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Development Policy

Export Trade – A Key Problem

by Dr Sigvard Clasen, Frankfurt *

Economic evolution in the developing countries is burdened by an indispensable task, which had never been so compelling in the past of today's industrialised countries, when those started to build up their industries, as it is for the former now: the inexorable compulsion to export. Both the importance and the difficulties involved are of such magnitude that it is not only the development policy of the less developed countries but also development aid undertaken by industrialised nations which must not disregard them. But, up to now, this need has never been adequately met. The required changes become imperative for the work of German technical aid, which is offered free of interest and as a non-repayable grant-in-aid, and also for German capital aid, granted in the form of foreign exchange credits. They have to be organised, co-ordinated, and their aims and methods made subservient to a great overriding concept, in order to fill the indicated need. The present article is devoted to the discussion of this problem.

Foreign Exchange Earnings ...

It has been stated that industrialisation of developing countries is dependent on their exports, due to the nature of effects involved in them. Important effects of this kind are:

- ☐ Improved Foreign Exchange Earnings;
- ☐ Increased Supplies in a Widening Market;
- ☐ Increased Productivity, Incomes, and Employment.

Without earning foreign exchange, industrialisation of developing countries cannot make progress. For the desired developments of agriculture and industry require the application of capital goods and skilled staff with an adequate technological training, which are scarce in developing countries. During most of the foreseeable future, both the starting conditions of industrialisation and the economic aims pursued by developing nations make imports of these assets from industrialised countries indispensable. The developing nations' own unaided efforts to accumulate real capital through local savings are insufficient to promote their economic growth under the conditions in which they exist.

It is equally insufficient to use foreign exchange credits for building up profitable development projects, if interest charges and repayment obligations involved cannot be met by foreign exchange income flowing from the same, or other, investment projects. The task is made harder in so far as it does not consist of increasing exports pure and simple, but of exports catering for the demand of (industrialised) countries whose currency payments will pay for the demand created by economic development in the less developed exporting country.

... as the Basis of Industrialisation

That foreign exchange earnings make an important contribution to enable economic develop-

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ment to proceed is shown by the deficits on foreign trade account, which have been characteristic and chronic through many years for a great number of developing countries. These deficits give evidence of the insufficiency of the volume of exports, hitherto reached. As imports have been higher than exports for years and years, and developing countries have continued to accept foreign exchange credits, implying mounting interest payments and redemption obligations, numerous nations have been facing increasing difficulties in their capacity to transfer. True, not all the balance-of-payments problems of developing countries have been caused by their development—for example, some foreign exchange earnings have been used for economically barren purposes (e.g. defence spending abroad), and where they have been used for productive purposes, they often have not been channelled towards economically optimum targets. However, discussing these questions realistically and not measuring achievement with the impracticable yardstick of theoretical excellence in performance—which industrialised countries do not apply to themselves, either—it still remains true that the gap in foreign exchange earnings, caused by insufficient export capacities, is one of the major problems of development policy.

The institutions of the Western World which cater for multilateral and bilateral capital aid requirements have, therefore, come to pay growing attention to the need to close this gap, over recent years, through the conditions attached to their lendings. An important case in point is IDA (International Development Association), a subsidiary credit instrument of the World Bank, set up in 1960, which has been granting „soft“ project credits to developing countries with weak balances of payments, in most cases free of interest, and with cheap commission fees charged, for relatively slow repayment (redemption periods up to 50 years with 10 years of grace). In addition, capital aid granted by the DAC countries (members of the Development Assistance Committee of the OECD) has adapted itself, over the last 10 years or so, in growing measure to the balance-of-payments situation of developing countries, by „softening“ the standard conditions.

Bigger Supply in a Growing Market

The second effect listed above, that of increasing goods supplies in the home market through export possibilities, is due to the advancing technology of industrialised countries. Here technological advances have raised productivity, in part, through the achievements of mass production, and generally because of the increas-

ing scarcity of labour and of rising wages, by introducing new manufacturing processes, which often involve high capital intensity and can be operated profitably only at relatively high annual unit capacities. When developing countries adopt such manufacturing processes, the minimum capacities required for operating them will frequently swamp their home markets with an over-supply of goods. Thus, exports may serve as a safety valve for enabling the exporting country to build up a structure of production which caters both for home demand and for the employment of a modern technology. Opening up outlets for exports thus points as to where investments should be directed, not only for supplying goods to foreign but, at least in part, also to the home markets. Vice versa: if export outlets are insufficient, this will prevent industries with relatively high minimum unit capacities from supplying the inland markets with needed goods, and the effect will be, indirectly, correspondingly higher imports, causing increased foreign exchange expenses or—which is the more usual consequence—a failure to meet the existing domestic demand.

Lack of Skilled Labour

In the first instance, it must be emphasised here that most developing countries, in the absence of a cooperative international division of labour and of coordinated investment planning, are much too ambitious in the aims of their development policies, in view of their lack of technological knowhow and the smallness of their skilled labour forces. Broadbased industrialisation, which aims at self-sufficiency, does not only require adequate supplies of investment capital but also a relatively high level of training and knowledge which can grow only slowly as the effect of heavy investment in education, of practical experience of the workers at their places of work, of sufficient motivation for doing systematic work—all of which can only be the results of fundamental social and mental changes.

It has been the case far too often that insufficient vocational training of the labour force which has been asked to build up and later operate development projects has led to under-utilisation of the capital invested and to uneconomic production. In many instances, this has also caused short-term but repetitive interruptions of the technical processes of production. And finally—depending on which kind of technology is being used—this brings about inferior quality of the products manufactured and a high rate of goods to be scrapped. Existing weaknesses of their training system and of their technological knowledge thus makes it imperative that developing countries should restrict their in-

vestment programmes, as far as possible, to such branches of production which they can manage to build up and extend with their available skilled labour forces and within the scope of their short and medium-term training facilities. At the same time, they should seize every chance for exporting, in order to make themselves able to import goods and services and thus shape the basis for a well-balanced structure of market supplies.

Given an increased international division of labour, it would be possible, among other things, gradually to overcome the bottlenecks in the supply of skilled workers, technicians, and engineers and their adverse effects on income, the degree of employment, and productivity. Conversely, any given supply of skilled operators, who are scarce, by specialising for individual branches of production, which will be made possible through the international division of labour, will work towards higher income, employment, and productivity. This means that education policies ought to be directed by preference on well-defined branches of training and education.

The Necessity . . .

Rational export policies have therefore to be governed by a variety of guiding principles which set tasks, and create difficulties, for developing countries of a degree which present-day developed countries had not encountered at the beginning of their industrialisation. Economically, developing countries are thus "condemned" to foreign trade. In addition, their foreign trade, especially the export designed to earn the currencies of industrialised countries, must overcome a wide gap in their technological knowledge and abilities for building their economies on a secure foundation, and for gradually rising to the level of development attained by industrialised nations.

Promoting exports generally—as compared with production for home markets—will have to establish the principle that producers are willing to expose themselves to increased risks in the market, and to improve their propensity to invest. These risks considerably increase in exporting to industrialised countries for hard foreign currencies in particular, as those exports require the products of developing countries to meet the high standard of the world market regarding competitive prices, quality, and reliability of continuous supply. Moreover, when exporting to industrialised countries, developing nations are exposed to especially strong pressures, moving them to adopt modern production methods, which are sufficiently competitive through their high

capital component. This means that they have comparatively rarely a meaningful choice between building capital-intensive and labour-intensive capacities, even though their overall employment situation, or that of the region to which they direct investments, may cry out for investments which create a high degree of employment.

. . . of Export Promotion

There may be situations where the obstacles in the way of building up export industries that at the same time serve the home markets are much easier to overcome than those in the way of productions aiming mainly at earning currency of the industrialised countries. This is due to the fact that home demand for products in developing countries generally does not require such a high sophistication regarding structure and quality of the supply as in industrialised countries, which are, on that account, spoiled. Making export industries serve the provision of supplies for home markets may thus persuade the makers of development policies to conduct export promotion primarily through foreign trade cooperation and coordinated investment planning between developing countries. As demand in such countries shows a similar structure and similarly modest level of quality requirements, this precludes possible conflicts for a production that attempts to be directed both towards home markets and towards exports.

These particular obstacles to development, which developing countries must inevitably overcome if they want to operate purposeful export policies have often prevented their exports from reaping adequate success, especially for their manufacturing industries. The task to promote exports from developing countries must be solved by joint and coordinated efforts of both industrialised and the directly involved developing countries. The instruments which industrialised states can use to help are, among other things, the lowering of their tariff barriers and mainly assistance in identification, development, and marketing of export products.

Cooperation of Developing Countries

Whilst exports designed to earn foreign exchange must be built up with industrialised countries as partners, export industries designed to assist home markets should be promoted in the first place by self-aid of developing countries, through mutual agreements on trade and investments. Unfortunately, the experience of such economic cooperation among developing countries often has not been encouraging. Even most comprehensive formal agreements do not guarantee effective

integration—as can be seen from decisions made on investments by members of UDEAO (the West African Customs Union), consisting of the Ivory Coast, Senegal, Niger, Upper Volta, Mali, Mauritania, and Dahomey. A striking instance of non-cooperation, though not of massive importance for their home markets, is the production of safety matches which, over the past five years, has been clearly dominated, in the countries named, by the trend towards national self-sufficiency. The match factories built in the Ivory Coast and in Senegal, taken together, might have been capable of supplying the complete needs of the Customs Union, but since 1966, also Upper Volta, Mali, and Dahomey have set up their own safety match production. In 1968, also Niger had started to study plans for a match factory, and only Mauritania, of all the UDEAO members, has so far resisted the trend towards match autarky. Developments of this kind usually cause surplus capacities, whose production remains unprofitable, and in most cases, such investment has been paid for by capital imports that have cost scarce foreign exchange.

Decisions to make such relatively inefficient investments have varied causes. In the case of safety match manufacture, the reason may be the fiscal interest in increasing tax revenue. In other cases, such projects are based on the desire to enhance national prestige. But almost always, one of the underlying causes is also the dearth of economically promising project ideas. That is why a systematic search for viable projects and the finding of rational possibilities for them has become one of the most important tasks of a deliberate development policy. It would be of great advantage to use, for this purpose, the possibility of analysing input/output connections between differing sectors of the economy.

The Fight for Export Outlets

All these considerations may be generalised in the statement that developing countries are dependent on their exports—but this generalisation does not fully apply to all of them. There are developing countries which have, at least for certain forms of production, a more adequately skilled and equipped labour force than others (e.g. Morocco). Others can exploit ample raw material deposits which up to now made it possible to earn sufficient foreign exchange without specialised export promotion for the manufacturing sector (e.g. Venezuela). Finally, there are also countries whose numerous population and purchasing power favour them to set up the required minimum of technological and economic capacities without resorting to export for making their investments profitable (an example is Congo-Kinshasa).

On the whole, however, economic development is dependent on exports, which means that most developing countries must wage a long-term struggle for export outlets. The basic condition for this is that developing countries want to use all their energies to achieve an early catching up with the industrialised countries in regard to their income per head of population. In the second instance, there comes the need, which is no less important, for these countries to enter into international economic ties, which runs counter to their widespread economic nationalism that influences their planning decisions.

How Industrialised Countries Can Help

If industrialised countries are in earnest about supporting the aim of speeding up economic development as much as possible, they must assist their less developed partners not only by offering them the usual foreign exchange credits and grants-in-aid to support their national budgets but also by an effective partnership in promoting their export trade. Foreign exchange credits may replace currency-earning exports only in the short term and as transitional measures. Apart from the burden of loan interest, as soon as repayments start to become due, they also require correspondingly high export capacities of developing countries. For this reason, investment aid which consists only of credits will not fill the need for long-term planning of development aid. Promotion of development over the longer term through planning both its aims and its methods demands imperatively the systematic promotion of developing countries' exports—so long as the instrument of foreign exchange credit is maintained. For organising bilateral capital aid, this would have to include, among other things, supporting multilateral coordination, and technical aid would have to be deliberately directed towards supporting export production. If these enlarged aims are neglected, this will probably lead to continuing foreign currency indebtedness in many developing countries so that at least in so far the credit aid will have to flow continuously into foreign exchange grants-in-aid, which will not be repaid. Especially if the annual volume of capital aid continues to expand, this raises the question, whether the DAC countries ought not, instead of "softening" their credit conditions for bilateral development aid tied to individual projects progressively by gradual steps, by means of loan consolidation, or without it, to change the whole system and replace it by offering foreign currencies which carry no interest and are not to be repaid in foreign exchange but would also be tied to individual projects.