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The Developing Countries on the Crest of World Boom

The foreign trade situation of the developing countries has been showing considerable improvements recently, one indicator being the fact that their total currency reserves are now higher than at any time during the last ten years. This improvement took place in spite of relatively substantial increases of their imports, i.e. without curtailing of imports of resources from industrial countries which are so necessary for their development process. Is this marking the begin of a fundamentally new situation for these developing countries?

It has always been a matter of concern that all developing countries—notwithstanding differences in individual cases—have the common handicap of insufficient integration in the international division of labour—insufficient insofar as they cannot earn enough export proceeds by their own efforts, in order to buy as many goods from the industrial countries as would be necessary for a speedier economic growth. Up to now, the relative difference between the real per capita income in most developing countries and that in advanced countries has even increased, let alone the arrears in absolute values. The necessity of accelerated growth in the developing countries cannot be denied so long as this trend is continuing.

The insufficient integration of these countries in the international division of labour is also indicated by the continuous decline of their share in world trade. Their share in world exports alone fell from nearly 25% in 1958 to about 21% in 1965. Admittedly, this has been largely due to the change of the terms of trade, since export prices of developing countries fell, whereas those of the industrial countries rose. However, also quantitatively the exports of the developing countries could not keep pace. For that end, their export production program lacks the necessary differentiation both "horizontally" and "vertically"—i.e. the degree of processing. An export production program based mainly on raw materials is bound to have the consequence that these countries do not share in full the expansion of world trade induced by growth.

It is impossible to integrate the developing countries more efficiently in the international division of labour without considerably changing their export production pattern. Such a change, however, can only be achieved by a more lengthy development process for which an increase of foreign resources is a necessary, though not the only condition. The higher the imports of foreign resources are, the quicker can the development process take place. In this context, the policy of "aid by trade" will have to play a decisive role, but can only do so, if the existing export production assortment of the developing countries finds most favourable marketing conditions. Apart from institutional factors such as protectionism, they are determined to a very high degree by the business situation in the industrial countries.

This has been confirmed by the recent development. The stated improvement of the developing countries' foreign trade situation is mainly a result of the strong expansion of their exports to industrial countries. The developing countries are riding with the high tide of the boom in Northern America and Western Europe—as, vice versa, they were dragged down by the low tide of recession in 1958. It has often been said that a good economic policy is forming the best condition for a good social policy. In a similar sense one could say that good business and growth policy in the industrial countries is forming a very important condition for a speedy development in the developing countries.

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