

TWO ASPECTS OF THE EXPORT OF MANUFACTURED GOODS FROM DEVELOPING COUNTRIES

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In this paper the author aims to identify the existence of two types of export markets of manufactured goods from developing countries, and then to argue for the necessity of two corresponding export policies. The major theories of industrialization policy are outlined in Section I. This description reveals the fact that in order to overcome difficulties in import substitution, export-oriented industrialization is required. In Section II, a case study is undertaken to show the existence of two export markets—those of developed and developing countries—available to developing countries. Here the author tries to indicate that the difference between export markets is related to the features of the export commodities throughout countries studied. As long as two export markets exist, export policy also should have two aspects. Directions of and recommendations for export policy in relation to both aspects are discussed in Section III.

INTRODUCTION

IN RECENT YEARS a distinction has been made between inward-looking and outward-looking industrialization as alternative development paths for developing countries. The former begins the industrialization process with import substitution. The latter, which has derived from serious reflections on the defects and limitations of the former, reflects a shifted attitude toward exports and suggests, on appropriate occasions, the possibility of beginning industrialization itself with production for the export market. This shift of direction is of significance for development economics. We shall deal with this problem in Section I through an examination of theories concerning industrial development in developing countries.

For formulating a policy for outward-looking industrialization, or export-oriented industrialization, it is important to know the nature of exported manufactured goods, export markets and the relations, if any, between them. Section II is devoted to a case study of thirteen developing countries chosen from Asia and Latin America, in which the present situation of manufactured exports is described. We reach the very important conclusion that export markets for manufactured goods differ according to the nature of the goods; that is, some manufactured goods are exported mainly to developed countries while others are directed to a large extent at other developing countries. This is the common pattern envisaged throughout our sample countries.

As long as two aspects of the export of manufactured goods exist, the

export policy of developing countries also should have two aspects; one toward developed and the other toward other developing countries. Needless to say, export policy plays a decisive role in the direction of export-oriented industrialization. These two policy measures will be discussed in Section III in turn.

I. ALTERNATIVE PATHS TO INDUSTRIALIZATION

—Import Substitution and Export Promotion—

Most developing countries who have achieved their political independence in the postwar period have aimed at achieving economic independence by the way of transformation of their economic structures. As is well known, their economic structures have been characterized by the so-called dual economies and export economies. They have specialized in the production and export of a few primary commodities, but their export sectors have been isolated from the rest of the economy. These distinctive features of the economic structures in developing countries have hampered the full realization of gains from trade and the carry-over of these gains into other sectors of the economy. Further, they have brought about secular movement in terms of trade against developing countries and potential or actual deficits in the balance of payments of the developing countries. Facing these defects which result from their economic structures, the developing countries have struggled with the transformation—diversification and industrialization—of their economies.

The reasons why developing countries have a strong inclination for industrial development have been briefly summarized by P. G. Elkan.¹ He makes two points, (1) the difference in income elasticity of demand between primary commodities and manufactured goods, which leads to adverse trends in terms of trade for primary commodities and the decline of marginal revenue for countries mainly exporting them, and (2) the difference in marginal growth contribution of investment between the primary sector and industrial sector, which is clearly advantageous to the latter because of the various dynamic effects it has by its very nature.

When the preference for industrial development in developing countries is taken for granted, the next problem arises: what is the more efficient way to, or better strategy for, attaining industrialization? We can distinguish, chronologically, at least four interpretations related to this problem, each of which differs in understanding a primary obstacle in the industrialization process. In the first interpretation, the primary obstacle is lack of savings. Needless to say, industrialization requires huge amounts of capital, but in most developing countries savings is depressed to an extremely low level due to low per capita incomes. Success of industrialization is considered, therefore, to depend upon the ability to mobilize domestic savings on the one hand, and on the ability to raise foreign capital,² on the other.

¹ See P. G. Elkan, "How to Beat Backwash: The Case for Customs-Drawback Unions," *Economic Journal*, March 1965.

In the second interpretation, on the contrary, lack of inducement to invest is emphasized as the major missing link in the industrialization process. In this explanation savings is not necessarily a scarce factor, as in many developing countries there is much concealed savings in such forms as disguised unemployment and unproductive consumption. It has been argued, rather, that industrial development must be discouraged by the demand shortage of capital resulting from the small size of the domestic market, that is by the low level of purchasing power for domestically produced goods in the industrial sector. To remove this kind of obstacle, the doctrine of balanced growth was advanced, insisting that simultaneous investments in various industries were necessary to widen the domestic market.³

In the third interpretation, emphasis shifts again to the supply side of the production factor. In this instance, however, the missing link is not savings and material capital, but the ability to invest, which is provided in the modern sector of economy and expected to serve as a catalyst connecting the concealed savings with the opportunities for productive investment. When this ability is scarce in developing countries, the preferred course for industrial development must be what makes use of this scarce factor in the most efficient way by taking advantage of incentives or pressures stemming from imbalances continuously created and maintained among various sectors in the economy. The familiar concepts of forward and backward linkage effects, which an investment in one sector will be supposed to have, are related to these incentives and pressures. From this point of view, the sector which will have the largest linkage effects should be regarded as the most promising basis for development: this is the contention of so-called unbalanced growth doctrine.⁴

In the last interpretation, attention is again concentrated on material capital in the form of foreign currency, and the foreign exchange shortage against which many developing countries are struggling is considered to be the main obstacle to industrial development, because in developing countries where the ability to produce capital goods out of domestic factors is severely limited, a minimum size of input imports (operational, reinvestment and expansion imports) is essential for the full use and growth of existing productive capacities. Incidentally, this argument is apparently similar to that in the first, in putting emphasis on the lack of material capital for developing countries; but the two are fundamentally different in that the argument in this context deals with foreign currency as the co-factor with or complementary factor for domestic savings, while the argument in the first interpretation assumes substitutability between them. Once we realize the significance of

² For example, see Department of Economic Affairs, United Nations, *Measures for the Economic Development of Under-developed Countries: Report by Secretary-General of the United Nations*, New York, United Nations, 1951.

³ For example, see R. Nurkse, *Problems of Capital Formation in Under-developed Countries*, Oxford, B. Blackwell, 1953.

⁴ For example, see A. O. Hirschman, *The Strategy of Economic Development*, New Haven, Yale University Press, 1958.

the shortage of foreign currency for industrial development, whether the development process proceeds along successful lines or not hinges on whether or not we can find out appropriate ways to remove that foreign exchange gap through various measures.⁵

It should be noted that, while each of the four interpretations differs in terms of what it selects as the primary obstacle for the industrialization process in developing countries, all four have proposed industrial development through import substitution. In the first interpretation, it was presumed that industrialization would proceed easily only if sufficient capital, including domestic savings and foreign capital, could be invested in import-competitive industries. In the second, the doctrine of balanced growth eventually proposed the necessity to replace imports by all-round but horizontal domestic production with special reference to consumer goods industries. This contrasts with the doctrine of unbalanced growth of the third interpretation, in which selective or vertical import substitution measures were recommended. According to this doctrine, it is most efficacious for the industrialization process to start with import replacement at the final production stage and then to work back to the intermediary and basic stages, expecting backward linkage effects to be set in motion. In the fourth, where some measures to relieve shortage of foreign currency were presented, it was import restriction of non-input-imports and their domestic production that was especially accentuated.

But as the industrialization process directed toward import-replacement in domestic markets has developed in developing countries, some defects and limitations have gradually been revealed. These defects have been summarized as follows by Raúl Prebisch; (1) the technically difficult process of import substitution requires increasingly huge amounts of capital, enhances various import demands consisting of modern capital goods and new consumer goods, and aggravates the adverse gap in balance of payments, instead of filling up that gap through import saving; (2) the costs of newly produced manufactured goods for the domestic market are usually extremely high because the size of the market is not large enough to permit the most efficient production. High-cost production can just barely survive under high tariff protection, which in turn prevents new technology from being introduced, and represses the rising tendency for productivity; (3) import replacement is not based on reasonable planning but is achieved, rather, at random affording preferences for easy tasks. This means wasteful use of precious resources in the developing countries; (4) related to (3), remaining imports are narrowly confined to those which are indispensable for the maintenance of economic activity. Therefore if developing countries are forced to cut their imports, there is a direct impact on the level of economic activity; and (5) excessive protection adopted to secure the domestic market for emerging industries completely isolates it from foreign competition and discourages the willingness to improve production quality as well as to reduce production costs.⁶

⁵ For example, see S. B. Linder, *Trade and Trade Policy for Development*, New York, Frederick A. Praeger, 1967.

In the light of these shortcomings of industrialization which derive from the policy of import substitution, the significance of a different approach to industrialization is widely recognized. It has been felt that export-oriented industrialization is desirable and necessary to overcome the above-mentioned defects and to put the industrialization process on a firm footing. Furthermore, in some countries, production for export markets may be the only way to start industrial development, since development would doubtless be prevented from the outset by the limitations of the domestic markets, if they were to attempt to base industrialization upon their own markets.⁷ Moreover, when we consider the direct relationship between exports and economic development in developing countries, export-oriented, or outward-looking, industrialization is especially noteworthy from the viewpoint of the infant export industries arguments.⁸

There are two export markets for manufactured goods from developing countries. Developed countries have been and will be large markets for some manufactures, and developing countries can also provide a considerable market for each other's manufactured goods especially through their integrated framework. The existence of two markets naturally suggests the significance of considering two export policies along the line of export-oriented industrialization. In the next section, then, we shall attempt an empirical study of the actual situation of manufactured exports in some developing countries, and make clear where the major problems lie.

II. MANUFACTURED EXPORTS FROM DEVELOPING COUNTRIES: A CASE STUDY

Here we shall take up thirteen countries as a set of samples from Asia

⁶ UNCTAD, *Towards a New Trade Policy for Development: Report by the Secretary-General, Raúl Prebisch*, New York, United Nations, 1964.

⁷ This is the point which has been stressed recently by H. B. Lary in his thorough work *Imports of Manufactures from Less Developed Countries*, New York, National Bureau of Economic Research, 1968.

⁸ See Atsushi Murakami, "Export Base and Infant Export Industries," *Kobe University Economic Review* 12, 1966. In this paper, I tried to connect the gains from trade and the gain of growth by stressing the function of the export base in which a country would specialize. Different export bases would have different growth potentiality and the varied effects of the external economies influencing on other sectors of the economy through the different production functions of export commodities. In this respect a country which can afford to have manufactured goods as its export base has very favorable circumstances for its economic development. Therefore, it will be important for developing countries to establish appropriate export bases for manufactured goods, taking into account their potential comparative advantages, and to foster them with the support of various policy measures. This approach differs from traditional infant industry argument in putting emphasis on short-cuts or by-passes of the normal development path which proceeds from domestic production of importable goods to their export. It may be called the infant export industry argument and can be expected to give theoretical substance to export-oriented industrialization.

and Latin America and examine their manufactured goods' export market. For nine countries of thirteen we shall compare 1962 and 1965 figures. The scope of our choices and comparisons are largely limited by the availability of materials most suited to our intended purposes.⁹

Table 1 shows the relative share of manufactured exports for each country. In 1962, the ratios widely differed among the countries ranging from 0.9% in Ceylon to 69.8% in Chile. Thailand (2.1%), Colombia (2.9%), Brazil (3.1%), Argentina (3.4%) and the Philippines (4.6%) are among countries whose ratios were extremely low, while in such countries as Republic of China (Taiwan) (46.2%), India (43.5%), Pakistan (24.5%), Mexico (24.5%), Peru (24.3%), and Republic of Korea (19.3%), their ratios were relatively high. It should be

Table 1. Relative Share of Manufactured Exports

Countries	Year	Total Exports (Million Dollars)	Ratio of Manufactured Exports (%)				
			Total	Chemicals	Basic Manufactures	Machines, Transport Equip.	Misc. Manufactured Goods
India	1962	1,392	43.5 (59)	1.1 (8)	39.9 (30)	0.7 (6)	1.8 (15)
Taiwan	1962	218	46.2 (44)	7.2 (9)	30.6 (23)	1.7 (7)	6.7 (5)
	1965	450	42.5 (62)	4.8 (11)	25.0 (26)	4.4 (14)	8.3 (11)
Pakistan	1962	397	24.5 (26)	0.2 (1)	21.8 (11)	0.9 (9)	1.5 (5)
	1965	528	36.0 (38)	0.8 (5)	31.9 (14)	0.9 (8)	2.4 (11)
Korea	1962	55	19.3 (13)	1.8 (1)	11.3 (7)	2.6 (2)	3.6 (3)
	1965	175	61.0 (42)	0.2 (1)	37.9 (24)	3.1 (9)	19.7 (8)
Thailand	1962	445	2.1 (12)	0.1 (1)	1.6 (8)	—	0.4 (3)
	1965	607	5.2 (22)	0.1 (4)	4.7 (12)	0.1 (1)	0.3 (5)
Philippines	1962	553	4.6 (11)	0.4 (3)	4.0 (4)	0.1 (1)	0.2 (3)
	1965	766	5.6 (14)	0.4 (3)	4.8 (7)	—	0.4 (4)
Ceylon	1962	371	0.9 (7)	0.3 (2)	0.4 (3)	—	0.1 (2)
	1965	402	0.8 (7)	0.3 (2)	0.4 (3)	—	0.1 (2)
Mexico	1962	803	24.5 (61)	4.0 (9)	17.6 (29)	1.1 (11)	1.8 (12)
	1965	1,031	24.6 (78)	5.5 (13)	15.9 (39)	1.3 (13)	1.9 (15)
Brazil	1962	1,214	3.1 (33)	1.2 (4)	0.8 (15)	1.0 (11)	0.1 (3)
	1965	1,595	7.8 (57)	0.9 (8)	4.9 (26)	1.8 (13)	0.2 (10)
Argentina	1962	1,216	3.4 (25)	2.5 (5)	0.7 (11)	0.3 (6)	0.1 (3)
Peru	1962	543	24.3 (15)	0.4 (3)	23.8 (9)	0.1 (1)	0.1 (2)
Colombia	1962	463	2.9 (13)	0.6 (3)	1.9 (7)	0.2 (2)	0.1 (1)
	1965	539	6.5 (35)	1.1 (7)	4.5 (20)	0.4 (3)	0.5 (5)
Chile	1962	532	69.8 (11)	1.7 (5)	67.8 (4)	0.3 (2)	—

() number of items by the three digit code of SITC.

⁹ Original data are U. N. Commodity Trade Statistics. Therefore our calculations in this section cannot escape from the limitations inherent in the data. It is only from 1962 that we can find figures broken down by country and commodity trade especially for developing countries in the U. N. data. Moreover, manufactured exports have covered only from 5 to 8 in SITC numbers, including non-ferrous metals but excluding some processed foodstuffs, so that the figures presented in the following tables do not accurately reflect the industrialization process in developing countries.

noted, however, that high ratios in the latter group of countries are largely due to high export figures in basic manufactures which include many manufactured items such as leather, rubber, wood, paper, textile, non-metal minerals, iron and steel, non-ferrous metals, and metal manufactures. Moreover, high export figures in this category are attained by very few items in each country—for example, textiles in India and Pakistan, textiles and wood in Taiwan and Korea, textiles and non-ferrous metals in Mexico, non-ferrous metals in Peru and Chile. (See Figure 2.) Therefore, if we exclude these basic manufactures, the ratios of manufactured exports are not necessarily high in most countries except in Taiwan, Korea and Mexico where the ratios still remain 15.6%, 8.0% and 6.9% respectively.

By 1965, however, these ratios show considerable increases in many countries, of which Korea is the most notable, her ratio increasing to 61.0% or by more than three times. In Pakistan, Thailand, the Philippines, Brazil, and Colombia, we can also find substantial increases; and even in Taiwan and Mexico, whose ratios stagnated or declined, the numbers of export items shown by the three digit code of SITC are steadily increasing. One exception,

Table 2. Export Markets of Manufactured Goods (%)

Countries	Year	Manufactured Exports											
		Total Exports		Total		Chemicals		Basic Manufactures		Machines, Transport Equip.		Misc. Manufactured Goods	
		I	II	I	II	I	II	I	II	I	II	I	II
India	1962	63.9	24.4	58.6	36.4	58.8	30.1	60.4	35.0	16.4	82.3	34.7	55.5
Taiwan	1962	58.6	41.4	42.0	58.0	42.4	57.6	35.3	64.7	5.7	94.3	81.6	18.3
	1965	66.2	33.8	47.5	52.5	41.8	58.2	38.9	61.2	33.5	66.5	84.3	15.6
Pakistan	1962	65.4	31.2	59.7	40.1	26.5	73.4	59.3	40.7	71.3	28.3	62.8	35.7
	1965	51.0	37.5	43.6	53.5	10.3	89.4	43.6	53.2	33.6	65.7	57.1	42.0
Korea	1962	83.4	16.3	83.3	15.6	80.8	18.4	80.4	19.2	80.0	19.1	96.1	—
	1965	74.3	25.7	68.6	31.4	41.3	58.7	56.7	43.3	49.4	50.6	95.0	5.0
Thailand	1962	44.7	53.7	32.6	66.8	—	87.9	32.6	67.4	—	93.5	41.8	58.2
	1965	45.8	53.5	59.0	41.0	16.9	83.1	60.6	39.4	—	98.6	43.6	56.4
Philippines	1962	93.6	5.9	91.7	8.2	83.9	16.1	92.5	7.4	90.0	—	90.4	9.4
	1965	95.3	4.7	93.4	6.6	73.6	26.4	95.1	4.9	—	—	93.2	6.7
Ceylon	1962	66.8	20.2	81.7	15.1	77.3	14.4	86.9	13.0	—	—	74.4	—
	1965	62.3	19.8	81.3	11.2	92.7	—	92.0	7.9	—	—	30.0	43.7
Mexico	1962	91.8	7.4	78.3	21.6	71.5	28.5	83.5	16.4	47.9	52.1	62.0	38.0
	1965	82.1	11.9	78.3	21.5	68.1	31.8	87.2	12.6	41.6	58.4	58.9	41.1
Brazil	1962	84.5	9.5	61.9	35.1	84.1	12.6	69.9	26.6	30.1	67.4	35.8	61.5
	1965	78.8	15.5	36.1	62.6	71.3	23.8	30.8	60.4	10.9	89.0	48.1	51.9
Argentina	1962	79.1	14.4	65.7	31.4	74.2	21.6	69.9	30.1	11.9	87.3	22.1	77.7
Peru	1962	86.6	12.9	89.7	10.3	73.0	27.0	90.3	9.7	—	100.0	55.9	43.6
Colombia	1962	93.1	6.1	50.9	49.1	63.9	36.1	53.0	46.9	13.8	86.2	27.6	72.4
	1965	86.1	11.8	44.9	55.1	21.9	78.1	57.5	42.5	7.4	92.6	11.9	88.2
Chile	1962	89.8	9.9	91.8	7.9	64.7	35.3	93.9	6.8	10.5	89.5	—	—

I=advanced countries. II=developing countries.

where we cannot find any appreciable change, is Ceylon. Here again, it should be clear that these increasing trends of manufactured export ratios in many countries may be attributed to a large extent to the expansion of exports in basic manufactures. In addition, in the case of Korea, expansion in miscellaneous manufactured goods helps account for this trend, too. But in 1965, judging from the increase in number of items included in basic manufactures and miscellaneous manufactured goods, rapid expansion of exports in these categories must have been contributed to by an increased number of newly emerging export items.

The main export markets for manufactured goods are shown in Table 2, where we divide export markets into two broad categories, that of advanced countries (Economic Class I in C.T.S.) and that of other developing countries (Economic Class II in C.T.S.).¹⁰ In total exports, developing countries depend chiefly on the market of advanced countries. For example, more than 70-90% of the total exports of Korea, the Philippines, Mexico, Brazil, Argentina, Peru, Colombia, and Chile are directed to developed countries, and even in India, Taiwan, Pakistan, and Ceylon, with Thailand as the one exception, the markets of developed countries swallow more than half of their total exports. But in terms of manufactured exports alone, the relative importance of the markets of developed countries decreases for most developing countries. We find that the sole exceptions to this tendency are Ceylon, Peru, and Chile. This means that for manufactured exports from developing countries in general, the markets of other developing countries are comparatively important. In fact, exports to other developing countries outweigh those to developed countries for Taiwan, Pakistan, Thailand, Brazil, and Colombia. When we proceed one step further and examine the export market for different manufactured goods, however, we find differing tendencies in each case; namely the ratios of other developing countries as export markets for basic manufactures exceed those of developed countries in only four countries—Taiwan, Pakistan, Thailand, and Brazil—on the one hand, and in every country (except the Philippines and Ceylon, where exports are negligible) for machines and transport equipment on the other. For chemicals and miscellaneous manufactured goods the number of countries where exports to other developing countries are more important are five respectively; for chemicals, Taiwan, Pakistan, Korea, Thailand, and Colombia, and for miscellaneous manufactured goods, India, Thailand, Brazil, Argentina, and Colombia. Through this examination we can conclude that the export of manufactured goods compared with total export from developing countries are more dependent on the market of other developing countries. This tendency is especially noticeable in the export of machines and transport equipment.

Now let us develop our argument further. Figure 1 shows the export markets by commodity of the developing countries in terms of three digit

¹⁰ In C. T. S., there is Economic Class III, standing for centrally planned countries. Therefore, the sum of these two markets—developed and other developing countries—is not necessarily 100%.

Figure 1. Export Markets of Manufactured Goods
Classification

Commodities	A	B	C	D
512 organic chemicals	6 6 7 7 8 9 9 10 12	1 4	2 2 11	12 13
513 inorg elements oxides, etc	4 6 6 8 8 13		12	2 2 9
514 other inorg chemicals		13	8	2 2 8
515 radioactive, etc material	9 9			
521 coal, petroleum etc chems.	8 12		12	2
531 synt dye, nat ingo, lakes				2
532 dyes nes, tanning prods.		9 10	1	8
533 pigments, paints, etc				1 3 8
541 medicinal etc products		8 8 9	6 9 10	1 2 2 3 3 5 5 6 12 12 13
551 essential oil, perfume, etc	1 2 2 7 8 9 9 9 11	7		
553 perfume, cosmetics, etc			8	1 2 2 3 5 8
554 soaps, cleaning etc preps.				1 2 3 5 8 10
561 fertilizers manufactured				2 2 8 8 12
571 explosives, pyrotech prod.				8 13
581 plastic materials, etc				2 2 8 9 12
599 chemicals nes	9 10 11	1 3	8 8 12	2
611 leather	1 3 3 7 7 8 8 9 9 10 11 12		5 12	2 5
612 leather etc manufactures	8 10		1	
621 materials of rubber				1
629 rubber articles nes	8	8	2	1 2 3 3 4 9 9 11 12
631 veneers, plywood etc	2 2 4 4 6 6 8 8 9 9 12		5	
632 wood manufactures nes	2 5 5 6 6 8 8 9 9 12 12			
641 paper and paperboard			8	1 2 2 3 3 5 12 13
642 articles of paper etc		8	8 12	1 2 5
651 textile yarn and thread	7 8 8 9	1 9 10 11 12	12	2 2 3 3 4
652 cotton fabrics woven	4 8 9 12	1 2 2 3 3 4 6 9 12		8
653 woven textiles noncotton	3 4 6 8 8	1 2 3 4 5 5	2	9 9
654 lace, ribbons, tulle, etc	2	1 8	4	
655 special textile etc prod.	7 8 8 9 9	6	3 6	1 2 2 3 4

656 textile etc products nes	2	4 8 9	1 3 3	2 5 9 12
657 floor covr, tapestry etc	1 2 3 3 5 6 6 8	2 8		
661 cement etc building prod.	8 8	12 12	1	2 2 3 4 5 5
662 clay, refractory bldg pro.	8 8			1 2 9
663 oth nonmetal mineral mfs	1 8 8 9			5 9
664 glass	8 8	2 2 4		9 12
665 glassware		8	8	1 4 5 10 12
666 pottery	8 9	1	2	
667 pearl, prec-, semi-p stone	5 5 7 7 8 8 9 9 12 12			4
671 pig iron etc	1 2 8 9 9 13			2
672 iron, stl primary forms		9		4 8 9
673 iron and steel shapes				1 2 2 4 8 9 10
674 irn, stl univ, plate, sheet	5 8 8			2 4 4 9 13
676 railway rails etc irn, stl	8			1
677 irn, stl wire excl w rod				2 4 8 10
678 iron, stl tubes pipes, etc	8		1 8	2 2 9 9 12
681 silver, platinum, etc	4 8 9 11 12	10		
682 copper	4 8 8 10 11 13			1 2
684 aluminium	4		2	2 8 8 12
685 lead	8 8 11			
686 zinc		8 8	11	
687 tin		5		
689 non-fer base metals nes	4 8 8 11			
691 structures and parts nes	12			1 2 2 8 9
692 metal tanks, boxes etc	12	8	8 11	1 9 9
693 wire products non electr		8		2 2 4 8 11
694 stl, coppr nails nuts etc				1 2 2
695 tools		3 4		1 2 8 9
696 cutlery	2 3	3 4 5 9	1 12	8
697 base mtl household equip.	4		8	1 3 8 10 12
698 metal manufactures nes	4 4 6	8	2 8	1 2 3 9 10 12
711 power machinery non-elec.	3 8			1 2 2 3 4 9
712 agricultural machinery	3	8		3 4 9 12
714 office machines	8		9	1
715 metal working machnry	3		9	2 9 10
717 textile, leather machnry	3	4	1 8	2 2 9 9
718 machs for splc industrys	4	3	9 12 12	2 2 8 8 9
719 machines nes non electric	6		3 4 8 8	2 2 3 9 9 10 12 12
722 elec pwr mach, switch gear			8	2 4 8 9

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723 electr distributing mach.				2 2 8
724 telecommunications equip.	2 2 4	8	8 9	9 10
725 domestic electric equip.				2 8 8 9 9 10
729 electrical machinery nes	4		3 10	2 3 5 8 8 9 9
731 railway vehicles				2 9 13
732 road motor vehicles	3 3	8	4 8	1 2 4 9 9 10
733 road vehicle non-motor		9		1 2 2
734 aircraft	1 3 4 8 8 9		3	
735 ships and boats				2 8 9 11 13
812 plumbg, heating, lighting equ.			2	1 2 3 8 12
821 furniture	6 8 8 9	2 6		1
831 travel goods, handbags	2 8 8			1 3
841 clothing not of fur	2 2 4 4 6 6 8	3 8	1 3 10	5 5 9 12
851 footwear	2 2 4 4 8 8 9 9		1 3	3
861 instruments, apparatus	3 3		1 2 8 8 9	9
862 photo, cinema supplies				2 9
863 developed cinema film		2 4	8 8 10	1
891 sound recorder, products	4	3 8 8	9	1 12
892 printed matter	10		8	1 3 8 9 12 12
893 articles of plastic nes	8		8 12	1 2
894 toys, sporting goods, etc	2 3 4	3	1	5 5 9
895 office supplies nes				1 3 4
896 works of art etc	1 2 6 8 8 9 11 5			
897 gold, silver ware jewelry	3 4 5 5 8 8 9 7		7	1
899 other manufactured goods	2 2 4 4 6 6 7 3 8 8		3 11	1 9

Commodities are expressed in terms of three digit code of SITC. Number in the square stands for countries. 1=India, 2=Taiwan, 3=Pakistan, 4=Korea, 5=Thailand, 6=the Philippines, 7=Ceylon, 8=Mexico, 9=Brazil, 10=Argentina, 11=Peru, 12=Colombia, 13=Chile. Gothic number represents classification in 1962 and Roman number in 1965.

code of SITC. Here symbol A represents a situation in which more than 75% of exports in the commodity concerned are channelled into developed countries; B, more than 50% but less than 75% of exports are directed to developed countries; C, the same percentage range of exports as B exported to other developing countries; D, more than 75% of exports are swallowed up by other developing countries. At a first glance at this figure, it will be surprising to see that there are many commodities which have similar export patterns in different countries. For example, "essential oil, perfume, etc" (551) belongs to class A in most exporting countries, while "medicinal etc products" (541) falls into class D in many cases. Although it is impossible to find such a common pattern of exports for some commodities, it is interesting and worth-while to classify many manufactured exports from developing

countries into groups according to their export markets.

Group I: "essential oil, perfume, etc (551)," "floor cover, tapestry etc (657)," "pearl, prec-, semi-p stone (667)," "silver platinum, etc (681)," "works of art etc (896)," and "gold, silver-ware, jewelry (897)." This group of commodities is exported to developed countries (almost all in class A), due to their traditional, handicraft, or other specific characteristics.

Group II: "leather (611)," "veneers, plywood, etc (631)," "wood manufactures nes (632)," "special textile etc prod (655)" from Latin American countries, "pig iron etc (671)," "copper (682)" from Latin American countries, "lead (685)" from Latin American countries, "non-fer base metals nes (689)" and "furniture (821)." This group of commodities is also directed at developed countries (mainly in classes A and B). Developing countries are generally supposed to have a comparative advantage against developed countries in these lines, and to be able to build up their export industries, standing on material-dependent characteristics of these commodities.

Group III: "textile yarn and thread (651)" from Latin American countries, "cotton fabrics, woven (652)," "woven textiles non cotton (653)," "telecommunications equip (724)" from Asian countries, "aircraft (734)," "footwear (851)" and "other manufactured goods (899)." This group of commodities is largely channelled into developed countries (classes A and B). This is presumably due to its comparative advantage resulting from the facts that it consists of labor-intensive goods which are manufactured in production lines which were set up during the early stages of industrialization in the developing countries and thus are already firmly established.

Group IV: "pigments, paints, etc (533)," "medicinal etc products (541)," "perfume, cosmetics, etc (553)," "soaps, cleaning etc preps (554)." "fertilizers manufactured (561)," "plastic materials, etc (581)," "rubber articles nes (629)," "paper and paperboard (641)," "articles of paper etc (642)," "special textile etc prod (655)" from Asian countries, "cement etc building prod (661)" from Asian countries, "glassware (665)," "base mtl household equip (697)," "telecommunications equip (724)" from Latin American countries, domestic electric equip (725)," "plumbg, heating, lightng equ (812)," "instruments apparatus (861)," "printed matter (892)," "articles of plastic nes (893)" and "office supplies nes (895)." This group of commodities, constituting of mainly so-called light manufactured goods similar to those in group III, is exported, to a large extent, to other developing countries (classes C and D). The distinguishing feature of this group, however, is that it is comprised of relative new-comers to the industrialization process of developing countries, which require a relatively high degree of processing. This is likely to be the reason why these commodities cannot afford to find export markets in developed countries as yet.

Group V: "iron, stl primary forms (672)," "iron and steel shapes (673)," "iron, stl wire excl w rod (677)," "iron, stl tubes, pipes, etc (678)," "structures and parts nes (691)," "metal tanks, boxes, etc (692)," "wire products non electr (673)," "stl, coppr nails, nuts, etc (694)," "tools (695)," "metal manufactures nes (698)," "power machinery non-elec (711)," "agricultural machinery

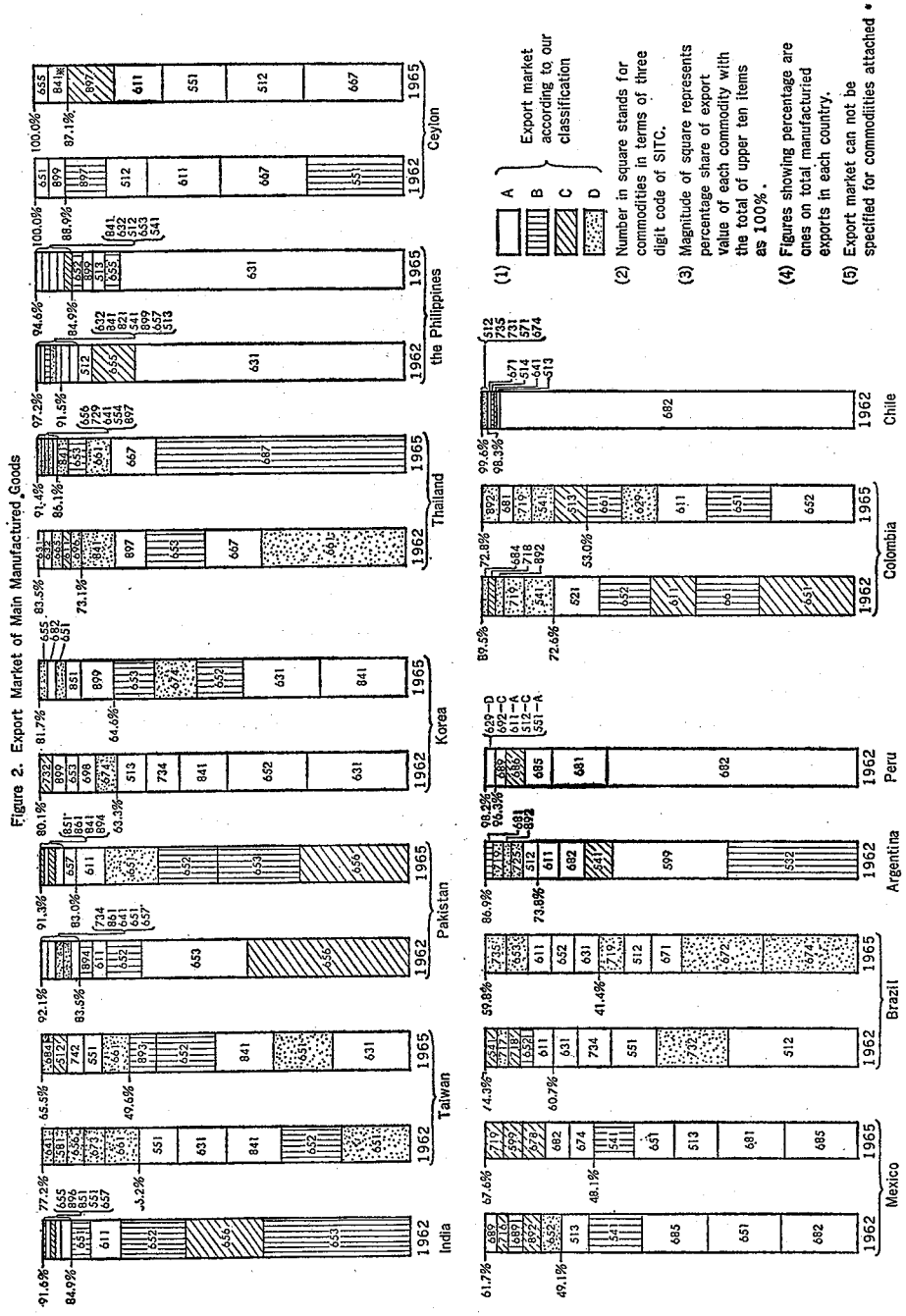
(712),” “metal working machinery (715),” “textile, leather machinery (717),” “machines for special industries (718),” “machines non-electric (719),” “electric power machinery, switch gear (722),” “electric distributing machinery (723),” “electrical machinery (729),” “railway vehicles (731),” “road motor vehicles (732),” “road vehicle non-motor (733)” and “ships and boats (735).” This group of commodities consists of intermediary or basic metal manufactures, machinery and transport equipments and is directed to other developing countries (classes C and D). Developing countries naturally lack competitive power against developed countries on these production lines, and therefore they are forced to export these commodities to each other.

Needless to say, this sort of classification is a tentative one. Many factors must be taken into consideration in determining the export patterns of various commodities. Not only the special features of the commodities concerned but also the location and the developmental stage of the export countries can play very important roles in this connection.¹¹ For example, “cement etc building product (661)” from Asian countries is exported only to other developing countries, while from Latin American countries, it is directed towards developed countries. This is probably attributable to the location of the export countries—Latin American countries, especially Mexico in this case, are situated near to the United States. Different export patterns in “textile yarn and thread (651)” and “telecommunications equipment (724)” between Asian countries and Latin American countries are supposed to reflect the different stages of development in both regions. Asian countries are at a more advanced stage in terms of manufactured exports, so that they can export “textile yarn and thread” (intermediary goods) to other developing countries and also export “telecommunications equipment” (finished goods) to developed countries.

Despite the tentative character of our classification, we can reach the conclusion that there are at least two categories of commodities being exported from the developing countries, one directed at developed countries and the other exported at other developing countries, according to the nature of the commodity.

Then, which one of these two categories is more important in total manufactured exports from developing countries? This is shown in Figure 2, where we select five and ten commodities in order of their export value and work out their respective percentages of the total value of manufactured exports. For example, India exported 59 manufactured goods in 1962, but

¹¹ The author has elsewhere tried to show that there is a close co-relationship between export patterns of various goods and their competitive power represented by the ratio of export value to import value of each commodity. Commodities whose exports heavily exceed their imports, in which case their competitive powers seem to be strong, are generally exported to developed countries, and vice versa. See Atsushi Murakami, “Kōshinkoku ni okeru kōgyōseihiin no yushutsu patān ni tsuite—yushutsu-shōhin, taigai kyōsō-ryoku, yushutsu shijō” (On the Export Pattern of Manufactured Goods in Developing Countries: Export Goods, International Competitiveness, and Export Market), *Ajia keizai*, VIII-4 (April 1967), 16-29 and VIII-8 (August 1967), 30-44.



the top five and ten items occupy 84.9% and 91.6% respectively of the total, so that the remaining 8.4% are shared by 49 items. Of the top ten items, seven belonged to classes A and B, and are exported mainly to developed countries. We can find only three items falling into classes C and D and directed chiefly towards other developing countries, two of which are eighth and tenth in order. This means that, for Indian manufactured exports, the markets of developed countries are extremely important in comparison with those of other developing countries. Countries other than India show almost the same tendency. All of Ceylon's manufactured goods consist of items falling in classes A and B. In Korea and the Philippines, the top ten items occupy 80.1% and 97.2% of the total and eight of the ten fall into classes A and B. In Pakistan and Mexico the shares are 92.1% and 61.7% of the total, and seven of ten, as in India, are largely exported to developed countries. Although in other countries the top ten include several items labeled as classes C and D, if we take the top five items, whose shares range from 56.2% in Taiwan to 98.3% in Chile, three items (in Thailand and Colombia) or four items (in Taiwan, Brazil, Argentina, Peru, and Chile) of five are in classes A

Table 3. Number of Items Exported and Changes Between 1962-1965

Countries	Year	Number of Exported Items					Increase between 1962 and 1965			
		A	B	C	D	Total	A	B	C	D
India	1962	7	7	11	34	59				
Taiwan	1962	8	2	4	30	44				
	1965	13	6	5	38	62	+5	+4	+1	+8
Pakistan	1962	10	5	3	8	26				
	1965	7	6	6	16	35	-3	+1	+3	+8
Korea	1962	10	—	1	2	13				
	1965	16	8	3	15	42	+6	+8	+2	+13
Thailand	1962	3	2	2	5	12				
	1965	4	3	—	12	19	+1	+1	-2	+7
Philippines	1962	8	1	1	1	11				
	1965	11	2	1	—	14	+3	+1	—	-1
Ceylon	1962	5	2	—	—	7				
	1965	5	—	1	—	6	—	-2	+1	—
Mexico	1962	30	8	10	13	61				
	1965	33	11	13	17	74	+3	+3	+3	+4
Brazil	1962	12	4	4	13	33				
	1965	18	4	3	32	57	+6	—	-1	+19
Argentina	1962	6	3	4	12	25				
Peru	1962	8	1	4	2	15				
Colombia	1962	4	2	3	4	13				
	1965	8	2	7	18	35	+4	—	+4	+14
Chile	1962	3	1	—	7	11				
Total*	1962	90	26	28	76	220				
	1965	115	42	39	148	344	+25	+16	+11	+72

* Total of nine countries for which figures of both years are available.

and B. All of these figures clearly indicate the absolute importance of the markets of developed countries for manufactured exports from developing countries.

By 1965, however, manufactured exports were considerably diversified in some countries. Percentage shares occupied by the top five and ten items decreased in Taiwan, Pakistan, the Philippines, Ceylon, Brazil, and Colombia from 1962 to 1965. Mexico also experienced decline in her share of the top five items. As far as Figure 2 is concerned, no radical changes are discernible in export patterns of the top ten items for the countries listed during this period. The number of items labeled as C and D has increased in some countries but decreased in others. But once we turn to Table 3, derived from Figure 1 and designed to summarize the patterns of manufactured exports of each country in terms of our classification, we realize that substantial changes have taken place during these three years. From 1962 to 1965, the items exported from Taiwan increased by 18, but of these 8 were ones which belonged to class D. The corresponding figure for Pakistan was 8 of 9; 13 of 29 for Korea, 7 of 7 for Thailand, 19 of 24 for Brazil, and 14 of 22 for Colombia. For the nine countries whose export figures are available for both years, the total number of items exported increased by 124, from 220 to 344, and these increases represent an increase of 25 in class A; 16 in B, 11 in C, and 72 (58.1%) in D. It is evident that the newly exported manufactured goods consist of many items classified as D, and that the markets of other developing countries have special significance for the emerging exports from developing countries. Incidentally, the Philippines, Ceylon, and Mexico do not show such tendencies. In the case of the Philippines and Ceylon, the number of items exported are few and most of them are directed at developed countries. The reason for this may be that the industrialization of these countries is still in its infancy and that it is impossible for them to export manufactured goods except for some traditional, handicraft, specific or material-dependent commodities. This is the case with Peru and Chile although to a lesser extent. As for Mexico, in which industrialization has progressed and there are many exported items, her location being coterminous with the United States, may account for the fact that she is exporting a number of manufactured goods to developed countries.

Thus far, we know that the markets of other developing countries are becoming increasingly important for the newly emerging exports from developing countries. Next, it is necessary to specify the meaning of "other developing countries." Table 4 will serve for this purpose. Here we regard "other Asia" as the region of Asian developing countries excluding Japan, and "Latin American Republics" as the region of the Latin American developing ones; and calculate the ratios of intra-regional exports to exports directed to other developing countries in general. According to this table, in all Latin American countries, the weights of intra-regional trade in manufactured exports are higher than those in total exports and are more than 90% in every country. Moreover, they have been increasing in Mexico, Brazil, and Colombia from

Table 4. Ratio of Intra-Regional Exports to Exports towards Developing Countries (%)

Countries	Year	Total Exports	Manufactured Exports				
			Total	Chemicals	Basic Manufactures	Machines Transport Equip.	Misc. Manufactured Goods
India	1962	38.3	34.1	73.5	32.3	50.8	37.0
Taiwan	1962	90.1	95.3	99.4	94.5	96.5	94.8
	1965	83.7	91.4	98.7	89.5	97.6	84.0
Pakistan	1962	51.1	25.3	61.6	24.1	30.1	33.5
	1965	49.8	37.8	64.1	37.2	43.1	26.4
Korea	1962	96.4	83.2	100.0	80.1	85.6	—
	1965	92.5	90.7	100.0	90.3	98.7	84.3
Thailand	1962	87.6	95.9	99.4	98.8	—	94.0
	1965	85.5	51.6	100.0	41.8	—	92.5
Philippines	1962	71.4	62.7	98.5	59.3	—	—
	1965	81.6	69.5	94.9	65.9	—	—
Ceylon	1962	31.6	88.0	86.2	88.4	—	90.1
	1965	25.8	91.3	—	89.7	—	92.1
Mexico	1962	66.0	74.6	87.1	60.5	91.2	98.9
	1965	57.4	96.2	94.8	97.8	93.4	97.8
Brazil	1962	68.6	93.2	69.9	94.4	93.0	96.1
	1965	81.8	94.8	74.6	94.8	97.6	95.5
Argentina	1962	89.1	94.8	89.1	99.5	99.6	99.9
Peru	1962	74.3	94.4	100.0	94.1	100.0	88.1
Colombia	1962	41.3	82.1	96.3	74.4	96.2	92.9
	1965	49.0	91.0	88.2	89.6	97.3	98.2
Chile	1962	97.7	99.0	91.8	99.9	99.4	—

1962 to 1965. This is certainly because of the formation of a regional framework for economic integration in Latin America. Manufactured goods whose weights of intra-regional trade are conspicuously high are “machines, transport equipments” and “miscellaneous manufactured goods.” As contrasted to this uniformity in Latin America, intra-regional trade of Asian countries varies in different countries. Total exports from India, Pakistan, and Ceylon have no close relations with other Asian developing countries, and weights of intra-regional exports of manufactured goods fall short of those of total exports in India and Pakistan. This is supposed to be due to the location of these countries, which enables them to have access to developing countries in the Middle East and North Africa. On the contrary, in Taiwan, Korea, Thailand, and the Philippines, weights of intra-regional exports are high as a rule but there are no uniform relations between those of total exports and of manufactured exports and between figures in 1962 and in 1965. Commodities, whose export to Asian countries form the greater part of exports to developing countries in general, are “chemicals” and “transport equipment.”

It should be noted that the dependence of “machines, transport equipments” on intra-regional exports are high in both Latin America and Asia.

Now let us remember that many items in "machines, transport equipments" are in class D and that the large part of newly-emerging exports from developing countries is comprised of commodities which are included in class D. We can, therefore, expect that the significance of intra-regional exports will increase much more in the future.

III. TWO ASPECTS OF EXPORT POLICY FOR DEVELOPING COUNTRIES

Conclusions which can be derived from the case study in the previous section are as follows. (1) Manufactured exports from developing countries are divided into two main categories. The one consists of *traditional, handicraft and specific manufactures, material-dependent manufactures and early established labor-intensive light manufactures*. These are exported largely to developed countries. The other includes *newly-emerging, light manufactures requiring a higher degree of processing, intermediary and basic metal manufactures, and machinery and transport equipment*. These find their export markets in other developing countries. (2) Of these two categories the former at present occupies an extremely large share of total manufactured exports from developing countries; but recently, export of the latter has increased at a rapid pace, expanding its share in the total.

These conclusions are interesting and suggestive, and from them we may derive some suggestions for thinking about the export policy of developing countries. As long as manufactured goods can be grouped into two categories according to their export markets which are mainly determined by the different features of the exports, the export policy of developing countries should be dual, an export policy to developed countries and one to other developing countries. Nowadays, as mentioned above, the former is more important than the latter as far as export figures are concerned, but the importance of an export policy to other developing countries is clearly increasing and it is supposed that the weight of that policy will be enlarged more in future. We shall make several points on these two aspects of the developing countries.

Export to developed countries, it is often argued, encounters many difficulties both in the supply condition of developing countries and in the demand situation of developed countries. For instance, R. Nurkse, although admitting the possibilities of economic development for developing countries through manufactured exports to the market of developed countries, argues (1) that the existence of abundant cheap labor in developing countries does not mean cheap labor costs in labor-intensive lines of production because of the low productivity of labor; (2) that export of manufactured goods in which developing countries could have a comparative advantage would be hindered by the commercial policy of developed countries because the exportable goods of the developing countries are those for which demand in general is stagnant and importation of which would be resisted strongly by established producers in developed countries; and (3) that for those goods for which demand was growing, developing countries could not be in a competitive position.¹² A

similar line of reasoning has been developed of late by Linder within a more rigorous framework, using his familiar theory of overlapping demands.¹² According to Linder, quite dissimilar demand structures are prevailing in developed and in developing countries—there is no overlapping demand in both countries—due to the big difference in per capita income between them. Therefore, manufactures enjoying “representative demand” in the domestic market of developing countries, in spite of their advantages in production, are not required in developed countries, while on the other hand manufactures demanded in the latter are not in the range of “representative demand” in the former, so that productive efficiency of these manufactures is inferior in developing countries, and they cannot be exported to developed countries. If this reasoning is right and has absolute applicability, manufactured exports to developed countries are driven to an impasse, thus leaving policy measures almost un-operational.¹⁴

The theory of overlapping demand applied by Professor Linder in this context, however, seems to have some limitations. First of all, according to this theory, the export potential of developing countries could not increase in spite of their economic development, since the range of overlapping demand would diverge if the gap in per capita income between two groups of countries were to be widened through more rapid growth in developed countries. Secondly, it is only the export opportunity from developing countries which is limited by application of this theory. Export opportunity in the opposite direction—export from developed to developing countries—is open indefinitely in the form of various input imports required by developing countries. Although the difference in the nature of commodities exported through both channels has to be taken into consideration, one-sided application of this theory does not seem to be reasonable. Thirdly, this theory attaches importance to the domestic market as the basis of export potentiality. But in his previous work,¹⁵ in which the idea of overlapping demand was introduced to explain intensive trade of manufactures among developed countries whose economic structures were almost alike, Linder has admitted some exceptional cases in which domestic demand was not necessarily a precondition for exports and also he has allowed the traditional comparative advantage principle to apply to export of primary commodities. As we have seen in the previous section, manufactured goods exported from developing countries (specific,

¹² R. Nurkse, *Patterns of Trade and Development*, Stockholm, Almqvist & Wicksel, 1959.

¹³ S. B. Linder, *op. cit.*, Chapter II.

¹⁴ In this connection it should be remembered that the policy measure proposed by Linder to remove the foreign exchange gap of developing countries has put its emphasis on import substitution of non-input imports. Therefore the theories of the foreign exchange gap and of the overlapping demand are, it might be said, not independent of each other. The former is the one which is derived from application of the latter to the problems of trade in developing countries.

¹⁵ S. B. Linder, *An Essay on Trade and Transformation*, Stockholm, Almqvist & Wicksel, 1961.

material-dependent and labor-intensive manufactures) seem to fall into these exceptional categories and to be subject to the principle of comparative advantage. Moreover, as is also suggested by Linder, the range of importable goods is generally wider than those of exportable goods and import demand for goods accepted at the lower level of per capita income will remain or rather expand even though per capita income is increased. This will be the case with the demand structure of developed countries for manufactures imported from developing countries.¹⁶

Therefore, the scope of manufactured exports from developing countries need not be considered to be extremely narrow. This means export policy in this aspect will be operational. Rather, as H.B. Lary has strongly argued, manufactured exports to developed countries may be the only way which is feasible and promising for the economic development of developing countries. In fact developed countries have absorbed a larger part of the manufactured exports as has been shown by our case study.

Here it should be noted that if the import policy represented by the import duties of developed countries is given and held constant, the exports of developing countries are the function of international competitive power in exportable goods, so that export promotion measures can be found first and foremost in making exportable goods more competitive not only in price but also in quality. In regard to price competition, many developing countries are making efforts to reduce their export prices of manufactured goods with the help of various policy instruments. Among these are devaluation of their currencies, the introduction of the system of multiple exchange rates, so-called export bonuses or bonus export schemes, drawback of duty on imported materials, construction of duty-free processing zones, tax concessions, straight-forward offers of subsidies and so on. Such instruments might well have a *raison d'être* in their own ways. Adding to this sort of policy, however, more deep-seated export promotion measures will be necessary and indispensable especially for countries whose industrialization has relied on import substitution. Rearrangement or reorganization of the production system, abundant supply or freer import of materials including intermediary goods, and restoration or introduction of competitive principle through abolishment of excessive protection are examples in this direction. It is needless to say that this line leads to improvement in the quality of exportable goods and encouragement of export-orientedness on the part of producers as well.

Incidentally, the import policy of developed countries is not fixed. This is one of the important variables in thinking about expansion of manufactured exports from developing countries. Thus, we can approach the role of developed countries in two ways. One is concerned with financial assistance and the other with opening up their markets. These two ways—aid and trade—heretofore have been treated separately, emphasizing the role of the former much more. Many complaints presented by the aid-giving developed

¹⁶ For a detailed discussion of Linder's theory, see my book review in this journal, VI-3 (September 1968).

countries on inefficient use of funds and the lack of a spirit of self-help in developing countries are a natural outcome of the policy of aid, since the opening up of a larger market on the side of developed countries through industrial adjustment can be regarded as a counterpart of self-help in aid-receiving countries, and efficacious utilization of funds given is also assured only if this counterpart measure is realized. Therefore financial assistance must be integrated with freer import policy in developed countries. More specifically, financial assistance should concentrate on fostering the infant export industries of developing countries, and at the same time preferences should be given to manufactured export from such industries. If the import policy of developed countries could be carried on in this integrated form, it would make an immeasurable contribution to enlarging access to the market of developed countries for the manufactured goods of developing countries.

Now let us turn to the second side of export policy: that is, export to other developing countries. When we remember the difference in the nature of manufactures exported from developing countries, which was elucidated from the case study of Section II, manufactures directed at developed countries are not crucial to accelerating the economic development of developing countries, although their usefulness cannot be denied. They cannot expand through the replacement of existing but stagnant demand in developed countries, and their contributions to the economic transformation of developing countries through their effects of various external economies are not so large. Noting these limitations, manufactures exported to other developing countries—light manufactured goods, intermediary and basic metal manufactures, and machinery and transport equipment—whose demand is increasing and whose effect of external economies is great, and export policy relevant to them, will increase in significance.

Then, export policy to other developing countries will be able to be discussed in the framework of economic integration. The most fundamental object of economic integration in developing countries is, it is urged, the earnest desire to facilitate industrialization which has been hampered by the small size of individual domestic markets separated from each other. By creating wider markets combined together, economic integration will provide potential or actual bases for industrialization in developing countries. In this respect, integration among them basically differs from that among developed countries which aims primarily at more efficient allocation of existing resources through wider markets. In other words integration in the former is concerned with change of economic structure itself, while that in the latter is related to the gain from trade derived from application of the principle of comparative advantage. However, if we extend this argument further it will be noted that the creation of a wider market and preparation of potential or actual bases for industrialization in developing countries are nothing but a give-and-take in the sizable export market for each others' manufactures. Each country participating in the integration scheme is to specialize in and export a few manufactured goods for whose production it is well qualified within a

protected region. In this sense integration is important for export-oriented industrialization in individual developing countries as well as for the achievement of a kind of balanced growth through regional import substitution vis-à-vis the countries external to the integrated region as a whole.

Apart from general description like this, our case study is suggestive in pointing out more involved integration problems. In the first place, manufactured goods traded among developing countries are mainly confined to three categories of goods, distinguished from those exported to developed countries, as mentioned above. This suggests the possibility and practicability of sectoral integration in the light of the many difficulties with which integration covering a whole area of commodities would be confronting. Sectoral integration which is formed mainly of newly emerging manufactures including capital goods not only avoids negotiations on tariff reductions which would be deadlocked since the vested interests of an established industry would infringe upon each other; it also prevents serious confusion and contradiction from arising through trade liberalization on all fronts. Judging from these considerations sectoral integration will be advantageous in that it is a policy which is easy to put into practice.

Secondly, even in the case of sectoral integration, the principle of intra-regional division of labor is to be established on a firm basis. The lack of this principle seems to have handicapped the actual progress of economic integration especially in Latin America where a step towards integration has been under way. As a matter of fact, one important issue arising from our investigation is that the same commodities, at least as expressed by the three digit code of SITC, are exported from more than two countries to other developing countries. Of course, the three digit code of SITC is not a proper indicator to show commodity-differentials. But while the lack of a principle for determining trade patterns within integration persists, there is a danger that the competitive exports from many countries result in excessive and abortive competition and undermine the ground on which integration is maintained. Here, if we disregard the difference of development stage actually existing among developing countries, the traditional theory of comparative advantage will be applied.¹⁷ But the closer we want to approach the reality of developing countries, the narrower the scope to which that theory can be relevant, because the theory of comparative advantage does not ensure for every country participating in integration an equitable distribution in the long run benefits from trade if there are big developmental gaps among them. Therefore, when the theory of comparative advantage remains as the justifying principle of intra-regional division of labor, the regional scope of integration would have to be limited to a smaller unit which consists of countries which are more or less in a similar developmental stage. This sub-regional integration scheme is also a useful way to deal with many awkward problems posed by the gap in stages of development in developing countries.

¹⁷ This is the way taken by Professor Linder in *Trade and Trade Policy for Development*, Chapter III.

An outline for export policy to other developing countries has now been sketched. To sum up, export policy is to be discussed in the framework of economic integration among developing countries, and is to find some optimal but practicable combination of sectoral and sub-regional integration among them. It should be noted here, too, that export policy could be more effective if appropriate financial and technical assistance were to be given to the integrated body, for instance, to a regional development bank, in order to tighten integration itself.

IV. CONCLUSION

In this paper we have shown, firstly, the existence of two industrialization paths or theories—import-substitution and export-oriented—and the significance of the latter of the two in the light of some shortcomings on the former. Secondly, we have made a case study to illuminate the present state of manufactured exports from developing countries and have clarified the co-relation between export manufactures and export markets. According to our findings, one category of manufactures, which occupies the larger share in total manufactured exports from developing countries, finds its main export market in developed countries, while the other category of manufactures, whose importance is clearly increasing, is primarily directed to other developing countries, according to the nature of goods exported. Corresponding to these two aspects of manufactured exports, thirdly, we have mentioned two export policies of developing countries. As to the policy towards developed countries, it has been stressed that deep-seated measures to strengthen competitiveness of exportable manufactures are indispensable, along with the desirability of a new approach to this issue on the part of developed countries in the integrated form of aid and trade. As for the policy to other developing countries, we have referred to economic integration among them and suggested the relevance of a sectoral and sub-regional integration scheme.

The central concern of this paper is, of course, the case study which we have attempted in Section II. As stated there it remains incomplete, however. But this is a necessary and important step toward thinking along the line of export-oriented industrialization in developing countries.