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## Foreign trade favours developing countries

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the defective highway network, the construction of reservoirs for power production and irrigation schemes are surpassing considerably the country's economic conditions and financial possibilities.

In spite of all promises the Government was not able to maintain monetary stability. Cost of living rose by 17% within the past year. Therefore, in order to prevent the development of a deficit in the balance of payments, as caused by such a policy, stabilisation measures were soon taken—particularly in the field of import taxation of luxuries. However, the simultaneous price decline of raw materials important for exports opposed these measures to such a degree that the overall economic development seemed to be endangered extremely.

#### **More Favourable Future Prospects**

But meanwhile this situation has become somewhat more hopeful again. For, on the one hand, the Government's stabilisation measures have become effective and, on the other, the foreign exchange income from iron, copper and fish-meal increased more than anticipated. And finally, in spite of a considerable reduction of the Central Bank's gold and foreign exchange reserves, those of the private banks continued

to rise. Taking into consideration the foreign trade results and curtailments of the budget the price increase is reduced to 7% in the period between June, 1965, and May, 1966, and most of it still falls to the share of 1965.

If thus a critical situation seems to have been mastered with comparatively simple instruments, new dangers are threatening caused by Government expenditure. For apparently expansion policies after having just been slowed down are to be continued now.

After cuts in expenditure by 7.5% in the past fiscal year, the budget for the coming year provides for such a multitude of programmes and projects that according to cautious estimates expenditure will rise by approximately 20%. However, the possibility of budget reductions through Congress should not be ignored. This body should not be too much inclined to co-operate unconditionally with the Government. A partial compensation for the planned expenditure increase will be brought about by favourable catches of fish, the at present rather efficient competitiveness of the processing industries and the price increase of minerals and metals. For all these reasons Peru could—at least in the near future—avoid the risk of an inflation and the impediment of a steady overall economic development.

## **Foreign Trade Favours Developing Countries**

By Dr Lodovico Groja, Rome

**T**oday, international trade forms a worldwide network of extremely extensive and complex relations, which are not to be considered as an independent economic event. In fact they involve a much wider significance and greater implications for all parties concerned, referring in particular to their economic and social development in relation both to the inflow and outflow of goods.

In such a network, a rôle of increasing importance is played by the so-called "emerging or developing areas", whose rate of progress depends to a great extent on their ability of trading with other countries. Without going into details about the functions of foreign trade as a development factor, suffice it to say that imports into "emerging countries" consist at an early stage of manufactured goods destined to satisfy development needs, both human and structural, in certain essential fields. Later they tend to change gradually, as the demand for capital goods and technical know-how increases, so that eventually they reach a second stage, when the purchase abroad of those products that can be manufactured locally is partially or completely abandoned.

Protection for these "newly born" industries is strictly necessary during their early growth. This is a complex problem and it requires the assistance of more industrially advanced countries for supporting and developing those enterprises and productive activities, which importing countries recognise as having a true social value.

Different stages can also be observed in the development of exports from "emerging" countries, which at first are made up simply of raw materials naturally available, sometimes almost as a monopoly. During a subsequent stage some of these materials may be exported as semi-manufactured products, after having undergone partial processing.

In all cases, whatever their composition may be, exports assume a fundamental and determining importance for an accelerated evolution of the economy in the countries concerned, as they allow the procurement of the necessary means for the purchase abroad of capital and essential consumer goods and furthermore they support the formation of a basic industrial set-up, as a platform for further steps in the same direction.

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From these brief considerations it is clear that the dynamics of the development of these developing countries depend basically on an increasing volume of foreign trade, with the cooperation of industrialised nations, to be granted without pressure and exclusiveness by both parties.

## Trends of Foreign Trade Relations

It is interesting to consider, now, up to what point world trade policy in the past ten years has conformed to these increasing needs of cooperation between industrialised nations and countries progressively "emerging" into the international sphere.

From a preliminary examination of international statistics<sup>1</sup> concerning the two-way trade between the two groups of countries, during the period 1953-63, it appears that the curve of trade development on the whole undergoes a constant increase of over 52% in value. This developing trend shows in its first stage, from 1953 to 1956, a trade balance with a surplus in favour of the developing countries, followed by a second phase (1957-1961) in which such trend registers a clear reversal with a deficit for such countries. During the past few years the trend appears to be evolving towards a better balance in the trade between the two areas.

<sup>1</sup> Based on figures published in the volume "International trade in 1963" by GATT.

The trade balance between the two groups, in fact, shows in 1962 a deficit of only \$ 285 million for the developing countries, against \$ 1,700 million in the preceding year and in 1963 a surplus of over \$ 500 million, followed by a small unfavourable balance of \$ 195 million in 1964.

This tendency towards a better balance is also confirmed by an examination of the classes of goods exchanged by the two groups, in the period 1958 to 1963. The breakdown of the two-way flow of goods shows that industrialised countries supplied finished products, particularly capital goods, textiles and transportation means, while developing countries exported primary products especially foodstuffs, fuels and raw materials. Together with a better balance between the various classes of exports by industrialised countries, the opposite group has increased its main supplies of foodstuffs and fuels and of textiles as well.

It can be concluded that in developing countries an industrialisation process is on the way also capable of supporting an improved farm production in the sectors of greater interest for their general economic welfare.

Touching on this subject, it is interesting to examine what influence foreign trade has exerted on the agricultural output in the various non-industrialised areas, and the extent of their domestic consumption.

A comparison between production, foreign trade and consumption of agricultural products in the periods 1934-'38, 1953-'55 and 1960-'62, shows that the principal developments in this field have, in relative terms, involved the importation and concurrently the internal consumption of agricultural products. It should also be pointed out that in absolute terms, the respective position of the above economic factors of agricultural development has reached a suitable starting point, as the first place is held by value of production, the second by domestic consumption, the third by export capability and the fourth by the value of imports.

The most recent trend in trade relations between developing and industrialised countries, with a higher rate of increase of 9% in 1963 on the overall value of world trade (the volume in the same year was up 8%), seems essentially due to a rise of the average price of basic raw materials. In other terms the basis of the two way trade between primary and industrial products appears modified to a certain extent in favour of developing countries (prices of primary products were, in fact, in the preceding years increasingly depressed).

The goods which have contributed the most to export expansion in the various developing areas are petroleum products (+ 20% due to major exports from Libya and Algeria and also the Middle East), sugar (+ 20% in value in spite of a shrinkage in volume) and such other commodities as wool, oilseeds, cotton, meat and coffee.

The overall increase (+ 9% in 1962) of exports from developing countries was mostly due to higher sales to Japan (+ 25%, mainly from Asiatic countries) and

to the Common Market countries (+ 11 %), while smaller increases were shown in the exports towards North America and the EFTA countries mainly originating from Australia, New Zealand, South Africa and other African territories.

Total imports by developing countries register on the other hand a more limited progress (+ 6 % in 1962), mainly on account of lower purchases, respectively, from Europe by Latin American countries, from North America by African countries, while the reduction of the trade deficit of countries in South East Asia was caused, essentially, by larger exports to all destinations.

### Foreign Trade and Economic Cooperation

The importance of a favourable balance in foreign trade, generally recognised by all countries as an important contribution to the maintenance of a levelled balance of payment in the overall picture of international relations, assumes a particular significance with respect to developing countries, as their "goods and services" accounts normally register heavy deficit balances. It is of capital importance, therefore, for developing countries to sustain their currency position by exports of goods that widely exceed imports.

The trend of these last years, however, does not give a sufficient guarantee for the future development of "emerging countries".

A close economic and technical international cooperation, including financial aid, appears necessary in order to implement their productive assets and investments.

Many international organisations have been created to elaborate and make available the means necessary to assist less developed countries in the evolution of their economic structures. These means have been worked out along two converging lines.

The first aims to grant an adequate support to the external trade of the countries concerned and consists in the issue of a series of proposals and recommendations on the problems of basic raw materials (improvement of production methods and sales organisation, price stabilisation, agreements intended to guarantee

and increase their consumption by industrialised nations) and the promotion of industrialisation. This is worked out through all possible protection and assistance, including financial aid, for "newly born" industries, and by the granting of customs facilities through a system of preferences (selective and decreasing) and the abolition of customs and other charges that still hinder the flow of goods originating from developing areas.

A second instrument, rapidly growing in importance and scope, is constituted by the group of initiatives known as "technical assistance" and includes those particular activities that tend to promote a higher level of economic organisation—both in the manufacturing and political-social sphere—carried out through the personal work of responsible experts, appointed by international organisations or by agencies and enterprises of single countries directly interested in the development of particular economic initiatives in the areas to be assisted.

Summing up, foreign trade in the economic cooperation schemes does not assume an independent position, but is transformed and activated, to become a preliminary basis and in due time a consequence of a general evolution process.

Economically stronger nations should, therefore, become aware of the essential functions of foreign trade as a development factor in the economy of "emerging" countries; an awareness that implies overlooking certain perplexities related to the growing process of developing countries, from a world-wide and long-range point of view, in the true interests of both parties.

Italy, within the limits of its possibilities, has since the end of the last war, based its policies of international trade on the above principles, by contributing practically and rather consistently to technical and financial assistance.

This action has also been supplemented by stimulating in Italian enterprises a greater consciousness of the opportunity of new ventures in developing countries, in order to advance and diversify their economic structure.



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