APPENDIX I

Economic Development and Co-operation in Africa

by Floor Hartog

I.1 BASIC FACTORS INFLUENCING ECONOMIC DEVELOPMENT

Natural Resources. On the whole Africa is not richly endowed with natural resources. The soil generally is not fertile, the climate is too dry in most regions, there are relatively few minerals, the coast is in general difficult of access, and the rivers are mostly unnavigable. In addition, stock raising, which is valuable among other things in manuring the soil, is often not feasible because of the tsetse fly.

Population. Some of the traditions and attitudes of the African population hamper economic development. In the first place, individualism is not very strong; the family (in a broad sense) is the natural unit. Since any advantages acquired have to be shared by a great many relatives, economic incentives exert only a weak influence on the individual. Secondly, the instinct of acquisition, insofar as it is present, often works in an unfortunate fashion. There is a desire to get rich quickly, rather than by sustained exertion.

These factors and the opportunities for large illicit gains probably explain to some extent why native intellectuals are strongly attracted by politics. The possibility of corruption has greatly increased in the last few years with the large amounts of money made available from abroad to carry out development projects. For officials who decide or advise on the award of contracts to (nearly always) non-African contractors, graft is in many cases a rich source of revenue. For the country concerned this works a double disadvantage: development capital disappears into the

consumption sphere (as contractors increase their prices by the gratuities demanded of them) and intellectuals are absorbed in sterile activities.

It is difficult to say whether the African population shows little aptitude for sustained economic activity as we know it because of inborn characteristics or because of exogenous factors such as those mentioned in Chapter 1 — climate, low standards of nutrition, etc. Against the climate hypothesis it may be observed that the Ethiopians, who live in a country with a largely temperate climate, are in general more passive than the rest of the African population. The one thing that can be said with certainty is that education and the development of individual initiative as a basis for satisfactory economic growth will take decades.

The level of nutrition is generally sufficient, but the diet is often one-sided. The Economic Commission for Africa is trying to get more accurate information on this point, in order to formulate a program for stimulating internal trade. An unbalanced diet is one of the factors contributing to a bad state of health in many places. In some regions alcoholism also exerts a negative influence.

In view of all the drawbacks to African industry, it is not very surprising that in nearly all countries most activities which go beyond the traditional economy are in non-African hands. Even the internal trade of the continent is largely controlled by West Europeans, Greeks, Arabs, and Indians.

Population Density. Although the population is rapidly increasing, there are as yet few regions where population density is a serious problem. This is not to say that the present distribution conforms to the requirements of economic balance. Especially in West Africa over- and underpopulation occur side by side. This may be explained by the historical growth of cash crops in this area. Before the period of export crops, the coastal regions were densely forested and consequently not well suited for habitation. The savannahs farther inland had a much greater density of population. But the typical export crops can only be grown on the coast whereas the climate of the interior is generally too dry. The labor force of the savannah regions can therefore be profitably occupied in the coastal regions, especially in the growing season. To this end different systems of recruitment have been in use. The political disruption of West Africa has not yet seriously interfered with this symbiosis.

I.2 INSTITUTIONAL FACTORS AND INFRASTRUCTURE

Land Tenure System. With a few exceptions (Union of South Africa, Kenya), land in Africa is predominantly owned by the native population. This means that there are few plantation crops. The way in which land is treated in law and used does not meet the requirements of modern development. Therefore, in several countries land reform is considered an essential condition for economic growth. There is little chance of its being achieved, however.

In black Africa land is family-owned. This works against individual initiative and prevents or hampers the sale, mortgaging, and improvement of land. In regions where individual ownership exists (as in North Africa) the extreme fragmentation of holdings renders impossible the use of modern techniques. Where landlordism is characteristic (especially in Ethiopia), the leaseholder generally has to pay the landlord so large a part of the harvest (often 50 to 75 per cent) that he has little incentive to increase his output.

Communications. Adequate means of communication are lacking; existing facilities are largely confined to linkages with the former mother country. The transportation system is often a bottleneck, especially for export crops. The construction and maintenance of roads and railways is generally difficult and expensive in the African climate. Transportation facilities for internal African trade are lacking in many cases. Moreover, the secondary roads, so important for the conveyance of crops of small producers, are often more neglected than the primary roads they should complement. In many regions the principal means of transport is by foot. No developed economy can be built on this basis.

Administration. There is a big difference between the newly independent and the traditionally independent countries. In general, the countries of the first group have inherited a relatively efficient administration which the second group lacks. The ex-colonies are now making a determined effort to "Africanize" their administrations. In several cases this has led to a lower level of efficiency and reliability. However, the countries concerned hope that a well-functioning African administration will be obtained in some five to ten years. This optimism is based on the large increase in the number of African students at African and foreign universities.

In several countries it is not so much the top organizational layer that is lacking as the intermediate layer. A native intelligentsia, thin though it may be, exists in all countries, and is available to fill top-echelon government jobs; it is also possible to attract foreign advisers at this level. But there is often a shortage of specialists on the performance level. This is a common experience in business life also.

This is one of the reasons why there is often a big gap between knowing and doing. There are several leading Africans who have a clear insight into the problems of their country. However, improvement is often slow because of an insufficiency of people to execute plans, obstruction by vested interests, and immobility.

I.3 DEVELOPMENT POLICY

Primary Products. Until now most development schemes have centered on increased production of those primary products in which the countries already specialize. More production means more cotton or more coffee, depending on the structure of the economy. What exists is well known, from the technical as well as the commercial standpoint, and usually there is little imagination or initiative in trying new products. A typical example is provided by the Sudan, where a huge irrigation scheme (the Gezira project) is being carried out to increase the production of cotton, though cotton already accounts for two-thirds of the national exports.

Accentuation of the already existing onesidedness often leads to disappointment. Africa's share in the world production of some primary products is large. An increase of the rate of growth can therefore easily lead to lower prices. For products where the African share is smaller (e.g., long-staple cotton, robusta coffee), there are nevertheless often particular markets where the African supply is dominant, so that in these cases too prices react perceptibly to an increase in African production.

In many cases it is more advantageous for these countries to increase quality rather than quantity. This may lead to higher instead of lower prices. Sometimes products can be improved merely by better grading or cleaning. In some countries there is a conscious development in this direction; a popular policy is to differentiate prices paid to farmers in such a way as to create an incentive for improving quality.

Industrialization. Africa, with the exception of the Union of South Africa, is at the very beginning of its industrial development. Most in-

dustry above the handicraft level is non-African. There are two focal points for industrialization: light consumer goods industries (textiles, furniture, shoes, food, etc.) and industries processing native raw materials (e.g., vegetable oils). The first group of industries is to some extent represented in nearly every country, and in a few cases there is a surplus to export to neighboring countries. Senegal, for example, is relatively industrialized. The opportunities for processing industries depend on the technical complexity and the capital intensity of the production process, on the difference between the import duties on raw and on processed goods in the countries of destination, and on the resistance of vested industry in the (previous) mother country. All this industrial enterprise is more or less grafted upon the African economy.

There are some cases of heavy industry settling in Africa (oil refining, motor car assembling). In general, attractive fiscal facilities are offered; in some cases the government is willing to participate financially, while the African sales market is being developed. However, at bottom there is often antagonism between the governments and the industries. The governments want primarily to create a harmonious industrial structure, and industries which get their raw materials, spare parts, and higher personnel from outside and transfer their profits outside are viewed and treated with suspicion. On the other hand, the foreign enterprises want a free hand in their commercial activities. Consequently they are often not integrated into the respective national economies. Interest on the part of private investors is not very active on account of real or supposed political uncertainty.

Marketing Boards and "Caisses de Stabilisation." Rarely are the producers of indigenous products directly confronted with world market fluctuations. There are Marketing Boards in the former British territories and *Caisses de Stabilisation* in the former French territories. These government agencies guarantee the farmers a fixed price before the crop is under way and take care of the sale of the product on the world market. Use is made of the services of private traders, who also handle the payment of advances to farmers. The important difference between the French and the British system is that under the French system not only the price to farmers is guaranteed but also, for the principal products, the sales price in France, which is usually higher than the world market price. The latter guarantee holds for limited quantities, which are based on the absorptive capacity of the French market. Any surpluses have

to be sold on the world market, and this condition poses an especially acute problem for coffee interests. Thus French consumers are subsidizing both producers and middlemen.

The Marketing Boards are interesting organizations from the standpoint of development policy. They export at world market prices. For the first ten years after World War II these were generally favorable. The prices guaranteed to farmers reflected this situation only partially, with the result that large reserves were built up (the sterling balances of the previous colonies). These reserves have been used in large part to finance economic development, especially to build up the infrastructure in the various countries concerned. Export taxes (partly on sliding scales) also served to channel large amounts into the public treasury. All this may explain why the previous British territories until recently had little need to import capital.

As a consequence of the recent weakness in the market for primary products, the reserves have been largely used up. In most cases, when current balances of the Marketing Boards are added to the proceeds from export taxes, some profits still result, but they are insufficient to cover expenditures. In this connection it is worth noting that the European Economic Commission is considering instituting the Marketing Board system in the associated countries when the French-guaranteed prices are abolished. In view of the downward trend of prices on world markets this seems an unfavorable moment to start the system. With overproduction threatening, there is the risk that it would turn into a subsidy arrangement.

In some African countries a move is under way to eliminate middlemen and replace them by producer co-operatives. In Ghana and Senegal the government is engaged in changing the existing marketing organizations into monopolistic government agencies, which will take over the conduct of trade as well as the system of advance payments. The producer co-operatives, which are the cells of these bodies, are compulsory organizations dominated by their secretaries, who are government functionaries. This development is still too recent to warrant an empirical judgment. What experience is available seems to show that intermediaries can be eliminated only gradually because of the lack of competent successors. Policy-makers are often deceived by the large margin between the world market price and the price received by farmers, and the temptation is great to try to channel this into the

treasury. But the costs of organizing the trade are so high that if it is not done efficiently, socialization results in the complete disappearance of profit.

Capital Aid and Technical Assistance. Insofar as it is possible to formulate general priorities for those development factors for which foreign contributions are important, the rank order seems to be the following: (i) initiative, (ii) technical ability, and (iii) capital. The governments themselves generally stress education and training. Education has to start from the beginning since in several countries the labor reserve is illiterate and thus hardly capable of being trained.

The volume of internal savings is influenced by several factors which pull in different directions. In the first place savings institutes are being created to take the place of saving in the form of nonmonetary valuables. Against this favorable development there are, however, two countertendencies. As already noted, the possibility of skimming export profits is constantly decreasing. Also, the rapid Africanization of the leading government posts implies that people with a relatively high propensity to save are being replaced by people who are much more inclined to consume. In connection with this development it is significant that the import of consumption goods has strongly increased in the last few years. This does not unduly burden the balance of payments because most Europeans are repatriating a large part of their savings, in the expectation of being replaced as soon as African successors are found.

The capital attracted from abroad is almost exclusively government aid, directed at the financing of infrastructural investments. The transport sector especially takes a big share. The former British and French territories are still largely provided for by their previous mother countries. The other countries take capital where they can get it: from multilateral and bilateral sources, from East and West; and the same applies to technical assistance. The Development Fund of EEC is beginning to assume significance in the associated countries. The general complaint is that it works slowly and is cumbersome. Here, too, stress is being laid on transport projects.

To the extent that a greater number of countries and organizations are supplying capital aid, problems are created for the receiving countries. All aid leads to some tutoring, because the supplier wants a say

in the spending of his funds. The more tutors there are, often with divergent views, the more difficult it is for the receiving country to co-ordinate its development program. In many cases the underdeveloped countries themselves contribute to a state of confusion by holding out their hands to all sides, in some cases deliberately in order to create or maintain a certain political equilibrium. It would help if the supplying countries and organizations would try to co-operate and specialize in local operations. Such co-ordination is beginning to take shape in some cases.

Until now there has been little inclination to force development by inflationary measures. The number of projects is usually no larger than the available capital permits, for the simple reason that the supplier of the capital in many cases also draws up the project. The recipient government often tries to set up as large a project as possible, for reasons of prestige. But the maximum size is not always the optimum size. The management of the Central Banks is still in European hands in most countries, and monetary policy is generally conservative.

Planning. In several countries unco-ordinated foreign aid is the main challenge to the drawing up of economic plans. These plans are largely long-term and restricted to development projects in the government sphere. Officials either try to obtain new foreign contributions for the projects proposed or try to channel existing foreign aid in the desired directions. The goals relating to the national economy are largely dictated by the impulse to develop domestic resources as fully as possible. Attention is mainly focused on the supply side, and it is trusted that surpluses can always be exportable.

This schematization of development policy is typically European-American. In several cases a plan existed before a planning agency was established, implying that foreign experts had been attracted to set up a plan. As yet planning is still mostly in non-African hands. As a result there is often a considerable difference between the formation of a plan and its execution. The average African has only a limited time horizon and is too impulsive to hold himself to a fixed line of action. Also, the personal regime which characterizes some countries is difficult to reconcile with the impersonal regime of planned development. Senegal in West Africa and Morocco in North Africa are countries where the administration is most characterized by Western ways of thinking and organizing.

I.4 INTRA-AFRICAN ECONOMIC CO-OPERATION

The Great Disintegration. In the colonial period Africa consisted mainly of a British and a French sector. These sectors are now divided into a large number of states. Thus, French North, French West, and French Equatorial Africa have disintegrated into seventeen countries (including Algeria). Several of these still have a common currency, but in general they want to get rid of this relic of colonial times. Independence requires that coins and bank notes bear the national insignia and (less irrationally) that there be some monetary autonomy. Some customs unions are still in existence between former colonies from the same political system, but in general they function only partially. So customs and currency barriers are rising, while economic development requires exactly the reverse. The creation of separate currencies is especially disadvantageous for intra-African trade. These new currencies have a restricted circulation; consequently in commercial treaties there is a tendency to aim at bilateral equilibrium, with restricted fluctuations. In this respect Africa is in the same situation as Europe immediately after the last war, except that matters are deteriorating instead of improving. Dakar, formerly the administrative, commercial, educational, and to some extent the industrial center of French West Africa, is now reduced to being the capital of a small country. While all countries are trying to build up their infrastructure, Senegal's has become partially idle.

A legacy from the colonial period is the strict economic separation between former British and former French territories. The means of communication are almost exclusively directed at the ex-mother countries; transportation facilities and telecommunications between neighboring countries are often lacking. This makes an economic regrouping extremely difficult.

Groupings and Regroupings. We will start our discussion with the former French territories, because they form the core of existing groups, or at any rate have one or more representatives in each group.

The most inclusive group of the previous French territories is the Organization of African States and Madagascar for Economic Cooperation, usually called the Brazzaville Group. This comprises all countries of French origin associated with EEC, except Mali. Guinea, which broke out of the French system, is not associated with EEC and

therefore does not belong to this group. The member states form a preferential area. The group must be considered a counterweight to EEC especially in deliberations on association problems. In those cases Mali co-operates *ad hoc* (as at the parliamentary conference in Strasbourg in June 1961). Within this group there are two smaller clubs, each of which forms a customs union. The most important is the so-called Entente, embracing the Ivory Coast, Upper Volta, Niger, and Dahomey. The equatorial customs union consists of Congo (Brazzaville), Gabon, the Central African Republic, and Chad.

Some non-French countries (Nigeria, Liberia, the Sudan, and Ethiopia) have joined the Brazzaville Group in the last few years. These states together form the so-called Monrovia Group, which can be considered the more moderate bloc in black Africa. Among other things these countries are discussing the problem of communications.[1]

Along with the Monrovia Group there exists the Casablanca Group, which comprises the radical states of Ghana, the United Arab Republic, Morocco, Guinea, and Mali. These countries emphasize political co-operation and regard economic unification as a by-product of political unity. Within this group there is also a smaller club with closer economic co-operation: Ghana, Guinea, and Mali together form the Union of African States with a customs union as its economic core. Ghana, the leading country, is at present trying to detach other states from the French system; a customs union has already been concluded with Upper Volta and attention is being paid to Dahomey. Upper Volta is geographically the missing link between Ghana and Guinea.

The countries associated with EEC are called the lackeys of Western imperialism and the opposition in these countries is encouraged by the Casablanca Group. The latter tolerates Europeans as advisers only until they can be dismissed. It will be difficult to encourage the moderate Monrovia Group without compromising the countries belonging to it.

To complete the picture it may be mentioned that there are customs unions between the United Arab Republic and the Sudan and among the former British East African territories. A Commission for Technical

1. At the conference of twenty African states held at Lagos in January 1962 it was decided to create a customs union which should ultimately lead to an African common market. Appropriate steps will have to be taken to this effect by the Organization of African States and Malagasy that is to be established. The countries participating in this conference were mainly those of the Monrovia Group; the total population of the represented countries is estimated at 130 million.

Co-operation in Africa South of the Sahara is engaged in co-ordinating activities in the field of technical assistance.

For the future, the Consultative Assembly of the Council of Europe advocates the creation of an African Development Bank. If such an institution could channel the greater part of development aid, this would be an important advance in the ordering of African affairs. However, it must be said that an arrangement of this sort will be difficult to achieve.

Measured by results, African movements toward economic integration are still insignificant. There are many resolutions and treaties, but few concrete measures. It is symptomatic of the disorganized state of trade policy that Upper Volta at present belongs to two different customs unions. Much needs still to be unraveled before proper work can begin. African commercial treaties are in many cases no more than declarations of intent. There are three types of such treaties:

(i) those with quotas for separate products;
(ii) those where an over-all amount is specified but the products have no separate quotas; and
(iii) those where only products are mentioned.

Loose forms of the second and third type are the most frequent.

The sharp political differences between the Casablanca Group and the Monrovia Group are impediments to an economic rapprochement. Mali, which is the natural hinterland of Senegal, has disrupted all economic connections with that country. Ghana is trying to route the trade of Upper Volta through its own territory instead of via the Ivory Coast. On the other hand, Togo is boycotted as much as possible because of political antagonisms.

It is also significant that there exists in several of the moderate countries an opposition, or at any rate an undercurrent, which tends to admire Ghana's anticolonial attitude. Rationality is often a thin veneer over emotional political attachments. This undercurrent could become dominant in the event of a further fall in world market prices or difficulties in transition from the French system of protection to the preferential system of EEC. Because of this, private capital is hesitant, even in the states with a Western orientation. Also, it is as yet difficult to say how far Ghana's state socialism will spread.

Motives and Possibilities for Economic Co-operation. The African states have no extensive mutual trade. They are not complementary;

nearly all are self-sufficient in foodstuffs, and raw materials exports are directed at the European industrial countries. An increase in mutual trade will have to be based on the desirability of diversifying the contents of the food basket. As for industrialization, the restricted size of the national markets requires consciously arranged specialization, and consequently investment co-ordination, preferably on a regional basis (e.g., North Africa, West Africa). The few existing export industries, but for protection, would not be able to cope with the competition of the established industrial countries. The loosening of ties with the metropolitan countries leaves the governments more instruments of economic policy. A pre-condition for the tightening of economic connections between the African states is the improvement of communications.

The dream of an African common market cannot be realized within the foreseeable future. Smaller regional groups make more sense. However, on this point also no great optimism seems to be justified. Political factors are dominant; economic relationships are cemented or disrupted in order to give force to political rapprochement or estrangement. The personal sympathies and antipathies of the leading statesmen play an important role and render the whole process of intra-African co-operation impulsive and unstable.

In this situation the Economic Commission for Africa does not want to burn its fingers by propagating solutions. It tends to remain aloof and to restrict itself to documentation and analysis. A study on the development of economic co-operation in Latin America concludes that political cohesion in that part of the world is much greater, so that economic integration is largely an economic problem for which the Economic Commission of Latin America is well equipped. In accordance with this point of view the Economic Commission for Africa does not play a leading role in the process of intra-African economic co-operation.

I.5 ECONOMIC CO-OPERATION WITH INDUSTRIAL COUNTRIES

The British System. Apart from capital aid, preferences in the British market are of special importance. These are still in force for Nigeria and Ghana. Table I–1 shows tariff preferences for African products on the United Kingdom and the EEC markets. Even where

Table I–1

TARIFF PREFERENCES FOR AFRICAN PRODUCTS (per cent of import prices)

	On UK Market[a]	On EEC Market[b]
Bananas	11	20
Unroasted coffee	2.5	16
Black tea	3.6	18
Green tea	1.4	18
Pepper	2.2	20
Groundnuts	10	—
Palm nuts and palm kernels	10	—
Raw groundnut oil	15	10
Raw palm oil	10	9
Cocoa beans	1.1	9
Cocoa butter	0.5	22
Raw tobacco	30	30
Timber	10	10

a. General tariff minus Commonwealth tariff.
b. Outer tariff.

there are no preferences, certain products, e.g., raw cotton, are traditionally marketed in the United Kingdom. On the other hand, British products hardly enjoy a preferential position in the African Commonwealth countries. The concentration on imports from Great Britain is again largely a traditional phenomenon.

The French System. This system also embodies preferential tariffs, but more important is the fact that some African products are granted guaranteed prices for limited quantities on the French market while the African territories place strong quantitative restrictions on non-French imports. This arrangement has not changed since colonial days; it remains a closed system, in which both sides trade goods at prices above the world level. The influence of EEC is still difficult to ascertain. The countries concerned all belong to the franc system, with currency reserves centralized at the Banque de France and drawing rights used in consultation with it. The hothouse atmosphere is strongest in the Ivory Coast, a coffee country, since coffee receives substantial protection on the French market.

These relationships cannot be terminated without causing a basic economic (and perhaps also political) upheaval in the countries concerned. The problem is most urgent with regard to coffee. For cocoa there is no guaranteed price; for bananas the guaranteed price is of little practical importance because the principal exporter, Guinea, broke out of the system; and for groundnuts the preference is relatively moderate.

Association with EEC. The present French system is to be replaced by the preferential treatment of the EEC treaty. Paragraph 132 of this treaty states that member countries should apply their system of trade benefits to associated countries. This means that in the final analysis the associated countries will enjoy a preference which is equal to the outer tariff. For the principal products this preference is shown in Table I–1.

There has been consideration of the possibility that the process of association might be stepped up in order to match the accelerated development of the European Common Market. However, it is felt that while deliberations with the United Kingdom are in progress it would be unwise to widen the gap between former British and former French territories. On January 1, 1963 the associative system is to be renewed, and there is good reason to put it on an entirely new footing. The political basis of the association arrangement disappeared when the associated countries gained their independence. The continuance of the existing relationships is only provisional. There is no longer any reason to discriminate between associated and other African states, or even between Africa and other raw material producing parts of the world.

On the other hand, any new arrangement will have to pay heed to the fact that in the present situation several African countries enjoy protection or preference on the European market and that their economic activity is based on this privilege. Such ties cannot be disrupted suddenly.

The European Economic Commission has suggested that markets be regulated with some guarantees for producers' prices. The problem with this is that the principal African products are strongly competitive with non-African supplies, so that a partial African arrangement would not be sufficient to stabilize the market. Such a system could easily deteriorate into a scheme to subsidize producers. If financial aid is to

be given, it is preferable to choose the form of investment. If EEC development financing could be co-ordinated with the British system, and if perhaps contributions could be asked from the United States in exchange for Africa's giving up discrimination against Latin America, a way could be found to get rid of the preferential system.

The associated African territories are clinging to their preferences, if only to have a favorable bargaining position in the deliberations on the renewal of association. To date they have experienced little advantage from the preferences; the relationship with the former mother country still prevails. The extent of protection which EEC will grant is in general less than the favored treatment extended by the mother country. On the other hand, the EEC market is much larger and expansive. Coffee will probably present the greatest difficulties of transition. The high excise taxes on coffee in some EEC countries should be abolished or drastically lowered. The associated African countries hope to retain many of the existing price guarantees by extending them to EEC as a whole, though possibly with a smaller margin of protection. The United Kingdom's joining is anxiously viewed, because it might lead to the inclusion of other countries, with consequent reduced protection and lower prices.

Among the Commonwealth countries Nigeria is watching the deliberations between the United Kingdom and EEC with confidence, but Ghana has made itself the leading exponent of the outsiders. These outsiders consider the economic relationship between the associated countries and EEC to be unjust. The term often used in this connection is neocolonialism. It is argued that the support given to the associated countries is aimed at keeping them raw material producers, that it prevents their industrialization and guarantees that they will remain importers of industrial products. This view is not wholly wrong, as the associated countries are restricted in their use of instruments of protection. On the other hand, it holds much less for the relationship of association than for the bilateral connections still existing with the former mother countries. Moreover, in a certain respect association with EEC favors industrialization, because no tariffs will be levied on semifinished products (processed goods from the associated countries).

It must also be borne in mind that some African countries, because of their political convictions, do not want to be involved in an association for the whole of Africa. If such an association appeared imminent, they might be tempted to turn to the Communist countries for consola-

tion for the discrimination. In this connection the Casablanca Group may be mentioned.

Finally, the EEC policy toward temperate zone products deserves some attention. The autarkic tendency which seems apparent in the framing of a common agricultural policy is feared most of all. However, it is not important for African countries as they mostly specialize in tropical products. Only for meat and sugar may some disadvantage thus be created for African suppliers.

Relations with the Communist Bloc. In the matter of trade Communist penetration is as yet of rather small importance. There are an increasing number of commercial treaties with Communist countries, but most are of the nonobligatory type. The United Arab Republic, Ghana, and Guinea are the most obvious examples of African countries having important trade relationships with Communist countries.

Communist influence is much more significant in the field of technical assistance. This is especially directed at spectacular objects. Significant also is the fact that in Ghana the educational system is used more and more for indoctrination with the state ideology.

The neutralist states in many cases are very much interested in Communist help as a counterbalance to their former Western orientation. The colonial past often continues to have a traumatic effect, so that the West in several respects is at a psychological disadvantage. Where Western influence is still dominant, it is to a large extent connected with the continuance of the hothouse system.

There is no reason to regard Africa as an appendage of Europe, and still less to treat it so. We shall have to canvass in sharp competition with the Communist countries for satisfactory relationships with the African countries. Like us, the Communists make mistakes in their approach to African problems, but theirs are more readily forgiven.

For the moment, Africa is still predominantly oriented to Europe in the economic field, so some time is left to formulate a constructive African policy. Such a policy will have to be based on full recognition of the independence of the African countries, and it will have to reckon with and be ready to learn from Communist approaches.

APPENDIX II

Economic Development and Co-operation in Middle East Countries

by Aleida van Oven

II.1 INTRODUCTION

When preparing for a trip to Afghanistan, Iran, Iraq, Lebanon, and Libya, I accustomed myself not to use the expression "Middle East." I thought it a vague term. Just as some people include Libya in the West and others do not, so some include Afghanistan in the East — and sometimes even India and Pakistan. Moreover, I had been told the expression was not much liked in these countries. So I spoke of Southwest Asia and Northeast Africa.

But once in these countries I found that the term "Middle East" was frequently used and that many inhabitants had a feeling of communication with the other nationals of this — rather ill-defined — group. So the unofficial term could be used freely. Most Afghans I met did not consider their country part of the Middle East, though they conceded that they had important historical, religious, and other cultural ties with this neighboring region.

The purpose of my visits to the different countries was to gather opinions on the special subject of this book. For the greater part I will confine my notes to this field, although I had the pleasure of receiving information on other topics too. Nearly everyone I met was quite ready to give me the information I asked for, to make things as clear as possible to me, and to co-operate in the accomplishment of our study objectives. I would like to express my sincere gratitude to all who helped me.

II.2 ATTITUDES TOWARD REGIONAL ECONOMIC CO-OPERATION

As the book deals with the actualities and potentialities of international economic co-operation, on a regional as well as a world-wide basis,

opinions on regional co-operation in the countries concerned will be cited first.

The idea of economic co-operation within and among groups of neighboring countries as such generally meets with approval. There are, however, critics — mostly economists — who fear that every grouping with an economic aim will eventuate in a strongly protectionist bloc. Because European economic co-operation is most intensive, we shall start with the attitudes toward this integration.

Judgments on European Integration. The need of European countries to co-operate more closely is well understood, and so also the foundation of the European Economic Community (EEC). But it is often feared that EEC's trade policy will be protective. Serious objections are raised too against the association of the former French and Belgian African territories. Even with regard to commodities (e.g., raw cotton, exported by Afghanistan and Iran) on which the Common Market outer tariff will be zero, the Six are expected to privilege the associated countries, in the first instance, by buying from them. As is pointed out in Iran and Iraq, Saharan oil will no doubt be subject to similar preferential treatment. The association of Greece and, possibly, Turkey is not appreciated in Afghanistan and Iran because it will hamper their exports of dried fruits and carpets.

The attempts to merge EEC and all — or part of — the European Free Trade Area (EFTA) also give rise to some uneasiness because the aforementioned disadvantages could be extended to a larger area. On the other hand, the negotiations could result in a reduction in the outer tariffs planned by EEC — possibly as a result of pressure by the United Kingdom — and in a decrease in the preferences within the Commonwealth — possibly through EEC pressure — and in consequence a decrease in the preferences accorded the EEC Associates. In that case, the merger would be welcomed.

Hopes are set on a lowering of the prices of European industrial goods — regularly imported by the countries concerned — following from higher productivity brought about by European integration. For the Middle East countries[1] this could result in a better ratio between export and import prices. It is also hoped that EEC, as a well-organized

1. For the sake of simplicity I will use the term "Middle East" as including all the countries I visited.

economic community, will provide a relatively stable market for primary products.

There is a rather widespread feeling that the emergence of EEC has given an incentive to further co-operation in the Middle East. Co-operation is often felt to be an advantage, and sometimes a dire necessity. An organized group of Middle Eastern countries would be in a position to conduct trade negotiations with EEC, and probably with other groups as well. This, again, could improve the ratio between the Middle East's import and export prices. Consultation between the groups concerning capital transfers might also be fruitful, and possibly result in a more co-ordinated investment policy.

Co-operation among the Arab Countries. The Arab League was founded in 1945. In the course of time all of the independent Arab states, including the North African states and the Sudan, became members. It was originally conceived of as a political and defensive alliance, designed to prevent foreign interference in the internal affairs of the Arab states. But attempts at economic co-operation were increasingly made, and some results have been obtained.

Import duties on agricultural products have been abolished among the members, excluding the North African countries west of Egypt, and import duties on a number of industrial goods have been reduced so that they are from 25 per cent to 60 per cent below the general tariff. But so far, the effect of these measures has been significantly reduced because of import licensing systems. The ultimate goal is an Arab customs union. One of the difficult issues which will have to be resolved is the level of outside tariffs. For instance, Lebanon as a trading country wants the level as low as possible, whereas the United Arab Republic and several other members want rather high protective duties.

Agreement has been obtained on the creation of an Arab Development Bank, to be known as the "Arab Financial Institution for Economic Development." The capital will be £25 million, and bonds can be issued for the same amount. Like the World Bank, it will make loans for development purposes to governments, or to private companies if the government concerned is prepared to give the necessary guarantees. Sometimes the remark is heard that a subsequent bank similar to the International Finance Corporation, which grants loans and participates with private companies without government guarantees, may be desirable. It is hoped that the Development Bank will promote more

saving, particularly in the oil-producing countries, that would find its way to investments for the development of the region.[2]

The League organizes yearly Arab Oil Conferences where the oil problems of the region are discussed. Representatives of non-Arab oil-producing countries and oil companies are invited to attend these meetings.

Plans for an Arab tanker fleet and an aviation company have been in existence for several years, but the members have been unable to agree to their implementation.

It cannot be denied that serious difficulties stand in the way of Arab economic co-operation. These arise from:

(i) political discord, *viz.*, frequent political disputes among the members and fear of domination;
(ii) differences in politico-economic structure of the various countries, especially in the degree of government influence on economic life (strongest in the UAR) and in the emphasis placed on self-sufficiency in essential goods (strong in the UAR and Iraq);
(iii) differences in economic and social environment.

On the other hand it is certain that:

(i) despite the political difficulties, a feeling of Arab unity exists — *"On se dispute toujours entre frères,"* as they put it in Lebanon;
(ii) it is generally realized that co-operation has great economic advantages, especially for industrialization;
(iii) the emergence of EEC has given a new stimulus to Arab economic co-operation; everywhere studies on the possible expansion of this co-operation are under way.

Because of the difficulties mentioned, there are many different opinions about the time it will take to achieve significant economic co-operation. In many Arab countries, it is felt that priority should be given to the formation of smaller groups, which might later integrate. Suggestions concerning the make-up of these smaller groups vary widely. Two quite different proposals are as follows:

1. Five groups consisting of:
   (i) Iraq, Jordan, and Syria;

2. According to recent information (December 1961), there seems to be some uncertainty with regard to how promptly the plans for this bank can be realized. Meanwhile, the Kuwait government has announced the establishment of the "Kuwait Fund for the Economic Development of the Arab Countries." Its lending budget for a five-year period is said to amount to £50 million.

(ii) Lebanon;
(iii) Saudi Arabia and the smaller Arab countries of the Arabian Peninsula;
(iv) the UAR and Libya;
(v) Morocco, Algeria, and Tunisia (the Maghreb).

2. Two groups consisting of:
(i) the African Arab countries;
(ii) the other Arab countries.

There is also the possibility that all the Arab countries can co-operate directly on a limited number of issues, i.e., those where agreement is possible. Economic policy would then have to take due account of the differences in the stage of development reached by the various countries (e.g., in investment policy, transfers of know-how, and trade policy). In the context of this possibility we may refer to the plans for the foundation of the Arab Development Bank, which have met with general approval. Also to be borne in mind is the existence of several Arab institutes, such as the Industry Institute in Beirut,[3] which is investigating the possibility of a division of labor in industrial development within the Arab region.

It is also possible, of course, that a middle way will be followed. Some problems could be dealt with by one or more subgroups only, and others by the full complement of countries.

Libya is in a somewhat different position from the other Arab countries visited, namely, Iraq and Lebanon. She has concluded bilateral trade agreements with Italy and Egypt involving mutual preferential treatment. The Western countries, especially Italy, are her most important trade partners (especially as regards imports); her trade with Arab countries other than the United Arab Republic is small. It is true that Iraq and Lebanon trade more with the West than with the Arab countries, but for Lebanon in particular Arabian trade is important. Iraq, as an oil-exporting country, finds her most important markets outside the Arab region, but she hopes — as a consequence of further industrialization — to expand her trade with the Arab countries. Libya and the other North African countries, being convinced members of the Arab League, are thinking of intensifying their economic relations with the countries of black Africa, though they are separated from them by the

3. This is a purely Lebanese independent nonprofit institution operating in the field of economic and technological research.

Sahara and have only minor trade with them at the moment. Prospective supplies of oil and petrochemical products play a part in these considerations. The economic grouping of Arab countries may therefore tend to pave the way to better economic relations between the Arab group(s) and Africa south of the Sahara. Possibly this in turn might stimulate the black African countries to joint efforts in the economic sphere (see the discussion of African co-operation in Appendix I, pp. 203–206).

Israel is part of the Middle East. Needless to say, the Arab states do not wish Israel to participate in arrangements for regional economic co-operation. The tragedies connected with the emergence of the state of Israel seriously affected the Arabs as well as the Jews, and created painful and strained relations. After my visits to some Arab countries I think there are other aspects of the situation worthy of consideration.

It is often emphasized that the Western powers encouraged the foundation of the state of Israel in order to gain for themselves a strategic foothold in the Arab area. Therefore, it is claimed, Western policy should be regarded as the indirect cause of the injury done the Arab refugees. The West is said to continue its strong economic aid to Israel in order to strengthen and maintain its strategic position in the Middle East. Moreover I was struck by the fact that the feelings of the Arabs toward the Jews were not always wholly negative. For instance, mention was made of a certain religious relationship: as Christianity emerged from Judaism, so did Islam.

Statements like these leave us with some hope. Perhaps the West could eradicate the impression that it regards Israel as a strategic point for itself. The Arab states have started an accelerated program of economic development, and Western co-operation could be helpful. The environment for such development is becoming more favorable as co-operation between the Arab states gathers momentum. Perhaps in time contact may be made with Israel, possibly in the first instance by a subgroup of the Arab region, in the sector where contacts are least difficult, namely the economic sector. If so, it is the author's sincere hope that this first contact may be extended to other countries and to other fields of human activity.

Co-operation in South and East Asia. The tendencies toward regional co-operation in South and East Asia are dealt with in Appendix III. There it is stated that economic co-operation in Europe and in

Latin America stimulated the attempts at Asian co-operation. Up to now a few practical results have been attained within smaller groups of countries. In the United Nations Economic Commission for Asia and the Far East (ECAFE), the possibility of collaboration in a larger region is being considered; the consequences for technical assistance, planning methods, transport, and other sectors are outlined in Appendix III (pp. 238–242). Here I will only comment on the attitudes toward Asian co-operation in the two ECAFE member countries I visited, Afghanistan and Iran.

While the leading personalities in Afghanistan generally look with favor on Asian economic co-operation, they see the intensive participation of their country as a dream of the future. Afghanistan is still preoccupied with the basic requirements of economic development. Also, political difficulties with neighboring Pakistan — concerning the Afghan claim for an independent state of Pashtunistan — give rise to pressures, of uncertain degree, for economic self-sufficiency. Because of these political difficulties Afghanistan's rights of access to Pakistan's sea coast are always uncertain. However, in the setup of educational institutes, technical assistance, roadbuilding, statistical methods, and some other fields, consultation with other Asian countries is recognized as useful. With respect to industrialization, Afghanistan is thinking of giving preference, for some time to come, to rather small projects in various sectors, in order to determine the kind of activities that are most suitable for native labor and resources. In a later stage of development there will be more room for industrial specialization between Afghanistan and other Asian countries.

Iran is willing to take part in Asian economic co-operation, but she is careful to avoid committing herself too much. If, for instance, an Asian financial institution should be founded — and this is under study in the ECAFE Secretariat — she would probably participate. But with respect to trade policy agreements, she is reserved, and apparently willing to accept only very flexible arrangements. Iran is afraid of damaging her trade relations with other parts of the world. Moreover, many Persians would like to see an expansion of Iran's trade with the Arab countries of the Middle East, which is small at present. While Iran trades chiefly with the West and the Soviet Union, she has important trade relations with some South and East Asian countries as well. She feels herself to be in the position of a *trait d'union,* a link or bridge. If the Arab countries come to a further economic agreement, and if plans for

a broader Asian economic community materialize, Iran may induce the two areas to realize, at an early stage, the potentialities of mutual relations.

II.3 INFRASTRUCTURE, AGRICULTURE, AND INDUSTRY

Planning. Since the beginning of the fifties Iran, Iraq, and Libya, and since 1956 Afghanistan have had long-term plans for development. All of these countries have met with great difficulties in carrying out their plans, and the results have often been disappointing. However, experience is the best teacher.

Lebanon drew up a five-year plan in 1958, but because of political difficulties in that year the plan was never instituted as such. Not until 1961 was a five-year plan accepted.

In Iran, a revamped planning organization will come into operation for the execution of the third plan — a five-year plan whereas the first two covered seven-year periods. After the revolution of 1958 in Iraq, a provisional plan, partly a continuation of the previous government's plan, was made; this is just now being superseded by a permanent plan. In Libya, despite strenuous efforts of the Development Council (1956) the programs and activities of the various development agencies — financed largely by foreign means — and those of the federal and provincial governments could not be sufficiently co-ordinated to make planning workable. A Development Council of a new character has now started to draft an over-all plan and supervise its implementation. Afghanistan is at the beginning of her second five-year plan.

Infrastructure. Much attention is paid to the infrastructure in these countries. Expansion and improvement of all modes of transportation, of energy sources, of irrigation, and of buildings for many different purposes are an important feature of all plans and development activities. In several sectors there is a tendency to initiate projects smaller than those of the previous period. For example, it is realized that besides big dams for energy, irrigation, and flood control, there is a need for small dams dispersed over the country. An emphasis on less ambitious projects will lead to quicker results and to a better geographic distribution of productive capacity. This may be beneficial from a psychological as well as an economic standpoint.

Education is everywhere an important subject, but lack of teaching

staff hampers the implementation of plans in this field. The same applies to the expansion of health services.

Agriculture. The larger part of the labor force is engaged in agriculture, and agriculture therefore occupies an important place in development plans everywhere. In Iraq and Lebanon, however, there has been a shift in favor of industry. In Afghanistan's new five-year plan a larger amount has been set aside for industry than for agriculture, but it is continually pointed out that the projects for increasing agricultural produce have priority; they are simply less costly than the industrial projects.

Development of agricultural industries is on the agenda of all the countries. More attention is being paid to the geographic distribution of these industries. One advantage may be that migration to the big cities will diminish.

In Iraq, land reform right after the revolution took place at too rapid a rate. The new landowners lacked the required knowledge, equipment, and materials, and consequently the results were disappointing. Now the pace has been slowed and more government assistance is being given to farmers. The government is also helping to set up co-operatives. In Iran most of the lands so far distributed to farmers have been Crown lands. Lands in the public domain have been distributed to a certain extent, but large private estates have hardly been touched. A law restricting holdings in the form of landed property was accepted in 1960.[4] Iran now plans to found co-operatives first, and then to distribute the lands concerned. Land reform is being considered in Afghanistan too. But it is generally agreed that large landed estates do not pose as serious a problem there as in Iraq and Iran; they do not give rise to the same critical social situations. Some suppose that the property in question is no longer very extensive, because much of it has already been divided; but this will only be known when an agricultural census is taken. There is no thought of expropriating the land. There is, however, talk of regulations implying new relations between owners and tenants, and also of a progressive income tax.

Industry. Differences in the appraisal of individual freedom are likely to be revealed in the ownership of industry. Belief in liberty of the subject seems to be strongest in Iran and Lebanon. A Persian with a

4. In January 1962 the law of 1960 was replaced by a new one which limits private holdings of land to one village.

fine sense of humor told me that sometimes his desires for freedom, and those of his compatriots, grew into an urge to anarchy. A Lebanese complained that while it was indeed possible to draw up an economic plan and to set up an administration for industrialization and social security, for the time being it would be extremely difficult for Lebanon to put the system into practice. One of his more optimistic compatriots, however, stated that it was encouraging that everybody *talked* of planning and organizing nowadays.

In Iran the majority of the manufacturing industries are private. A number of big factories are state-owned but the government is trying to sell most of these to private persons (apart from the oil industry). All of the industries in Lebanon, except the public utilities, are privately owned.

In Iraq big industries are mostly state-owned and smaller industries are in private hands. Mixed industries, partly state and partly private, are encouraged, especially by means of the Industrial Bank, a state bank. The government is trying to further the establishment of smaller private industries by, among other ways, fiscal legislation.

A substantial part of the existing industry in Afghanistan is under mixed ownership. Apart from the public utilities there are some state-owned factories. Serious efforts are being made to encourage private investors to put their money into industry. There is a very sizable cotton factory which is largely privately owned, although the government exerts a certain influence on its affairs.

In Libya most industries are small-scale private operations. Some medium-size industries, e.g., tobacco and salt, are government-owned. Here, too, special facilities are offered to investors in new industries. Meanwhile, the government has started a few industries which it will — if possible — transfer to private owners.

Some notes may be added on a few specific industries.

Cement, as a building material, is considered an essential product in all countries, and efforts to achieve self-sufficiency are widespread. This end has been attained in Iraq and Lebanon, where there is even some export. Libya is still in the exploratory stage. The desire for self-sufficiency in this important commodity seems reasonable, but if the prices of home-produced cement are considerably higher than those of imported cement, partial self-sufficiency may be preferable, especially if supplies can be obtained from markets which are likely to remain open during periods of emergency.

The fertilizer industry – petrochemical or other – is also a popular subject for development planning. But there is no consensus of opinion as to whether various other petrochemical industries should be started shortly (see section II.5).

One or more big textile factories – besides small ones – exist in all countries, except Libya. Expansion of the textile industry is aimed at everywhere, although in Lebanon, where so far the factories are able to compete only if protected by high import duties, there are divergent views in this respect.

In Iraq a modest steel plant will be set up, which for the time being will work scrap and imported materials. It is hoped that eventually iron ore will be available locally; a geological survey is now in process. Iran has provisionally canceled her plan for a huge integrated steel plant. She is first going to investigate thoroughly the factors which will determine the viability of a steel industry – costs, possible site or sites, size, etc. In Afghanistan a small steel plant is programmed which will work up Afghan ore. In Lebanon some domestic ore is smelted and there is a plan to work scrap metal. It is quite understandable that these countries want to have some steel-making capacity, especially if materials are available locally. However, all the elements of cost must be carefully assessed, including the costs of transporting the heavy materials and finished products. Iran has set a good example. Besides, for developing a steel industry it seems advisable to keep in touch with neighboring countries to see whether a certain specialization of effort can be achieved.

In Lebanon much attention has been paid to the development of tourism. This is logical because the country has numerous attractions to offer, such as a beautiful situation, an alternation of lowland and snow-capped mountains, and splendid remains of ancient culture.

II.4 EXPORT-IMPORT PRICE RELATIONS

There is a general fear that the prices of agricultural and mining products will decline or fluctuate widely in relation to the prices of industrial commodities.

Attempts are made everywhere to improve the typical export products (dates, raisins, and other fruits, cotton, tobacco, wool, and hides, among others), or to improve their packing. In Iran special care is taken to keep the quality of carpets for export up to standard. It is recognized that a diversification of production, including a certain degree of in-

dustrialization, would be beneficial. It is hoped, however, that such a change-over can be financed in part out of increased income from exports.

It is often argued in these countries that trade treaties are a source of strength. This view does not stem from a preference for bilateral equilibria. In general, barter agreements with the Communist countries are not considered to be a particularly desirable type of agreement. But it is felt that trade treaties give a measure of stability to economic affairs.

Iraq has entered into a number of "proportional trade agreements," according to which imports from a certain country have to be counterbalanced by a fixed percentage of Iraqi exports, varying from 25 to 100 per cent. Such agreements have been concluded with Communist countries and with India, Ceylon, Denmark, and Finland. The annexed commodity lists do not give quantities or values.

As mentioned above, it is felt that further area association could channel international trade so as to minimize or even avert the danger of an adverse movement in the terms of trade. Such a goal might be realized assuming that there were regular consultations not only within but also among areas.

II.5 OIL

Oil occupies a special place in the economy of the Middle East. It is an important product of all the countries visited, though Lebanon has no crude production and Afghanistan's oil industry is still in the stage of advanced exploration.

In Iran and Iraq the general feeling is that the oil companies' profits on crude oil are excessive. As a consequence studies of the price structure of oil are being made by OPEC, the Organization of Petroleum Exporting Countries. Member countries are Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and Venezuela. Headquarters are in Geneva. The next step will be to try to conclude new agreements with the oil companies which will give a larger share of the proceeds to the producing countries.

Other questions, such as the possibility of "pro rationing" — a device by which supply is controlled at the source — are also being studied by OPEC.

The USSR low-price competition is not seen as dangerous, at least for the time being, because exports from that country are still relatively small. The representatives of the big oil companies think that the im-

pact of cheap Russian oil exports on Middle East crude prices is quite noticeable. But to their minds, the growing diversification of productive capacity and the increasing number of competitors are even more important developments.

Sometimes the high fiscal charges on oil products in consuming countries are criticized because of their ultimately depressing effect on crude oil demand.

As indicated above (section II.2), Iran and Iraq are concerned about the privileges that may be granted Saharan oil by EEC.

Libya considers that she has an advantage over other Middle East countries because she is nearer to Europe in terms of transport costs. The possibility that Africa will some day provide a market, first for crude oil and later for oil products and petrochemicals, is also kept in mind.

Although Libya is just beginning to develop her oil economy, a pick-up of activity is already apparent in some other sectors, for instance, in trade, handicraft, transport, and building (Tripoli even has a surplus of large houses). There is, however, the danger that oil revenues will not be spent on the general development of the country. It is a good thing that many Libyans, especially the younger people, are fully aware of this problem. The government has learned that it may be subject to severe criticism if its activities appear to be not entirely justified.

As noted before, there is a divergence of opinion with regard to the desirability of developing petrochemical industries (see section II.3). Many people would like to see the full range of such industries come into being, but it is often argued that there should be a geographic complementarity in the distribution of the different sectors of this industry, among the Arab states, among the Middle East countries, or among the OPEC countries. Others would like to have the petrochemical industry reserved for the oil-producing countries; there are, for instance, Lebanese who are not in favor of a Lebanese petrochemical industry. Finally, it is sometimes argued that petrochemical processing is so complicated that developing countries are not yet in a position to cope with its problems.

II.6 THE POPULATION PROBLEM

Density of Population and Natural Resources. None of the countries visited has a population problem in the sense of having more inhabitants than its resources can adequately support, although Iraq,

Lebanon, and Iran have a rapidly growing population (yearly increases amount to 3.1, 2.8, and 2.4 per cent, respectively; Libya records 1.5 per cent; figures for Afghanistan are not available).

As for Lebanon, possibly a certain pressure is exerted by the population. It is the most densely populated country (about 385 inhabitants per square mile) of the group but it also has the highest income per head (about $300). There have always been many emigrants; emigration was especially noticeable during the period of Turkish domination, but it continues today, notably to Africa and the Western Hemisphere. Many Lebanese work in the neighboring countries and are welcomed there as good labor. But these people are not emigrants as they return home in the course of time. Emigration is, however, furthered by the fact that Lebanon is traditionally a commercial country. Apart from being a center of trade it is also a cultural and a tourist center. The highest incomes originate from these activities, and from the money transfers made by emigrants. As there is a growing feeling of uncertainty with regard to the continuance of these sources of income, more attention is being paid to the extension of industry and the improvement of agriculture.

In the other countries the density of population lies between 2 and 50 inhabitants per square mile (Libya 2, Iraq 30, Iran 41, Afghanistan 50). Owing to a lack of knowledge — in the broad sense — and of capital, the standard of living is low. There are, of course, large territories that, at the present stage of scientific development, are scarcely exploitable; this applies most to Libya with her extensive desert area. But on the other hand there are many regions which could certainly be productive — in agriculture and mining — if they were professionally exploited and if sufficient doses of capital were applied. As this situation is partly due to a lack of transport facilities, large amounts of capital are being invested in transport.

In some places, especially in the big cities, labor is available in adequate quantities; but elsewhere there is a shortage. This may be a latent shortage, in the sense that there is an insufficient local capital supply because of the supposition that it will be impossible to attract labor.

Employment. An oversupply of labor, implying underemployment rather than unemployment, is often apparent in the government sphere and in certain rural districts. The development of industries in coun-

try districts is therefore an important goal. Moreover, by subsidizing the peasants the Iraqi government tries to prevent a migration of labor to the cities in times of drought.

Underemployment seems preferable to unemployment. We shall take the government services as a case in point. In a situation of underemployment more people are engaged and have at least some earnings; in other words, "poverty is more fairly spread." Then, too, workers get experience and some insight into government activities, although this may not be the specific know-how which could be most useful to them later on. But there are disadvantages too. As wages are low, civil servants often take side jobs, which are sometimes more interesting to them than their professional work. They may also be tempted to accept extra-contractual payments. The bribery of officials makes impossible an objective selection of contractors who have skills or goods to offer the government or the country. Moreover, because there are too many people available for the total quantity of work, activities are unnecessarily repeated and complicated. Underemployment in the government sector appeared serious, especially in Afghanistan and Iran. If some government officials could be transferred to industry, banking, or certain branches of agriculture and mining by means of additional capital and know-how, this would probably be most advantageous to the social and economic development of the countries concerned.

II.7 CAPITAL TRANSFER

A large part of the funds which Iraq needs for development purposes can be supplied by the oil industry. Besides, since the 1958 revolution big loans have been received from the Soviet Union.

Iran's development projects rely to a smaller extent on oil revenues. She has received large sums from the United States and some other Western countries and has obtained several World Bank loans. There are an increasing number of Iranian enterprises in which foreign private capital participates.

Afghanistan's development is strongly dependent on foreign capital. Until now the larger part of her investment fund has been supplied by the Soviet Union, with the United States ranking second.

In recent years Lebanon has borrowed a considerable amount from the United States. She has also contracted a loan with the World Bank for a "multi-purpose project." Other Arab countries, particularly Saudi

Arabia and Kuwait, have made large investments in Lebanon, but these are mostly investments in buildings. French, Swiss, and other private capital participates in a number of industries.

Libya has benefited from oil exploration since 1954, and exploitation activities have recently started at two points. So far, however, the most important Libyan income items are payments made by the United States and the United Kingdom for their military bases, and loans and grants given by these and other Western countries.

In Afghanistan and Iraq it is occasionally objected that the World Bank is not impartial and that it is unwilling to grant loans if the country soliciting funds harbors Communist influences. However, it is recognized that this situation is gradually improving. Further, the Bank is sometimes said to be too conscientious about collecting data and too occupied with details, which are not available in many of the developing countries because of lack of statistical services. This attitude on the part of the Bank leads to prolonged preliminary investigations.

Joint participation by foreign and domestic private capital in home industries is appreciated everywhere, particularly if combined with the transfer of know-how. It is also pointed out that this can pave the way for the mobilization of domestic savings.

In the Middle East countries there are laws protecting foreign capital and these laws often indicate a preference for "joint ventures." This preference is still more apparent in the countries' economic policy. In Iraq, planned private industries with up to 40 per cent foreign capital have the same facilities as new private industries with exclusively Iraqi capital. If foreign participation exceeds 40 per cent, these facilities are not available. However, the Iraqi authorities are being rather selective with regard to applications for companies in which foreign and domestic private capital will participate. Afghanistan would welcome more foreign private capital participation in her industry, but up to now she has not been very successful in attracting outside investors. This may be due to the fact that since the country was long isolated from the rest of the world by the United Kingdom, other countries had practically no opportunity to get acquainted with its needs and resources. Western reluctance to invest in Afghanistan because of the Soviet Union's foothold in the country is rightly considered by the Afghans to be shortsighted policy. Foreign private investment may also be hampered because the Afghans themselves have so far invested relatively little private capital in domestic industrial projects.

In all these countries industrial development banks are either in operation or in the process of being set up, as in Afghanistan and Libya. Whether government-owned, privately owned, or mixed, their aims always include channeling domestic private savings to industry and inducing foreign investors to participate in industrial expansion.

The plan to found an institution for multilateral investment guarantees (the "Mutual Investment Insurance Corporation") has met with great interest everywhere (see Chapter 7, section 6).

II.8 KNOW-HOW

Transfers of know-how, in various forms, play an important role in the relations between the developed countries and the Middle East countries.

Since 1958 Iraq has received more financial aid from the Soviet Union than from the West, but technical assistance is again increasingly coming from North America and Europe.

Afghanistan is receiving technical assistance from many countries in the East and West. A large number of United Nations experts are on the spot. The United Nations teams are sometimes composed of experts from developing, Communist, and Western countries. To my repeated question as to how East-West co-operation developed within such teams, all concerned answered that contacts were restricted in the beginning to purely formal matters. But beyond that the answers varied: some merely noted that gradually other subjects were discussed, while others stated that at present there is extensive contact between all team members. (It was observed that the experts' wives formed friendships among themselves and thus paved the way to a better mutual understanding.)

In Iraq and Afghanistan it is said repeatedly that financial or technical assistance is welcome from any source if no political conditions are attached to it.

In Iran and Libya a great deal of technical assistance is given by United Nations organizations. These two countries and Lebanon also receive assistance from various Western countries. In Libya experts from other Middle East countries, above all the UAR, contribute their services.

Leading personalities in each country emphasize the lack of managerial as well as technical skill.

It is often pointed out that those who received training in a foreign

country should have an opportunity to bring their knowledge up to date by further study abroad. This is not now possible because of the shortage of qualified manpower in the Middle East, and because not enough attention has been paid to this kind of assistance by the developed countries. However, an exchange of personnel between developing and developed countries might be a solution. This has the advantage of involving an exchange of knowledge, which would be very beneficial to both parties.

It is also felt that there are not enough opportunities for students to obtain practical experience after studying abroad. Such experience might be gotten in the country of study or possibly, and preferably, in a nearer country, with more comparable living and working conditions. Here, too, it may be useful to think in terms of an exchange of manpower, which would permit students in foreign countries to prolong their stay.

Lebanon is the least in need of foreign technical assistance, having by far the smallest percentage of illiterates (10 to 20 per cent of the population). The three universities in Lebanon — the American, the French, and the Lebanese, in order of age — have both Lebanese and foreign teachers, and there are many students from other countries in the Middle East and North Africa. In this way, and also through other channels, knowledge is conveyed throughout the area by the Lebanese. However, there is a need for foreign know-how in Lebanon, for instance, in some sectors of the handicraft and agricultural industries and in industrial planning generally.

As a rule, the leading figures in government and private business are working very hard in all of the countries visited. But they are repeatedly confronted with the problem of how to make the lower-level people understand the nature of the job at hand. Admittedly, many people are extremely eager to learn; this is apparent at all levels of teaching. Although the governments are aware that the general spread of knowledge is a long-term problem, much work is being done to extend education in all its ramifications. In this field, co-operation with neighboring as well as with remote countries is considered by everyone to be very beneficial.

APPENDIX III

Economic Development and Co-operation in Southeast Asia

by Hans Linnemann

III.1 CHARACTERISTICS OF THE REGION

In general discussions and writings on international economic affairs the countries of Southern and Eastern Asia are frequently grouped together and denoted as the Southeast Asian region. This terminology requires some further explanation if more precise statements are aimed at, and if confusion is to be avoided. In the present context, Southeast Asia comprises all the Asian member countries of the Economic Commission for Asia and the Far East (ECAFE) – except Iran and Afghanistan, which are included in Western Asia or in the Middle East region – plus the Asian Communist countries (except Asian USSR). The region thus forms a triangle with Pakistan in the West, Japan in the Northeast and Indonesia in the Southeast.

The economic characteristics of Southeast Asia are to a large extent the same as those of the other underdeveloped regions of the world. We shall pay little heed to these general characteristics, preferring to concentrate on those features which are uniquely Southeast Asian. Certain special features of the region's economic situation stand out clearly:

(i) Measured in terms of national income per head, Southeast Asia is in all probability the poorest of all the underdeveloped areas in the world. In no other region are living standards as low as they are in this part of the world; nowhere does poverty reign with such power as it does in Southeast Asia. This is not to deny that there are some remarkable islands of relative prosperity in the region, nor that there are some very poor areas outside Southeast Asia. However, in comparison with Latin America, the

Middle East, or Africa, the Asian region has the sad honor of topping the list of poverty-stricken areas.

(ii) In this region we find two giants (in terms of population) among the developing countries struggling to attain, among other things, a higher level of material well-being. Mainland China and India together house more than half of the people living in underdeveloped countries: their 1961 populations are estimated at 700 and 430 million, respectively. As these two countries — or rather subcontinents — follow different systems in their development policies, it is even more understandable that many developing countries, both inside and outside the region, look very attentively at the efforts made and the results obtained by these two big brothers.

(iii) The population problem is more pressing in Southeast Asia than in any other part of the world. Though a few pockets of low population density exist, the region as a whole has the burden of carrying, on an area smaller than that of Africa or somewhat larger than that of Latin America, an awesome number of people. Notwithstanding the attempts made by various governments to slow down the rate of population increase, the rate of growth is still high enough that India reproduces an "Australia" each year and China a "Canada."

(iv) Many countries in Southeast Asia have been very active in the field of national economic planning. Not only do almost all of these countries have development plans today, but several of them have had skillfully designed plans for a decade or so. It seems, moreover, that the national planning mechanism is on the whole more sophisticated here than in other regions. Attention is given not only to the preparation of plans but to their implementation as well. Other areas have tended to lag behind in this respect, although there are individual exceptions.

(v) If the Asian region seems to be leading in national economic planning, it is certainly not in the forefront in regional cooperation. The poor performance recorded in this field is mainly due to political factors. Apart from Communist countries and countries adhering to definitely Western ideas and principles, there are many nations that want to be — to a varying degree — politically and economically uncommitted. These contrasts are, generally speaking, more pronounced in Southeast Asia than in

other underdeveloped parts of the world; they make for a certain immobility, or at least sluggishness, in matters of regional co-operation.

It is tempting, on the basis of the above general statements — particularly those mentioned under (i), (iii), and (v) — to make an even more sweeping assertion, namely that the problem of developing the less developed part of the world is to a large extent the problem of developing Southeast Asia. In a sense this is true. If the development problems of Southeast Asia can be solved, those of other areas are also capable of solution. This does not imply that there are not specific difficulties to be overcome in every country or region, or that no serious problems exist outside the Asian region. Unfortunately, great misery exists in all of the less developed countries.

III.2 ECONOMIC RELATIONS WITH THE OUTSIDE WORLD

It is not intended to enumerate in this section the economic ties that exist between Southeast Asia and the rest of the world, particularly the developed countries. Their general characteristics are familiar to everyone interested in world economic development. The comments which follow were inspired by a visit to a number of Southeast Asian states. They are grouped together under the headings Trade, Financial Assistance, and Technical Assistance.

Trade. The geographic pattern of the foreign trade of Southeast Asia[1] is such that one-third of all trade is intraregional, one-fourth is with Western Europe, and one-fifth is with the United States. This holds for both exports and imports, except that the region has a deficit in its balance of trade with the United States. The Communist countries of the region have only a small volume of external trade; their main trade relations are with the other centrally planned economies.

The export products of Southeast Asia fall into two distinct categories: manufactured goods (accounting for something like 90 per cent of the exports of Japan and Hong Kong, 45 per cent of those of India, and 25 to 30 per cent of those of Pakistan and Taiwan) and primary commodities (constituting about 60 per cent of Southeast Asian exports, or

1. The data on trade are mainly taken from the *Economic Bulletin for Asia and the Far East,* ECAFE, Bangkok, June 1961, pp. 20–26.

85 per cent if Japan and Hong Kong are excluded from the region). The bulk of the manufactured goods exported consists of light manufactured products, with textiles and textile products ranking first. Japan has a more diversified export list; ships and machinery are substantial items. As to primary commodities, the region is the greatest supplier of the world markets for natural rubber, tea, rice (traded mainly inside the region), copra, tin, and jute. Next to rubber, petroleum is the region's greatest source of foreign exchange, but Southeast Asia accounts for not more than 5 to 6 per cent of world petroleum production. These products constitute over 70 per cent of the region's primary exports.

On the whole, the growth of Southeast Asian exports has lagged noticeably behind the growth of world exports. If petroleum is excluded, the commodity composition of the region's exports is even more unfortunate than that of other primary producing regions. Many countries in Southeast Asia — and among them the largest — have serious balance of payments problems continuously. The developed countries could, of course, help matters by lowering or abolishing import duties, quantitative restrictions, and internal taxes on the region's export commodities. It should be noted, however, that for Southeast Asia the quantitative effect of an abolition of all duties on primary products would not be very large; it would not in any event solve the whole problem. More important would be a reduction in the protection afforded industrial consumer goods, especially textiles.

The creation of the European Common Market probably will not much affect the exports of Southeast Asia, at least in the short run. There may be adverse effects in the long run, if preferential treatment of the associated (African) territories continues. If the United Kingdom joins the Common Market, these preferences might either be reduced or extended to the Asian Commonwealth countries. These countries — India, Pakistan, Ceylon, the Federation of Malaya, and some smaller territories — are on the whole not opposed to a merger of the United Kingdom and EEC, provided that their special interests (tea, rubber, and to some extent textiles) are taken care of. Many of the non-Commonwealth Asian countries have only a limited interest in the Western European market; only 10 to 15 per cent of the exports of Burma, Japan, the Philippines, Taiwan, and Thailand go to Western Europe. (For Indonesia the percentage is as high as 30.)

This is not to say that Asian economists and political leaders have no objections to the European Common Market. They note several dan-

gers, or at least potential dangers. The European textile industry might well strengthen its position, and co-operate to prevent a lowering of protection. The synthetic rubber industry might, because of increased efficiency, expand its output to the detriment of producers of natural rubber. Co-operation rather than competition among the producers in a European industry might lead — and according to some has already led — to higher prices, particularly on foreign markets.

Also, in a broader context than that of the European Common Market, there is considerable ill feeling about some of the attitudes displayed by international private enterprise. The monopsonistic behavior of large concerns buying raw materials is a case in point. Monopolistic price setting by regional Transport or Freight Conferences is another example; it should be borne in mind in this connection that for several raw materials transport costs are as important a part of the selling price in the United States or Europe as local costs of production. It is feared, moreover, that these Freight Conferences sometimes collaborate with vested industrial interests in the developed countries by charging high rates for shipping manufactured or processed goods exported by newly industrializing countries. There is a general desire in Southeast Asia to break these monopolies by founding national (or regional) shipping companies.

For reasons of national autonomy and political independence, many Asian countries are opposed to too intimate economic links with the developed countries. It is unlikely that India would accept the status of an associated country of the enlarged European Common Market if the United Kingdom joins the Six. The Philippines have reached agreement with the United States about the special trade links between the two countries; these are to be completely eliminated by 1974. For somewhat different political reasons, some countries affiliated with the Western world (especially those having at present close ties with the United States) have embargoes on trade with the Communist world, particularly mainland China. India and other neutralist countries, on the other hand, count on the possibility of a substantial expansion of their trade with the centrally planned economies.

Any measures designed to give greater stability to commodity markets would be welcomed in Southeast Asia. The instability of primary product prices is one of the most pressing problems confronting some of the smaller countries that have no chronic balance of payments difficulties (like the Federation of Malaya, and Thailand). The point is

stressed that the co-operation of consuming countries — especially those having large stocks, as the United States does of many products — is essential. It is also argued in this connection that the substitution of synthetic for natural products — if it has to happen at all — should take place very gradually so as to allow producers of the natural materials to shift to other activities. As to the surplus-disposal program of the United States, some Asian economists suggest that the United States buy up the exportable quantities of the product concerned (or of close substitutes) which are produced by underdeveloped countries, in order to avoid a market disruption which would deprive the latter of their traditional export markets (e.g., the rice exports of Burma and Thailand).

The main contribution which the developed countries can make to the trade (and development) problems of Southeast Asia is to open their markets to the region's manufactured goods. Many industrialized countries are not applying the most-favored-nation treatment under GATT rules to imports from Japan. "Voluntary quotas" have been imposed by Japan on its exports to the United States. Similarly, several export products from Hong Kong, India, and Pakistan are subject to "voluntary restrictions" when entering the United Kingdom. Quotas are applied by several other countries. If the developed countries abolished their quantitative restrictions, lowered their duties, and concluded three- to five-year import contracts for manufactured goods, it would indeed be a major demonstration of their willingness to co-operate with the developing countries in building a sound world economy.

Financial Assistance. There is no need to argue here the necessity for continued (and increased) financial assistance to Southeast Asia. In this region capital is still the scarcest factor of production. In recent years there has been much talk about the great shortage of entrepreneurial and technical skill in newly developing countries, and about the limit that this shortage imposes on the amount of capital which can be fruitfully invested. It is true that there is a limit to the capacity to absorb capital, but this limit has certainly not been reached in most Asian countries, including the most important ones (India, Pakistan, Indonesia; also mainland China). The argument of a limited absorptive capacity cannot in all honesty be used to justify turning down the region's demand for more capital aid.

To be sure, this statement does not imply that there is no need to

foster the training of technical manpower and the creation of more organizational skill. These things are important — as is, for that matter, the development of capable and honest public administrations. More training facilities in this field are required, and the United Nations Special Fund — which devotes a substantial part of its funds to this purpose — could well spend its entire budget in the Asian region.

Another pre-investment activity should also be given attention, namely the search for the most promising individual investment opportunities. Despite relatively good over-all performance in economic planning, microplanning (i.e., planning on the project level) has been neglected in comparison to macroplanning. Agencies which give capital assistance mostly on the basis of individual projects — like the International Bank for Reconstruction and Development and the (former) International Co-operation Administration — have recently been urging the governments of several Asian countries to go more deeply into planning on the project level.

In many countries of the region the geographic distribution of capital aid has been sharply criticized. The bilateral aid given by the United States, which has frequently been used as an instrument of anti-Communist policy, with little or no consideration for the real economic needs and possibilities of the area, has especially come under fire. In general, the countries more or less attached to either the Western or the Communist bloc are in favor of continuing the granting of economic assistance on a bilateral basis, whereas the more neutralist nations would prefer the channeling of aid through multilateral institutions. The uncommitted countries will accept bilateral assistance because multilateral aid is far from sufficient. In some countries of the region, however, it is feared that the economic aid given by the Communist bloc may have undesirable consequences because of

(i) the many technicians sent by the donor country, some of whom might be engaged in intelligence activities; and
(ii) lasting dependency on the donor country for replacement and spare parts.

There are some general complaints about the conditions on which loans are provided. The greatest objections are made to the short periods for which loans and credits, both public and private, are frequently given. High interest rates and the fact that many loans are to some extent tied to products of the lender also inspire complaints. Special loans or grants should be given in cases of emergency; emergencies may

easily arise in a region where the well-being of the bulk of the population depends on agricultural production and hence, to a great extent, on uncontrollable weather conditions.[2]

Except, of course, for the Communist countries, private foreign capital is welcome in Southeast Asia. Government attitudes toward private capital differ, however, in different countries. In some countries, private foreign investors are virtually free of restraints, but in most countries there are laws and regulations limiting the freedom of international private capital, and guiding it in directions most beneficial from the national point of view. Co-operation of foreign with local private capital in joint ventures is promoted, although it is sometimes difficult to find the necessary domestic funds. Owing to a shortage of local capital, policies designed to reserve certain branches of production to national citizens – e.g., the Filipino-first policy of the Philippines – have often had little or no result other than to discourage foreign private enterprise.

On the whole, the role played by private entrepreneurs in the process of economic growth seems to be appreciated more today than it was ten years ago. This change in attitude may be due partly to the accomplishments of private capital in India during the first two five-year plans. In several Southeast Asian countries, however, there is some distrust of private capital (especially foreign capital) if it operates under some sort of government guarantee, as in the case of most medium-term suppliers' credits or a legal monopoly. Sometimes the technical merits of the projects financed or the quality of the goods produced are less than they might have been had there been no guarantee.

Technical Assistance. The experience of Southeast Asia (excluding here the Communist countries) with technical assistance received from the developed countries on a bilateral or a multilateral basis has been fairly satisfactory. Nevertheless, there are a number of objections and desiderata for the future. These can be summarized as follows:

(i) There should be more continuity in technical assistance activities. This is true of the advisory work as well as of the people giving the advice.

(ii) Technical assistance work should be better planned and integrated. In part this is a task for the receiving country, but the

2. The reader may be reminded of the great impact of natural calamities on the level of production and consumption in mainland China.

multitude of agencies and organizations providing assistance must be willing to accept guidance in this matter. They must also be willing to co-operate, instead of competing with each other.

(iii) More attention should be given to the training of local people. Foreign advisers should make a serious effort to train the nationals with whom they are working.

(iv) In many fields experts are needed who are *willing* (and entitled) to accept operational and executive responsibilities instead of merely advisory ones. This requires a further extension of the OPEX scheme already in operation.

(v) Technical assistance has been fairly expensive in relation to the results obtained, both for the donor countries or organizations and for the receiving countries (which usually bear part of the costs). It has been hard to find the right man for the right job; overhead costs have been excessive for smaller projects, and political factors have been overly obtrusive, especially in bilateral technical assistance activities.

The remarks above are of a general nature and do not necessarily apply only to Southeast Asia. The following observations about the technical assistance work of two of the specialized agencies, on the contrary, have to be weighed against the background of the actual situation in the region. These observations concern the activities of the World Health Organization (WHO) and UNESCO.

There is a widespread feeling in Southeast Asia that medical experts of WHO do not fully realize the costs involved in their programs of medical and sanitary improvements. Developed countries have often been proud of their achievements in the field of medical assistance to developing countries. There is less reason for satisfaction, however, if one realizes how little it costs to prevent a human being from dying (a cost the developed countries are willing to bear) in comparison with the expenditure needed to keep him alive, and the even greater outlay needed to give him a productive job (an amount the developed countries are reluctant to provide).

UNESCO activities are criticized on two points in several countries. First, these activities are not sufficiently oriented toward the needs of the production process. Secondly, the way in which UNESCO plans to provide education (especially primary) is overambitious and too expensive; standards for school buildings, for instance, should be modest as

compared to those of developed countries. Southeast Asia is not in a position to permit itself luxuries in the field of education.

III.3 ECONOMIC CO-OPERATION IN SOUTHEAST ASIA

Many countries in Southeast Asia were born as independent nations only after World War II. The fact of newly gained political independence has had (and still is having) a great impact on the region's economic life. It has led many countries to orient their internal policies to the central issue of economic development. In the international setting, however, the results have been less favorable — at least initially. Just as more recently in Africa, the wave of independence broke several large economic and political units into a number of independent nations. Examples of this process of disintegration may be mentioned here.

After the war, the Indian subcontinent — from which Burma was already separated — was divided into India and Pakistan, and recently Nepal loosened the close economic ties which bound it to India. French Indo-China was split up into three nations — Cambodia, Laos, and Viet-Nam — and the last is at present divided into a northern and a southern part. Before the Second World War the economies of Taiwan and Korea formed part of the Japanese empire and were integrated with the Japanese economy; now they are independent units, and Korea itself consists of two separate entities.

Lately, serious thought has been given to the possibility of reversing this movement. The ECAFE Secretariat has played a part in this development. It should be noted, however, that the present tendency toward regional co-operation has to be seen, to a large extent at least, as a reaction to European integration moves and Latin American co-operation plans. Southeast Asia's interest in regional co-operation was born out of need rather than desire. This is not to deny that, once the process has been set in motion, several countries will probably find themselves greatly in favor of economic collaboration or even integration. These are, understandably, those countries that have most to gain by the establishment of a regional market.

The prospects for an Asian common market would seem to be bright considering that a substantial part — one-third — of the international trade of the Southeast Asian countries is intraregional trade. A ratio of 33 to 35 per cent compares very favorably with the corresponding ratios for Latin America (only 10 per cent) and Africa. Burma, Laos,

North Borneo, Sarawak, Southern Korea, Taiwan, and Thailand sell 60 per cent or more of their exports on the regional markets. Today the most important regional trade products are textiles, rice, petroleum, rubber, and machinery and equipment; these products account for 40 per cent of intraregional trade.

Even apart from the retaliation argument, there is a real need for regional co-operation in the economic field. Several factors may be distinguished here. Many Asian countries have perpetual balance of payments problems, and the only way out seems to be a contraction of imports. For example, it is for this reason that Ceylon's Ten-Year Plan calls for a great reduction in imports of agricultural products. Since the bulk of Ceylon's agricultural imports comes from Burma and India, these countries will experience a decline in their exports which they will try to compensate for by substituting home-produced goods for imports. Consumer manufactures, at present exported by countries like Japan, Hong Kong, and India, will also meet increasing sales resistance because of industrial expansion in other countries of the region (textiles are the chief products concerned). These and similar cases clearly call for a more co-ordinated approach to development problems, so that some sort of specialization and division of labor can be obtained on the basis of comparative advantages within the region.

There is also scope for co-ordinating complementary activities. The future cotton requirements of Japan and India could well serve as an important guidepost for the production plans of the region's major raw cotton exporter, Pakistan. Another case in point is that of iron ore; the region's importers — making their plans individually — are counting on a larger total supply from the region's exporters than the latter can possibly provide. The chances for a successful co-ordination of regional development activities are greater the earlier a start is made; later on, (newly) vested interests may be a serious hindrance to an optimum distribution of productive capacity.

Right now, the main obstacles to regional co-operation lie in the political sphere. This is, of course, most obvious with regard to the centrally planned economies of the region. Because of the great differences in economic organization and policy no close political co-operation is possible between the Communist and non-Communist countries, although inter-group trade might be expanded. But there are also political tensions and conflicting views among the non-Communist nations, particularly between the neutralist and the pro-Western countries. Po-

litical distrust is often based on differences in national size and strength.

Apart from political differences, many other factors make for heterogeneity within the Asian region. On the economic side, there are marked differences in the level of development, and — at least in the short run — in the balance of payments position of the countries. There are also important contrasts in the fields of linguistics, anthropology and religion.

Because of the above-mentioned obstacles and the short period of time which has elapsed since co-operation first came under study, no attempts have been made so far to achieve thoroughgoing regional economic co-operation, co-ordination, or integration. The few plans that have been formulated are only sub-regional in extent, and they aim, not at integration, but at the creation of a free-trade area, a commodity common market, or an even lesser objective. These plans will be reviewed briefly.

The most concrete possibilities for economic co-operation probably exist with regard to those countries that — in one way or another — form part of the Commonwealth of Nations, i.e., India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo, Brunei, Sarawak, and Hong Kong. Products of these countries enjoy the Commonwealth preferential treatment in each other's markets. The former Commonwealth member Burma abolished these preferences in 1954. India is strongly in favor of increasing tariff preferences and of extending co-operation to other fields. Pakistan is opposed to this for both political and economic reasons; along with most of the other countries in the group, she is afraid of India's competitive power.

A group of smaller Commonwealth countries is aiming at co-operation within a geographically limited area. The plan extends to the so-called Greater Malaysia, comprising the Federation of Malaya, Singapore, North Borneo, Sarawak, and Brunei. Greater Malaysia is conceived of as basically a political association; economic co-ordination and integration would seem easier and more firmly based with such an arrangement than without it. The countries involved already have a common currency. The association should come into being during 1963, when the political status of Singapore (a Crown Colony with substantial self-government) is due to be reconsidered. In the meantime, Malaya and Singapore are discussing on what terms they might co-ordinate or integrate their economies.

The Federation of Malaya also participates in the Association of

Southeast Asia (ASA or ASAS), which was established in July 1961 and includes Thailand and the Philippines. The three governments have stressed that the organization is definitely nonpolitical. It aims at providing an exchange of data and other assistance in the field of economic development; activities are restricted to economic, cultural, technical, and administrative matters. Other Southeast Asian countries are welcome to join ASA. Indonesia, which has the most natural affinities for this group, is not likely to join because of the political orientation of the three present members.

Two more plans — if they deserve that name — may be mentioned. One is the Central Treaty Organization (CENTO), which includes the West Asian countries of Pakistan, Iran, and Turkey. The economic aspects of this co-operation are very limited in scope and subordinated to the military aspects. The other idea concerns the establishment of a Pacific Trade Area in which Australia and New Zealand would participate. This idea has been launched by Far Eastern exporters of manufactured products (Hong Kong and Japan) but it is unlikely to receive sympathetic consideration in Oceania's high-income countries.

In summary it may be said that the more developed a country is, the more it is likely to be in favor of close regional economic co-operation. Japan is, of course, the strongest nation in the area in many respects, and the less developed countries would like to keep her out of any regional arrangement. But if this were done, India would be economically the most powerful nation, a prospect which is generally regarded with disfavor. There are complaints in many parts of Southeast Asia about the high-handed attitude of Indian officials — a condition which is not conducive to better understanding and mutual co-operation. As, for obvious reasons, mainland China cannot be included in regional integration or co-ordination schemes, we are for the present left with the smaller countries of Southeast Asia as the ones most likely to engage in regional economic co-operation.

Achievements in the field of economic co-operation are still modest. On an incidental basis sub-regional co-operation has been realized in the Mekong River Project, in which Cambodia, Laos, Thailand, and Southern Viet-Nam are working in collaboration. More permanent and broader co-operation exists within the framework of ECAFE, especially the ECAFE Secretariat. Regional co-operation in the technical assistance field is welcomed by all countries; experts from Japan, Taiwan, India, and other nations are at work all over the region. Other in-

stances of regional co-operation are to be found in the study of planning methods and techniques, in a few activities in the transport sector, in regional geological studies, and in some other fields. These are only the first steps on the long road toward co-ordinated regional economic development. It is to be hoped that Asian political leaders and economists will have the wisdom and the courage to proceed farther along this road.

APPENDIX IV

Economic Development and Co-operation in Latin America

by Henri Rijken van Olst

IV.1 CHARACTERISTICS OF THE REGION: SCOPE OF THE DEVELOPMENT PROBLEM

Latin America comprises, in this text, all the countries of the Western Hemisphere to the south of the United States. The great majority of these countries obtained political independence about a century and a half ago and, until the beginning of the twentieth century, went through a slow process of economic development. This process has accelerated during the last two decades, notably in Brazil, Mexico, and Argentina; Venezuela's industrial achievement has also been remarkable, but somewhat onesided. Nevertheless, the area as a whole — and at least parts of each country — may be regarded as still in the process of development. Some of the poorest countries in the world, in terms of per capita national income, are to be found in the Latin American area, namely Bolivia, Paraguay, and Ecuador.

Among the factors responsible for the slow rate of economic growth in Latin America, the following deserve mention:

(i) the low density of population and the consequent scarcity of manpower, together with a lack of educational facilities;
(ii) the lack of adequate communication between countries;
(iii) the conservatism of large parts of the population, which is reflected in, among other things, outmoded production methods.

These points will be discussed below, with special emphasis on aspects which are typically Latin American.

(i) The area has for a long time been relatively thinly settled, with a concentration of population in the coastal districts and cities. Only in recent times has a movement toward the interior started — a most re-

markable and symbolic example being the transfer of the Brazilian capital to the interior of the country.

The population of Latin America is ethnically the most heterogeneous in the world. Latin American Indians, Negroes, white people and the descendants of various Asian peoples are in the process of merging into what will one day be a new "race." The "white" republics – Argentina, Uruguay, and Chile – may be an exception to this rule.

Human scarcity and human heterogeneity have for many years barred the way to an economic and industrial development comparable to that of Europe and North America. Both factors, however, are likely to lose significance in the course of the next forty years or so. The rapid rate of population growth in many Latin American countries – more than 2.5 per cent per annum in various instances, a rate which is among the highest in the world – will provide more workers in the future, although there is a danger of increased unemployment. The growing awareness in the world that no race can validly claim to be superior, and the growing economic and spiritual unity among population groups, will undoubtedly give Latin Americans greater confidence in their own abilities and lead to greater Latin American solidarity. The feeling of solidarity has been greatly enhanced by the work of the Economic Commission for Latin America, which has repeatedly pointed out the advantages of co-operation in the economic field.

These developments will, possibly with the help of experts from outside the region, lead to a higher standard of professional training for the working population, and to a greater degree of specialization in those activities which are best suited to the temperament of the people and the climate of the region.

(ii) Difficulties lie ahead because of certain geographic features of the continent. The Andes are a formidable barrier between the nations to the east and the west. There are practically no east-west roads or railways in Latin America. Moreover, part of the interior of the continent has not been explored and may even be impenetrable. Trade between the countries has always been very modest because of the lack of important buyer's markets, the lack of a variety of salable products, and the absence of adequate communications. The natural trade partners of Latin America have always been Europe and the United States. Until recently, trade has also been impeded by high protective tariffs on many

products in many countries and by the instability and heterogeneity of exchange rates.

The construction of new roads will have to be given a high priority in Latin America. Because roads are costly and not immediately remunerative, foreign investment aid on a large scale will be necessary and, as far as we can determine, very welcome.

(iii) In our opinion, the greatest obstacle to rapid economic development is the conservatism of parts of the population. This manifests itself in: outmoded inefficient production methods, especially in agriculture but also in manufacturing; the latifundium system of large land holdings in various areas, which leaves agricultural workers tied to the land with hardly sufficient means to subsist; and political systems which center around individual politicians, their families, and their interests rather than around well-organized political parties with clearly formulated programs. Stagnation in its various aspects decreases the incentive to work, at least in some of the countries in the area. There is sometimes more interest in acquiring political influence and getting rich quickly by playing the lottery than in undertaking entrepreneurial activities.

In this connection the efficiency of labor in the organs of the governments — ministries and state and municipal services — and in banks, commercial organizations, etc., should be considered. The degree of efficiency varies greatly from country to country and from service to service. On the whole, however, the level of labor productivity is unsatisfactory. This is partly a consequence of low wages, partly its cause. The government staff is often excessive and could easily be reduced to one-fifth or one-fourth, if the remaining force was adequately paid and actually present and working during office hours. One explanation for the large number of civil servants lies in the widespread custom of appointing to office the relatives of new presidents, ministers, and other officials, together with a prohibition on the discharge of officials appointed by prior administrations. This is one way of avoiding serious unemployment, but, as remarked before, it exacts a toll in the form of low labor productivity.

It is of course impossible to tell other peoples how they should organize their economic and political life. On the other hand, the governments of the less developed countries must realize that they will have to

take the initiative in doing away with certain undesirable practices. Otherwise part of the development assistance they require will go past their door to the more developed countries, where greater certainty exists that the funds made available will be used efficiently. In countries like Brazil and Mexico, which have already attained a relatively advanced stage of development, this is generally realized at the national level, though not always at the state or provincial level.

One way of helping the peoples concerned to break through the bonds of conservatism is to give them better information about what has been done in other countries — preferably not the most developed ones, but countries where similar difficulties have been conquered in the recent past (Italy, Mexico, Brazil, and India, for example). A liberal immigration policy is another way to bring in new ideas, as illustrated by the Brazilian experience.

IV.2 BRAZIL'S POSITION IN LATIN AMERICA

Brazil is unique among the countries in the area under consideration. Its size, its geographic location vis-à-vis Europe and Africa, its mentality, and its outlook are different from those of the other countries.

In the size of its population and in its natural resources, Brazil is the largest nation in Latin America. It lies nearest to the Old World, and has gone farthest in merging population elements of the Old World with those of the new. Consequently it has close cultural ties with both Europe and Africa, and economic ties with the United States. It is one of the most highly industrialized countries in the area; only Argentina and Mexico are on a par with it. Its population is sophisticated with a markedly more enterprising attitude toward economic affairs, and its government and business system works more efficiently than that of most of its neighbors. Furthermore, Brazil has demonstrated an ability to settle disputes without bloodshed, and to find in difficult situations solutions which are economically and politically optimum.

Brazil may be considered the leading nation of the Latin American world. Soon it will be able to play a part in assisting other less developed countries of the Western Hemisphere. Psychologically, it is better suited to this role than the European and North American nations, whose motives are sometimes questioned. Brazil is the natural link between Europe and the rest of Latin America and, according to some politicians, it may soon serve as an intermediary between Europe and

ca, as it has no "colonial past." Brazil's actions are already watched ely and attentively all over Latin America, and their consequences felt in many countries in this area. It is to be hoped that its present ıetary difficulties will soon be overcome.

3 THE STATE OF ECONOMIC PLANNING

ational economic plans exist in many Latin American countries. ĸico and Colombia perhaps have the most elaborate plans. In some ntries, however, the idea of planning has not yet taken root prop- ; only lip service is paid to it. Most plans are detailed plans drawn by government services, aiming at either the development of certain ons or the development of certain economic activities. Balanced, in- ıally consistent, national plans with priorities for detailed projects being worked out, but often without adequate provision for their ɔlementation. An example concerns plans for the redistribution of d, generally known as "agrarian reform." Although open opposition ıuch plans is not strong, leading government officials — often them- ves the owners of huge tracts of land — do not always actually sup- t them, and occasionally countermand them, even when they repre- t official policy.

There is a need for more and better houses and roads practically rywhere in the region. But there is opposition to allotting high orities to housing and roadbuilding plans, since both will accentuate pronounced movement of population from rural districts to the at cities. This movement has already led to a shortage of labor in icultural districts and to unemployment in the cities. For the same ıson, it is often urged that new industrial plants be erected in rural tricts.

The main theme of all types of economic plans, whether scientific or rely political, is the need for more rapid industrialization. The conse- ent increase in national debt does not seem to worry many industrial- s, who count on a continued inflationary movement to reduce the bt burden. The opinion is often expressed that rapid industrializa- ɔn will be impossible without some measure of inflation.

Planning bureaus are poorly organized and their authority is in any cases weak. Thus they usually have a short life. One Latin merican country already has its fourth planning bureau. The value of well-organized planning bureau is seldom fully recognized.

In several countries, it is openly admitted that planning bureaus are simply a means to obtain foreign credits. On the other hand, one must appreciate the difficulty of economic planning in countries where an interest rate of 25 to 30 per cent is considered normal because of persistent inflationary trends, and where reliable economic statistics are largely lacking.

IV.4 REGIONAL CO-OPERATION

Latin America has surpassed all other areas except Europe in regional co-operation. Owing, among other things, to the great number of studies on the subject undertaken by the Economic Commission for Latin America, the idea of co-operation has taken firm root in the minds of economists and political leaders. There is some skepticism, however, about the practical outcome of the plans which have recently been formulated and about the length of time needed for their execution. The skeptics generally point out that Latin America has small buyer's markets and that internal land communications are inadequate; they also mention the old spirit of distrust among neighbors. We have the impression, nevertheless, that the positive aspects of economic co-operation are being recognized more and more, and that the optimistic view of the future economic possibilities of the region predominates. This is most true in the countries that have the greatest interest in the free-trade area recently set up. These are the more industrially developed countries: Mexico, Brazil, and Argentina.

Psychologically, Latin America is at present more ready and fit for economic co-operation than Africa or Asia. Because it has known political independence for a longer time than most African and Asian countries, sovereign rights are not so strongly insisted upon; this may materially facilitate the economic integration movement.

Another factor which makes for a more favorable climate for regional co-operation is the fact that only two languages are spoken in Latin America: Spanish and Portuguese.

Regional co-operation will provide a partial solution to the balance of payments difficulties of many Latin American countries. By establishing new industries, which will operate on a continental scale, import needs can certainly be decreased. The advantages of a further division of labor among countries and of a co-ordination of complementary activities are now clear to leading Latin Americans. This refers espe-

cially to machinery and other manufactured goods. It will be more difficult to bring about international agreements on specialization with regard to those lines of production where vested interests already exist. It seems advisable, therefore, to start the co-ordination movement in new lines of production. When the geographic location of new industries is determined, not only economic but also social factors, such as unemployment and low standards of living, should be taken into account.

The earliest steps toward integration took place during the fifties among the five Central American republics: Guatemala, San Salvador, Honduras, Nicaragua, and Costa Rica. This integration movement apparently has not been a complete success, although a number of agreements concerning a common trade policy have been arrived at. Its main importance, according to several specialists, lies in the fact that it brought the idea of economic integration to the attention of Latin Americans. In any event, the relatively small size of the five republics did not allow for an important integration movement. We will therefore concentrate our attention on the more recent and more significant form of co-operation prescribed in the so-called Montevideo Treaty.

On February 18, 1960 seven Latin American countries — Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay — signed a multilateral treaty, the Treaty of Montevideo, in order to establish a Free Trade Zone and to initiate the Latin American Free Trade Association (LAFTA). This treaty expresses[1] the belief that the widening of the markets resulting from the liberalization of trade between the member countries would stimulate a better utilization of the available factors of production and permit the initiation of new enterprises; increased returns on investments and the growth of employment opportunities are also expected to follow. However, taking into account the existing differences between the economies of the participating countries in structure and rate of development, the liberalization program of the Zone had to be elaborated on a flexible basis. During the preparation of the program it was emphasized that:

(i) the liberalization process should be gradual;
(ii) the concessions should be reciprocal;
(iii) relations between the countries should be based on the uncon-

1. Some of the remarks following have been taken from *La Asociación Latinoamericana de Libre Comercio, Tratado de Montevideo,* Buenos Aires, 1961.

ditional and unlimited extension of the advantages accorded the most favored nation.

Other clauses have been added; some relate to the expansion and diversification of interchanges, while others grant preferences to countries with a relatively low degree of economic development.

Once the Zone is well established, an effort will be made to satisfy other basic objectives of the Treaty, namely to increase the area's trade with other Latin American countries and with the rest of the world, for example, by the elimination of tariff barriers. The Treaty aims to integrate the economies of the participating nations. It is possible that the remaining Latin American countries will someday be incorporated.[2]

The Treaty provides for the elimination of the obstacles to mutual trade by means of annual negotiations over the course of twelve years. As far as annual negotiations on the reduction of import duties are concerned, the rule is that, in order to obtain advantages for its exports in the other countries of the Zone, each country must grant equivalent tax exemptions to importers.

The most-favored-nation clause will simplify the annual negotiations within the Zone, because these can be carried on between pairs of countries – namely those most directly interested in the trade of each product – and the results will automatically apply to the other members of the Association.

The negotiators aim at setting up two lists of goods: a National List, which for every country contains the products on which it has granted import concessions to some members, and a Common List, naming the products which, according to an agreement among all contracting parties, will be totally free of trade restraints at the end of a period of twelve years.

IV.5 LATIN AMERICA'S INTERCONTINENTAL TRADE RELATIONS

Roughly 10 per cent of Latin America's trade is internal; the rest consists mainly of trade with the United States and Western Europe. However, Latin America's trade with Europe has decreased significantly since the Second World War.

2. Other Latin American nations have already joined the Association.

The main export products are coffee, bananas, cocoa, wool, meat, oil, sugar, and copper. As is well known, several countries in the region depend on the export of a very small number of primary products, in some instances only foodstuffs. Because supplies and prices of these export products fluctuate widely, while the prices of imported goods, e.g., manufactures and machinery, remain relatively stable, many Latin American countries periodically or even permanently find themselves in balance of payments difficulties. Trade barriers, especially in Western Europe, are also a cause for concern.

The situation in regard to many export products – not all – is as follows: the United States market is considered to be saturated (e.g., the coffee market); the Western European market, on the other hand, could – in the opinion of Latin American experts – be expanded considerably, were it not for high import duties, quantitative restrictions on imports, and internal taxes. The opening of the European market, that is, the removal of the trade barriers mentioned, is considered of paramount importance, especially because a decrease in export opportunities in Europe is envisaged in the immediate future. EEC's preferential treatment of associated territories (mainly the former French colonies in Africa), where dangerous competition with respect to coffee, cocoa, etc., could develop, and the possible entry of the United Kingdom into EEC, give rise to great concern. Argentine and Uruguayan meat exporters are especially fearful of competition if the continental European preferential system should be extended to Commonwealth countries, such as Australia and New Zealand.

Latin Americans generally feel that Western Europe discriminates against their exports. Also, the United States is accused of discriminating against Latin American exports of cotton, sugar, wool, meat, nonferrous metals, etc., in favor of home producers.

These attitudes contain an element of truth, although it should be pointed out that some Latin American countries that complain of discrimination levy export duties on the goods concerned. Even if more facilities for meat imports into Europe were granted, the complaining meat exporters would not in the short run be able to make more meat available, for a considerable part of the Latin American supply is consumed at home. Another example of Latin America's inconsistent trade policy is the fact that there are prohibitions on the export of certain products for which export markets were built up earlier, the reason be-

ing the fear that increased exports would lead to higher prices on the home market, with ensuing social unrest. Such fears are usually not justified by the importance of these products for the home market.

The predominating attitude toward European economic integration is one of fear and distrust; the unfairness of leaving Latin America "out in the cold" is repeatedly pointed out. This view is partly based on the fact that no European producer's interests, but only Treasury interests, are directly involved in high tariffs and taxes on tropical foodstuffs such as coffee, cocoa, and bananas. Latin Americans also resent the fact that some European countries lower import duties (by agreement, in the framework of GATT) while at the same time they increase internal taxes on the same product. The formation of the Latin American Free Trade Association must be regarded chiefly as a defensive measure against a future strong and protective European economic bloc. Europeans are often reproached for not realizing that Latin America can import more from Europe only if it is allowed to export more. It is of course true that Latin America's intricate system of import permits and its high import duties do not contribute to better trade relations, but if Europe, as the stronger trade partner, does not take the initiative in breaking this vicious circle, it will, in the opinion of many experts, never be broken. In general, little attention is paid by Latin Americans to the positive aspects of European integration, such as the increased demand for their products which may follow the raising of the European standard of living. There seems to be no definite and unanimous opinion as to the probable future effects of European and Latin American economic integration on the prices of imports and exports.

Bilateral trade agreements with European partners are preferred to multilateral ones at the moment, because they offer greater assurances of export advantages, assuming that import concessions are given in return.

Practically all the Latin American experts consulted insisted on the speedy lowering or removal of European trade barriers. They pointed out that if this were not done either their economies would stagnate or they would have to increase their trade with Communist countries. The latter are ready to export the needed capital goods and to import almost any surplus. A move to new lines of production, involving as it does the retraining of workers and the writing off of existing investments along with the making of new ones, is generally considered to be impossible in the short run, taking into account the conservative atmos-

phere mentioned earlier. In Brazil this possibility is regarded with more optimism, doubtless because Brazil has already achieved remarkable progress in its industrialization. However, retraining should be considered as a solution in other Latin American countries also; practically all countries have light consumer goods industries, which could easily be expanded.

In connection with the important place of certain primary products and tropical foodstuffs in Latin America's exports and their influence on the balance of payments position of many countries in the region, international agreements aimed at stabilizing the prices of these products are considered necessary and urgent. Such agreements should be effected between the main producing and consuming nations and should include, if possible, some regulation of production.

IV.6 FINANCIAL AND TECHNICAL ASSISTANCE

More financial assistance is unanimously regarded as essential to the steady and continued economic growth of the region. Capital is, in general, even scarcer than labor. Experience in the more industrialized countries of the region has shown that the training of workmen in the technical skills necessary to the development of new lines of production can easily be kept in step with any new investments which may be made. The labor shortage is not serious except in highly specialized technical jobs and in fields such as business economics, industrial efficiency and organization, and finance. The need of assistance in these specialized fields, especially the technical one, is recognized, and experts from more developed parts of the world are welcome.

Training programs in the Latin American countries should, of course, be continued and expanded in many fields. There is no reason to fear a lack of interest on the part of the Latin American trainees. On the contrary, it is well understood that the social unrest which exists in many areas can best be counteracted by providing work for everyone.

There are a number of factors in the Latin American region which might easily deter new foreign investments or foreign expert assistance. Foreign investors fear the possibility of nationalization and the losses connected with it. This fear is not always justified and it does not apply generally. But the recent Cuban and the earlier Mexican experience in this respect, the lack of information concerning future government policies, and the instability of certain Latin American regimes, together

with the availability of excellent investment opportunities in the more developed parts of the world, tend to direct investments away from Latin America. It should be noted that the probabilities of nationalization are greatly reduced if investments are made in "joint ventures," i.e., ventures in which local capital is also involved. Nationalization of such enterprises would injure a country's own investors.

Joint ventures are desirable psychologically, for they are looked upon as "national" enterprises. It is considered good policy to grant the inhabitants of the assisted countries the right to buy the shares in foreign hands at some future date. It is also deemed desirable to require foreign investors to reinvest their profits in the same or other enterprises of the assisted nation. In some countries this obligation exists.

Joint ventures are the best solution for enterprises which are of primary importance to the government (road, rail, and air communications, electricity, water, and telephone installations, certain types of heavy industry like armaments, etc.) but which are too expensive to be financed by purely local capital. It is often remarked that the less developed countries are not in a position to furnish part of the capital in joint ventures. It is just as often observed, however, that many Latin Americans who possess the necessary means prefer to invest in the United States or Europe instead of in their own country, because of fear of nationalization, lack of confidence in domestic economic policy, and political uncertainties.

The inefficiency of many public administrations, the corruption in some services, the network of regulations and red tape, the prohibitive import restrictions, the time and money involved in getting imports cleared by customs authorities, the low productivity of the protected industries, the persistent inflation, and until recently the multiple exchange rates, are factors which have discouraged foreign capitalists from investing in Latin America.

Partly because of the above considerations, more is expected in Latin America from private initiative in financial (investment) operations than from government initiative.

As regards foreign technical assistance, the instability of the local currencies and the comparatively low level of salaries have certainly made many experts refrain from offering their services. Payment in dollars or sterling also has its drawbacks. If the monetary unit of the country receiving assistance is decreasing in value — as is usually the case — paying outside experts in a key foreign currency will be in-

creasingly costly and will make for an increasing discrepancy in the receipts of nationals and foreigners who hold comparable positions. This is not the best kind of co-operation imaginable.

Many Latin Americans pointed out the desirability of having private European study groups travel in the area and report on the most desirable method of conducting practical trade policy. The work of such teams should be financed by foreign businesses. The same idea was put forward with regard to information concerning the practical execution of economic and social policy in Europe. In this way, the repercussions of each trade partner's decisions on the other partner's economy could be studied more fully and the European and Latin American nations would better understand each other's motives and needs. In Latin America almost the only knowledge concerning social policies and their practical application comes from Communist countries. Why, many Latin Americans ask, is it impossible for them to study economics, sociology, and political science at the university level in Europe? The number of Latin Americans studying at universities behind the iron curtain runs into the thousands or tens of thousands. Many Latin Americans now visit universities in the United States, but their number is still too small and there is a danger that their competence will decrease after their return to their own country because of a lack of informed compatriots.

The five desiderata regarding technical assistance mentioned in Appendix III on Southeast Asia (p. 236) apply equally well to Latin America.

It should perhaps be emphasized at this point that, although foreign capital and technical aid is welcome in Latin America, the preference is for more trade. Most Latin American countries feel that if greater trading opportunities were open to them, they could take care of most of their capital needs themselves. President Kennedy's Alliance for Progress program, submitted at a meeting at Punta del Este, Uruguay, in August 1961, should be judged in the light of this last remark. Hopeful as many Latin American countries may be concerning the assistance they will be given, they fully realize the importance of self-help and have expressed the wish that the avenues open to them could be broadened, especially by means of a more liberal trade policy on the part of the rest of the world.

APPENDIX V

Capital Invested by Mother Countries in Colonies, and Rates of Return on Capital

V.1 BRITISH INVESTMENT IN INDIA, 1900–1914

According to S. Y. Pandit the net capital flow from the London capital market to India amounted to 1,500 million rupees during the period 1900 to 1914. M. Mukherjee has estimated Indian per capita income at 203 rupees on the average for the period 1901–1909, and at 220 rupees for the years 1906–1914, both expressed in prices of 1948–49. We may therefore take 210 rupees (in 1948–49 prices) as the average per capita income for the period 1900–1914. Mukherjee also gives a price index on the basis of 1948–49, which stands at 22.5 for the period under consideration. Thus, annual per capita income for 1900 to 1914 can be put at 47 rupees in current prices. Using G. F. Shirras' population estimates (1901, 223.5 million; 1911, 242.7 million; 1921, 247.0 million), it is assumed that the Indian population during 1900–1914 numbered on the average 235 million. Average annual national income may then be computed at 11,000 million rupees. Comparing this figure with the annual net capital inflow from Britain (100 million rupees), we find that during the years 1900 to 1914 net capital inflow from Great Britain amounted to 0.9 per cent of Indian national income.

The above figure of S. Y. Pandit excludes reinvestments, about which no direct information is available. We will try to estimate the order of magnitude of this variable by two different methods. In both cases it is assumed that virtually all income from investments was reinvested in India.

According to C. K. Hobson, British income from foreign investments was £101 million in the fiscal year 1910–11. H. Feis estimated that of total British overseas investment at the end of 1913, 10 per cent was located in India (including Ceylon). If this ratio is applied to £101

million — even though the years of reference are different — we get £10 million as a rough estimate of British annual income from investment in India at that time.

As an alternative way of estimating income from investment, we may take the rate of return on capital as our starting point. According to estimates made by Sir George Paish (quoted by Sir Robert Kindersley in an article in the *Economic Journal*), in the year 1907–08 the return on securities issued by dominion and colonial governments was 3.6 per cent, and that on investments in Indian railways was 3.9 per cent. In the same year, British investments in dominion and colonial government securities amounted to £531.5 million. Of all investments in securities publicly issued in the British Empire, India (including Ceylon) accounted for 21.1 per cent. British income from investment in securities issued by the Indian government may therefore be estimated at (0.211 x £531.5 x 0.036 =) £4 million. As to investments in Indian railways, Feis gave a figure of £140.8 million, referring to the end of 1913. Applying the rate of return of 3.9 per cent to this amount, we arrive at an annual income of £5.5 million. Total income from public securities and railways amounts thus to £9.5 million. As only minor amounts of capital were otherwise invested, this approach leads to about the same figure for annual income from investments in India as the first approach, i.e., about £10 million.

On the assumption that all income earned on investments was reinvested in India, we may conclude that annual reinvestments were of an order of magnitude of £10 million or 100 million rupees in the period 1900–1914. This amount is the same as that of new investments, and may again be put at about 1 per cent of Indian national income. It is obvious from the above calculation that this figure of 1 per cent is far from accurate. It indicates, nevertheless, the order of magnitude of the capital flow between Great Britain and India during the first decade or so of the present century.

SOURCES

H. Feis, *Europe, the World's Banker 1870–1914,* New Haven, 1930, pp. 23, 27.
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V.2 DUTCH CAPITAL INVESTED IN INDONESIA, 1938

The total stock of Dutch capital invested in Indonesia in 1938 has been estimated by J. B. D. Derksen at about 4 billion guilders. A crude estimate of total Dutch wealth in 1938 was made by the same author; he puts this figure at 20 to 25 billion guilders. Hence his statement that about one-sixth of the Dutch national wealth was invested in Indonesia immediately before the outbreak of World War II. At the same time one-sixth of the Dutch national income was earned from ties with Indonesia. The importance of Dutch capital in relation to Indonesia's total material wealth is even more difficult to estimate. Indonesian national income was calculated by J. J. Polak for the period 1921–1939; his 1938 estimate amounts to 2.8 billion guilders. National income figures for Indonesia show large fluctuations because of changes in the prices of the raw materials exported. Since 1938 prices were substantially below the average or normal level, valuing national income in current prices has a depressing effect on this variable. These considerations do not apply to the above-mentioned valuation of capital stock, which is based on the price of the level of the past. In order to make a comparison between national income and capital stock, we have to correct the national income figure for price differences.

As we said, Indonesian national income in 1938 valued in current prices totaled 2.8 billion guilders; valued in 1929 prices it totaled 5.6 billion guilders, or exactly twice as much. Obviously, 1929 prices were abnormally high and should not be considered as indicative of the "average price level of the past" on which the capital stock estimate is based. We will assume for our purposes that Indonesian national income in 1938, when valued at "average" or "normal" prices, was 4.0 to 4.5 billion guilders.

To obtain a very rough estimate of the total material wealth of Indonesia in 1938 we may convert the national income figure into a capital stock figure by multiplying it by an over-all capital-output ratio. Roughly again, this ratio may be put at 3 to 3.5 in view of the fact

that agriculture and basic facilities (infrastructure) were the most important sectors in the Indonesian economy in 1938. Multiplying the above national income estimates by 3 to 3.5, we arrive at a figure for total capital stock in 1938 of 12 to 16 billion guilders.

As the total value of Dutch investment in Indonesia was estimated at 4 billion guilders, we may conclude tentatively that in 1938 Dutch capital invested in Indonesia constituted one-third to one-fourth of Indonesia's total capital stock.

SOURCES

J. B. D. Derksen, "De economische betekenis van Nederlandsch-Indië voor Nederland met cijfers en statistieken toegelicht," *Hecht verbonden in lief en leed,* ed. by W. H. van Helsdingen and H. Hoogenberk, Elsevier, Amsterdam, 1946, pp. 360 ff.

J. J. Polak, *The National Income of the Netherlands Indies 1921–1939,* New York, 1943 (mimeographed).

J. J. Polak, "Het nationale inkomen van Nederlandsch-Indië, 1921–1939," *Statistische en Econometrische Onderzoekingen van het Centraal Bureau voor de Statistiek,* W. de Haan, Utrecht, September 1947, pp. 104 ff.

V.3 RATE OF RETURN ON INVESTMENT— UNITED KINGDOM AND COLONIES COMPARED

In Chapter 2 the rate of return on "colonial" capital is compared with the rate of return on capital invested in the United Kingdom. The tabulation given in Chapter 2 is reproduced below.

Interest on Bonds

	United Kingdom	*Colonies*
1870–80		
Government	3.8	4.4
Railways	5.3	6.3
1900–09	3.4	3.6
1921–30	4.5	5.3

The figures are not comparable through time, as the type of investment is not exactly the same for all periods. A short description of the type of securities involved follows.

1870–1880. The figures for the colonies are calculated as the ratio between the total annual yield and the market value of investments in government bonds and in securities of Indian railways. The corres-

ponding figures for the United Kingdom represent the average yield on Consols and on a representative holding of British railways debentures.

SOURCE: A. K. Cairncross, "Did Foreign Investment Pay?," *Review of Economic Studies,* October 1935.

1900–1909. The figures show the average return (including yield on redemption) offered by certain groups of borrowers in the United Kingdom and in the colonies.

SOURCE: C. K. Hobson, *The Export of Capital,* London, 1914, p. 204.

1921–1930. These figures represent the average yield on UK Consols and the average price of new dominion and colonial public borrowing.

SOURCE: Royal Institute of International Affairs, *The Problem of International Investment,* Oxford, 1937, p. 135.

V.4 RATE OF RETURN ON INVESTMENT—THE NETHERLANDS AND THE NETHERLANDS EAST INDIES COMPARED

A comparison similar to that made between British colonial and home investment returns can be made between the rate of return on capital in the Netherlands East Indies and that in the Netherlands. In Chapter 2 the following table is given:

Rate of Return on Shares

	Netherlands	*Netherlands East Indies*
1900–12	5.7	6.5
1922–29	4.0	7.5
1930–37	3.0	3.2

Again, the figures have to be used carefully. All rates of return have been calculated as follows. The dividends per share paid out in a given year by an enterprise were divided by the average value of the share during that particular year and expressed in percentage form; the average value of the share was computed as the arithmetic average of the highest and the lowest value of the share during the year. These rates of return were determined for a representative number of enterprises in the Netherlands and in the (former) Netherlands East Indies and then an (unweighted) arithmetic average was computed for each

group. Finally, arithmetic averages of the yearly figures were calculated for the three separate periods indicated in the table.

Although the procedure just outlined is not the most precise and painstaking one imaginable, the figures have no systematic bias with respect to either of the two countries compared. They may safely be used to determine the order of magnitude of the difference in rates of return on capital in the metropolitan country and the colony.

SOURCE: J. Tinbergen and J. J. J. Dalmulder, "De factoren welke het koersverloop van aandelen bepalen," *De Nederlandsche Conjunctuur,* August 1939, pp. 111 ff.

APPENDIX VI

An Analysis of World Trade Flows

VI.1 AIM AND NATURE OF THE ANALYSIS

The purpose of the present analysis is to determine the normal or standard pattern of international trade that would prevail in the absence of discriminating trade impediments. We assume that this pattern coincides with the "average" pattern actually prevailing; this means that we assume the impediments to be of a stochastic nature. We will statistically determine the basic factors governing the volume of trade between any pair of countries; with this information at hand we shall be able to determine what foreign trade volume may be expected for a great number of individual countries. A comparison of the actual trade volume with the volume expected on theoretical grounds may show discrepancies indicating that a country's exports are either receiving preferential treatment in importing countries (in case of a positive deviation) or being discriminated against (in case of a negative deviation). The significance of the deviation between actual and calculated trade depends on the accuracy and reliability of the theoretical values of the trade volume as estimated with the help of econometric methods. The better the standardized pattern of international trade describes reality, the more significant are the individual exceptions or deviations from the normalized empirical trade pattern. It is precisely these deviations that we are interested in. The purpose of this econometric exercise is to find out which countries show substantial negative deviations, for these would be indicative of the existence of special barriers and obstacles to the optimum flow of international trade.

An economic model describing international trade flows can be formulated in varying degrees of detail. The present model is a very simple one, having only that aspect which is relevant to the aim of this study, i.e., the deviations from the normalized trade pattern. It consists

of only one equation in which the value of total exports from one country to another is explained by a small number of variables. The explanatory variables that play a preponderant role are:

(i) the Gross National Product (GNP) of the exporting country;
(ii) the GNP of the importing country; and
(iii) the distance between the two countries.

In several calculations other explanatory variables were introduced; however, their contribution to an explanation of the value of exports was very limited as compared to that of the three main variables. Other important characteristics of the present analysis are that:

(i) no separate demand and supply functions for exports are introduced — meaning that the equation is a turnover relation in which prices are not specified; and
(ii) only a static analysis is made — no attention is paid to the development of exports over time.

It is obvious that the model could be elaborated considerably so as to give more attention to other aspects of world trade.[1] However, for the purpose of this book a simplified model will suffice.

VI.2 THE FLOW OF TRADE BETWEEN TWO COUNTRIES

The main factors that determine the size of the trade flow between any pair of countries have been mentioned above. Their relevance is as follows:

(i) the amount of exports a country is able to supply depends on its economic size (i.e., its GNP);
(ii) the amount that can be sold to a particular country will vary with the size of that country's market (i.e., the GNP of the importing country); and
(iii) the volume of trade will depend on transportation costs (these are assumed to correspond roughly with the geographic distance between the two countries).

The factor of distance may also stand for an index of information about export markets. It will be clear that distance — in contrast to the other two factors — has a negative influence on trade flows.

1. The analysis described in this appendix forms part of a larger study of world trade flows which is presently being undertaken at the Netherlands Economic Institute. A report on this study is to be published later.

The trade flow equation can be written, in its simplest form, as follows:

$$E_{ij} = a_0 \, Y_i^{a_1} Y_j^{a_2} D_{ij}^{a_3} \qquad (1)$$

The meaning of the symbols used is:

E_{ij} = exports of country i to country j
Y_i = GNP of country i
Y_j = GNP of country j
D_{ij} = distance between country i and country j

The exponents a_1, a_2, and a_3 indicate that there is not necessarily direct proportionality between the explanatory variables (Y_i, Y_j, and D_{ij}) and the variable to be explained (E_{ij}). Such proportionality would exist only if the a's are all equal to 1. The factor a_0 is a constant; the numerical value of the constant depends on the units in which the variables are measured.

The equation implies that exports have a constant elasticity with respect to each of the three explanatory variables; this means that a 1 per cent increase in the GNP of country j always results in an increase of a_2 per cent in the exports of the supplying country i.

Equation 1 was used to calculate the "normal" or "standardized" flow of trade between countries. Before normal trade flows could be calculated, the numerical values of the four a's had to be estimated. This was done on the basis of actual trade flows, the underlying assumption being that the actual trade of most countries does not substantially diverge from the normal or standard pattern and volume of trade. Of course, a number of important divergencies can be expected in reality, but it is the aim of this study to trace these divergencies. It is assumed that the individual deviations from the normal pattern are relatively few in number, so that the actual trade flows follow the usual or standard pattern closely. As national trade statistics do not disclose the export and import of services on a country-by-country basis, the analysis had to be confined to commodity trade flows. In section VI.5 the total inflow or outflow of services will be introduced in the interpretation of the results.

The hypothesis that the three explanatory variables are the most relevant ones was tested first for a limited number of countries of similar economic structure. From data on the 1958 exports of 18 countries — mainly the more developed ones (see Table VI–2) — the unknown

values of the a's were estimated by least squares regression analysis. Equation (1) was rewritten for this purpose as:

$$\log E_{ij} = a_1 \log Y_i + a_2 \log Y_j + a_3 \log D_{ij} + a'_o \qquad (1')$$

in which

$$a'_o = \log a_o \quad \text{or} \quad a_o = 10^{a'_o}$$

Exports were expressed in $100 million, GNP in $10 billion, and distance (measured between the commercial centers of the countries involved) in 1,000 nautical miles.[2] The values of the a coefficients were fitted to 306 (18 x 17) sets of observations by the method of least squares. The results of the calculation (calculation A–1) are given in Table VI–1; the correlation coefficient was 0.82 – a figure high enough to encourage further research along these lines. The deviations of actual trade from the calculated trade volume (the "residuals," in technical terminology) are given in Table VI–2.

The figures for the export values used in calculation A–1 were taken from the export statistics of the country of origin. An alternative (and sometimes more reliable) source of information about international trade flows is the import statistics of the country of destination. In calculation A–2 export figures derived from import statistics were taken as the variable to be explained; the other variables had the same values as in the first calculation. The results of calculation A–2 turned out to be not much different from those of A–1, although the correlation coefficient was slightly lower (see Table VI–1). In all subsequent calculations trade figures were taken from export statistics.

A final exercise undertaken with the data from 18 countries was the introduction of additional explanatory variables. Apart from purely economic variables it is likely that political or semi-economic factors play a part in determining the volume of trade between countries. We considered the existence of special trade agreements as the most outstanding of these additional factors. The importance of such special ties was estimated by the introduction of a so-called dummy variable for the British Commonwealth preference. Where the trade flow analyzed concerned two members of the Commonwealth, a certain positive value was given to the dummy variable to indicate that the goods traded received preferential treatment in the importing country; where the two countries were not members of the Commonwealth, the variable had a

2. 1 nautical mile = 1,852.27 meters or 1.15 land miles.

zero value — no preferential treatment. The Benelux preference was represented by another dummy variable; this variable was given a zero value in all cases except for trade flows between Belgium (actually the Belgium-Luxembourg Economic Union) and the Netherlands.

A third variable was introduced for adjacent or neighboring countries. The results of calculations A–1 and A–2 seemed to indicate that adjacent countries have more intense trade contacts than can be explained by (short) distance alone. Again, the variable was given a positive value in the case of neighboring countries and a zero value in all other cases.[3]

With the three additional variables introduced, the trade flow equation reads:

$$E_{ij} = a_o \, Y_i^{a_1} Y_j^{a_2} D_{ij}^{a_3} N^{a_4} P_C^{a_5} P_B^{a_6} \qquad (2)$$

or

$$\log E_{ij} = a_1 \log Y_i + a_2 \log Y_j + a_3 \log D_{ij} + a_4 \log N + a_5 \log P_C + a_6 \log P_B + a'_o \qquad (2')$$

in which:

N = dummy variable for neighboring countries

P_C = dummy variable for Commonwealth preference

P_B = dummy variable for Benelux preference

The calculation of the multiple correlation between the export values and the six explanatory variables led to the results shown in Table VI–1 (calculation A–3). Surprisingly enough, the introduction of three additional variables increased the correlation coefficient to 0.84 only. Although the algebraic signs of the regression coefficients of the three variables were all positive, as they should be, two of the three coefficients did not differ significantly from zero at the 99.7 per cent probability level. Only the dummy variable representing the Commonwealth preference made a statistically significant contribution to the explanation of the export flow. This illustrates again the dominant role played by the first three variables, exporters' and importers' GNP and distance. The coefficients of these variables were almost the same in calculations A–1 and A–3. Table VI–3 gives the deviations between actual and theoretically expected trade volume.

3. It is, in principle, irrelevant what value (other than zero) is given to a dummy variable to express the fact that a special tie or situation exists, as the choice of this value influences only the size of the coefficient (a), but not the correlation coefficient or the residuals. In all cases where the dummy variables mentioned in the text had to differ from zero, the value 1 (in logs) or 10 (in antilogs) was assigned to them.

VI.3 ANALYSIS OF INTERNATIONAL TRADE FLOWS FOR 42 COUNTRIES

The results obtained from the study of data from 18 countries encouraged further research. The number of countries included in the analysis was enlarged to 42. The mutual export trade of these 42 countries amounted to about 70 per cent of total world trade in 1959, the year to which the following calculations refer.

After the discussion in the preceding section, a brief description will be sufficient to explain the procedure followed in the 42-country analysis. First of all, the coefficients of equation (1′) were estimated from 1,722 (42 x 41) sets of observations (calculation B–1; see Table VI–4). In calculation B–2 a fourth explanatory variable was introduced, namely a dummy variable for neighboring countries (with the value, in logarithms, of either 1 or 0). In this case the trade flow equation is:

$$E_{ij} = a_0 Y_i^{a_1} Y_j^{a_2} D_{ij}^{a_3} N^{a_4} \qquad (3)$$

and the corresponding equation in logarithms is:

$$\log E_{ij} = a_1 \log Y_i + a_2 \log Y_j + a_3 \log D_{ij} + a_4 \log N + a_0' \qquad (3')$$

The correlation coefficient was only slightly higher than in calculation A–1.

Thus far all computations were made on the basis of GNP figures converted into US dollars but calculated in national prices. As the dollar exchange rates of most countries do not adequately reflect the differences in domestic buying power between the dollar and the national currency, these GNP figures may not be the best yardstick of a country's export potential, or its import market. On the other hand, they may well be a prime indicator of a country's buying power on international markets. Although it is hard to arrive at firm conclusions as to the merits and demerits of GNP figures based on domestic prices, it seemed worth while to experiment with GNP figures corrected for differences in price level. Thus calculation B–3 was performed; this was completely similar to B–2 except that GNP figures based on US prices were used instead of nominal GNP data. Judged by the correlation coefficient that was found, B–3 was not an improvement over previous computations (see Table VI–4).

In a fourth calculation using the 42-country data another explanatory variable was added to the ones already mentioned. This fifth variable was a dummy variable, standing for all preferential trade relations. It was given a value of 2 in logarithms (or 100 in antilogarithms) for the

trade flows between the United Kingdom and a Commonwealth partner, and for trade flows between a metropolitan country and its (former) colony or colonies. It was given a value of zero for all trade flows without preferential treatment. In a number of cases the value 1 was given to the dummy variable, expressing the existence of a semi-preferential trade relation. This applied – in 1959 – to the trade of the United States with Cuba, the Philippines, or Venezuela; it also applied to trade among the EEC countries. The results of calculation B–4 are given in Table VI–4.

The same table also includes the estimates obtained in a fifth calculation, (B–5). Here GNP was measured in US prices rather than domestic prices. Also, the value given to the dummy variable representing preferential treatment of imports was different in the case of the so-called semi-preferential trade relations (the EEC countries; the US and Cuba, the Philippines, or Venezuela); in calculation B–5 the value 1.53 in logs (which corresponds to 34 in antilogs) was used. The two extreme values of the dummy variable, 2 and 0 (both in logs), were not changed.

Altogether five calculations (B–1 to B–5, inclusive) were made using the data from 42 countries; the coefficients resulting from the calculations are given in Table VI–4. For each calculation the dollar difference between the actual trade flow and the standardized trade flow – as estimated with the help of the regression equation – was computed separately for each country included in the analysis. These deviations – which may, of course, be either positive or negative – were then expressed as a percentage of the actual (1959) foreign trade figures. The absolute and the relative deviations of the export values and of the import values are shown in Tables VI–5 to VI–9. Table VI–10 compares the deviations resulting from calculation B–1 with figures on the service trade of the countries concerned. The conclusions to be drawn from Tables VI–5 to VI–10 will be discussed in section VI.5.

As a final exercise we introduced still another explanatory variable. It was thought that the trade flows of a country that specialized in exporting a small number of products might well differ in size from those of a country with a more diversified export structure. The degree of commodity concentration in exports can be measured in various ways; here the so-called Gini coefficient of concentration was used.[4] If a country exports only one commodity, the value of the Gini index is 100; the

4. See M. Michaely, "Concentration of Exports and Imports: An International Comparison," *Economic Journal,* December 1958, pp. 722 ff.

more diversified the export package is, the lower is the value of this index. Because of the requirement of comparability, the Gini coefficient could be computed only for those countries that base their export statistics on the three-digit SITC code. This procedure was possible for only 28 of the 42 countries.

From the trade data of these 28 countries — listed in Table VI–12 — the coefficients of the trade flow equation were estimated, first (calculation C–1) for the equation in its simplest form (equation 1′), and then (calculation C–2) for the equation enlarged by a fourth explanatory variable. In this case the trade flow equation is:

$$E_{ij} = a_o \, Y_i^{a_1} Y_j^{a_2} D_{ij}^{a_3} G_i^{a_s} \qquad (4)$$

or

$$\log E_{ij} = a_1 \log Y_i + a_2 \log Y_j + a_s \log D_{ij} + a_s \log G_i + a_o' \qquad (4')$$

In these equations, G = the Gini coefficient of export commodity concentration.

The results of the estimation procedure — again the least squares method — are given in Table VI–11. Table VI–12 reveals the absolute and relative deviations of actual from calculated trade figures.

VI.4 A DISCUSSION OF THE RESULTS: THE COEFFICIENTS

In the present section we will discuss the statistically derived trade flow coefficients which are reproduced in Tables VI–1 (calculations A), VI–4 (calculations B), and VI–11 (calculations C). The three sets of calculations differ mainly in the number and type of countries from which the basic data were taken, that is, in the sample from which the coefficients were estimated. The same three explanatory variables — actually the most important ones — were used in all cases; for this reason it is perhaps not surprising that the correlation coefficient varied little from calculation to calculation. The average value of the correlation coefficient was not very high — around 0.81 — but certainly not unsatisfactory if we keep in mind that the actual pattern of trade is almost certain to deviate substantially from the normal (or "ideal," or "theoretical") pattern. As was pointed out earlier, it is precisely these deviations which we hope to identify in this analysis. In the next section we will discuss the pattern of deviations which emerged from the study, but first the coefficients of the export equation will be examined in some detail.

Table VI–1

FACTORS DETERMINING THE SIZE OF INTERNATIONAL TRADE FLOWS

Results of Calculations A (18 countries)

$$\log E_{ij} = \alpha_1 \log Y_i + \alpha_2 \log Y_j + \alpha_3 \log D_{ij} + \alpha_4 \log N + \alpha_5 \log P_C + \alpha_6 \log P_B + \alpha'_0$$

Calculation No.	ESTIMATED VALUE OF THE COEFFICIENTS							Correlation Coefficient
	α_1	α_2	α_3	α_4	α_5	α_6	α'_0	
A-1	0.7338 (0.0438)	0.6238 (0.0438)	−0.5981 (0.0405)	—	—	—	−0.3783	0.8248
A-2	0.7907 (0.0497)	0.6766 (0.0496)	−0.6252 (0.0460)	—	—	—	−0.4013	0.8084
A-3	0.7357 (0.0421)	0.6183 (0.0422)	−0.5570 (0.0473)	0.0191 (0.0082)	0.0496 (0.0111)	0.0406 (0.0272)	−0.4451	0.8437

E_{ij} Exports from country i to country j
Y_i GNP of exporting country
Y_j GNP of importing country
D_{ij} Distance between countries i and j
N Dummy variable for neighbor countries
P_C Dummy variable for Commonwealth preference
P_B Dummy variable for Benelux preference

In A-2 the trade amount is measured in the importing country.
Figures in brackets are standard deviations.

Table VI–2

RESULTS OF CALCULATION A-1
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
2. Brazil	–3.9557	–41.7	–5.1039	–45.9
8. Venezuela	6.2016	42.7	0.6412	4.8
14. S. Africa	–4.2625	–73.0	–1.0445	–8.6
21. Japan	–17.5284	–143.6	–17.9657	–127.6
29. Canada	13.3283	28.6	7.4520	17.2
30. USA	–62.2634	–64.1	–35.6173	–42.8
31. Austria	–2.2080	–35.4	–3.2195	–41.0
32. BLEU	6.8092	30.2	4.4003	18.7
33. Denmark	2.0741	19.5	4.8586	48.3
34. France	–24.5112	–107.6	–23.3826	–94.5
35. Germ. (F. R.)	20.6698	34.0	–1.7209	–3.8
36. Italy	–12.5307	–79.3	–10.5317	–50.5
37. Netherlands	10.7927	44.0	9.8278	36.6
38. Norway	–1.3860	–23.7	0.9802	9.1
39. Sweden	1.5372	9.4	0.2750	1.6
40. Switzerland	–0.2352	–2.1	–0.2583	–1.8
41. UK	–4.5593	–9.7	–1.9270	–3.9
42. Australia	–4.9965	–43.6	–8.2613	–68.0

Table VI–3

RESULTS OF CALCULATION A-3
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
2. Brazil	5.0224	53.0	5.6738	51.0
8. Venezuela	10.8338	74.5	7.8142	58.1
14. S. Africa	1.5811	27.1	6.6088	54.6
21. Japan	4.9034	40.2	6.1048	43.4
29. Canada	16.1715	34.7	7.0446	16.2
30. USA	18.4515	19.0	26.7411	32.1
31. Austria	−0.3717	−6.0	−0.6402	−8.2
32. BLEU	−2.1779	−9.6	−4.8247	−20.5
33. Denmark	3.8964	36.7	1.4313	14.2
34. France	−25.7047	−113.9	−21.5758	−87.2
35. Germ. (F. R.)	8.1052	13.3	−2.7045	−6.0
36. Italy	−3.2974	−21.0	0.5861	2.8
37. Netherlands	4.6532	19.0	3.6813	13.7
38. Norway	0.9463	16.2	4.3637	40.5
39. Sweden	7.2137	44.3	11.1680	63.8
40. Switzerland	−0.3338	−3.0	−0.0915	−0.6
41. UK	4.5122	9.6	9.4642	19.1
42. Australia	5.8824	51.3	5.3055	44.7

Results of Calculations B (42 countries)

$$\log E_{ij} = \alpha_1 \log Y_i + \alpha_2 \log Y_j + \alpha_3 \log D_{ij} + \alpha_4 \log N + \alpha_7 \log P + \alpha'_o$$

Calculation No.	ESTIMATED VALUE OF THE COEFFICIENTS						Correlation Coefficient
	α_1	α_2	α_3	α_4	α_7	α'_o	
B-1	1.0240 (0.0270)	0.9395 (0.0269)	−0.8919 (0.0455)	—	—	−0.6627 (0.6802)	0.8094
B-2	1.0250 (0.0269)	0.9403 (0.0269)	−0.8225 (0.0517)	0.2581 (0.0920)	—	−0.7188 (0.6789)	0.8104
B-3	1.1832 (0.0323)	1.0752 (0.0323)	−0.9325 (0.0584)	0.2217 (0.1037)	—	−1.0296 (0.7645)	0.7987
B-4	0.9965 (0.0267)	0.9116 (0.0267)	−0.7803 (0.0511)	0.2434 (0.0903)	0.4703 (0.0588)	−0.7798 (0.6668)	0.8180
B-5	1.1567 (0.0319)	1.0486 (0.0319)	−0.9165 (0.0574)	0.2367 (0.1018)	0.8926 (0.1100)	−1.0641 (0.7505)	0.8070

E_{ij} Exports from country i to country j

Y_i GNP of exporting country
Y_j GNP of importing country
} Nominal in B-1, B-2 and B-4; real in B-3 and B-5.

D_{ij} Distance between countries i and j

N Dummy variable for neighboring countries

P Dummy variable for preference

Because of difference in treatment of preferential relations, the coefficients are not comparable between B-4 and B-5.

Figures in brackets are standard deviations.

Table VI–5

RESULTS OF CALCULATION B-1
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	5.0964	55.7	4.7385	49.5
2. Brazil	3.3425	29.0	1.2239	11.5
3. Chile	3.9033	80.6	2.0000	60.7
4. Cuba	3.1881	53.8	2.6871	40.4
5. Mexico	2.2217	38.0	5.6074	55.3
6. Peru	2.0595	71.9	1.4236	55.2
7. Uruguay	—0.0654	—11.1	0.5141	36.3
8. Venezuela	12.6139	80.7	9.0302	68.5
9. Belg. Congo	3.9269	87.9	1.6360	68.0
10. Ethiopia	0.0448	8.5	—0.0591	—9.5
11. Ghana	2.7051	87.1	1.8204	75.4
12. Morocco	1.5026	55.3	1.4155	45.2
13. Nigeria	3.1806	78.0	2.2665	58.1
14. S. Africa	5.3207	68.6	9.0982	74.9
15. Sudan	1.2605	79.7	0.8445	64.3
16. Fr. W. Africa	1.0269	44.8	1.1348	39.2
17. Afghanistan	0.3812	62.5	—0.0157	—4.9
18. Ceylon	2.2433	83.5	2.2386	78.4
19. India	—0.3248	—3.9	3.9851	26.1
20. Indonesia	2.1414	38.0	—1.0253	—32.9
21. Japan	9.8839	42.1	8.2853	35.2

Table VI–5 (continued)

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
22. Malaya	4.1737	81.5	1.6654	57.0
23. Pakistan	–0.0642	–2.5	0.8008	20.0
24. Philippines	3.0292	59.6	2.6830	50.6
25. Thailand	1.6002	67.4	2.0352	66.6
26. UAR (Egypt)	–0.4674	–28.9	1.0550	28.2
27. Iran	6.8885	89.9	3.3109	62.1
28. Turkey	–0.7195	–27.2	0.1299	29.9
29. Canada	4.2285	8.2	–6.2503	–12.5
30. USA	–52.3708	–39.5	–16.2260	–12.6
31. Austria	2.3735	32.2	0.9483	10.6
32. BLEU	–0.0218	–0.8	–2.9781	–9.9
33. Denmark	6.1899	51.0	5.2071	41.6
34. France	–36.8338	–102.4	–41.1475	–128.5
35. Germ. (F. R.)	–8.6616	–10.6	–26.7576	–43.6
36. Italy	–8.3864	–36.6	–6.3180	–23.4
37. Netherlands	9.2862	30.0	12.0314	30.8
38. Norway	2.7429	39.2	4.6363	46.4
39. Sweden	9.5557	51.8	8.9136	46.4
40. Switzerland	0.6489	4.6	1.6872	9.6
41. UK	–17.1995	–24.5	–13.5735	–18.7
42. Australia	11.0060	70.1	9.1865	62.2

Table VI–6

RESULTS OF CALCULATION B-2
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	4.7849	52.3	4.4288	46.2
2. Brazil	3.1119	27.0	1.0369	9.7
3. Chile	3.8871	80.3	1.9837	60.2
4. Cuba	3.4298	57.8	3.0453	45.8
5. Mexico	0.8985	15.4	3.7375	36.9
6. Peru	2.0569	71.8	1.4255	55.3
7. Uruguay	—0.1599	—27.9	0.3231	22.8
8. Venezuela	12.7595	81.5	9.2475	70.2
9. Belg. Congo	3.9352	88.1	1.6533	68.7
10. Ethiopia	0.0542	10.3	—0.0474	—7.6
11. Ghana	2.7166	87.2	1.8363	76.1
12. Morocco	1.5942	58.6	1.5383	49.2
13. Nigeria	3.2057	73.6	2.2982	58.9
14. S. Africa	5.3324	68.5	5.1007	42.0
15. Sudan	1.2569	79.5	0.8509	64.8
16. Fr. W. Africa	1.0895	47.5	1.2159	42.0
17. Afghanistan	0.3754	61.5	—0.0247	—7.7
18. Ceylon	2.2016	82.0	2.1179	74.2
19. India	—0.7913	—7.7	3.7119	24.3
20. Indonesia	2.0931	37.2	—1.0506	—33.7
21. Japan	10.0539	42.8	8.1123	34.5

Table VI–6 (continued)

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
22. Malaya	4.1292	80.6	1.6822	57.6
23. Pakistan	—0.4499	—17.8	0.3945	9.9
24. Philippines	3.0501	59.9	2.7119	51.2
25. Thailand	1.6161	68.1	2.0430	66.8
26. UAR (Egypt)	—0.3745	—23.1	1.1668	31.2
27. Iran	6.8572	89.5	4.2748	80.2
28. Turkey	—0.6015	—22.7	0.3020	7.0
29. Canada	—17.1569	—33.2	—32.5137	—64.9
30. USA	—77.2627	—54.5	—36.0097	—28.0
31. Austria	0.1372	18.6	1.0980	12.3
32. BLEU	—3.1011	—10.7	—6.7707	—22.5
33. Denmark	5.8836	48.4	4.8331	38.6
34. France	—47.3966	—135.5	—51.2126	—159.9
35. Germ. (F. R.)	—21.8076	—26.8	—38.3570	—62.4
36. Italy	—11.2287	—49.0	—9.1054	—33.7
37. Netherlands	6.2773	20.3	7.8825	20.2
38. Norway	3.0422	43.5	6.1717	61.8
39. Sweden	9.9411	53.9	9.3473	48.6
40. Switzerland	—2.4002	—13.1	—1.8655	—10.6
41. UK	—5.5993	—8.0	—2.5886	—3.6
42. Australia	10.9715	69.9	9.1442	61.9

Table VI–7

RESULTS OF CALCULATION B-3
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	4.3607	47.6	3.6394	38.0
2. Brazil	3.4364	29.9	0.9850	9.2
3. Chile	4.1491	185.7	2.2588	68.6
4. Cuba	4.0737	68.7	3.6697	55.2
5. Mexico	0.8602	14.7	3.4205	33.7
6. Peru	2.2182	77.4	1.5728	61.0
7. Uruguay	0.0836	14.6	0.6781	47.9
8. Venezuela	13.8315	88.5	10.4295	79.2
9. Belg. Congo	3.8902	87.1	1.5449	64.2
10. Ethiopia	0.1208	22.9	0.0099	1.6
11. Ghana	2.7872	89.4	1.9087	78.9
12. Morocco	1.7904	65.8	1.7138	54.8
13. Nigeria	3.2366	73.7	2.2533	57.7
14. S. Africa	5.5264	71.0	9.2029	75.7
15. Sudan	1.2674	80.2	0.8401	63.9
16. Fr. W. Africa	1.2441	54.3	1.3409	46.3
17. Afghanistan	0.3444	56.5	—0.0841	—25.3
18. Ceylon	2.1512	80.1	2.0778	72.8
19. India	—8.3539	—81.0	—3.6134	—23.7
20. Indonesia	2.2224	39.5	—1.0716	—34.3
21. Japan	4.6310	19.7	1.8296	7.8

Table VI–7 (continued)

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
22. Malaya	4.1933	81.8	1.7674	60.5
23. Pakistan	1.9757	78.3	–1.5756	–39.4
24. Philippines	3.4523	67.8	3.0796	58.1
25. Thailand	1.4414	60.7	1.7655	57.8
26. UAR (Egypt)	–0.3373	–20.8	1.0880	29.1
27. Iran	6.8734	89.7	4.2387	79.5
28. Turkey	–0.5597	–21.1	0.1724	4.0
29. Canada	–11.9796	–23.2	–31.2743	–62.4
30. USA	–107.3510	–80.9	–53.3661	–41.5
31. Austria	–1.0587	–14.4	–1.8453	–20.6
32. BLEU	–12.0177	–41.6	–18.7425	–62.2
33. Denmark	5.6492	46.4	4.1175	32.9
34. France	–40.7830	–118.7	–48.8181	–152.4
35. Germ. (F. R.)	–75.0172	–92.2	–85.6230	–139.4
36. Italy	–22.0290	–96.0	–90.3563	–75.4
37. Netherlands	–8.0587	–26.0	–9.8826	–36.6
38. Norway	3.5756	51.1	6.5380	65.5
39. Sweden	11.4527	62.1	10.5792	55.0
40. Switzerland	0.2828	1.5	0.1486	0.8
41. UK	–45.2828	–64.5	–76.1651	–104.9
42. Australia	10.9524	69.8	8.8808	122.3

Table VI–8

RESULTS OF CALCULATION B-4
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	5.3632	58.6	5.1265	53.5
2. Brazil	4.3373	37.7	2.4947	23.4
3. Chile	3.9733	82.1	2.1106	64.1
4. Cuba	—7.3330	—123.6	—13.5711	—204.2
5. Mexico	1.6515	28.2	4.7439	46.8
6. Peru	2.1319	74.4	1.5396	59.7
7. Uruguay	—0.0743	—13.0	0.5102	36.1
8. Venezuela	1.7217	11.0	—7.8795	—59.8
9. Belg. Congo	3.9135	87.6	1.6106	66.9
10. Ethiopia	0.0852	16.2	0.0143	2.3
11. Ghana	2.5381	81.4	1.5200	63.0
12. Morocco	0.7391	27.2	0.3989	12.7
13. Nigeria	2.6674	60.7	1.6335	41.9
14. S. Africa	4.3987	56.5	7.9967	65.8
15. Sudan	1.2783	80.9	0.8736	66.5
16. Fr. W. Africa	0.4470	19.5	0.5367	18.5
17. Afghanistan	0.3861	63.3	—0.0066	—2.0
18. Ceylon	2.0454	76.2	1.7938	62.8
19. India	—4.2768	—41.5	0.0386	0.3
20. Indonesia	2.5019	44.4	—0.5485	—17.6
21. Japan	12.3115	52.5	10.7090	45.5

Table VI–8 (continued)

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
22. Malaya	3.8835	75.6	1.4188	48.6
23. Pakistan	–1.0878	–43.1	–0.3819	–9.6
24. Philippines	–2.5083	–49.3	–5.4494	–102.9
25. Thailand	1.6747	70.5	2.2265	72.9
26. UAR (Egypt)	–0.1497	–9.2	1.3154	35.2
27. Iran	6.9233	90.4	4.3613	81.8
28. Turkey	–0.0264	–1.0	1.7279	39.8
29. Canada	–9.1852	–17.8	–22.0186	–43.9
30. USA	–72.8100	–54.9	–26.3946	–20.5
31. Austria	1.4094	19.1	1.6623	18.6
32. BLEU	–24.6476	–85.2	–30.6452	–101.7
33. Denmark	6.9251	56.9	5.9395	47.4
34. France	–93.2285	–266.5	–94.7244	–295.8
35. Germ. (F. R.)	–75.5436	–92.8	–90.3075	–147.0
36. Italy	–25.8298	–112.6	–28.5444	–105.8
37. Netherlands	–10.1536	–32.8	–10.7905	–27.6
38. Norway	3.6184	51.7	6.8922	69.0
39. Sweden	11.2796	61.1	10.9252	56.8
40. Switzerland	0.0973	0.5	2.6579	15.2
41. UK	–12.2561	–17.5	–6.9914	–9.6
42. Australia	9.9304	63.3	7.8489	53.2

Table VI–9

RESULTS OF CALCULATION B-5
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	4.8111	52.6	4.3485	45.4
2. Brazil	4.4793	38.9	2.2988	21.5
3. Chile	4.2067	86.9	2.3520	71.4
4. Cuba	—3.9057	—65.9	—9.9832	—150.2
5. Mexico	1.4034	24.0	4.1646	41.1
6. Peru	2.2734	79.4	1.6643	64.6
7. Uruguay	0.1089	19.0	0.7185	50.8
8. Venezuela	6.9547	44.5	—1.0628	—8.1
9. Belg. Congo	3.8396	86.0	1.5019	62.4
10. Ethiopia	0.1462	27.7	0.0519	8.3
11. Ghana	2.4838	79.7	1.4338	59.4
12. Morocco	0.7727	28.4	0.3202	10.2
13. Nigeria	2.0685	47.1	0.6443	16.5
14. S. Africa	3.6182	46.5	6.7849	55.8
15. Sudan	1.2842	81.2	0.8673	66.0
16. Fr. W. Africa	0.6352	27.7	0.2331	8.0
17. Afghanistan	0.3575	58.6	—0.0618	—19.2
18. Ceylon	1.8312	68.2	1.5990	56.0
19. India	—22.3940	—217.1	—18.3810	—120.5
20. Indonesia	2.5937	46.0	—0.5896	—18.9
21. Japan	7.5894	32.3	5.2963	22.5

Table VI–9 (continued)

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
22. Malaya	3.7044	72.3	1.0821	37.1
23. Pakistan	–4.0108	–158.9	–4.1363	–103.5
24. Philippines	–0.4353	–8.6	–3.1177	–58.8
25. Thailand	1.5194	64.0	1.8815	61.6
26. UAR (Egypt)	–0.1475	–9.1	1.3567	36.3
27. Iran	6.8000	88.8	4.3254	81.1
28. Turkey	–0.2155	–8.1	0.6391	14.7
29. Canada	–20.7608	–40.2	–39.1819	–78.2
30. USA	–96.1700	–72.5	–40.8139	–31.7
31. Austria	–0.1662	–2.3	–0.6762	–7.5
32. BLEU	–28.0265	–96.9	–33.7112	–111.9
33. Denmark	6.3465	52.2	6.1837	49.4
34. France	–27.9418	–79.9	–38.4934	–120.2
35. Germ. (F. R.)	–50.5130	–62.1	–62.0982	–101.1
36. Italy	–15.5433	–67.8	–13.3369	–49.4
37. Netherlands	–24.1979	–78.2	–24.8702	–63.6
38. Norway	3.9350	56.3	7.3327	73.5
39. Sweden	12.2893	66.6	11.6533	60.6
40. Switzerland	1.7841	9.7	2.0509	11.7
41. UK	–76.5683	–109.1	–65.7695	–90.6
42. Australia	8.5513	54.5	6.1230	41.5

Table VI–10

RESULTS OF CALCULATION B-1
"Unexplained" Balance of Trade Compared with International Service Transactions
(in $100 million)

	Actual Balance of Trade minus Calculated Balance of Trade (1)	Balance in Service Transactions (2)	Positive (+) or Negative (–) Sum of (1) + (2) (3)
1. Argentina	0.3579	–0.023	+
2. Brazil	2.1186	–4.090	–
3. Chile	1.9033	–0.493	+
4. Cuba	0.5010	–0.780	–
5. Mexico	–3.3857	2.379	–
6. Peru	0.6357	–0.880	–
7. Uruguay	–0.5795	–0.184	–
8. Venezuela	3.5836	–8.330	–
9. Belg. Congo	2.2909	n.a.	n.a.
10. Ethiopia	0.1039	–0.153	–
11. Ghana	0.8847	–0.454	+
12. Morocco	0.0871	n.a.	n.a.
13. Nigeria	0.9141	n.a.	n.a.
14. S. Africa	–3.7780	–2.968	–
15. Sudan	0.4160	–0.115	+
16. Fr. W. Africa	–0.1079	n.a.	n.a.
17. Afghanistan	0.3969	n.a.	n.a.
18. Ceylon	0.0047	–0.023	–
19. India	–4.3099	1.199	–
20. Indonesia	3.1667	–2.100	+
21. Japan	1.5986	0.231	+

-10 (continued)

	Actual Balance of Trade minus Calculated Balance of Trade (1)	Balance in Service Transactions (2)	Positive (+) or Negative (−) Sum of (1) + (2) (3)
2. Malaya	2.5083	1.137	+
3. Pakistan	−0.8650	−2.876	−
4. Philippines	0.3462	−0.305	+
5. Thailand	−0.4350	−0.001	−
6. UAR (Egypt)	−1.5224	0.985	−
7. Iran	3.5776	−2.950	+
8. Turkey	−0.8494	−0.549	−
9. Canada	2.0218	−9.920	−
0. USA	−36.1448	−8.160	−
1. Austria	1.4252	1.866	+
2. BLEU	2.9563	1.020	+
3. Denmark	0.9828	1.222	+
4. France	4.3137	2.062	+
5. Germ. (F. R.)	18.0960	5.457	+
6. Italy	−2.0684	6.896	+
7. Netherlands	−2.7452	4.435	+
8. Norway	−1.8934	3.731	+
9. Sweden	0.6421	2.026	+
0. Switzerland	−1.0383	4.161	+
1. UK	−3.6260	3.360	−
2. Australia	1.8195	−5.286	−

available.

Table VI–11

FACTORS DETERMINING THE SIZE OF INTERNATIONAL TRADE FLOWS
Results of Calculations C (28 Countries)

$$\log E_{ij} = a_1 \log Y_i + a_2 \log Y_j + a_3 \log D_{ij} + a_8 \log G_i + a'_o$$

Calculation No.	ESTIMATED VALUE OF THE COEFFICIENTS					Correlation Coefficient
	a_1	a_2	a_3	a_8	a'_o	
C–1	1.0318 (0.0428)	0.9647 (0.0428)	−0.9228 (0.0657)	—	−0.6555	0.8039
C–2	0.8569 (0.0593)	0.9682 (0.0424)	−0.8633 (0.0664)	−0.7779 (0.1843)	+0.4927	0.8090

E_{ij} Exports from country i to country j
Y_i GNP of exporting country
Y_j GNP of importing country
D_{ij} Distance between countries i and j
G Degree of onesidedness (lack of diversification) of export products (as measured by the Gini coefficient).

Figures in brackets are standard deviations.

Table VI–12

RESULTS OF CALCULATION C-2
Total Actual Trade (1959) minus Total Calculated Trade

	EXPORT DEVIATION		IMPORT DEVIATION	
	$100 million	as per cent of actual value	$100 million	as per cent of actual value
1. Argentina	4.2879	49.0	3.8440	47.4
2. Brazil	6.9218	62.3	1.8474	19.5
5. Mexico	2.2504	39.5	5.6106	56.8
11. Ghana	2.7809	90.3	1.8790	80.5
13. Nigeria	3.2969	75.2	2.4498	63.8
14. S. Africa	4.5324	59.7	8.5226	76.4
17. Afghanistan	0.1929	38.3	0.0125	4.5
18. Ceylon	2.2721	85.8	2.0681	80.3
19. India	—0.5551	—5.8	4.9675	35.7
20. Indonesia	2.8110	51.9	0.5105	16.7
21. Japan	6.6403	32.5	7.3546	35.2
22. Malaya	4.2290	83.4	1.4607	51.2
25. Thailand	1.8075	76.8	2.1612	72.3
26. UAR (Egypt)	0.1843	13.8	1.0902	31.4
28. Turkey	—0.5692	—22.3	0.4003	9.5
29. Canada	—28.6987	—57.3	—31.7429	—65.1
30. USA	—60.2068	—54.6	—79.8669	—76.0
31. Austria	—1.2126	—18.2	1.5182	18.1
32. BLEU	—6.0168	—23.1	—7.0561	—27.1
33. Denmark	4.6445	40.0	3.3137	27.5
34. France	—53.4680	—193.5	—38.6289	—149.5
35. Germ. (F. R.)	—7.5066	—11.0	—36.9269	—67.4
36. Italy	—15.5108	—81.7	—5.7025	—24.0
37. Netherlands	—7.9116	—27.4	7.0206	19.5
38. Norway	0.9220	13.8	3.0467	31.9
39. Sweden	8.1125	46.0	9.0841	50.4
41. UK	—28.2981	—44.5	—23.6279	—36.2
42. Australia	12.2809	79.5	8.3953	59.8

A comparison of the results of series A calculations with those of series B and C shows that the absolute value of all coefficients is lower in A than in B and C. The three coefficients a_1, a_2, and a_3 all are about 0.3 greater (in absolute value) in B and C. The standard deviations of these coefficients are small, particularly in the series B calculations. The coefficients a_4 and a_5 show much greater deviations in the various calculations; and the standard errors are high. The trade-increasing effect of adjacency according to calculation A–3 is about 5 per cent of the normal trade volume; according to calculations B–2 to B–5 it is something like 75 per cent. Similarly, the trade-stimulating effect of preferential treatment is estimated to be 10 to 12 per cent of the standardized trade flow in calculation A–3, whereas in B–4 and B–5 full preferences appear to give rise to no less than 10 times the usual trade volume, while semi-preferential trade relations bring about a fivefold increase. However high a "colonial or ex-colonial trade multiplier" of 10 may seem to be, a verification ex-post from trade statistics confirms this order of magnitude.

The difference between the coefficients derived from the calculations of series A and those derived from series B and C is due to the different coverage of the samples. The list of countries included in series B (42 in number), and also, but to a lesser extent, in series C (28 countries), differs from that in series A in three respects:

(i) whereas series A consists predominantly of developed countries, series B and C include a number of developing nations, which means that GNP indicates mainly geographic size in series A and both geographic and economic size in series B and C;

(ii) the countries added in series B and C generally have a low GNP in comparison to those included in series A, so that the range of values that the first two explanatory variables may take is enlarged (in one direction) in B and C;

(iii) the countries added in series B and C are in general the more remote countries, and so the role of the distance factor can be estimated more accurately here than in the geographically less balanced sample used in A.

As these three changes occurred simultaneously when the data were enlarged, their individual consequences cannot be estimated from the change in the coefficients. It is obvious, however, that in the present context the calculations with the broader coverages — i.e., those of series B and C — are more meaningful than the ones based on the trade pattern of industrialized countries only.

Confining ourselves to the results of calculations B and C, we find that the values of a_1 and a_2 are always close to 1. This means that the export flow is almost proportional to the GNP of the exporting and the importing country. It also implies that the analysis could have been based on an *a priori* value of 1 for both a_1 and a_2 without much loss of information. Still, the values of a_1 and a_2 deviate from 1 in most calculations, even though the difference often is barely significant statistically. This is especially true of a_2, which tends to be smaller than 1; this may indicate that with increasing GNP, imports decline relatively because of more varied domestic production.

An interesting aspect of the results obtained for a_1 and a_2 is that in all calculations – except in C–3, which will be discussed below – the value of a_1 was about 0.1 higher than the value of a_2. This means that export volume depends somewhat more on the GNP of the exporting country than on the GNP of the importing country; it also implies that there is no equilibrium in the balance of trade between two countries with different levels of GNP. From the difference between the two coefficients a_1 and a_2 it follows that large countries (in terms of GNP) always export more to small countries than they import from them; this leads to a positive balance of trade for the bigger countries and a negative trade balance for the smaller ones. According to the present estimates, the United States should have a surplus on its trade accounts of something like 25 per cent; countries with an "average" GNP (the larger industrialized countries, mostly) should find that their trade flows were in approximate equilibrium; and countries at the lower end of the GNP scale (most underdeveloped countries and the smallest industrial countries) should experience a deficit amounting to some 30 per cent of their imports.

The coefficients a_1 and a_2 of the trade flow equation as fitted to the various sets of data can hardly be considered indicative of the desired pattern of trade; they merely describe reality. It will be necessary, in interpreting the deviations between actual and calculated trade, to keep in mind the preceding considerations. If we assume that, by and large, trade balances should be in equilibrium, it may be stated that the trade flow equation resulting from our calculations overestimates the normal exports of the bigger countries (in terms of GNP) and underestimates the exports of the smaller countries (i.e., underestimates the imports of bigger countries). A deviation of about 25 per cent between actual and calculated exports (in the sense that the latter exceed the former) for the United States could be due to this effect. Similarly, a positive devia-

tion of up to about 30 per cent in the export volume of countries with a low GNP (most developing countries and the small industrial nations) could well be caused by this factor alone. The figures for the larger industrialized countries like the United Kingdom, France, and Germany will not be much influenced by this consideration; the deviations recorded will not be appreciably biased in either direction.

Finally, a word may be said about the coefficients found in calculation C–2. This is the only case in which the value of a_1 is lower than that of a_2. The value of a_1 is not too reliable, however, because of intercorrelation between the GNP of the exporting country and the fourth explanatory variable, the concentration coefficient of exports. The intercorrelation was not very high (–0.54), but it was sufficiently significant to cast doubt upon the estimates of a_1 and a_3.[5] It should be noted that the foregoing discussion of the consequences of the difference between a_1 and a_2 applies to the results obtained in calculation C–2 as well, but in exactly the opposite sense. In spite of the fact that the value of a_1 in calculation C–2 is itself somewhat unreliable, it provides a useful check on our analysis of the impact of the values of a_1 and a_2 on the deviations between actual and calculated trade.

As to the effect of specialization in the export sector, it follows from the negative sign of a_3 that an increase in commodity concentration leads to a smaller flow of exports. In other words, the more diversified the export package, the greater the export volume. This tendency is counteracted by the fact that in this calculation the export-increasing effect of a higher GNP is less strong than in other calculations (a higher GNP generally means a more diversified export line). More research will be needed before a clear economic interpretation can be made of the effects of the degree of commodity concentration on the size of a country's export flow.

VI.5 A DISCUSSION OF THE RESULTS: THE DEVIATIONS

For most of the calculations, the deviations of actual trade from standardized or theoretical trade were computed. This was done first for

5. There was only one other case of a significant intercorrelation between explanatory variables, and that occurred in calculation A-3. In the latter calculation the variable distance and the dummy variable for neighboring countries showed an intercorrelation of –0.54 also. All other coefficients of intercorrelation were, in absolute value, less than 0.5.

each trade flow individually; subsequently these deviations were totaled for each exporting country and each importing country. Along these lines figures for total export deviations and total import deviations were derived. They are given in Tables VI–2, VI–3, VI–5 to VI–9, and VI–12. In these tables the sum total of the deviations is also expressed as a percentage of the actual value of the economic magnitude concerned.

The relative deviations are quite considerable. This is not surprising in view of the correlation coefficient of 0.8, which leaves 36 per cent of the variance of the variable concerned "unexplained." Substantial deviations were to be expected because of the existence of many types of trade impediments (or occasionally trade stimuli) with varying degrees of effectiveness. It is also true that the present analysis is a fairly crude one which clearly needs to be supplemented by further research. The results reported here must be used with a good deal of care; only provisional and qualified conclusions are possible.

As the purpose of the investigation was to find out which countries are hurt most by discriminatory trade restrictions, we are particularly interested in the negative deviations; a negative deviation implies that actual trade — export or import, or both — is lower than what could be expected based on the experience of other countries. Since the ultimate target of all foreign trade is to make available necessary capital and consumption goods with the least possible sacrifice, the level of imports would seem to have the greatest claim to our attention. In this context exports are important only as a means of paying for imports. Thus we will analyze the import deviations first.

Deviations of actual from calculated imports may be due to several causes:

(i) a positive deviation may be due to a positive deviation on the export side (e.g., preferential treatment of the exports of the country concerned), to the running down of previously accumulated stocks of foreign exchange, to a positive service balance, or to a net inflow of new capital, or amortizations;

(ii) a negative deviation may be due to a negative deviation on the export side (most likely to be caused by discriminatory treatment of the exports of the country concerned), to import restrictions imposed by the importing country itself (e.g., in order to build up foreign exchange reserves, or to obtain foreign exchange for debt repayment), to a negative service balance, or to a net outflow of new capital or amortizations.

Confining ourselves to negative import deviations — which are sum-

marized also in Table 3–2 of Chapter 3 — we may note first that these deviations cannot be explained by service balances. The latter are given in Table VI–10; it appears that, in general, neither their magnitude nor their algebraic sign is sufficiently correlated with the import deviations to contribute much to an explanation of them.

The role of capital flows is of greater importance than that of service exchanges. In the year under consideration, there was a substantial flow of capital from the developed countries to the newly developing parts of the world. This apparently enabled the developing countries to import more than they could have imported on the basis of export proceeds alone. Positive deviations could be expected, therefore, in the developing countries on the import side and in the developed countries on the export side. To be sure, the deviations caused by this factor might be compensated for or reinforced by other factors.

It is difficult to quantify the effects of service balances and capital flows on the volume of imports without going into a large amount of detailed work. The implications partly offset each other as these factors work in opposite directions in most cases. For all developing countries together, the net effect seems to be such as to allow a deficit on the commodity trade balance, i.e., a higher level of imports than would follow from the export level. Insofar as this is true for all developing countries, it would not invalidate the present analysis of the import deviations as possible indicators of discriminatory trade impediments, because the coefficients of the trade flow equation essentially describe the "average" or "normal" trade flows for developed as well as developing countries. As the newly developing countries (i.e., the countries having higher imports than exports) are all among the countries with low GNP, the fact of an import surplus in developing countries would probably be brought out by the GNP coefficients resulting from the correlation. In this way systematic divergencies are incorporated in the standard pattern of trade, so that random deviations will be indicative of discriminatory or preferential treatment of trade flows. The discussion in the preceding section regarding the values of the coefficients points in this direction, and seems to confirm the hypothesis that the net effect of service balances and the capital flows is incorporated in the standardized trade pattern as described by the trade flow equation.

Thus, in spite of some ambiguities and uncertainties, the negative deviations of actual from calculated imports can be considered as indicative of the existence of discriminatory trade impediments. Cases of subnormal imports fall into two distinct categories. In the first instance

an importing country has deliberately and voluntarily erected import barriers. In the second instance an importing country has been forced to reduce its purchases from abroad because its exports have suffered from discriminatory treatment. It is obvious that in the latter case not only imports but also exports will be lower than the normal values as calculated from the trade flow equation.

In Chapter 3 the negative deviations, on both sides of the trade flow, are summarized in one table (Table 3–2) and discussed along the lines of the above distinction. For the main conclusions, the reader is referred to that chapter. Only one technical remark need be inserted here. The results of the calculation show that, with respect to the special trade relations of the United States with Cuba, the Philippines, and Venezuela, the preferential treatment is less important than it was assumed to be (in relation to the Commonwealth imperial preference and the preference within the French Community). Particularly in the cases of Cuba and the Philippines, the trade flow equation overestimates the trade-increasing effect of the special economic links so that these countries show substantial negative deviations both for exports and imports. This being so, these negative deviations (or at least their magnitude) cannot serve as the basis for further analysis.

Finally, it must be stressed once more that the present analysis is only a first step in what the authors consider to be an interesting and promising approach to the study of world trade flows. As was pointed out earlier, the analysis is so crude that only tentative conclusions are possible. Further research is being undertaken which might lead to a more accurate model of world trade flows and to firmer conclusions about the "location" and impact of trade impediments.

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APPENDIX VII

Tariff Reductions and Their Consequences

VII.1 THE PROPOSED REDUCTIONS AND THEIR TIMING

In Chapter 8 suggestions are made for reducing the EEC outer tariff. Specific proposals for a number of commodities are given in Table 8–1 and in section 8.7. The percentage reductions advocated for these particular products are as follows:

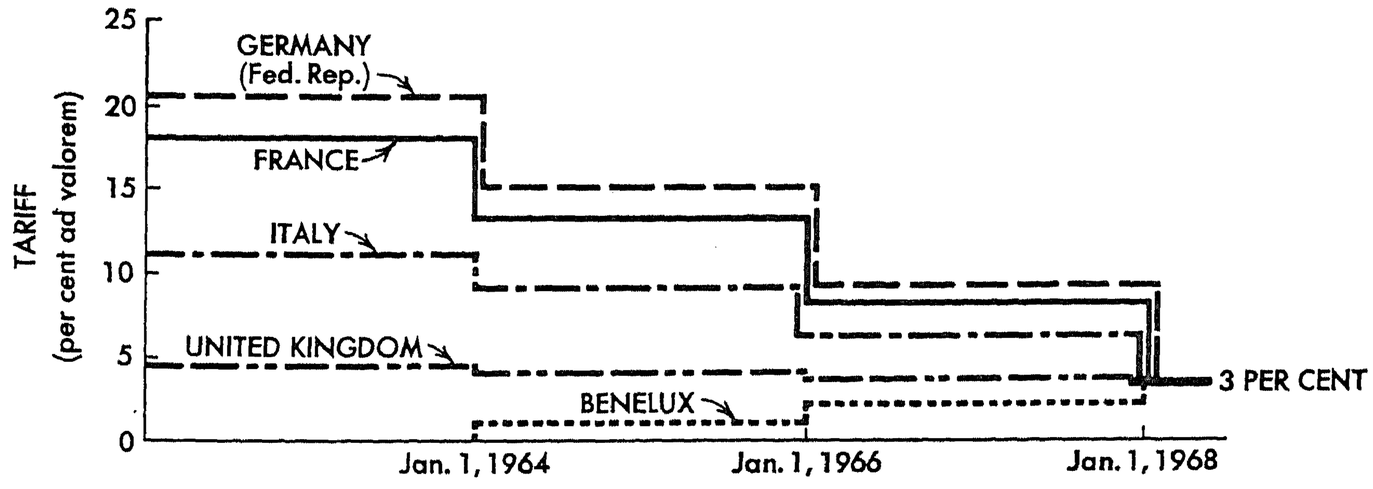
	Per Cent
Coffee	80
Bananas	80
Sugar	70
Tea	70
Cocoa beans	60
Dried fruits	60
Cotton fabrics	50

These reductions should be made gradually; in the section referred to above we propose that they should be fully in force by the end of 1967. In the accompanying graphs (Figs. VII–1 to VII–7) are plotted the possible time paths of the movements to a common outer tariff for the EEC countries and the United Kingdom on the basis of the new outer tariff implied by the proposed reductions of the actual outer tariff.

The main purpose of the graphs is to illustrate the changes in customs tariffs necessitated by the specific proposals made in section 8.7 of Chapter 8. The number of steps in which the new outer tariff is to be reached and the time interval of two years between each successive step represent a somewhat arbitrary choice out of an unlimited number of possibilities. Nevertheless, they are considered to be sufficiently realistic to serve as a starting point for discussions.

As it is difficult to obtain reliable and current information about im-

FIG. VII–1 *Proposed Lowering of EEC Outer Tariff on Coffee*



port duties (both specific and ad valorem) and internal fiscal charges — and more particularly about their incidence on import prices — all figures given here should be considered estimates rather than hard facts. For this reason, the incidence of the charges (expressed as a percentage of the import price) is always mentioned explicitly in the calculations of this appendix, so as to show clearly on what figures the proposals or computations are based.

FIG. VII–2 *Proposed Lowering of EEC Outer Tariff on Bananas*

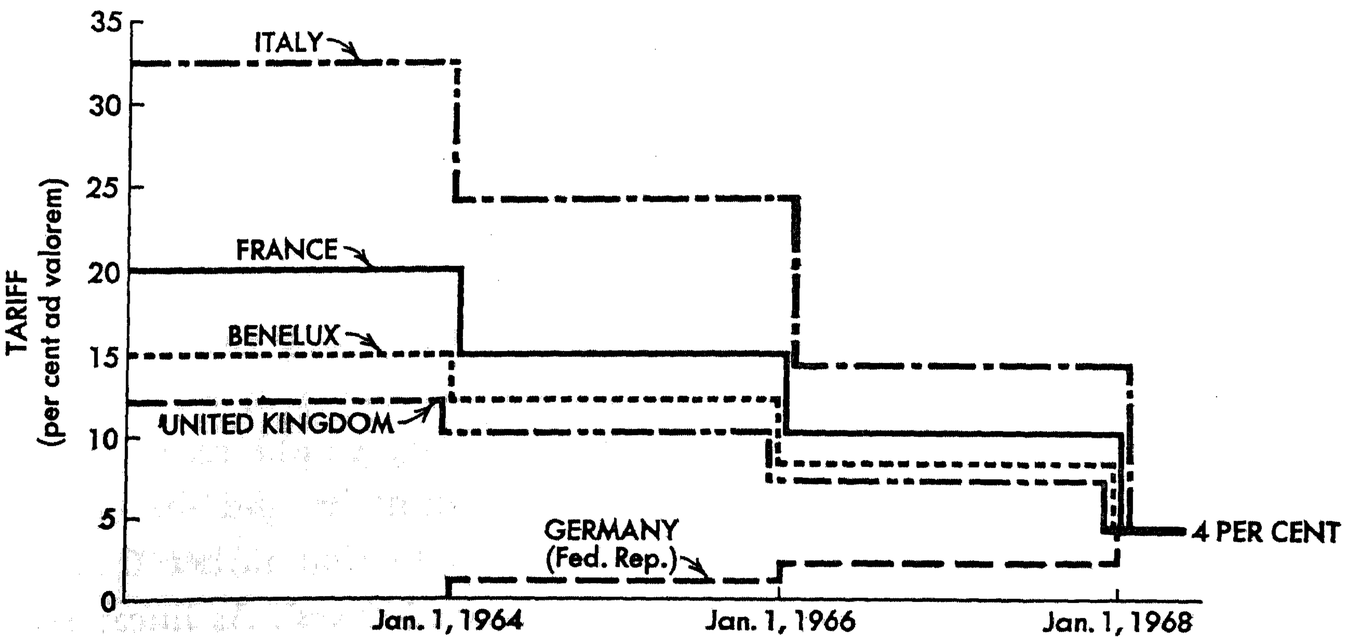
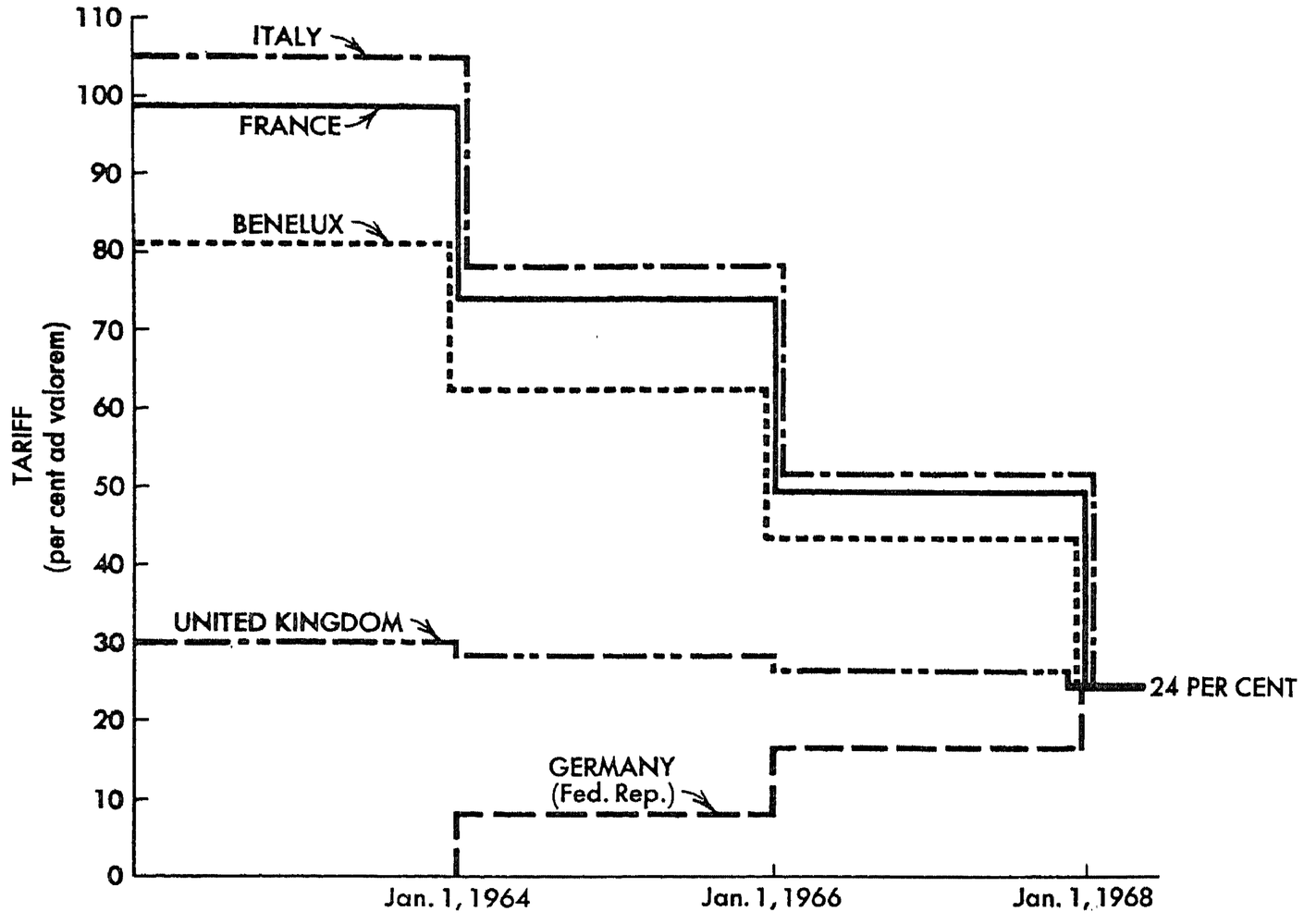


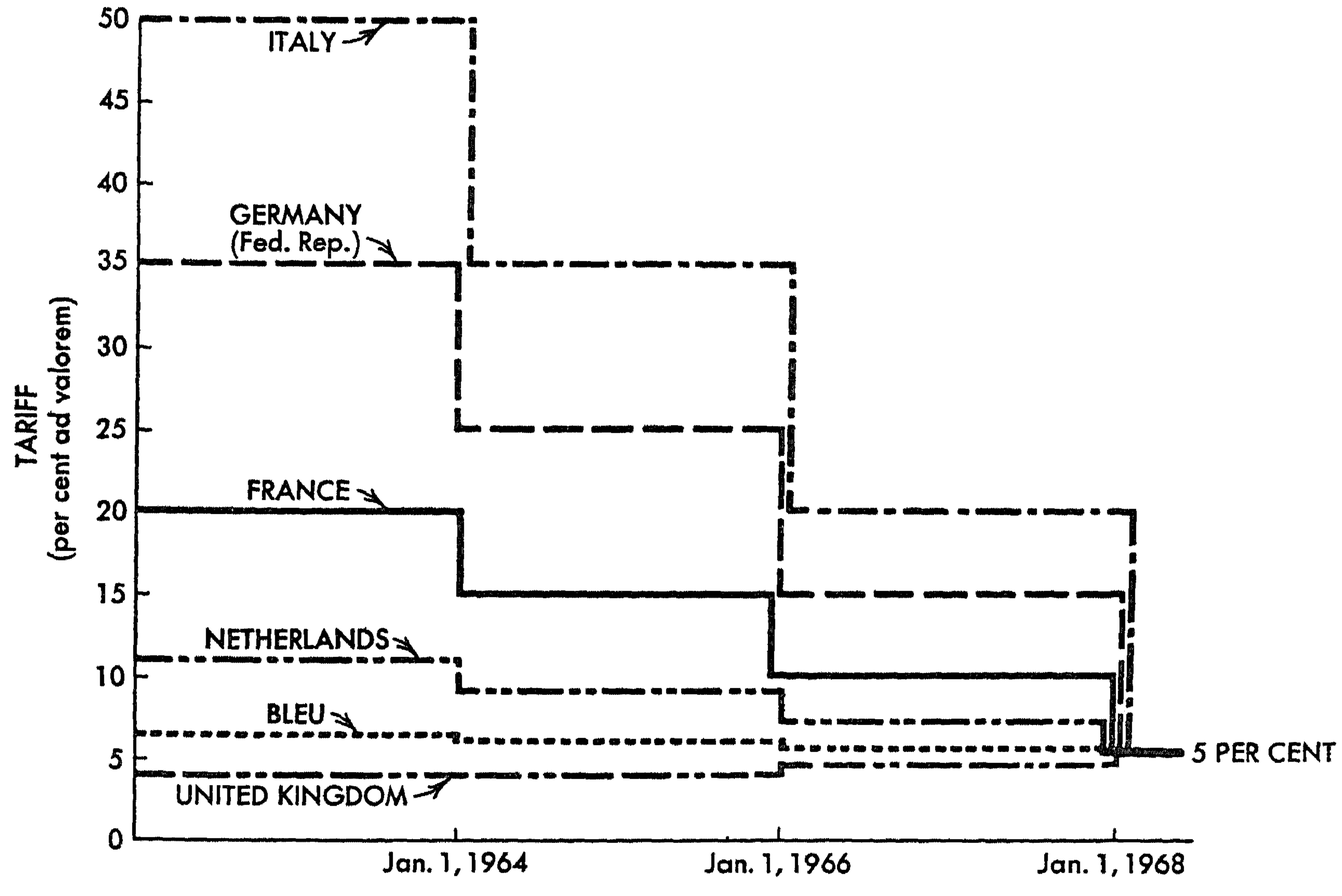
FIG. VII-3 *Proposed Lowering of EEC Outer Tariff on Sugar*



VII.2 CONSEQUENCES OF TARIFF REDUCTION OR ABOLITION

To gain some insight into the sacrifices which a reduction or abolition of tariffs and internal duties would require on the part of the developed countries, an attempt was made to calculate — for a few products and for a varying list of developed countries — the impact of a complete removal of trade barriers on the balance of payments, the employment situation, and government revenue. The results are presented and discussed in Chapter 8; they are reproduced in the tables of this appendix. The findings suggest the order of magnitude of the effects; they do not pretend to be refined estimates of great reliability. Also, it must be clear from the outset that the effects as indicated in these tables are much greater than those which would result if our proposals concerning the tariff of the EEC countries and the United Kingdom were accepted (they related to a reduction rather than an abolition of duties and do not apply to internal taxes). As linear rela-

FIG. VII–4 *Proposed Lowering of EEC Outer Tariff on Tea*



tionships between the economic variables concerned were assumed, the effect of a tariff reduction can be calculated as a simple fraction — equal to that part of the tariff which is to be abolished — of the maximum impact as shown.

It was assumed in the calculations of this appendix that import duties and consumption taxes are the only impediments to imports of the

FIG. VII–5 *Proposed Lowering of EEC Outer Tariff on Cocoa Beans*

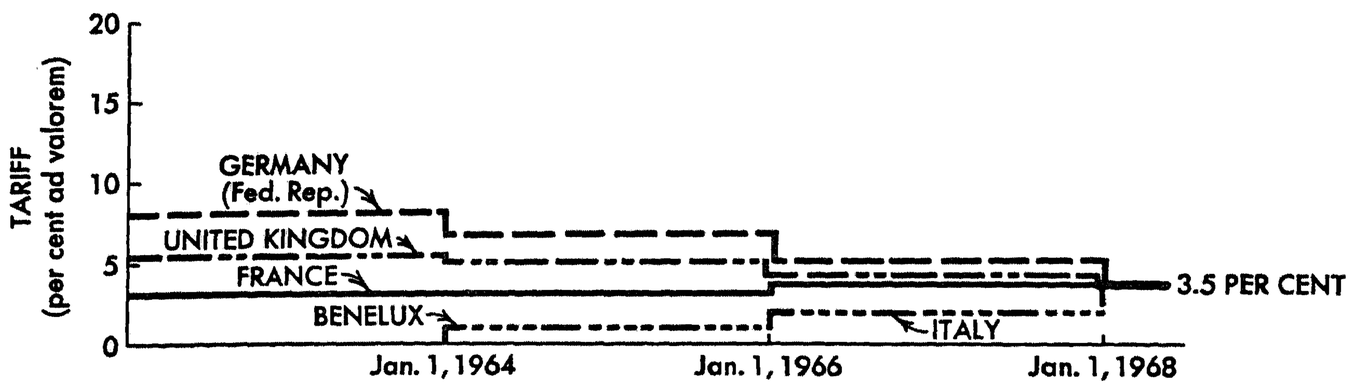
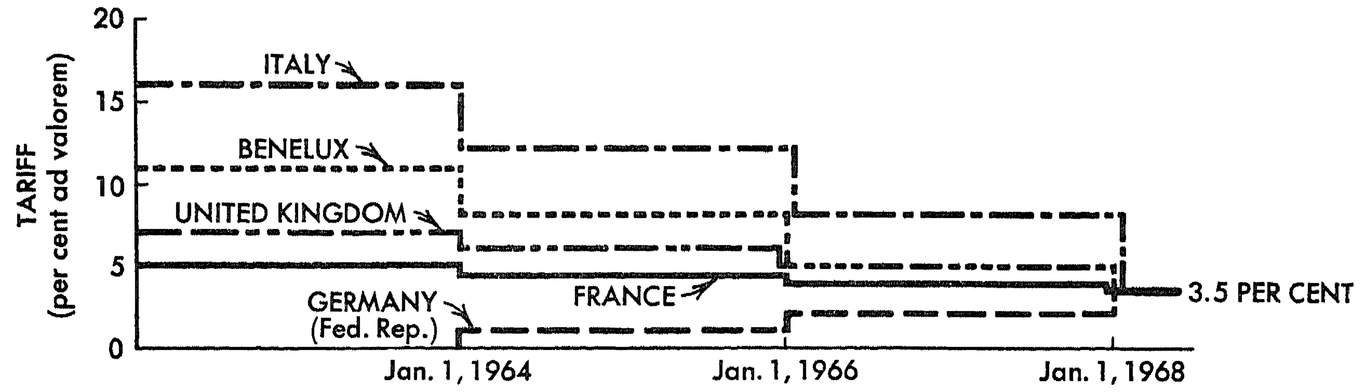
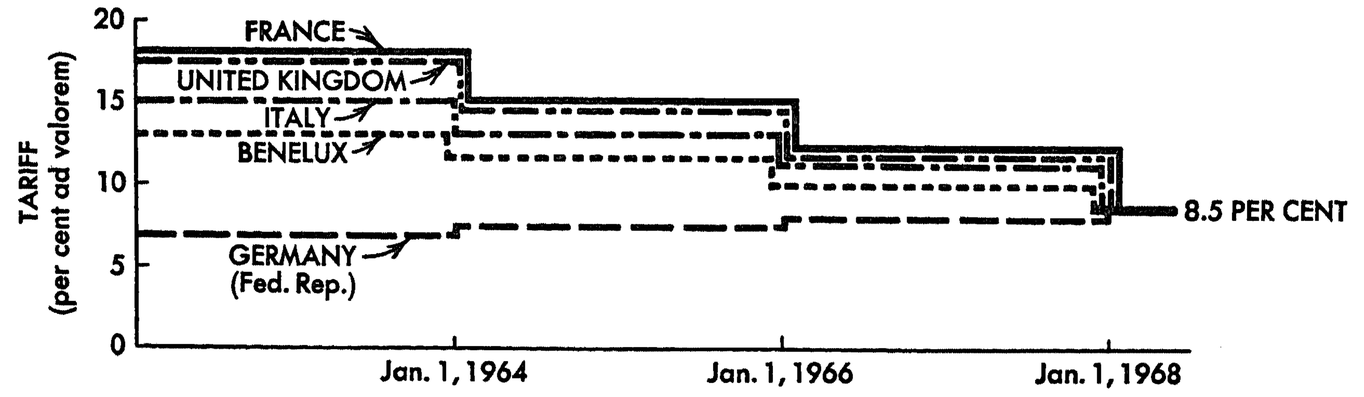


FIG. VII–6 *Proposed Lowering of EEC Outer Tariff on Raisins*



particular commodity; in other words, that quantitative import restrictions are either absent or not active because of a low level of imports. In cases where this assumption would not be justified by the facts, the results of the calculations have to be interpreted in a somewhat different way. If a certain country uses quantitative restrictions to hold down imports of a commodity, the abolition of import duties and internal charges will have the consequences discussed in this appendix only if it is accompanied by a corresponding (partial) "liberalization" of the quantitative restrictions. The increase in imports calculated below should in such a case be regarded as the result of a sufficient relaxation of the quantitative restrictions rather than as the result of the operation of the market mechanism. Apparently, if the quantitative restrictions were reduced still further (so as to make them ineffective), the effects would be larger than those estimated in this appendix. As information

FIG. VII–7 *Proposed Lowering of EEC Outer Tariff on Cotton Grey Goods*



on the existence and effectiveness of quantitative restrictions is hard to obtain, the analysis could not be pursued further. It is clear that this adds another element of uncertainty to the interpretation of our results.

VII.3 THE RESULTS OF FREE IMPORTING: NONCOMPETING AGRICULTURAL PRODUCTS

The effect on imports of an abolition of all duties and taxes was estimated first for three agricultural commodities not produced in the importing (temperate) countries: bananas, coffee, and tea. The results are given in Table VII–1. The consequences for government revenue of the abolition of charges on these same products are shown in Table VII–2.

The estimates were arrived at in the following way. The basic data all refer to the year 1959, and comprise:

(i) actual imports (preferential and nonpreferential);
(ii) import duties;
(iii) internal charges;
(iv) retail prices (in relation to import prices); and
(v) price elasticities of demand.

It was assumed that retail prices would be lowered by an absolute amount equal to the sum of the abolished import duties and internal charges. With the help of price elasticities, this decrease in consumer price is translated into an increase in quantity demanded, and hence into additional imports. In order to judge its relative importance, the import increase was related to the actual volume of these commodities imported and to the total imports of the country concerned.

The impact on the government budget was found very simply by multiplying the value of actual imports by the rate of total charges. The resulting loss in revenue was compared with total government income from indirect taxes. As the products concerned are not produced in temperate climates, there is no direct effect on domestic production and employment.

The results of the calculations are necessarily subject to some uncertainty since insufficient information was available about some of the variables involved. Imports were known, of course, for all countries. The relation between retail prices and import prices had to be estimated for some countries; this was done on the basis of the ratio observed in other countries. Elasticities of demand were also unknown for many

Table VII–1

ESTIMATED EFFECT ON IMPORTS OF THE ABOLITION OF TOTAL CHARGES ON COFFEE, TEA, AND BANANAS (1959 data)

	Increase in Imports in Millions of Dollars				Increase in Imports as Per Cent of Total Imports of the Three Commod-ities	Increase in Imports as Per Cent of Total Imports
	Coffee	Tea	Bananas	Total Three Commod-ities		
Total 17 countries	54.3	1.5	8.2	64.0	2.3	0.08
BLEU	—	—	0.3	0.3	0.5	0.01
France	8.3	—	2.4	10.7	4.2	0.21
Germany (F. R.)	20.7	0.7	0.6	22.0	8.5	0.26
Italy	13.2	0.1	0.9	14.2	15.3	0.43
Netherlands	—	0.3	0.4	0.7	1.2	0.02
Austria	0.4	—	0.1	0.5	4.4	0.04
Denmark	1.3	—	—	1.3	3.5	0.08
Finland	6.7	0.1	—	6.8	23.9	0.08
Norway	—	—	0.1	0.1	0.4	0.01
Sweden	1.8	—	0.3	2.1	2.8	0.09
Switzerland	0.7	—	0.4	1.1	3.4	0.06
UK	0.1	0.1	1.5	1.7	0.4	0.02
Canada	0.4	—	0.9	1.3	1.2	0.02
USA	—	—	—	—	—	—
Australia	0.1	0.1	—	0.2	0.5	0.01
New Zealand	—	—	—	—	—	—
Japan	0.6	0.1	0.3	1.0	6.6	0.03

— negligible or nil.

Sources: See end of appendix for sources used in constructing this and all other tables.

Table VII–2

ESTIMATED EFFECT ON GOVERNMENT REVENUE OF THE ABOLITION OF TOTAL CHARGES ON COFFEE, TEA, AND BANANAS (1959 Data)

	Loss of Government Revenue in Millions of Dollars				Loss of Govt. Revenue as Per Cent of Total Indirect Taxes
	Coffee	Tea	Bananas	Total Three Commodities	
Total 17 countries	392.1	19.3	32.0	443.4	0.5
BLEU	—	0.1	1.6	1.7	0.2
France	55.5	0.6	9.2	65.3	0.7
Germany (F. R.)	183.8	10.8	2.1	196.7	2.5
Italy	78.8	1.2	4.7	84.7	2.1
Netherlands	—	1.2	1.4	2.6	0.3
Austria	2.5	0.3	0.3	3.1	0.4
Denmark	9.3	0.5	—	9.8	1.5
Finland	41.9	0.6	—	42.5	7.3
Norway	—	0.1	0.7	0.8	0.1
Sweden	9.0	0.2	1.5	10.7	0.9
Switzerland	3.4	0.2	1.7	5.3	1.4
UK	1.5	0.7	5.9	8.1	0.9
Canada	2.5	0.1	1.7	4.3	0.1
USA	—	—	—	—	—
Australia	0.6	1.8	—	2.4	0.1
New Zealand	—	—	0.1	0.1	0.3
Japan	3.3	0.9	1.1	5.3	1.6

— negligible or nil.

Table VII–3

ASSUMED PRICE ELASTICITIES OF DEMAND FOR COFFEE, TEA, AND BANANAS

	Coffee	Tea	Bananas
BLEU	–0.4	–0.2	–0.7
France	–0.4	–0.2	–0.7
Germany (F. R.)	–0.4	–0.3	–0.7
Italy	–0.6	–0.3	–0.7
Netherlands	–0.4	–0.4	–0.7
Austria	–0.5	–0.3	–0.7
Denmark	–0.4	–0.3	–0.7
Finland	–0.6	–0.3	–0.7
Norway	–0.4	–0.3	–0.7
Sweden	–0.4	–0.3	–0.7
Switzerland	–0.4	–0.3	–0.7
UK	–0.3	–0.2	–0.7
Canada	–0.3	–0.2	–0.7
USA	–0.3	–0.2	–0.7
Australia	–0.3	–0.2	–0.7
New Zealand	–0.3	–0.2	–0.7
Japan	–0.5	–0.2	–0.7

countries, and the same estimating procedure was followed. The assumed values of the elasticities are given in Table VII–3. Table VII–4 gives the figures for total charges on which our estimates were based.

VII.4 THE RESULTS OF FREE IMPORTING: COMPETING AGRICULTURAL PRODUCTS—SUGAR

The consequences of a tariff abolition are less easy to estimate in the case of imports which compete with domestic production than in the case of noncompeting imports. It is not difficult to calculate the loss of government revenue, but the increase in imports will depend upon two factors:

(i) the increase in total consumption; and
(ii) the changes in domestic production and supply.

Table VII–4

TOTAL CHARGES ON COFFEE, TEA, AND BANANAS
AS PER CENT OF IMPORT PRICE

	COFFEE		TEA		BANANAS	
	Non-preferential	Preferential	Non-preferential	Preferential	Non-preferential	Preferential
BLEU	—	—	19	17	27	12
France	51	33	20–30	16–24	20	15
Germany (F. R.)	94		105		4	
Italy	101		62	52	39	36
Netherlands	—		11	9	20	5
Austria	26		39		36	
Denmark	30		24		1	
Finland	160		80		1	
Norway	—		11		18	
Sweden	15		7		19	
Switzerland	14		13		27	
UK	5	2	4	—	12	—
Canada	4	—	14	—	7	
USA	—		—		—	
Australia	8	8	6	6	21	5
New Zealand	3	—	2	—	12	3
Japan	43		48		20	

— negligible or nil.

The employment effect also has to be considered. The most important agricultural commodity which is both imported and produced locally in the developed countries is sugar. The results of our calculations with regard to this product are shown in Table VII–5.

The basic information required is the same as that described in the preceding section under items (i) to (v); in addition it is necessary to ascertain (vi) domestic production, (vii) employment per unit of production, (viii) exports, and (ix) price elasticities of domestic supply. It is obvious that the last mentioned item in particular presents a serious problem for statistical investigation. Unpublished studies by one

Table VII–5

ESTIMATED EFFECT ON GOVERNMENT REVENUE, ON IMPORTS, AND ON EMPLOYMENT OF THE ABOLITION OF TOTAL CHARGES ON SUGAR (1959 data)

	Loss of Govt. Revenue as Per Cent of Total Indirect Taxes	Increase in Demand in 1,000 Tons	Decrease in Domestic Supply in 1,000 Tons		Increase in Imports in Millions of Dollars		Average Increase in Imports as Per Cent of Total Imports	Percentage Decrease in Production and Employment		Average Decrease in Employment in Sugar Refining in Thousands
			Ass. 1	Ass. 2	Ass. 1	Ass. 2		Ass. 1	Ass. 2	
BLEU	1.2	13	167	231	11.3	15.4	0.4	72	100	n.a.
France	0.9	132	692	870	105.5	121.5	2.3	80	100	28.3
Germ. (F. R.)	0.5	40	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy	3.5	114	1,021	1,247	96.5	115.7	3.2	82	100	18.3
Neth.	6.4	47	365	503	26.0	34.7	0.8	72	100	9.2
Austria	1.8	24	189	282	23.0	33.0	2.5	66	100	n.a.
Denmark	—	7	117	176	8.2	12.1	0.6	40	60	1.4
Finland	3.8	19	41	43	5.9	6.1	0.1	96	100	n.a.
Norway	0.3	2	no production		0.2	0.2	—	—	—	—
Sweden	1.5	12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Switz.	2.3	10	13	22	2.3	3.2	0.1	47	70	0.3
UK	2.3	147	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canada	0.5	19	55	83	6.3	8.7	0.1	37	55	1.4
USA	0.3	162	380	566	64.5	86.6	0.5	15	22	5.6
N. Zeal.	1.0	3	no production		0.2	0.2	—	—	—	—
Japan	5.4	98	102	146	17.0	20.7	0.5	70	100	n.a.

— negligible or nil.
n.a.: not available, or impossible to estimate.

Assumption 1: Price elasticity of domestic supply 1.6.
Assumption 2: Price elasticity of domestic supply 2.4.

of the authors, J. Tinbergen, reveal the existence of great regularity in the shape of the frequency distribution of production costs of industries in the agricultural sector and in the manufacturing sector.[1] Assuming that the market price is equal to the cost of producing the last unit of output, the price elasticity of supply would tend to be around 2 in many branches of production. In the case of the production of sugar from sugar beet, the price elasticity of supply was assumed to be 1.6, and, alternatively, 2.4.

With the help of these supply elasticities, the impact of an abolition of import duties on domestic production was calculated; it was assumed that the price received by domestic producers would fall by the same amount as the import duties. Several countries in our group relied predominantly or exclusively on import quotas as a means of protecting their domestic sugar industry. Obviously, the above procedure, which postulates a tariff reduction, could not be followed for these countries. For this reason the effect on domestic production of an abolition of import duties could not be estimated for Germany and Sweden. The United Kingdom was excluded because of her particular position in world sugar trade and in the Commonwealth Sugar Agreement. The estimates of the impact on production in the remaining countries are liable to substantial errors. They suggest, nevertheless, that an abolition of import duties would mean the end of most, if not all, sugar production in Europe and Japan. Complete abolition might therefore be considered too drastic a measure; it should be remembered that in Chapter 8 only a reduction of import duties is proposed.

The effect on employment was supposed to be proportional to the impact on production. It should be noted that the employment effect could be calculated in absolute terms for sugar refineries only. An element of uncertainty in this respect is introduced by the fact that sugar can be imported either raw or refined. Here the maximum impact was estimated, i.e., we assumed that only refined sugar would be imported in the future. It is not accurately known how many people in the agricultural sector are dependent on beet sugar production; however,

1. This regularity can be indicated by stating that the cost of production at the ninth decile of the cumulative frequency distribution of production costs (i.e., the cost of producing the 90th unit out of total production of 100) is 50 to 100 per cent higher than the cost of production at the first decile (i.e., the cost of producing the 10th unit). The empirical evidence comes from industries with relatively many independent production units.

Table VII–6

IMPORT DUTIES, INTERNAL TAXES, AND ASSUMED PRICE ELASTICITIES OF DEMAND FOR SUGAR (duties and taxes as per cent of import price)

	IMPORT DUTIES[a]			
	Non-preferential	Preferential	INTERNAL TAXES	PRICE ELASTICITY OF DEMAND
BLEU	81	67	31	0.3
France	99	88	12	0.4
Germany (Fed. Rep.)	0		36	0.4
Italy	105	88	122	0.6
Netherlands	81		107	0.4
Austria	71		2	0.4
Denmark	33		0	0.2
Finland	151		0	0.5
Norway	0		11	0.3
Sweden	0		60	0.3
Switzerland	41		0	0.3
United Kingdom	30		55	0.3
Canada	30	17	11	0.3
United States	10		11	0.3
New Zealand	41		0	0.3
Japan	78		86	0.6

a. Weighted averages for raw and refined sugar.

as sugar production is usually not the sole activity of farmers in the developed countries, it may be supposed that the agricultural population — even in the case of a complete elimination of beet sugar production — could shift gradually to the cultivation of other products, albeit with some difficulty.

The import duties, internal charges, and price elasticities of demand which underlie the present estimates are given in Table VII–6.

VII.5 THE RESULTS OF FREE IMPORTING: COMPETING MANUFACTURED PRODUCTS– COTTON GREY GOODS

The estimation of the effects of a tariff and revenue abolition in the case of a manufactured item proceeds in principle along the same lines

as in the case of an agricultural commodity. The procedure described earlier was applied to one of the typical products of the manufacturing industry of several developing countries, i.e., to cotton grey goods. However, there were a number of complications, mainly stemming from the fact that cotton grey goods are an intermediate product rather than a good for final consumption.

The direct impact (through substitution) on imports and on domestic production — of the improved competitive position (lower price) of imported cotton grey goods — is fairly easy to estimate; there is a complete identity with the case of the preceding section. Only the indirect effect of the greater consumption of the commodity cannot be measured directly. It was assumed that the price of cotton grey goods (as an intermediate product) was equal to 0.3 of the price of the final product (cotton fabrics), so that lowering the price of cotton grey goods by a certain percentage would mean lowering the price of cotton fabrics by only 0.3 of that percentage (the reference is to prices at the wholesale level). Price elasticity of demand for cotton fabrics was put at –0.8 (again wholesale prices); this corresponds with an empirically derived elasticity of about –1.0 at the retail level.

Another problem was the fact that few if any figures were available for production and employment in the cotton grey goods industry. It is known, however, that there is very little weight loss in processing. Therefore the production of cotton grey goods (measured in tons) was assumed to be equal to the domestic production of cotton fabrics, taking into account the import and export of the former but neglecting inventories. Production was valued, where necessary, at an average (import) price of cotton grey goods of $1.5 per kilogram. In calculating the employment effect, it was assumed that labor inputs are the same per dollar of production value in the cotton grey goods industry as in the cotton industry as a whole.

As in the case of sugar, alternative assumptions were introduced with respect to the price elasticity of supply. Calculations were carried through based on an elasticity of 1.5, and, again, based on an elasticity of 2.0. The results of both computations are given in Table VII–7 (import effect) and Table VII–8 (employment effect). Because of insufficient information, some countries had to be dropped from the list.

As Table VII–7 shows, the import-increasing effect of an abolition of the duties on cotton grey goods is rather substantial, although the percentage increase in imports would not be greater than 1 per cent, except

Table VII–7

ESTIMATED EFFECT ON IMPORTS OF THE ABOLITION OF TOTAL CHARGES ON COTTON GREY GOODS (1959 data)

	Production of Cotton Grey in 1,000 Tons	Import Duty as Per Cent of Import Price	Decrease in Production in 1,000 Tons		Total Charges on Cotton Grey in Per Cent Ad Valorem	Increase in Consumption in 1,000 Tons	Increase in Imports in 1,000 Tons		Increase in Imports in Millions of Dollars		Average Increase as Per Cent of Total Imports
			Ass. 1	Ass. 2			Ass. 1	Ass. 2	Ass. 1	Ass. 2	
BLEU	64	13	11.0	14.7	13	1.3	12.3	16.0	18.5	24.0	0.6
France	183	18	41.9	55.9	51	11.1	53.0	67.0	79.5	100.5	1.8
Germ. (F. R.)	270	7	26.4	35.3	13	7.4	33.8	42.7	50.7	64.1	0.7
Italy	n.a.	15	n.a.	n.a.	15	3.6	n.a.	n.a.	n.a.	n.a.	n.a.
Neth.	54	13	9.3	12.4	13	1.5	10.8	13.9	16.2	20.9	0.5
Austria	14	26	4.7	6.3	28	1.0	5.7	7.3	8.6	11.0	0.9
Denmark	3	10	0.4	0.5	24	0.7	1.1	1.2	1.7	1.8	0.1
Norway	3	15	0.6	0.8	15	0.3	0.9	1.1	1.4	1.7	0.1
Sweden	18	13	3.1	4.0	13	0.9	4.0	4.9	6.0	7.4	0.3
Switz.	18	11	2.6	3.5	18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UK	143	18	32.7	43.6	18	8.6	41.3	52.2	62.0	78.3	0.6

n.a.: not available, or impossible to estimate.
Assumption 1: Price elasticity of domestic supply 1.5.
Assumption 2: Price elasticity of domestic supply 2.0.

Table VII–8

ESTIMATED EFFECT ON EMPLOYMENT OF THE ABOLITION OF TOTAL CHARGES ON COTTON GREY GOODS (1959 data)

	Est. Value of Production in Cotton Textile Industry in Millions of Dollars	Decrease in Cotton Grey Production in Millions of Dollars		Percentage Decrease in Prod. and Employ. in Cotton Textile Industry		Employees in Cotton Textile Industry in Thousands	Decrease in Employment in Thousands	
		Ass. 1	Ass. 2	Ass. 1	Ass. 2		Ass. 1	Ass. 2
BLEU	204	16.5	22.1	8.1	10.8	17[a]	1.3[a]	1.8[a]
France	580	62.9	83.9	10.8	14.5	118	12.7	17.1
Germ. (F. R.)	900	39.6	53.0	4.4	5.9	185	7.9	10.9
Italy	400	n.a.	n.a.	n.a.	n.a.	166	n.a.	n.a.
Neth.	212	14.0	18.6	6.6	8.8	50	3.3	4.4
Austria	55	7.1	9.5	12.9	17.3	24	3.0	4.1
Denmark	17	0.6	0.8	3.5	4.7	n.a.	n.a.	n.a.
Norway	15	0.9	1.2	6.0	8.0	4	0.2	0.3
Sweden	75	4.6	6.0	6.1	8.0	n.a.	n.a.	n.a.
Switz.	60	3.9	5.3	6.5	8.8	22	1.4	1.9
UK	670	49.1	65.4	7.3	9.8	210	15.4	20.6

a. Unreliable. n.a.: not available, or impossible to estimate.
Assumption 1: Price elasticity of domestic supply 1.5.
Assumption 2: Price elasticity of domestic supply 2.0.

for France. The figures of Table VII–8 are more interesting. They reveal that, on the average, employment in the cotton textile industry would go down by some 10 per cent; for some countries (France, Austria) the percentage is around 15. It goes without saying that these figures are not more than tentative estimates.

VII.6 SOME CONCLUDING REMARKS

The estimates presented here regarding the impact of a complete abolition of tariffs and duties on imports, government revenue, and employment must be considered very rough and tentative. A more refined analysis would certainly be worth while, particularly with respect to the employment effect. This would require, however, the full support and collaboration of the industries involved — in the present case, the sugar industry and the cotton textile industry — in both the importing and the exporting countries. A major ground for uncertainty is the limited information available about quantitative restrictions and their trade-reducing effect. It is believed, nevertheless, that the significance of the estimates surpasses that of simple illustration; the figures — however approximate they may be — give an impression of the order of magnitude of the various consequences of a removal of trade impediments.

As was noted in section VII–2, the present estimates indicate the maximum impact of free-market forces in that they are based on the most ambitious of targets: the complete removal of tariffs and internal duties. In a sense this aim is overambitious, as there is no need to abolish a general turnover tax which does not discriminate against the products of developing countries. Actually, the abolition of import duties and discriminating internal taxes will take place only very gradually, so that the impact on the economy will manifest itself in a piecemeal way over a number of years.

Studying the results of our calculations with these considerations in mind, it is apparent that the effects of a very substantial lowering or even a full abolition of import duties and discriminating internal taxes are not of such a magnitude as to present a serious problem to the developed countries of the West. On the contrary, under the present conditions of full employment and rapid economic expansion, it would not be difficult for the developed countries to adapt their economies to the changes that would occur in the event of a major move in the direction of trade liberalization. In the case of the sugar industry, and also,

but to a lesser extent, the cotton textile industry, some factors of production would have to adapt to the change by moving to other occupations or other specialties within the same branch. However, the small losses and inconveniences which would be involved are far outweighed by the gain to the nation as a whole (particularly to the consumers).

The analysis of this appendix has deliberately been confined to an evaluation of the sacrifices to be made or the changes to be effected in the developed economies. It should be kept in mind that the benefits of less restricted trade accrue not only to the developing countries but to the developed countries as well. These benefits take the form of lower consumer prices and, ultimately, an improved allocation of productive forces.

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