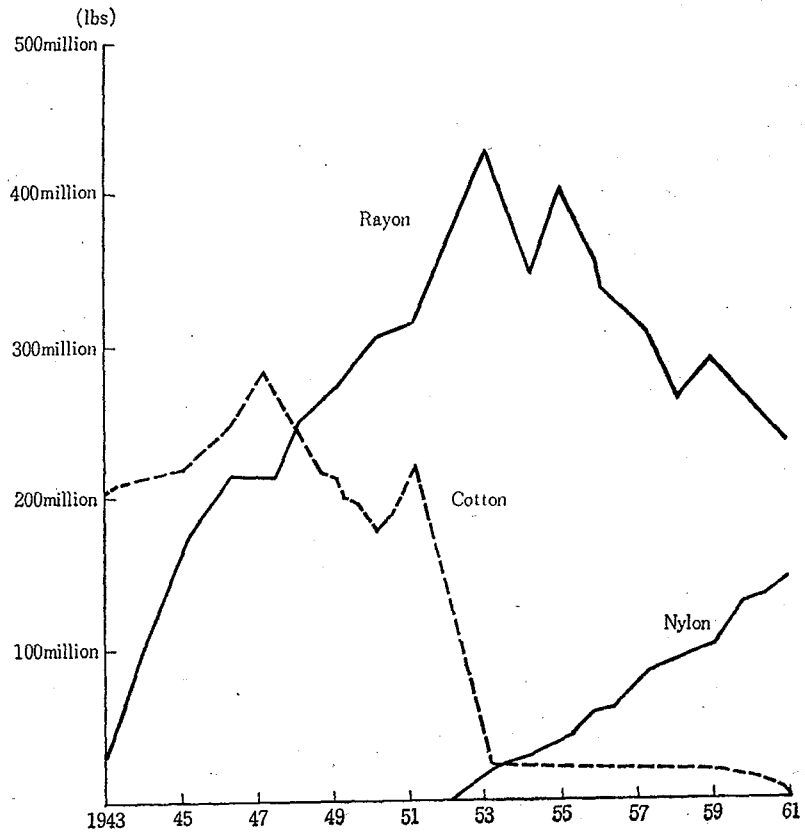
Year	Total Production (in 1 million lbs.)	Natural Fibres (%)				Artificial Fibres (%)		
		Cotton	Wool	Silk	Total	Fibrinogen	Non-fibrinogen	Total
1946	14,348	73	15	—	88	11.7	0.3	12
1947	16,361	74	13	—	87	12.7	0.3	13
1948	18,978	75	14	—	89	13.6	0.4	14
1949	20,835	75	11	—	86	13.5	0.5	14
1950	20,650	71	10	—	82	17.3	0.7	18
1951	24,173	73	10	—	83	16.1	0.9	17
1952	25,609	75	9	—	85	13.9	1.1	15
1953	27,036	74	10	—	83	15.8	1.2	17
1954	27,208	72	10	—	82	16.5	1.5	18
1955	29,378	71	10	—	81	17.1	1.9	19
1956	29,106	69	10	—	79	18.7	2.3	21
1957	29,243	68	10	—	78	18.9	3.1	22
1958	30,481	70	10	—	80	17.0	3.0	20
1959	30,644	69	10	—	79	17.2	3.8	21
1960	30,076	68	10	—	78	17.3	4.7	22

Source: Japan Fibre Association, *Yearbook on Fibre, 1962*, Tokyo, 1961, p. 290.

1 International Rubber Study Group, *Rubber Statistical Bulletin*, London, from September 1960 issue to March 1962, *passim*.

The consumption structure of fibres is also undergoing a great change. During the first 25 years of this century, cotton occupied 85 per cent of the world total fibre production, but in 1960, it was only 68 per cent. On the other hand, since the end of World War II, production of chemical fibres increased rapidly at yearly average of 10 per cent. For example, the average production ratio which was 12 per cent in 1946, rose to 22 per cent in 1960. (See Table 3) As an illustration, the increasing production ratio of chemical fibres can be considered as indicating the future trend of demand for cotton, although various other factors such as the price, quality and processing techniques, must also be taken into consideration. This trend can

Figure 1. SHIFTS IN THE PRODUCTION OF COTTON AND CHEMICAL FIBRES FOR TIRE CORD IN THE UNITED STATES

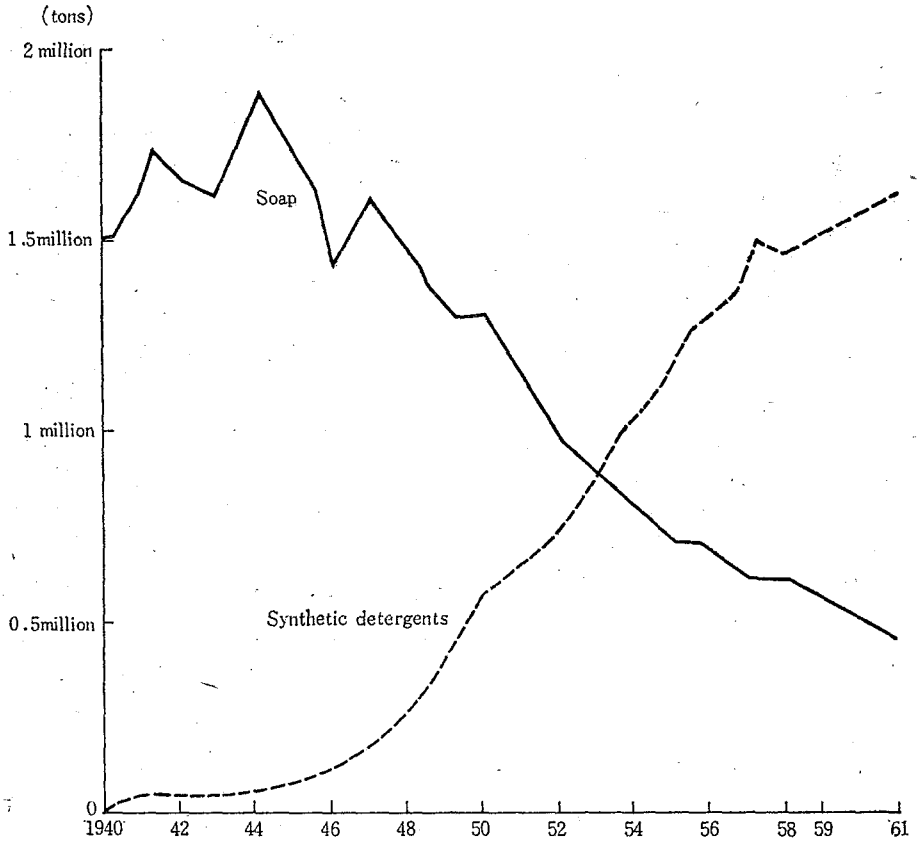


Source: *The Textile Organon*, New York, December 1962, p. 28.

be seen in Figure 1 indicating the shifts in the production of cotton and chemical fibres for tire cord in the United States.

Natural hard fibres such as abaca, sisal, henequen and jute are special products of Asian countries and also constitute their principal exports items. However, with the great progress witnessed in scientific developments, abaca, sisal and henequen are now being replaced by chemical fibres in an increasing number of uses. Chemical fibres are not only cheaper than natural fibres but are also much stronger. They are now being used more and more as material for making fishing nets. The export increase rate of natural fibres compared with

Figure 2. SHIFTS IN THE PRODUCTION ON SOAP AND SYNTHETIC DETERGENTS IN THE UNITED STATES



Source: Compiled by Science Techniques Agency (Statistic Section, Resources Bureau, Japanese Government), Tokyo.

the production increase rate is low, and it is predicted that a big decline in export volume will be seen in the future. Jute is used principally for the making of bags for packing and transportation of rice and other grains, but the use of jute bags is decreasing due to the development of new methods of packing and transportation.

World demand for coconut and palm oil and other vegetable oils is expected to change drastically due to the debut of new chemical substitutes. Vegetable oils are used chiefly as raw material for soap and foodstuff. However, in the United States, the production rate of soap has fallen considerably and a sharp rise is being witnessed in the manufacture of synthetic detergents.

The change in demand for raw material caused by the progress in science has also greatly affected the demand for minerals. Tin, which is Asia's major mineral product, is used principally for soldering, tin plating and the making of antifriction metal. However, it is now being replaced to a large degree by synthetic resins, that have now infiltrated into practically every field where metals, wood, glass, ceramics, fibres and animal and vegetable oils had hitherto been used. In comparing the properties of synthetic resins with those of other materials, the following facts have been obtained. Compared with metals, synthetic resins are lighter and have rustproof qualities. Compared with wood, they are stronger and more resistant to water and fire and are uncorroded. As a substitute for ceramics, they are lighter and not easily breakable; even when broken, the pieces are not jagged or dangerous. New fields are now being developed for synthetic resins, utilizing their electrical and chemical-resistant properties.

The above outline covers only the principal primary products of Asia. It cannot be denied that practically all primary products with the exception of foodstuffs and certain luxury articles are being greatly affected by the change in the demand for such products.

III. CHIEF POINTS OF ECONOMIC DEVELOPMENT AND EXPORT STRUCTURE

The diminishing importance of primary products means that the ultimate goal of economic development in less developed countries should be the establishment of a diversified industrial economy similar to that in advanced countries. The first problem, however, which must be solved, is how less developed countries will be able to obtain capital and other necessary resources.

Before considering this problem, it is necessary to know what the less developed countries themselves are planning about the production of primary products as well as the diversification of industry. In general, it can be said that the economic plans of less developed countries overlook the impact of international trade, because it is extremely difficult to make an accurate forecast of the trends of future international demand. Since less developed countries depend so heavily on trade the plans lack concreteness. In regard to production plans for primary products, it is to be noted that all less developed countries place emphasis on their traditional primary products. For example, Malaya's second five-year plan covering the period from 1961 to 1965, calls for the increase of areas of rubber cultivation from 46 per cent in 1960 to 65 per cent in 1965. The Government subsidy for new rubber plantations will total 7.7 per cent of the total public investments.[1] A government subsidy is also considered for new coconut plantations. The production target of the Philippines' principal export goods——coconuts, abaca, sugar and other primary products——calls for an increase in production from 3.2 million tons of 1959 to 3.6 million tons in 1962.[2] Indonesia also places strong emphasis on increased production of rubber and copra. Burma calls for an increase of rubber plantation acreage from 12,000 acres in 1961–1962 to 70,000 acres in 1964–1965, jute planting acreage from 57,000 acres to 110,000 acres, and cotton planting acreage from 40,000 acres to 125,000 acres.[3] Although India is the most industrialized country in the Asian area, the target of her production plans for primary products for export purposes is very high. For example, the target increase rate for the production of rubber in her third five-year plan (percentage increase in 1956–66 over 1960–61) is 70.5 per cent, for jute 55 per cent, for coconut 17.2 per cent, and 37.2 per cent for cotton.[4]

Although the production goals for primary products are very high in the economic development programmes of these countries, plans concerning export targets are extremely ambiguous. There are no trade plans in Malaya's economic development programme. The Burmese plan calls, on the one hand, for increase production of export

1 Federation of Malaya, *Second Five-Year Plan 1961–1965*, 1961, p. 29–32.

2 National Economic Council, *Three-Year Program of Economic and Social Development* (FY 1959–'60 to FY 1961–'62), Manila, Philippines, 1959, p. 47.

3 Ministry of National Planning, *Second Four-Year Plan for the Union of Burma* (1961–1962 to 1964–65), Rangoon, 1961, p. 96.

4 Government of India, Planning Commission, *Third Five-Year Plan*, Delhi, 1961, p. 317.

goods in order to rectify the balance of international payments, and on the other, hopes to increase production of goods that would substitute for commodities which are now being imported. But practically no analysis of the overseas conditions, which would make it possible to implement Burma's plans, have been made. Although there is a trade plan in the Philippines' development programme, no survey has been made of the prospects of exporting her traditional products. Even India, considered among Asian nations as having a trade plan based on detailed analysis, does not have an export goal comparable with her target for the production of traditional goods, although admittedly she has established a target in money value for the amount of exports.

In reviewing the economic development plans of various less developed countries from the angle of production and exports, it is found that practically all are planning to increase production of primary products without paying any consideration to the structural changes of international demand. Furthermore, no clear-cut picture of the prospects of future exports has been obtained by any of these countries. The future trade prospects in primary products according to the United Nations[1] are, however, generally pessimistic, and diversification of industries as well as the establishment of an industrial economy are the directions the less developed countries must follow:

> "The growth in import demand of the advanced areas for most primary products has lost the momentum of earlier decades and, currently, it lags behind the growth in their domestic incomes and output. In any event, (.....), it is clear that foreign trade, no matter how favourable the trends in external demand, cannot constitute the sole road to economic development. .....In most under-developed countries at the present time, however, by far the greater part of the goods required for capital formation is not produced at home but is purchased from the developed countries. Clearly, if domestic industrial growth were not oriented towards the aim of continually augmenting the supply of capital goods, the pace at which the volume of available capital could be increased would be largely set by the rate of growth in traditional primary commodity exports. And since, for the under-developed countries as a whole, the trend in these exports exhibits only sluggish growth, efforts to raise the level of investment could be seriously impeded.
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> This, however, does not necessarily mean that under-developed countries should invariably concentrate their resources on the development of domestic capital goods industries. On the one hand, the spread of import-substituting industries producing consumer goods or intermediate goods can release foreign

1 United Nations, *World Economic Survey 1961*, New York, 1962, pp. 3–5; see also GATT, *International Trade 1960*, 1961, Part 1.

exchange for imports of capital goods. And, on the other hand, the growth in foreign exchange receipts can be strengthened by the promotion of industries producing manufactures or exports."

What is proposed here is that import-substituting industries should be further expanded, and that the foreign exchange thus saved should be used for the import of capital goods, since not much can be expected from the increase of primary products exports to secure foreign currency. This, in turn, would enable the less developed countries to start exporting industrial goods.

The views contained in another United Nations' survey[1] are as follows:

The survey deals chiefly with the calculation of the increase rate of the amount of imports by less developed countries during the acceleration of their economic development. The total annual import demand of all less developed countries in the world is set at approximately $32,300 million (average for 1957–1959). If the economic growth rate is set at 3 per cent per annum, and the marginal import propensity against the increase in gross national product at 0.85, the imports would expand to approximately $60,000 million in 1980. However, since at present the total value of exports is about $19,000 million a year, there is only a small prospect for less developed countries to increase their exports of primary products to cover the amount of imports.

Even if economic aid from advanced countries and international institutions should increase to $10,000 million in 1980, the remaining $50,000 million must be obtained through exports, in order to secure enough foreign exchange to cover the estimated $60,000 million imports. But it is estimated that, in 1980, advanced nations (including Japan) will be able to import only a maximum of $20,000 million of primary products originating from less developed countries. Even if exports to Communist countries and trade among less developed countries themselves should increase in the future, it is hardly conceivable that their volume would exceed the $15,000 million level by 1980. Therefore, it would be necessary for the less developed counrties to secure $15,000 million through the export of industrial goods. This means that they must increase these exports from the present 10 per cent of the total exports volume to 30–35 per cent by 1980.

In regard to export markets for industrial products of less deve-

1 U.N., (E.C.E.), *Economic Survey of Europe in 1960, Europe and Trade Needs of Less Developed Countries*, 1961, pp. 1–50.

loped countries, by 1980 some $5,000 million worth of products could be expected to be sold in Latin America, Asia, Africa and the Communist countries. It is further estimated that there is a potential demand for $5,000 million of such products in the United States, Japan, Canada, Australia and other advanced countries outside Europe.

It is, therefore, proposed that, in 1980, advanced European countries should import the remaining $5,000 million worth of industrial products from less developed countries. The survey adds that since it is estimated that the production of industrial goods in Europe will increase by approximately $370,000 million in 1980, it would not be impossible, from a long-range point of view, for European countries to purchase this amount.

The GATT's annual report[1] also deals chiefly with the volume of trade. In order to increase the per capita annual income of less developed countries from the present (1960) $120–$125 to $160 in 1969, it is necessary to raise the per capita economic growth rate from the 1.8 per cent in the 1950's to 3.2 per cent in the 1960's. Even to maintain the present 1.8 per cent growth rate, it is estimated that an increase of import demand from the 1960 yearly $27,000 million to approximately $43,000 million in 1969 will be required. If a 3.2 per cent growth rate is to be attained, it is estimated that the total import demand will have to be increased to $55,000 million.

A view shared by both surveys is that it is important for less developed countries to switch to the export of manufactured goods in order to cope with the expected rise in imports. They also point out that with the diversification of economic development, there is no doubt that several less developed countries will be able to export simpler types of industrial goods which could compete on international markets.

IV. DEVELOPMENT OF LESS DEVELOPED COUNTRIES

The conditions for economic development are entirely different in industrially advanced nations and less developed countries. Whereas the latter must increase their imports from advanced countries in order to boost their production and real income, the former are able to increase their production and income, even while reducing their import rate of primary products from less developed countries.

1 GATT, *International Trade 1960*, Part 1.

The estimations presented by the United Nations[1] provide some sort of criterion and reference in regard to the following points concerning the economic development of less developed countries.

We see the direction to be taken by less developed countries, when they establish long-range goals for economic growth, calculate import demand and estimate export earnings and inflow of foreign capital. The problem is how to implement the measures required to attain these targets.

In regard to the question of what industry or industries should be selected first as the object of development, Hirschman's view that an industry which is "self-induced and highly propagative"[2] would be most appropriate, could provide a standard. The standards, of course, differ according to the variouos countries. The future course to be taken by less developed countries is presumably to increase first the production of goods which could replace imported consumer goods (manufactured by intensive labour). Next, they should hike the production of exportable industrial goods, such as textiles that are today manufactured in some Asian countries. As a matter of fact, a large number of less developed countries are replacing imported goods with their own products due to the expansion of domestic industrial production. The promotion of import-substituting industries is one of the general policies of governments of less developed countries suffering from shortage of foreign exchange. However, as Nurkse points out, in markets which are protected by restrictions on imports, the possibility arises that the production of industrial goods not urgently needed would increase, and thus not contribute the economizing of foreign exchange.

The development of export goods manufacturing together with import-substituting industries is a good means for securing foreign currency needed for the purchase of capital goods and other essential commodities.

Less developed countries are confronted with various problems concerning ways to establish import-substituting industries. Let us restrict these problems to two : capital and markets. The first question is whether 1 per cent of the national income of advanced countries

1 U.N. (E.C.E.) *op. cit.*

2 Albert O. Hirschman, *The Strategy of Economic Development*, New Haven, Yale University Press, 1958, Chapters 7 and 8.

could flow into the less privileged countries. Two different movements are at work, one is an expanding trend and the other a constricting trend. In 1961, the economic assistance extended by countries participating in the Development Aid Committee (DAC) an organ of the Organization for Economic Cooperation and Development (OECD), increased by 17 per cent over the preceding year, and totalled $8,700 million. The amount of assistance provided by Japan in 1961 was $380 million, a drastic increase of 45 per cent over the previous year. Parallel with the increase in economic assistance, movements for more international cooperation are also growing stronger. But other factors are checking these movements. For example, advanced countries express doubts on the economic effects of the past assistance and their tax payers grow lukewarm toward shouldering the burden of such assistance. If this trend should grow stronger, it might become impossible for the less developed countries to obtain 1 per cent of the total income of advanced nations. And the growth rate envisioned by the investment plans of less developed countries would not materialize.

Another problem is that concerning the uncertainty of markets anticipated for export goods manufactured by less developed countries. As mentioned above, the estimates for 1980 are: $5,000 million worth of goods to be purchased by markets in Latin America, Asia, Africa and Communist nations, $5,000 million by the United States, Japan, Canada and Australia, and another $5,000 million by advanced countries in Europe. The report estimates that $15,000 million worth of industrial products manufactured by less developed countries will then be exported. This would mean that these countries will have to increase their exports by 5.5 times the $2,000 million average for 1957–1959. There is, however, no absolute guarantee that this prospective goal will be achieved. The report further stresses that if the less developed countries are to achieve this target, West European countries as well as the United States and Japan and other industrially advanced countries and the Communist nations are obliged to extend more cooperation and assistance.

On the other hand, it is required that developed countries, instead of drafting plans as political platforms, compile concrete economic development plans based on policies beneficial to both less developed and advanced countries. In other words, it is important for the less developed countries to draft and implement economic development plans by which they are organically and economically connected with advanced countries.

Conclusion

A great defect in current considerations on the economic development of less developed countries is that no sufficient knowledge of overseas conditions is available. It must be admitted that a careful theoretical approach to these problems has not yet been attempted.

A growing body of economists call for more attention to be devoted to the actual economic and social conditions existing in the regions and individual countries.[1] Hirschman remarks that "One of the astonishing facts of modern economics is the way in which the analysis of the growth process of advanced industrial countries has yielded an apparatus of seemingly ready applicability to the most primitive economies." This cynical remark stemmed from his attempt to clarify the methods to be followed for the solution of a specific problem at a specific time. He continues: "Therefore, the more useful they (theories) are in one setting, the less they are likely to be so in a completely different one."[2]

When past theories are applied to particular underdeveloped countries, frequent contradictions appear. Nurkse's theory on disguised unemployment is a case in point.[3] He asserted that disguised rural unemployment in overpopulated countries is a concealed saving potential, and that this potential could be set to work on capital projects: irrigation, drainage, roads, railways, houses, factories, training schemes, and so on, without a fall in total output. Consequently, if it were possible to transfer the products together with the population, they could be converted into productive labour. If concomitant costs could be kept at a minimum, new capital formation would be accelerated. In theory, the scheme is quite possible, but it is not every country that has the means and ability to transfer population, agricultural products and select labourers for participation in capital formation plans. This has been proved in many instances in Mainland China.

1 See, *e.g.* G. Myrdal, *Economic Theory and Underdeveloped Regions*, London, G. Duckworth, 1957; and J.K. Galbraith, *Economic Development in Perspective*, Cambridge, Mass., Harvard University Press, 1962.

2 A.O. Hirschman, *op. cit.*, p. 29, See also: B.W. Jackson, "Foreign Aid; Strategy of Stopgap?" (*Foreign Affairs*, October 1962, p. 91) where she writes: "Nations as various as India and Mexico on the threshhold of full modernization, or Chad and Niger barely emerging from nomadic life, tend to be lumped together as 'underdeveloped' and 'developing'. Development policies, to be effective, have to be based not on generalities but on detailed analysis of the community which is to be aided".

3 R. Nurkse, *Problems of Capital Formation of Underdeveloped Countries*, Oxford, Basil Blackwell, 1953, pp. 36–37.

Difficulties are many, but there develops a need for the formulation of a specific theory based on the specific conditions of each less developed country, with due consideration for the overseas conditions. We have touched on the broad question of the structural changes in the international demand for primary products. There are, however, differences in the type of products as well as differences in the weight occupied by primary products in each country. Consequently, overseas conditions should not be taken up as a problem of less developed countries as a whole, but should be studied in connection with the domestic conditions of each specific country. It remains, nevertheless, that the problem of primary products is too big for any one country to handle by itself. It requires international study and cooperation not only among the countries in the region, but also on a worldwide scale.