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AN EXAMINATION OF DR. RAUL PREBISCH'S  
NEW TRADE POLICY FOR DEVELOPMENT

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## A B S T R A C T

In their efforts to expedite their economic development, the developing countries find themselves in continuous search for effective ways and means to achieve this end. In the United Nations Conference on Trade and Development, they focused on the need for a New Trade Policy for Development which aims inter alia at introducing fundamental changes into the prevalent trends in world trade. This policy rests on the contention that international trade under prevalent trends has so far operated to the detriment of growth in the developing countries, since the distribution in the gains from trade has been largely in favor of the developed countries. The contention seems to find some support in the trade situations of many developing countries.

The present thesis reveals that the evidence indicating the trade difficulties of the developing countries is not sufficient to support the contention that trade has operated to the detriment of economic development in these countries. Moreover, attempts to effect basic changes in the prevalent trends in world trade may not be feasible for two main reasons. In the first place, the principal developed countries are likely to oppose strongly these changes because they involve major modifications in their national economic policies. Secondly, it is not certain whether the fruits accruing to the developing countries as a result of these induced changes

(assuming that they are effected) can make significant contributions to economic development in all the poor parts of the world.

Nevertheless, the New Trade Policy for Development still suggests the need for a more effective system of international economic cooperation to tackle the problems of trade and development. Planning for development on an international level may provide a key element in this system. An increasing flow of aid from the developed to the developing countries seems to be indispensable to any system of international economic cooperation for economic development, regardless of deliberate attempts to alter the terms, composition and pattern of international trade.

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## CHAPTER I

### THE RELATION OF INTERNATIONAL TRADE TO ECONOMIC DEVELOPMENT IN THE DEVELOPING COUNTRIES

#### A. THEORETICAL ANALYSIS VERSUS HISTORICAL EVOLUTION

The importance of international trade in the field of economic development was recognized long ago by the originators of the classical theory. The classical economists were able in particular to observe the possibility of growth transmission through trade among countries with varying degrees of development and culture. They argued that "the opening of foreign trade ... sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in people."<sup>1</sup> They also held that the principle of comparative advantage, which gives rise to specialization and trade and allows various trading countries with different factor endowments to reap the benefits of the international division of labor, may also bestow other indirect advantages on the trading partners. Thus foreign trade, according to classical theory, can have direct as well as indirect benefits.

The direct type of benefits, better designated in Mill's words as "the direct economical advantage of foreign trade" gives rise to "a more efficient employment of the productive forces of the world."<sup>2</sup> This efficient employment of productive

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1. J.S. Mill, Principles of Political Economy, (1st ed. 1848; London: Longmans, 1926), Vol. II, Book III, chap. 17, p. 133.

2. Ibid., p. 131.

forces in turn allows the trading country to specialize in the production of the commodity in which it has a comparative advantage, i.e., the commodity which it can produce relatively cheaply, and demand imports in which other countries have a comparative advantage by exporting the said commodity. The well-known classical example of a two-country two-commodity model, with certain modifications and refinements introduced to **make** it more generally applicable, still serves in contemporary economic literature as the standard analysis of the direct effects of foreign trade on trading partners.

Now we turn to the indirect effects or benefits of international trade. Here the classical economists were, to a certain extent, aware of the dynamic element which accompanies the impact of international trade on economic development. This awareness enabled them to interpret trade as a dynamic factor which widens the extent of the market and the scope of the division of labor, permits the use of machinery on a larger scale, stimulates innovations, over-comes technical indivisibilities, raises productivity and allows the trading country to enjoy increasing returns and economic development.<sup>1</sup> Mill made much of this point when he wrote in his principles, "the introduction of foreign arts which raises the returns derivable from additional capital to a rate corresponding to the low strength of the desire of accumulation; and the importation of foreign capital which renders the increase of production no longer

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1. Hla Myint, "The Classical Theory of International Trade and the Underdeveloped Countries", Economic Journal, June 1958, pp. 318-319.

exclusively dependent on the thrift or providence of the inhabitants themselves while it places before them a stimulating example, and by instilling new ideas and breaking the chain of habit, if not by improving the actual condition of the population, tends to create in them new wants, increased ambition and greater thought for the future.<sup>1</sup> In more than one place, Mill emphasizes that "these indirect effects ... must be counted as benefits of a high order."

The evolution of conventional trade theory from its early crude classical version to its refined neo-classical form has witnessed an apparent tendency to associate international trade with economic development such as to make the former a crucial factor in the acceleration of the latter. It has become almost a familiar assertion to regard trade as an engine of growth and an impetus to economic development in the less advanced parts of the world, where the introduction of modern techniques and foreign arts, together with the direct economical advantage resulting from the international exchange of commodities, can perform the miraculous task of achieving a break-through into self-sustaining growth. This optimistic inclination to regard trade as a powerful engine of growth transmission has been widely held for two main reasons. The first is that it seems to give more substance to the doctrine and practice of free trade in general, and the second is that the experience of the nineteenth century in this respect has provided factual evidence

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1. Mill, Op.cit., Vol. I, Book I, chap. 13, p. 244.

of the possibility of development through trade.

Yet this optimistic interpretation of trade in relation to economic development, according to some writers, appears to be unwarranted in the case of the developing countries today.<sup>1</sup> They argue that the gap between the rich and the poor seems to be widening as a result of participation in the world economy, contrary to the expectations of free traders. To the critics, the rosy picture of international trade as a powerful mechanism for spreading development from the more developed to the developing parts of the world has thus lost much of its appeal. Instead, economic development seems to be turning inwards and closeting itself in watertight compartments that are confined to the already developed and industrially advanced countries. The dual economy which dominates many developing countries shows, moreover, that even when the spark of economic development starts in one of these countries as a result of international trade it again tends to be closeted in watertight compartments; in this case the export sector of the economy where it has originated. Thus the practice of international trade along lines envisaged by conventional theory has been condemned on two grounds. The first is its apparent inability to transfer development from the rich to the poor parts of the world, and the second is its failure to help in creating a carry-over from the developed export to other lagging sectors

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1. This is the general view of such writers as Gunnar Myrdal, Raúl Prebisch and Hans Singer.

within the same economy.<sup>1</sup>

B. THE GAINS FROM TRADE AND THE GAINS FROM GROWTH

The foregoing discussion has purported to present in a nutshell some important theoretical and historical dimensions of the problem at hand. It has endeavored to show the critical attitude some contemporary writers and economists have toward conventional trade theory as it relates to problems of economic development in the developing countries. In short, the foregoing discussion seems to indicate the possibility of a conflict between the gains from trade as envisaged by traditional theory and the gains from growth. This means that part of the gains from growth in the developing countries goes to the developed countries as a result of participation in trade under prevalent world trends.

The most frequently cited demonstrations of this possibility of conflict draw heavily on the alleged relative decline in the prices of primary products compared to the prices of finished goods in the international market over the past few decades. On the basis of this alleged relative change in international commodity prices, there are said to be secular tendencies of a long-term deterioration in the terms of trade of primary products. A similar appeal is often made to the more conspicuous short-term fluctuations in the prices of primary commodity exports over the course of the business cycle to demonstrate the instability in the export proceeds of primary

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1. Gerald M. Meier, International Trade and Development, (New York: Harper & Row, 1963), pp. 158 - 159.

producers.<sup>1</sup> Accordingly, it is concluded that the long-run deterioration in the terms of trade of primary products exported by the developing countries together with the damaging impact of short-term fluctuations in the price and quantity of these products has impaired the developing countries' efforts to develop rapidly. In other words, economic growth in these countries has been retarded by international trade. Moreover, these demonstrations of the possibility of a conflict between the gains from trade and the gains from growth are often linked with a tendency toward external imbalance associated with the development process in the developing countries.<sup>2</sup> Underlying this trend is the widely-held belief that the world demand for primary products has been sagging while the demand for manufactured goods has been edging up.

The concern with the terms of trade in this fashion has attracted considerable attention since the exporters of primary products are usually, but not necessarily always, poor underdeveloped countries, while the exporters of manufactured goods are usually rich industrially advanced countries. Hence the possibility of a conflict between the gains from trade and the gains from growth has assumed the form of an unfair distribution in the gains from trade in favor of the developed countries—the traditional exporters of manufactures — at the expense and

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1. Gotlfried Haberler, "Terms of Trade and Economic Development" Economic Development for Latin America, by H.S. Ellis, (New York: Macmillan Co., 1963), pp. 280 - 291.

2. See specially the writings of Gunnar Myrdal & Raúl Prebisch on this point.

even to the detriment of growth in the developing countries -- the traditional exporters of primary products. What made the situation even worse for the developing countries is that the deterioration in their terms of trade has occurred at a time when their need for imports of manufactures and capital goods has become very urgent as a result of their attempts to expedite the pace of their economic development.<sup>1</sup>

Needless to say, any possibility of conflict between trade and development poses a very serious problem on the international economic and political level. It immediately suggests the strong need for a better understanding of the relation of international trade to problems of economic development in the less advanced countries. The reasons for the necessity of sober understanding and immediate action in this intricate field are numerous and deserve considerable reflection. For the purposes of the present discussion however, three such reasons are of special importance.

The first is that we are living in the era of concern about economic development. The awareness of the gap between the standards of living in the advanced and backward parts of the world has been growing rapidly in recent years. So much so, that the United Nations has adopted, as a target for its present Development Decade, 1960-1970, a minimum rate of growth of 5 per cent per annum in the incomes of the developing

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1. U.N. Conference on Trade and Development, A Review of Trends in World Trade, paper by the Bureau of General Economic Research and Policies of the UN Secretariat, Geneva, 1964, pp. 15 - 16.



countries to be achieved by 1970. Yet the experience of many developing countries in this connection has not been encouraging so far.

The second reason is the importance of foreign trade to most developing countries. This importance stems inter alia from their increasing need for imports of manufactures and capital goods to speed up the pace of their economic development as well as from the fact that many of them earn the bulk of their foreign exchange from exports characterized by a preponderance of primary commodities.

The third, and possibly the most important, reason is that some serious and far-reaching implications and policy conclusions have been formulated on the basis of the alleged possibility of conflict between trade and development. These range from an outright condemnation of international trade on the ground that it has operated to the detriment of the developing countries, to more moderate pleas for installing new trade policies capable of catering to the needs and requirements of economic development in the developing countries. Among the first extreme set of policy conclusions comes the opinion that "it is not self evident but indeed very much up to doubt whether today a freer trade would necessarily lead to less international inequality or whether in general trade between developed and underdeveloped countries has ever had that effect."<sup>1</sup>

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1. Gunnar Myrdal, "Development and Underdevelopment", in National Bank of Egypt, Fiftieth Anniversary Commemoration Lectures, (Cairo: NBE, 1959), p. 10.

Many scattered attempts, which can be grouped under the second set of policy implications, have been undertaken on regional and international levels to tackle the problems of international trade in relation to economic development. Among these attempts one may mention tariff negotiations within the framework of the General Agreement on Tariffs and Trade (GATT) between 1947 and 1961. Much will depend in this sphere on the success of the forthcoming GATT negotiations -- the so-called Kennedy round. Yet the most comprehensive effort to tackle the problems of trade and development besetting the developing countries today was undoubtedly the United Nations Conference on Trade and Development held in Geneva in 1964. It is to a brief description of the organization, purpose and Final Act of this Conference that we now turn.

C. THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development (UNCTAD) opened in Geneva on Monday March 23, 1964 and ended its work on June 15, 1964. The number of states, members of the United Nations and members of the specialized agencies, which were invited to participate in the Conference totalled 122.<sup>1</sup> The number of delegates representing the countries participating directly and indirectly in the Conference amounted to 1,500. The UNCTAD was held as a United Nations assembly

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1. Two countries, Somalia and Western Samoa were invited, but did not attend the Conference.

without a security council or an appeal to the right of veto. Each state participating in the Conference had one vote and decisions on matters of substance were taken by a two-thirds majority. Five major committees were formed to make studies and prepare reports. These committees met concurrently with plenary sessions.

Moreover, introductory statements delivered by various ministers and delegates lasted several weeks in plenary session.

As such, the UNCTAD can undoubtedly be regarded as one of the longest, largest and most important international conferences held on any economic subject since the second world war.<sup>1</sup>

#### 1. Purpose

The basic aim of the United Nations Conference on Trade and Development, as spelled out by U Thant, the Secretary General of the United Nations, is "to create an international trade environment that would facilitate the growth of developing countries, and not thwart it."<sup>2</sup> It has been realized by the UN Secretariat that the growth targets of the present UN Development Decade have a direct bearing on international trade and aid. The UNCTAD was therefore convened with the objective of

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1. "The Geneva Marathon Starts", The Economist, March 21, 1964, pp. 1123 - 27.

2. United Nations, Towards a New Trade Policy for Development, Report by the Secretary-General of the UN Conference on Trade and Development, New York: 1964, see preface. This report is referred to hereinafter as the UNCTAD Report.

providing" by means of international co-operation, appropriate solutions to the problems of world trade in the interest of all peoples and particularly to the urgent trade and development problems of the developing countries." Thus, the principal concern of the Conference is to examine and analyse, in the light of the prevalent trends in world trade, the inability of the developing countries to achieve a minimum annual growth rate of five per cent by 1970, a target adopted by the United Nations at the beginning of the present decade.

On the basis of its experience and studies in the field of trade and development, the United Nations has formed the conviction that the prevalent trends in international trade have not been appropriately conducive to the achievement of self-sustaining growth in the developing countries. Urged by its commitment to the general goal of improving the lot of all peoples and particularly that of the inhabitants of the less advanced parts of the world, and realizing that action in the field of trade and development is second to no other responsibility in the accomplishment of that goal, the United Nations "has convened a conference whose primary objective it is to point the way towards a new trade policy for development."

## 2. Final Act

The Final Act of the UN Conference on Trade and Development

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1. UNCTAD, Final Act, June 16, 1964, p.3.

2. Prebisch, UNCTAD Report, op.cit., introduction.

consists of three parts. The first, the preamble, gives a description of the background, the constitution and proceedings, the findings and reasons and the considerations surrounding the Conference in general. The second part, entitled a "consolidation of the recommendations of the Conference," includes sections on principles, general and specific, recommendations on particular aspects and special problems, institutional arrangements and a program of work. The annexes in the third part contain a description of the voting on the principles, the observations of delegations and other documents.

In the next few pages, a brief resumé of the first two parts of the Final Act will be given.

The states participating in the Conference and signatories of the Final Act declared at the very outset that their overall aim is "to promote social progress and better standards of life in larger freedom" as embodied in the UN charter, and "to seek a better and more effective system of international economic cooperation, whereby the division of the world into areas of poverty and plenty may be banished and prosperity achieved by all; and to find ways by which the human and material resources of the world may be harnessed for the abolition of poverty every where."<sup>1</sup> Accordingly, the said states, in a sense of human solidarity and with a view to helping the developing countries to achieve a break-through into self-sustaining economic growth in order

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1. UNCTAD, Final Act, op.cit., p.1.

to raise their levels of living, are resolved "to employ international machinery for the promotion of economic and social advancement of all peoples."<sup>1</sup>

A description of the most important findings and considerations facing the Conference is then given. In particular, the grave problems of trade and development besetting the less developed countries are examined.

Realizing that "the development of equitable and mutually advantageous trade can promote higher standards of living, full employment and rapid economic progress in all countries of the world," and recognizing at the same time that "the fundamental problems of developing countries are well identified and what is now required is a universal readiness to act and generally to adopt practical measures aimed at increasing exports and export earnings of developing countries and accelerating their economic development,"<sup>2</sup> the Conference has recommended the following fifteen General Principles to govern international trade relations and trade policies conducive to economic development.<sup>3</sup>

- (1) Economic relations among countries shall be based on the principle of sovereign equality of states, self-determination and non-interference.
- (2) Denial of discrimination in international economic relations on the basis of differences in socio-economic systems.

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1. Ibid., p.1.

2. Ibid., p. 13.

3. Ibid., pp. 17-20.

- (3) The recognition of the right of each state to trade freely and dispose of its natural resources in the way it sees fit to the promotion of the well-being of its people.
- (4) Economic and social development should become the common pre-occupation of the whole international community. Accordingly, all countries must pursue policies conducive to economic development everywhere and particularly in the less advanced parts of the world.
- (5) A new international division of labor is recommended whereby the needs and interests of the developing countries in particular and of the world as a whole are served best. Developed countries are urged to adopt whatever adjustments may be necessary in their policies to attain this purpose.
- (6) Since international trade is one of the most important factors in economic development, "all countries should cooperate in creating conditions of international trade conducive in particular to the achievement of a rapid increase in the export earnings of developing countries and in general to the promotion of an expansion and diversification of trade between all countries, whether at similar levels of development, at different levels of development, or having different economic and social systems."<sup>1</sup>
- (7) Developed countries should reduce and/or eliminate all trade barriers in the face of developing countries, adopt measures designed to expand and stabilize primary commodity exports particularly of the latter countries at equitable and remunerative prices and to maintain a satisfactory relation between the prices of primary and manufactured goods in the world market.
- (8) Notwithstanding the advantages of the most-favored nation treatment, all developed countries should grant the developing countries all concessions and preferences they extend to one another without however demanding concessions or preferences in return. All partial preferences granted by some developed countries to certain developing countries should give way to general preferences.
- (9) All developed countries participating in any form of

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1. Ibid., p. 18.

economic integration shall see to it that their economic grouping does not cause injury to their import trade from other countries in general and from the developing countries in particular.

- (10) Regional economic groupings and all forms of integration among developing countries should be encouraged as a means of promoting their intra-regional and extra-regional trade and expediting their economic development after ensuring that no harm is caused therewith to the trade and development of other developing countries outside these groupings.
- (11) Developed countries and international institutions should supply the developing countries with an increasing net flow of financial and technical assistance subject to no military or political conditions to supplement the export proceeds and reinforce the economic development of the developing countries through diversification, industrialization and higher productivity on the basis of their own development plans and national policies.
- (12) All countries participating in the Conference recognize the necessity of allocating resources released as a result of disarmament to the requirements of promoting economic growth in the developing countries.
- (13) A separate set of special principles relating to the transit trade of the land-locked countries is endorsed by the Conference.
- (14) Complete decolonization in line with the UN Declaration on the Granting of Independence to Colonial Countries is insisted upon as an essential prerequisite to the acceleration of economic development.
- (15) The adoption, concerting and implementation of the international policies and measures recommended above shall be subject to considerations relating to various degrees and levels of development in the developing countries so as to give due attention to the less developed among them.

As stated in General Principle (13), a separate set of principles for regulating and facilitating the transit trade of the land-locked countries is included in the Final Act of the Conference. This set consists of eight special principles which are not of particular interest for the present discussion.<sup>1</sup>  
I. Ibid., See pp. 20-22.



The Final Act of the UNCTAD includes also certain provisions regarding international commodity problems, the removal of obstacles and discriminatory policies, and the promotion of exports of manufactures and semi-manufactures from the developing countries. The Conference approved, moreover, the establishment of a commission on commodity arrangements and policies within the framework of the institutional machinery emerging from the UNCTAD. Some recommendations were adopted on the financing of development, trade and invisible transactions of the developing countries. Each economically advanced country would be required to supply resources to the developing countries of a minimum amount approaching one per cent of its national income. Further, the Conference has recommended that the rate of interest on government loans to the developing countries should not exceed normally three per cent. Likewise, certain provisions and recommendations have been adopted with a view to lessening the burden of accumulated debts and service payments of the developing countries.<sup>1</sup>

As regards institutional machinery, the UNCTAD has recommended to the UN General Assembly the following provisions <sup>2</sup>  
inter alia to be adopted at its nineteenth session.

- (a) "The present United Nations Conference on Trade and Development should be established as an organ of

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1. Ibid., pp. 23-29.

2. Ibid., pp. 30-32.

the General Assembly to be convened at intervals of not more than three years and with a membership comprising those states which are members of the United Nations, the specialized agencies, or the I.A.E.A.<sup>1</sup>

- (b) The principal functions of the Conference will be to promote international trade, to formulate policies and principles, to make proposals in order to implement those policies and principles, to review and facilitate the activities of various international trade institutions and to harmonize the trade and related development policies of governments and regional economic groupings in pursuance of Article I of the UN charter and with the basic objective of accelerating economic development in the less advanced countries.
- (c) The establishment of a permanent organ of the Conference known as the Trade and Development Board consisting of 55 members to be elected by the Conference from among its members, as a part of the UN machinery in the economic field.
- (d) The establishment of subsidiary organs to the Board as may be necessary.
- (e) Each state participating in the Conference shall have one vote, and "decisions on matters of substance should be taken by a two-thirds majority of the representatives present and voting, and decisions of the Board by simple majority."<sup>2</sup>
- (f) The establishment of a permanent and full-time secretariat within the UN Secretariat for the servicing of the Conference, the Board and its related bodies.
- (g) "The Conference should review in the light of experience the effectiveness and further evolution of institutional arrangements with a view to recommending such changes and improvements as might be necessary."<sup>3</sup>

#### D. PLAN OF STUDY

The agenda of the United Nations Conference on Trade and

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1. Ibid., p. 30.

2. Ibid., p. 31.

3. Ibid., p. 31.

Development is founded mainly on a plea for a "New Trade Policy for Development," presented in a report by the Secretary-General of the Conference, Dr. Raúl Prebisch.<sup>1</sup> The report is inspired to a large extent by the findings of the Preparatory Committee of the Conference, which findings draw heavily on ideas expressed and recommendations made in various organs and specialized bodies of the United Nations, including the Secretariat. The Secretary-General of the Conference also benefited in preparing his report from his extensive consultations with the officials of many governments at various occasions. He was fortunate too in consulting the Executive Secretaries of the four regional UN economic commissions, which provided him with valuable suggestions. It should be noted, however, that Dr. Prebisch's report goes sometimes beyond the findings of any or even all of the sources just cited.

The plea for a "New Trade Policy for Development" is "an attempt to present the principal issues with which the United Nations Conference on Trade and Development is confronted to suggest an integrated programme of measures to assist governments in considering ways of dealing with these issues."<sup>2</sup> More specifically, the report seeks ways and means to create a new basis of international cooperation for dealing with the problems of trade and development in the developing countries. Foremost among the reasons calling for this new outlook come

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1. Prebisch, UNCTAD Report, op.cit.

2. Ibid., see introduction.

the signs of failure recorded by many developing countries in their effort to achieve satisfactorily the minimum annual rate of growth of five per cent adopted by the United Nations as a target for its present Development Decade, 1960 - 1970. As such, the present report is, more or less, an incarnation of the hopes and aspirations of the developing countries to speed up the rate of their economic growth by organizing world commerce on a new basis that would serve more adequately the development purpose behind their participation in the international market.

Any attempt at organizing world trade on a new basis conveys, or at least seems to suggest, a divergence from the free play of economic forces in the international market. Thus, notwithstanding its social and political implications, be they favourable or otherwise, such an attempt in itself is worth-examining on purely economic grounds. It is precisely the purpose of the present dissertation to extract or sort out the economic rationale of the "New Trade Policy for Development" proposed by Dr. Raul Prebisch in his report. A corollary purpose is to analyze whatever may be considered as purely economic reasoning in the Prebisch scheme in the light of contemporary economic literature, and to examine the practicality and feasibility of the suggested measures and solutions to the problems of trade and development in the less advanced countries.

To serve this purpose best, it is convenient to arrange

the present study in the following order:

Chapter II gives an expose of part I of the report by the Secretary-General. In this part, Dr. Prebisch expresses his understanding and interpretation of the major problems of trade and development in the developing countries today. We shall refer thereafter to the substance of this part as the Prebisch Contention.

Chapter III summarizes the possible solutions and institutional aspects suggested by Dr. Prebisch to the problems of trade and development in the developing countries. These solutions and institutional aspects, which we shall call the Prebisch Proposals, comprise part II of the Secretary-General's report. Chapter III also includes a short resumé of the third and last part of the report, entitled "Realism and Renovation," in which the author reviews his main considerations and findings.

Chapter IV contains an analysis of the Prebisch contention in the light of contemporary economic literature.

Chapter V contains an examination of the Prebisch Proposals.

Chapter VI includes a summary and some concluding remarks.

CHAPTER II  
THE PREBISCH CONTENTION

A. NEW PROBLEMS ON THE INTERNATIONAL ECONOMIC SCENE

In the first part of his report, Dr. Prebisch gives a brief survey of the international economy in the past and the present in order to show the disintegration of the "old order" that preceded the great depression of the 1930's. The fall of this "old order" in the international economy is a very significant event from the standpoint of the developing countries, and understandably constitutes the starting point for the Geneva Conference on Trade and Development. Dr. Prebisch then adds "The conference will be particularly concerned with a phenomenon that was a subject of controversy until recently, but which is today a matter of understandable general concern: the persistent tendency towards external imbalance associated with the development process."<sup>1</sup> This phenomenon which followed the disintegration of the "old order" in the world economy marked the appearance of new problems of trade and development; problems that should entail a change in the traditional system of international cooperation. "It is imperative", continues Dr. Prebisch, "to build a new order with a view to solving the serious problems of trade and development that beset the world, especially the problems that affect the developing countries."<sup>2</sup>

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1. Prebisch, UNCTAD Report, p. 3.

2. Ibid., p. 3.

1. Some Implications of the U.N. Development Decade

The far-reaching effects of the persistent tendency towards external imbalance in the developing countries may be evaluated by examining the implications of the present UN Development Decade 1960 - 70. As stated before, the main objective of this Development Decade is a minimum rate of growth of five per cent per annum in the income of the developing countries to be achieved by 1970. There are two important implications of this target as far as the trade of the said countries is concerned.

(1) On the import side, it should not be expected, given the objective of attaining a five per cent minimum growth rate per annum in income, that the imports of the developing countries would increase at a rate much less than six per cent per annum. In fact, to assume that the annual increase in imports would have to be a bit higher than the stipulated annual rate of growth in income is not unrealistic since the import content of additional investment required for further growth is usually much higher than that of income as a whole.

(2) On the export side, the target implies that the exports of the developing countries should be expected to rise by six per cent per annum if balance of payments equilibrium is to be maintained. In other words "... a volume of exports should rise at a rate which, after allowing for changes in the terms of trade would pay for a volume of imports increasing

each year at a rate of six per cent."<sup>1</sup>

The two above-mentioned implications indicate the serious situation with which most developing countries are faced at present. Recent experience, during the 1950's, shows that the volume of exports in those countries during that decade increased at an annual rate of four per cent. Moreover, if the petroleum-exporting countries are excluded and if allowance is made for the deterioration in the terms of trade, this rate would drop to less than two per cent per annum. It is clear, therefore, that there has already been a serious trade gap for most developing countries at existing rates of growth in the volume of their exports. If the trends of the last decade continue unchecked, this gap between desired and actual exports will probably be greater in the foreseeable future.

Hence, there is a growing need for increasing the external resources of the developing countries through additional exports of primary products, more exports of manufactures, greater external aid or through a possible combination of these three measures. "Unless these measures are adopted", continues Dr. Prebisch, "the trade gap of the developing countries will be immense; available estimates show that, if the factors responsible for the present trend in world trade continue, the trade gap may reach an order of magnitude of about \$ 20 billion by 1970 if the growth rate of five per cent is to be achieved.

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1. Ibid., p. 4.



This gap is potential and not real; if the means of bridging the gap are not found, the developing countries will be forced to reduce their rates of growth unless they are prepared to achieve higher rates at an excessive economic and social cost involving serious political consequences."<sup>1</sup>

When allowance is made for the increase in population which amounted to 2.2 per cent per annum in the developing countries as a whole during the 1950's and which is expected to be even higher between 1960 and 1980, it will become evident that even the stipulated rate of growth would be far from sufficient for the purposes of accelerating economic development in the peripheral countries and should, consequently, be acceptable only for a short transitional period. For such a rate of growth means, under the existing population pressure, that it would take the developing countries some 80 years to reach the level of the current average per capita income of Western Europe and some 40 additional years to reach that of the U.S. "For the least advanced countries accounting for one half of the population of developing areas," Dr. Prebisch proceeds, "the period required to reach the present Western European level would be of the order of two hundred years."<sup>2</sup> It is beyond argument that none of the developing countries is willing or able to wait as long, given the spectacular potential of modern technology and the prevalent anxious desire

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1. Ibid., P. 5.

2. Ibid., p. 5.

for the "eradication of poverty and its inherent evils."

2. "The Old Order" and "The New"

What Dr. Prebisch calls "the old order" consists of the basic liberal assumption that the expansion of international trade requires mainly the removal of all trade barriers and obstacles that tend to impede the free interplay of economic forces in the world market. This assumption, it should be noted, is "based on an abstract **n**otion of economic homogeneity which conceals the great structural differences between industrial centres and peripheral countries with all their important implications." <sup>1</sup> At the time when the old order prevailed, i.e., during the last decades of the nineteenth century, the United Kingdom accounted for 36 per cent of world exports of manufactures and 27 per cent of the imports of primary products. Since historically the industrial revolution took place first in Britain, that country became the leading dynamic center of the world economy, and owing mostly to its limited resources it followed an out-ward-looking policy in its international economic relations. As a consequence of this liberal trade policy, Britain's import coefficient rose from about 18 per cent in 1850 to the phenomenal figure of 36 per cent in 1880-84. The concomitant feature of this trade situation was the traditional exchange of primary products for manufactures, not yet disturbed by the adverse effects of technological progress or protectionist measures.

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1. Ibid., p. 6.

Soon after the end of the First World War and especially with the advent of the great depression of the 1930's, the old order was seriously shaken and immediately disintegrated. Now, the United States with its vast natural resources and huge economic potentialities displaced Britain as the world's leading dynamic center. With the help of these endowments and thanks to a "resolutely restrictive trade policy," the U.S. was able to curtail its import coefficient down to five per cent of total income at the eve of the depression and still further to 3.2 per cent at the beginning of the Second World War.

The disintegration of the old order had far-reaching consequences on other industrial countries which were striving to cut down their imports to cope with the drastic fall in their exports resulting from the policy of self-sufficiency followed by the U.S. The trend towards agricultural self-sufficiency was thus encouraged in those industrial countries, and resort to bilateralism and discrimination became frequent as a means for obviating the structural imbalance vis-à-vis the United States. After the Second World War, Western Europe made a tremendous effort to overcome its difficulties and trade problems not by negative and defensive expedients but by "... positive action of enormous scope: the modernization of its economy, which boosted its export capacity and the policy of integration, which promoted its reciprocal trade to the particular detriment of imports paid for in dollars." <sup>1</sup> Soon  
I. Ibid., p. 8.

afterwards, the European Economic Community (EEC) and the European Free Trade Association (EFTA) were established; whereas eight socialist countries formed in their turn the Council for Mutual Economic Assistance (CMEA).<sup>1</sup>

A "new order" has thus emerged in the world economy, based on a deliberate policy for economic integration. "It remains to be seen", adds Dr. Prebisch, "whether this new order will be one in which vast regions withdraw into their shells and isolate themselves with a minimum of trade between them, or whether it will be one in which they take advantage of a closer economic link involving new forms of the international division of labour."<sup>2</sup> It is to be hoped that the above-mentioned associations and groupings will live up to their belief, which they have repeatedly affirmed, in an outward-looking economic policy and in the principle of the international division of labor. It is to be hoped, furthermore, that the U.S. will make further headway in the recent gradual relaxation of its traditional protectionist policy.

The fall of the old order and the rise of the new had even more significant and far-reaching effects on the developing countries. Here, the trend towards external imbalance in these countries, which is a reflection of the relatively slow growth of their primary exports and the rapid growth of their imports of manufactures, was enhanced first as a result of the contraction

1. The EEC was established in 1957, EFTA in 1960 & CMEA in 1949

2. Ibid., p. 9.

of their exports during the depression and later, as a consequence of their unsatisfactory rates of growth. Some of them tried to cover this accentuated external imbalance by pushing ahead with their industrialization. But here again they were faced with some traditional difficulties, such as the narrowness of domestic markets. Another important and peculiar fact at the same time which accounted inter alia for the failure of industrialization in many developing countries can be stated as follows: "the further substitution proceeds in respect of some imports" as a result of industrialization "the more other imports grow because of the heavier demand for capital goods and, subsequently because of the effects of higher income."<sup>1</sup>

All these considerations, together with the adverse effects of the deterioration in the terms of trade of primary exports and <sup>the</sup> heavy burden of servicing debts, which has been mounting rapidly, have exposed the developing countries to a phenomenon that had no historical parallel. Under the new order, what makes the problems of the developing countries very grave indeed is that these problems stem now from a "structural defect," according to Dr. Prebisch and not merely from financial misbehaviour or short-term cyclical contractions as was the case under the old order.

#### B. THE DETERIORATION IN THE TERMS OF TRADE OF PRIMARY PRODUCTS

As stated above, the tendency towards external imbalance  
1. Ibid., p. 9.

in the economies of the developing countries indicates their precarious trade position in the world market. In fact, it reflects on the one hand the slow tempo of world demand for primary commodity exports, and the rapid rise in their demand for manufactures and industrial imports on the other. This concomitant feature of economic development, furthermore, is "an inevitable result of technological progress in the industrial centres."

### 1. The Effect of Technological Progress

Technological progress can have direct and indirect consequences on the trade of the developing countries. It leads directly to the substitution of synthetics for natural products as well as to lower ratios in the raw material content of finished products. This in turn entails a fall in world demand for natural products, raw materials and primary goods in general. Furthermore, "Engel's Law" works indirectly against the growth of primary exports, since the higher per capita income becomes, the lower will be the portion of that income which goes into the demand for foodstuffs and staple consumer goods.

To all this must be added the adverse effects of the propagations of modern agricultural techniques in the advanced countries. The recent wave towards industrializing agriculture in those countries, which first **started** in the U.S. and spread rapidly to Western Europe and the socialist countries, has weakened further the export-trade of primary producers,

introducing thereby new dynamic elements in the economic complex. In this connection Dr. Prebisch notes, "The old pattern of trade, under which less developed countries were the suppliers of agricultural exports, is undergoing a change which may become permanent and thus help to develop new forms of the international division of labour."<sup>1</sup>

The substantial increase in productivity resulting from technological progress in the advanced countries, instead of following its natural course of lowering the domestic prices of agricultural products is usually prevented from doing so because of political attitudes. Thus, mainly through the payment of subsidies to farmers, a strong incentive is created for increasing domestic agricultural production in the advanced countries on marginal lands and at excessive costs to the detriment of the primary exports from the developing countries. Moreover, and in order to guarantee a domestic consumer market for this agricultural produce, various kinds of import restrictions are adopted by the industrial countries which tend to impede further the export trade of the developing countries. When agricultural self-sufficiency and protectionism in the former countries result in exportable surpluses, such surpluses are thrown into the world market to depress further the international prices of primary products to the mounting misery of the developing countries exporting them.

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1. Ibid., p. 11.

Dr. Prebisch's point here is that although such policies and political attitudes might be understandable on the national level, since the advanced countries "do not wish the benefits of greater productivity to be transferred to other sectors to the detriment of producers,"<sup>1</sup> "the interests of the developing primary producing countries should be taken more adequately into account. Thus, continues Dr. Prebisch, "it is possible to conceive of a price or income policy which does not encourage marginal production in the industrialized countries and which guarantees the developing countries a reasonable share in consumption. In other words, we should visualize a policy which does not seek to solve the domestic problems of the industrial countries by aggravating the problems of the developing countries."<sup>1</sup> The remark regarding the necessity of granting the developing countries a reasonable share in consumption holds good not only in respect to the advanced private-enterprise countries but also in the case of the socialist countries which have stimulated their primary production too.

## 2. Congenital Weakness and External Imbalance

The impact of technological progress and protectionism in the advanced countries tells only a part of the story of the downward trend in the terms of trade of primary commodities in relation to industrial goods. The real problem revolves around a "congenital weakness" or a "structural defect" in the economies of the developing primary - producing countries; and  
1. Ibid., p. 12.



this fact "... makes it extremely difficult, if not impossible, for the deterioration to be checked by a decision on their part and on their part alone."<sup>1</sup> When speaking about the "structural defect", Dr. Prebisch has in mind the 60 per cent, on the average, of the economically active population in the developing countries that is engaged in agriculture and other forms of primary production working at a low level of productivity and depressed remuneration scales. This form of under-employment, not to mention unemployment itself, makes wages unreceptive to the increases in productivity so that the concomitant rise in income "... tends to shift to other parts of the domestic market or abroad, as the case may be, provided that the shortage of available land does not absorb the increase in income by raising the rent for the benefit of landowners and provided that the play of market forces is left undisturbed."<sup>2</sup>

When this situation is compared to its counterpart in the industrial countries, a fundamental disparity between the two appears immediately. In the advanced countries, any increase in productivity entails even higher increases in wages due first to the relative shortage of labor, and second due to the strength of trade-unions and labor organizations. This fundamental disparity, according to Dr. Prebisch "is a consequence of the structural differences between industrial centres and

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1. Ibid., P. 14.

2. Ibid., P. 15.

peripheral countries and it explains the tendency of the terms of trade to worsen.<sup>1</sup> The impact of technological progress and protectionism in the industrial countries obviously encourages this tendency by affecting adversely the growth of primary exports from the developing countries.

However, Dr. Prebisch does not think that this tendency and what intensifies it should be regarded as "an immutable law." It is possible for example to conceive of a situation in which the primary exports of the developing countries rise substantially as a result of a rapid growth of demand in the major industrial centers due say to a sharp rise in incomes or because of extra-ordinary requirements. Furthermore, a situation can be visualized under dynamic conditions in which the said tendency disappears as a result of world-wide industrialization. In contradistinction, it is also possible, by a little stretch of the imagination, to conceive of a situation whereby a revolution in technology in the developing countries which leads to greater productivity in primary production may accentuate the tendency towards deterioration in the terms of trade of these countries.

### 3. The Need for Immediate Action

Be that as it may, there is no point in carrying further those hypothetical cases which by their very nature require much time to be realized, to say nothing of the unlikely

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1. Ibid., p. 15.

occurrence<sup>of</sup>/some of them even in the long-run. The important thing is to take immediate measures now to pave the way for a desirable readjustment which will come about when the structural change is completed. Unless and until these immediate measures are taken in the transitional period in which we are living now, it should be expected that the tendency of the terms of trade of primary commodity exports to worsen will continue and may become even stronger in the foreseeable future. According to the Secretary-General of the Conference, the recent improvement in those terms of trade and their relative recovery during 1961 and 1962 should not be welcomed as a sign indicating the end of the long-term trend towards deterioration. On the contrary, Dr. Prebisch continues, such a phenomenon must be viewed in long-term perspective.

The necessary measures to be taken immediately to counter the deterioration in the terms of trade must stem from a pragmatic point of view, namely a recognition of the prima facie right of the developing countries experiencing such a deterioration to additional international resources, i.e., "... resources over and above those which they would have received<sup>1</sup> in the normal course of events." Once this recognition is granted, various ways and means for countering the said deterioration can be envisaged, e.g., commodity agreements and/or compensatory finance. These will be discussed in the next chapter which deals with the Prebisch Proposals.

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1. Ibid., p. 16.

The Secretary-General concludes that there is a strong tendency for the terms of trade of primary producers — irrespective of whether they are in advanced industrial or poor developing countries — to deteriorate relative to those of finished products and manufactures. Technological progress, protectionism in industrial countries and a "structural defect" in the economies of the periphery are inter alia behind this tendency. The slow growth in the world demand for exports of primary commodities as compared to the demand for manufactures can be illustrated by the figures shown in the following table:<sup>1</sup>

Table : 2 - 1

World Production and Exports of Primary Commodities and Manufactures, 1960

|   | Volume index<br>(1928 = 100) | Average annual %<br>increase<br>(1928 to 1960) |
|---|------------------------------|--|
| Production                              |                              |  |
| Total                                   | 236                          | 2.7  |
| Manufacturing                           | 293                          | 3.4  |
| Primary                                 | 170                          | 1.7  |
| Primary, excluding petroleum            | 159                          | 1.4  |
| Exports                                 |                              |  |
| Total                                   | 190                          | 2.0  |
| Manufactures                            | 260                          | 3.1  |
| Primary commodities                     | 158                          | 1.4  |
| Primary commodities excluding petroleum | 137                          | 1.0  |

Source: Bureau of General Economic Research & Policies of the U.N. Secretariat.

1. Ibid., see p. 17.

However, these figures do not reflect sufficiently the complexity of the situation and its adverse consequences on the developing countries. Between 1950 and 1961, primary commodity exports made a strong recovery that raised them even above the pre-depression levels, and world exports of these products grew at an annual rate of 4.6 per cent. Yet this recovery was not to the benefit of the developing countries because of three main reasons. Firstly, the industrial centers enlarged their share in world primary exports, by way of subsidies and other measures, from 47 per cent in 1950 to 55 per cent in 1961, while the share of developing countries fell from 41 per cent to 29 per cent (excluding petroleum) over the same period. Secondly, the few petroleum-exporting countries accounted for a substantial portion of the increase in primary exports. Thus, whereas world exports of primary products grew at an average rate of 4.6 per cent per annum, those of the developing world expanded only at an annual rate of 1.9 per cent over the period under consideration. Finally, the terms of trade of primary exports dropped during the said period, by 26 per cent compared to those of manufactures owing mainly to the rise in the prices of the latter. If various circumstances are taken into consideration, such as the fact that some developing countries export manufactures and import primary products sometimes, the overall deterioration in the terms of trade of primary goods between the developed and developing countries would be about 17 per cent over the

period in question.

The foregoing trends have a great impact on the economic development of the peripheral countries. The fall in the purchasing power of these countries due to the deterioration in the terms of trade was estimated at about \$ 13.1 billion over the period 1951 - 1962. As far as the net inflow of international finance to the developing countries is concerned — which amounted to \$ 47.1 billion over the same period, and which falls to \$ 26.5 billion when remittances, profits and interest are deducted — the contraction in the developing countries' purchasing power meant that about half the benefit of this inflow was nullified by the deterioration in the terms of trade. Moreover, the 1.9 per cent annual rise in the volume of the developing countries' exports of primary products — which rises to 3.6 per cent if their exports of manufactures and petroleum are included — would generate together with the net inflow of international resources an import capacity of around 4.5 per cent per annum. Due to the deterioration in the terms of trade however, the developing countries import capacity rose only by 3.5 per cent a year between 1950 - 61. Needless to say this increase in the import capacity has been far from satisfying the requirements of economic development in those countries given the annual rate of growth of 4.4 per cent in their income and the fact that the demand for imports usually rises by more than this average rate of growth for reasons stated before.

C. INDUSTRIALIZATION AND THE VICIOUS CIRCLE IN THE PERIPHERY

As a consequence of the slow growth in the world demand for primary exports and the concomitant adverse move in the terms of trade of these products, many developing countries embarked on industrialization to obviate the difficulties of their precarious trade situation. In some of these countries and in the midst of the great depression when protectionist measures were practised almost everywhere, "... industrialization began to gain momentum, rather as a defensive reaction aimed at overcoming adverse circumstances and external imbalance than as a clearly conceived and rational design." Now, was this move towards industrialization in the peripheral countries — which continues today even with greater intensity — able to rectify the external imbalance in their economies and help them overcome some of their acute trade problems? In the following few pages Dr. Prebisch's attempt to answer this question is summarized.

1. Inward and Outward Industrialization

The Secretary-General distinguishes here between the circumstances under which industrialization originally started and gathered momentum in the now industrially advanced countries of Western Europe and those under which the same process is being introduced into the developing countries. In the

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1. Ibid., p. 20.

case of the former countries, industrialization began in the latter half of the nineteenth century following the example set by the United Kingdom, which applied then practically no trade barriers. "In this propitious international setting, industrialization was able to turn outwards, in addition to satisfying internal requirements. And in this way the countries in process of industrialization reaped the benefits of specialization and of an adequate scale of production. Industrialization thus proceeded in an environment of expanding international trade."<sup>1</sup>

A completely different environment accompanied industrialization in the developing countries during and after the great depression. Since at that time, most countries were practising various forms of protectionism, industrialization in the developing countries started as a simple import substitution process. Apart from the fact that the industrial centers, in their efforts to fight the depression with tariffs and other restrictions, were unwilling to encourage industrial exports from the periphery, the import substitution nature of the industrialization process in the developing countries which proceeded under strong protection made it very difficult if not impossible for these countries to direct their effort towards hostile and external markets. "Thus, in the developing countries which undertook to industrialize at that time, industrialization proceeded piecemeal in a large number of

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1. Ibid., pp. 20-21.



watertight compartments with little intercommunication, to the serious detriment of productivity."<sup>1</sup>

Hence protectionism and the lack of external markets compelled industrialization in the developing countries to turn inwards and usually to proceed at a high cost as a simple substitution process. The effects of this process in raising national incomes would have been much greater had the efforts towards industrialization started under "... a rational policy judiciously combining import substitution with industrial exports."

After reviewing the drawbacks of inward-looking industrialization Dr. Prebisch arrives at the conclusion that such industrialization has been far from catering to the overall needs of the developing countries. While it may cater to a part of the domestic market through import substitution, its influence on the exports of manufactures has been negative. In fact, it has created a vicious circle with respect to these exports which "encounter great difficulties because internal costs are high, and internal costs are high because among other reasons the exports which would enlarge the markets are lacking. Had it been possible to develop industrial exports, the process of industrialization would have been more economical, for it would have made possible the international division of labour in manufacturing."<sup>2</sup>

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1. Ibid., p. 21.

2. Ibid., p. 22.

2. The Exports of Manufactures from the Developing Countries

Dr. Prebisch here displays his interest in two questions. The first pertains to the need for gradually relaxing and ultimately removing the trade barriers in the industrial centers to exports of manufactures from the peripheral countries. He puts in this respect particular stress **on** differential tariffs which exist in the developed as well as in some developing countries and which seriously hamper the processing of materials, particularly in the latter countries.

It is interesting to note, Dr. Prebisch adds, that "the countries of Western Europe, in spite of their large trade surplus and manpower shortage, have not been noted for a liberal import policy towards manufactures from developing countries."<sup>1</sup> In 1962 all the EEC countries imported only between 1 - 4 per cent of their total imports of manufactures, excluding non-ferrous metals and slightly processed materials from the developing countries. The corresponding proportions for the U.S. and the U.K. were 8.8 per cent and 13 per cent respectively. Thus the U.K. alone imports more manufactures from the developing countries than does the entire EEC. However, even the U.S. and the U.K. impose restrictions limiting their imports of manufactures from the periphery.

In Dr. Prebisch's opinion, the volume of manufactured exports which will allow the developing countries to reach their growth target and cover half their potential trade gap

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1. Ibid., p. 23.

is not unmanageable, since it represents only 4 - 5 per cent of the increment in the advanced countries; consumption of manufactures, excluding socialist countries. Such a tiny figure can hardly be a cause of anxiety or be described as a sacrifice on the part of industrial countries, especially that additional exports from the periphery will soon reflect themselves in additional imports of capital and intermediate goods from the major industrial centers.

The second question with which Dr. Prebisch is concerned is the possibility of setting up a new substitution policy within regional groupings among the developing countries themselves. Can such a policy be viewed as an alternative for increasing the exports of manufactures from the periphery? The Secretary-General here hastens to explain that despite all the above mentioned shortcomings of inward-looking industrialization and the emphasis laid on the exports of manufactures, the policy of substitution applying to imports of goods and services in the developing countries should not be abandoned. Obviously, the margin for this substitution will be extended pari passu with the formation of regional groupings among developing countries which can thus reap the benefits of specialization and economies of scale.

But it would be a serious blunder to believe that regional groupings are in themselves an alternative for expanding exports of manufactures from the developing countries. This is so because ceilings on import substitution can still exist even

within regional groupings since presumably all the participating countries, being underdeveloped, share the deficiency in capital goods and technical know-how. In their striving towards modernizing and diversifying their economies, all developing countries should thus depend on a continuous flow of trade which "has the merit of quickly disseminating the goods that incorporate the new techniques. If the developing countries were to closet themselves within their own groupings they would be lagging behind continually in the march of technological progress, since their primary exports would not earn them enough to purchase such goods."<sup>1</sup>

This is why most developing countries continually express their interest in increasing their trade with the advanced industrial centres. This shows, furthermore, that the necessity of tackling the problem of the potential trade gap on both fronts — i.e., the developed and the developing parts of the world — is becoming unavoidable.

#### D. THE SHORTCOMINGS OF GATT

After reviewing briefly the important achievements of GATT such as the introduction of a new concept of a rule of law in world trade and the installment of a machinery for complaint, consultation and discussion of various trade policies, Dr. Prebisch maintains that all the benefits arising thereby were

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1. Ibid., p. 26.

mainly in the interests of the industrial advanced countries. Only in so far as these benefits in the form of reductions in tariffs and trade restrictions help in accelerating growth in those developed countries, "... some indirect benefit will have accrued to the developing countries in the form of a higher<sup>1</sup> demand for their exports than would otherwise have occurred."

Yet GATT has recently begun to give due recognition to the fact that international trade problems nowadays should no longer be attacked on the basis of conventional reciprocity between the advanced and developing countries. Such a recognition has been crystallized in the recent GATT Conference in 1961, and it is expected to play an important role in the coming Kennedy round for tariff reductions. This clearly indicates that what **was** confused and vague in the Havana days when the GATT charter was drawn, namely, the persistent trend towards external imbalance and the resulting pressures and tensions,<sup>2</sup> are becoming now a matter of general understanding. "We can now see all this clearly", adds Dr. Prebisch, "and there is an increasingly strong feeling that a very great effort will have to be made to alleviate and eliminate those tensions,<sup>3</sup> which have such a great impact on world peace."

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1. Ibid., p. 27.

2. "Havana days" refers to the UN Conference on Trade and Employment, held in Havana in 1947 - 48 to draft a charter for an International Trade Organization.

3. Ibid., p. 28.

There are two main reasons why GATT has failed to serve the developing countries; the first is that the Havana Charter is based on the classical concept of the free play of international economic forces as the sole guarantee for the optimum expansion of world commerce. The second is the failure of GATT to comply with the rules and principles which it has drawn to install and maintain this free play in the international market. These are considered in turn.

1. The Principle of the Free Play of International Eco. Forces

The main objection advanced by the Secretary-General to the adoption of this principle by the Havana Charter is that such a principle overlooks the structural differences between developing and developed countries, which differences derive from the disparities in the international demand for primary and manufactured products. In other words, the Havana Charter fails to recognize the unavoidable trend exhibited by the developing countries to import more than they could export, which is a sine qua-non of their attempt to expedite economic development on the one hand, and a result of the slow growth of the demand for their primary exports on the other.

Thus, whereas GATT should discourage protectionism with respect to primary production in countries exporting manufactured goods, because protectionism here exerts a depressive influence on world trade, it should encourage protectionism in the developing countries with respect to imports from the

advanced countries, because protectionism here tends to level out the disparities in international demand. "If protectionism is kept within certain bounds, i.e., if it is applied only to the extent necessary to counteract the disparity in demand, there is no reason why it should have a depressive effect on the dynamics of world trade; on the contrary, it should have a purely balancing influence."<sup>1</sup> Since GATT has favoured the symmetrical elimination of tariffs and restrictions without taking into account the above-mentioned structural differences, it has adopted "... the concept of the symmetry of a situation that was far from symmetrical: if the peripheral countries wished to reap the benefits of a liberal tariff policy for primary imports in the industrial centres, they had likewise to make equivalent concessions in their own tariffs. This is the serious drawback of such a conception of trade policy: the failure to take into account the fact that those equivalent concessions would intensify the trend towards trade imbalance inherent in the disparity<sup>2</sup> of international demand instead of helping to correct it."

In the light of these considerations, Dr. Prebisch urges GATT and all other international trade organizations to abandon the concept of conventional reciprocity and operate instead along "real or implicit reciprocity" which is based on

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1. Ibid., p. 29.

2. Ibid., p. 30.

a recognition of the disparity in world demand. By implicit reciprocity Dr. Prebisch means that the developed industrial countries should grant trade concessions and preferences to the developing countries without expecting, however, reciprocity of the same sort. Unless and until the structural imbalance is gradually removed through real or implicit reciprocity there will be little justification if any for conventional reciprocity as practised now by GATT or other trade organizations.

## 2. The Failure to Comply with Rules and Principles

The failure of GATT to comply with the rules and principles which were laid down to safeguard the free play of international economic forces has two main aspects. The first is the policy of excessive agricultural protection aiming at self-sufficiency in the industrially advanced countries, especially the Western European ones. Needless to say this protectionism has an adverse influence on the primary exports of the developing countries and as such tends to accentuate the disparities in world demand. It is a real question now, according to Dr. Prebisch, "... whether, in the industrial countries, excessive agricultural protectionism aiming at self-sufficiency is consistent with the spirit of GATT, with this objective of expanding trade and not restricting it." <sup>1</sup> Furthermore, this kind of protectionism succeeded in creating a spiral of retaliations, and hence it is not surprising to see some of the

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1. Ibid., p. 31.



developing countries clinging to all kinds of import restrictions and trade barriers, and carrying their protectionist policy sometimes too far.

The second aspect of the failure of GATT to comply with rules and principles is reflected in the question of preferences. Generally speaking, there are three kinds of preferences: the first consists of preferences among industrial countries, the second of preferences between industrial and developing countries and the third of preferences among the developing countries themselves.

The best example of the first type of preferences is the establishment of the EEC in which member countries undertake to grant preferences to each other and lower gradually all kinds of tariffs among themselves until they are completely eliminated. Since events up to the present do not allow a final evaluation of the community's future policy on the international economic level, and since the policy adopted by its members has been based so far largely on protectionism and agricultural self-sufficiency, it is again an important question whether GATT's attitude towards the preferences among the EEC countries has been consistent with its rules and principles. GATT's permissive attitude can be justified only when the policy of the EEC becomes clearly out-ward-looking. It is futile to adopt a negative stand and hope that events will bring about the desirable expansion in world trade just as they did in the last century. If GATT's aim is still to expand

world trade, it must realize that "the impetus now required must be the outcome of a policy, the result of a deliberate effort to alter the course that events would probably follow if there were no such effort."<sup>1</sup>

Now we move to the second type of preferences, i.e., those that the industrial countries would grant to the developing economies. "In principle," explains Dr. Prebisch, "GATT does not allow these preferences except in so far as they existed when the Agreement was signed. But, in view of the need to revise some of the principles of the Agreement, this problem could be approached from a substantive rather than a formal point of view to see whether the preferences that the industrial countries may grant to the developing countries would or would not promote GATT's basic objective: the expansion of international trade."<sup>2</sup>

By appealing to his concept of implicit reciprocity, the Secretary-General finds himself in full agreement with the view that the industrial countries should grant general preferences to the developing countries because of many advantages to the latter and to world trade in general. By the same token, all concessions granted by the developing to the industrial countries, whether in return for preferences granted by the latter or not, would not be justified in the light of

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1. Ibid., p. 34.

2. Ibid., p. 34.

implicit reciprocity. Nevertheless, Dr. Prebisch, though in full support of general preferences, is at complete variance with partial preferences granted by some industrial countries to some developing areas, particularly those granted by the U.K. to members of the Common Wealth and by France to its former colonies. Apart from the fact that partial preferences have not been generally one-sided, they are condemned on two bases. The first is that they "spring from a very understandable attitude whereby certain industrial countries take advantage of their buying power in order to obtain trade advantages in other countries that depend primarily on the markets of the former for selling their exports." <sup>1</sup> Secondly, only few developing countries have really benefited from partial preferences.

Hence the removal of partial preferences is desirable because this removal favors multilateralism and enables the developing countries to form their own groupings in accordance with their own benefit without having to extend preferences to industrial countries. The elimination of partial preferences, however, should be effected within the framework of a general plan or policy aiming at improving the prices of primary products and extending aid to the developing countries.

As to the third type of preferences, namely, those among developing countries with the view of promoting their reciprocal trade, "GATT has established too rigid a framework for these preferences, requiring the formation of a customs union

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1. Ibid., p. 36.

or of a free-trade area."<sup>1</sup> Dr. Prebisch expresses his surprise concerning this reservation on the part of GATT, especially since trade among developing countries constitutes only 22% of their total trade. He then asks, "What harm would be done to international trade if developing countries formed a grouping to establish a system for eliminating duties with respect to a sizable proportion, even if it were not substantially<sup>2</sup> all, of their trade?"

Yet GATT's rigidity with respect to its legal framework is tempered by a certain degree of flexibility in application. Nevertheless, this should not be considered as an excuse for GATT's failure to help the developing countries; a failure that has emerged from its strict adherence to traditional theory. It is high time now to face facts squarely and boldly, and recognize the need for an overall policy basically designed to eliminate the persistent trend in the developing countries towards a serious trade gap.

Such are, in a nutshell, the comments advanced by Dr. Prebisch on GATT. However, "GATT is not an abstract entity with an independent life of its own. It is what Governments want it to be." Therefore,<sup>3</sup> "Whether events take a new course that further development will depend upon their attitudes, upon their policy decisions." This applies not only to the

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1. Ibid., p. 37.

2. Ibid., p. 38.

3. Ibid., p. 39.

Governments of the advanced countries, but also to those of the developing ones, since resistance to the new forms of trade may come from both sides.

CHAPTER III  
THE PREBISCH PROPOSALS

A. PROMOTION OF PRIMARY COMMODITY EXPORTS FROM DEVELOPING COUNTRIES

In part II of his report, Dr. Prebisch presents what he believes would constitute possible solutions and institutional aspects for the problem at hand. The first of these is the promotion<sup>of</sup>/primary exports from the developing countries. The international trade problem with respect to primary commodity exports can be restated as follows: the supply of such exports tends to expand by more than the slow growth of world demand due to various reasons, among which are the "structural defect" in the developing countries and the impact of technological progress and Engel's Law in the industrial centers. As a result, the terms of trade of primary exports tend to deteriorate in relation to those of manufactured or finished goods. The natural outcome of this trade situation is a redistribution in the real income of the world in favour of the rich industrial countries, and at the expense of the poor developing countries.

The foregoing developments, adds Dr. Prebisch, have been observed at the domestic level too by the industrial countries. They were able to observe particularly that "... if market forces were allowed free play, shifts in the terms of trade

between agriculture and industry would have distinctly regressive effects on the internal distribution of income.<sup>1</sup> Thus, in order to compensate the primary producers who would be deprived of part of their real income "... steps have been taken to support prices of, or income from, agricultural products." "Such measures of support," continues Dr. Prebisch, "are also necessary at the international level with respect to primary commodity exports."<sup>2</sup> In general, such measures of support at the international level fall into four parts.

1. Desirability of Fixing Prices at Relatively High Levels

"It is necessary in the first place, to face up squarely to the fact that the international prices of primary commodities would, in general, have to be supported at levels higher than those which would prevail in the absence of international regulation."<sup>3</sup> This stems from the fact that with all the internal and domestic measures of support adopted here and there, the free play of market forces can determine international prices of primary commodities only in a narrow residual sense. In other words, the factors determining international prices that are prevailing now do not reflect satisfactorily the operation of market forces. Instead they reflect the existence of temporary imbalances between demand and supply

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1. Ibid., p. 43.

2. Ibid., p. 43.

3. Ibid., p. 44.

outside the principal regulated markets. On this ground, one can no longer incline to the view that commodity agreements should not interfere with the long-term trend as reflected by the operation of free market forces, since the price mechanism is incapable of performing its normal function under the circumstances that now dominate the international economic scene.

The author then examines some of the obstacles which might be encountered by the attempt to raise or maintain the prices of primary exports, especially those emerging from the impact on consumption and the possibility of encouraging substitutes in the importing industrial countries. Obviously much will depend here on the cooperation of the latter countries. Moreover, in such cases and wherever it is found difficult or unadvisable to maintain prices at a relatively high level, Dr. Prebisch recommends an indirect alternative, namely, compensatory financing to counteract the deterioration in the terms of trade. This measure will be discussed below.

In any event, all commodity agreements for raising or maintaining prices of primary exports should take account of supply regulations involving export and import quotas. Commodity agreements of this sort "should also contain provisions involving appropriate action to be taken when and as shortages occur by setting ceiling prices in the latter eventuality."<sup>1</sup> These provisions, which would prevent sharp ups and downs in

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1. Ibid., p. 47.



the production of the commodity in question, would be of long-term benefit to both consumers and producers.

## 2. Expansion of Markets

The relation of the problem of **markets** to measures for raising the prices of primary exports is rather obvious. It is not merely that a rise in prices might cause a contraction in demand; it is also a fact that the financial burden arising thereby would be borne mainly by countries following an open door import policy, whereas only a minor part of it would be borne by countries applying a restrictive import policy.

According to Dr. Prebisch, the possibilities of action regarding access to markets for primary commodity exports fall in two major sets of measures, which would form the necessary background in dealing with individual commodities:

(1) The first involves "taking action to provide greater access to markets in industrialized countries, partly by means of import targets that increase as consumption rises, and partly by the removal of various barriers to trade in primary commodities including consumption taxes, tariffs and import<sup>1</sup> quotas."

(2) The second set of measures includes "setting certain quantitative import targets in the form of commitments to purchase entered into by importing/<sup>countries</sup>and specifying quantities

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1. Ibid., p. 50.

or prices. This provision could be tied to a guarantee given by exporting countries to provide the importing countries with adequate quantities, thus ensuring supplies of essential foodstuffs and raw materials for the latter countries in times of shortage.<sup>1</sup>"

### (3) Agricultural Surpluses

Owing to the marked increases in agricultural productivity in most advanced countries, agricultural surpluses have become a fact that will have to be reckoned with for a long time. Yet exaggeration should be avoided in this matter. Thus, in 1957-59, for example, world consumption of cereals amounted to 555 million metric tons, while total surpluses sold on non-commercial terms were only 8 million metric tons, or less than two per cent. Nonetheless, there is little doubt that these surpluses have played and can still play in the future a not insignificant role in the development of the periphery. Moreover, apart from the self-evident necessity of stepping up agricultural productivity in the developing countries in line with the recent FAO recommendations, Dr. Prebisch postulates two important conditions that should accompany the disposal of agricultural surpluses and stocks of minerals:

(1) that such disposal not disrupt world markets by exerting a downward pressure on the prices of exports from the developing countries, and "not take place at the expense of

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1. Ibid., p. 50.

export opportunities of the developing countries, whether to one another or to the developed countries."<sup>1</sup>

(2) that it should not thwart the vigor or the drive towards agricultural development or lead to a delay in taking vital decisions and implementing reform in countries receiving agricultural surpluses.

#### 4. International Commodity Agreements

Recently, there has been a more sympathetic international attitude towards international commodity agreements for raising and maintaining the prices of primary exports. The results, however, have been limited, since it was possible to conclude so far agreements of this sort for only five products: wheat, tin, sugar, coffee and olive oil.<sup>2</sup>

Among the obstacles facing countries in their attempt to conclude commodity agreements has been "the fact that, when export prices are high, many of the exporting countries are less interested in reaching agreement and importers consider that their bargaining position would be better at another time. And, when prices are low, the opposite applies."<sup>3</sup> Furthermore, the Havana Charter urges equal representation of exporting and importing countries when commodity agreements are to be concluded. This attitude does not take into account the fact

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1. Ibid., p. 54.

2. The first four of these agreements will be examined separately in chapter V, in the Light of Post War experience.

3. Ibid., p. 55.

that primary exporting countries should have a larger stake in the negotiations since their incomes usually depend heavily on their export proceeds from the commodity concerned.

Another aspect of the difficulties obstructing commodity agreements lies in the current inclination on the part of some countries to regard such agreements as a modus vivendi between the interests of exporting and importing countries. This negative inclination stems from the lack of a clear policy with respect to international commodity agreements on the part of many governments.

In order to avoid the foregoing difficulties, it is necessary, in concluding commodity agreements, that participating countries should always face up squarely to the two following points:

(1) The formation of these agreements should proceed irrespective of the prevailing market conditions. In other words, there must be a political will for action which is not tainted by opportunism.

(2) Commodity agreements should be more comprehensive and cover not only the international trade of the commodity concerned but also such important aspects as the policy of support prices, disposal of non-commercial stocks and the determination of domestic production and price policies.

**B. MEASURES TO STIMULATE INDUSTRIAL EXPORTS FROM DEVELOPING COUNTRIES**

### 1. Technological Density and Exports of Manufactures

In examining the impact of technological development on the industrial exports of the developing countries, Dr. Prebisch maintains that, apart from the limited supply of capital, the real bottleneck facing those countries is their low "technological density" in the sense of available techniques and skills. Thus, whereas capital goods can be imported into the developing countries quickly, time is required to develop their "technological density". Hence the crucial importance of time as a limiting factor to the rapid development of the periphery.

Accordingly, Dr. Prebisch classifies industry in general into two main groups : the first requires a high degree of technological density involving a whole complex of specialities and techniques and a vast range of skills, and the second consists of industries which, although employing advanced and complex capital goods, do not depend, nevertheless, on great technological density. It seems logical, therefore, given the high degree of technological density in the advanced industrial countries and the low degree in the developing countries, that the former should concentrate on the first group of industries and the latter on the second group, so that a more beneficial and generally acceptable division of labor would develop in the world economy. The promotion of industrial exports from the developing countries will thus be subject to these technological possibilities in addition to the supply of capital.

Furthermore, even when the growth of some industrial exports in the developing countries does not absorb huge amounts of manpower, they should be encouraged, nonetheless, in so far as they can help in bridging the potential trade gap. Thus, notwithstanding the limiting factor of technological density or the problem of unemployment in the developing countries, "... those industries which in the course of time could become competitive in the international market should be assisted." "At the same time," adds Dr. Prebisch, "it is advisable to concentrate on the new industries or the new lines of production in existing industries which with some support in the local market, or preferably in the wider market constituted by a grouping of developing countries, could be launched in the search for external <sup>1</sup>markets". Developing countries should realize, in particular, that their comparative advantage does not solely lie in textile and similar industries, but also in metal-transforming industries as well as in manufacturing certain types of intermediate goods. In any event, they should enhance their "export mindedness," in the sense of avoiding the false belief in a conflict between import substitution and export promotion; a belief that has crippled the export orientation or channelling of domestic industrial production in many a developing country.

The promotion of industrial exports along the lines just

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1. Ibid., p. 60.

mentioned will, moreover, enable both the advanced and the developing countries to concentrate on fields where they can put their existing capacity to the best use, thereby raising their income levels as high as possible. Thus, in the U.S., for example, the average wage in the ten leading export industries was \$ 2.43 per hour in 1958, whereas it was only \$ 1.87 per hour in the industries where the volume of imports was greatest. Hence there is a long-run advantage for the industrially advanced countries in shifting labor from import industries where the developing countries have been playing an important role to export industries in which their own productivity is generally high.

Here the Secretary-General emphasizes the small adverse effects on the industrial countries likely to result from the promotion of industrial exports from the developing countries. In 1961 the exports of manufactures from the periphery amounted only to \$ 2 billion, and, even assuming an increase of \$ 10 billion by 1970, they would only constitute 4 - 5 per cent of the total increment in the consumption of manufactures in the developed countries over the period 1961 - 70. As far as employment in the advanced countries is concerned, and particularly the problem of labor displacement, the adverse effects of imports of manufactures from the developing countries have been negligible.

Consequently, these minor effects should in no way constitute an obstacle in the way of removing all trade barriers and discrimination against exports of manufactures from the

periphery. It is essential in the first place that the general stand-still provision -- "no new tariff or non-tariff barriers should be erected by industrial countries against the export trade of any less developed country" -- should apply not only to primary products but to manufactures as well. In this connection, the Secretary-General expresses his full support of the GATT Programme of Action, since " In general, it is essential to remove all existing discrimination against exports of manufactures from developing countries and to ensure that they gain access to world markets on terms and conditions not less favourable than those which apply generally."<sup>1</sup>

## 2. The Problem of Preferences

The question of preferences fits into the broader scheme of eliminating trade barriers in order to promote the exports of manufactures from the developing countries. The justification for preferential treatment of these exports is that "it would help the industries of the developing countries to overcome the difficulties that they encounter in export markets because of their high initial costs."<sup>2</sup> Thus the case for preferences is in fact an offshoot of the infant industry argument applied to the industries of the developing countries in general with an eye to stimulating their exports of manufactures. It is a temporary measure extending protectionism

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1. Ibid., p. 65.

2. Ibid., p. 65.



in the domestic market to foreign markets where the need for it might even be greater. On this basis Dr. Prebisch presents the two following suggestions:

(a) Developing countries should grant preferences for each other's exports in their own markets.

(b) Developing countries should give preferences for imports from the periphery in their own markets.

It is to be hoped that all the developed countries will agree in principle on preferential treatment of imports from the developing countries. It is also to be hoped that the socialist countries will join the proposed scheme for extending such preferential treatment. The selection of countries to benefit from these preferences, although somewhat difficult, may be subject to such considerations as per capita income, the size of the country, the relative shares of agriculture and industry and the impact of primary exports on the development of the country. Moreover, the selection of particular products to qualify for preferential treatment poses a more difficult problem. So far any discussion of preferences has proceeded on the assumption that only a selective list of products should be granted preferential treatment. The danger in this approach is that such a selective list may turn out to be unduly restricted and drawn up much more

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1. Ibid., p. 65.

with an eye to static considerations than to dynamic possibilities of a new international division of labour. For this reason, a better and simpler approach would be for preferential treatment to be granted in principle to all imports from the developing countries subject only to certain specified<sup>1</sup> exclusions, as well as certain safeguards."

As to the duration of preferences, it must be always borne in mind that preferential treatment in general should be considered a **temporary** measure, as stated above, and should be eliminated once the industries are firmly established.

"In general, preferences should be introduced for a period of no less than ten years with respect to any given industry in any developing country. At the end of the ten-year period, preferences would be withdrawn unless it could be shown, to the satisfaction of an appropriate international authority, that special circumstances warranted their continuation. The ten-year period would be reckoned from the time of the initial granting of preferences to exports of a particular industry in a given country even though this would mean that plants established subsequently in the same country would not benefit from the full period of preferences."<sup>2</sup>

As mentioned above, certain safeguards ought to be given to the countries participating in the proposed scheme of

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1. Ibid., pp. 68 - 69.

2. Ibid., p. 69.

preferences. First and foremost, the aggregate quota of manufactures from the developing countries may be divided among various industrial countries either in proportion to the total consumption of manufactures by each, or alternatively in proportion to each country's imports of manufactures. But since each of the two alternatives will obviously have its own drawbacks, a possible combination of the two might be achieved to the satisfaction of all developed countries. Secondly, a developed country is not expected in any case to grant preferences to those industries in the developing countries that are able to stand on their feet in world markets, or those industries that operate at lower costs than those prevailing in the developed country. Consequently, "it may be considered desirable that, at the time the new preferential system is introduced, each developed country should be able to reserve its right to withhold preferential treatment from products accounting in toto for a reasonable percentage of its aggregate imports or consumption of manufactures."<sup>1</sup> Thirdly, a preference can be withheld from particular products when the amount imported exceeds a certain percentage, to be fixed in advance, of the total consumption of a developed importing country.

Finally, Dr. Prebisch considers devaluation by the developing countries as an alternative measure to the scheme of

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1. Ibid., p. 71.

preferences thus proposed. "It is a well-known fact," he argues, "that, generally speaking, the exchange rate appropriate for the traditional trade of developing countries tends to discourage the development of new types of exports. While, in the case of an industrially developed country, a single rate of exchange is sufficient to secure equilibrium between domestic costs of production and the prices in foreign markets, in the case of a developing country there may be no single rate of exchange capable of securing this result."<sup>1</sup> In other words, the exchange rate of a developing country usually reflects the money cost of production in the primary but not in the manufacturing sectors of the economy. In effect, this implies that since primary exports usually constitute the bulk of a developing country's total exports, any devaluation in the currency to attract markets for industrial exports would entail a considerable loss of currency in terms of primary exports to the outright disadvantage of the developing country applying it. On the other hand, a devaluation of this sort may raise substantially the cost of living in the developing country applying it if its import content of food-stuffs is relatively high. It is however possible to avoid these drawbacks if devaluation is accompanied by two measures, namely, a tax on traditional exports equivalent to the amount of devaluation and a cut in tariffs proportional to that

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1. Ibid., p. 74.

devaluation. Sometimes, subsidizing exports of manufactures might be an alternative, especially when devaluation is impracticable for political or other reasons. Whenever these measures are adopted instead of preferences it is necessary to secure the approval of developed countries that no countervailing measures would be erected; otherwise the cost of promoting industrial exports will be borne by the developing countries themselves.

Last but not least, Dr. Prebisch reminds us that "no guarantee of access to world markets nor even the granting of preferential treatment could replace measures taken in the developing countries to stimulate industries capable of production for exports."<sup>1</sup>

### C. MEASURES TO GUARANTEE THE PURCHASING POWER OF PRIMARY COMMODITY EXPORTS

#### 1. Compensatory Financing

Dr. Prebisch reviews briefly here the recent developments in the policy of international financial cooperation during the last decade. He finds particular interest in the fact that, whereas the amount of funds supplied by the private-enterprise countries in the form of loans, private investment and assistance rose from \$ 1.8 billion in 1950 to \$ 6.6 billion in 1962, i.e., by about 11% per annum, this increase,

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1. Ibid., p. 75.

which is tantamount to a rise from 0.3% in 1950 to 0.7% in 1962 of the combined incomes of these supplying countries, is still a great deal less than the 1% target approved by the UN General Assembly. Thus although there have been positive advances in the field of financial cooperation, the need still exists for more vigorous action. Furthermore, the progress just described has not been without its disadvantages. Two of these are of particular interest here: "First, the deterioration in the terms of trade has seriously impaired the developing countries' capacity to import capital goods, thereby offsetting the positive effects of the international resources made available. Secondly, the relatively early maturity dates for repayment of a considerable proportion of these resources, together with the kind of servicing some of the loans require, are a heavy burden on many developing countries and will become so for others if things continue as at present."<sup>1</sup>

Hence there is a strong need for compensatory financing. "The fundamental aim of a compensatory scheme should be to maintain the total purchasing power of the external resources accruing to developing countries through their exports."<sup>2</sup> As such, it has nothing to do with the normal stream of resources to developing countries made available in the form of loans or aid. Compensatory finance should represent an increment over and above these resources obtained from the

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1. Ibid., pp. 79 - 80.

2. Ibid., p. 80.

income which accrues from countries exporting primary commodities as a consequence of the deterioration in their terms of trade.

Since much attention has been given to short-term fluctuations and instability in the export proceeds of developing countries, it is high time now to gear compensatory financing to offsetting the long-term tendency towards deterioration in the terms of trade of developing countries. Furthermore, it is essential not only to give these countries a guarantee against future losses, resulting from the said deterioration, but also to restore the purchasing power of their exports due to losses in the past. Finally Dr. Prebisch sheds some light on the importance of the close link between compensatory financing and development plans in the developing countries receiving it. Programming in this connection would not only facilitate greatly the pragmatic approach for determining past losses in the purchasing power of exports but would also allow the countries benefiting from compensatory finance to know, in advance and if certain conditions were fulfilled, to what extent they could rely on the necessary funds to offset the adverse effects of the deterioration in the terms of trade.

## 2. The Burden of Servicing

The accumulation of external debts, the shortness of their repayment periods, the high interest on some obligations

and the high earnings of certain investments have made the burden of servicing rather heavy for many developing countries. Thus, while the flow of international financial resources to the developing countries has increased, the burden of servicing has been mounting rapidly; and this fact accounts for the close link between this burden and the slow growth of exports on the one hand, and the deterioration in the terms of trade on the other. A preliminary report prepared by the IBRD for the Conference shows that the public and the publicly guaranteed debts of the developing countries rose from about \$ 8 - 10 billion in 1955 to about \$ 24 billion at the end of 1962, i.e., at an annual rate of 15 per cent. Servicing charges on these debts rose from \$ 900 million in 1956 to \$ 3.1 billion in 1963, i.e., at an annual average rate of more than 19 per cent. When the relatively short periods during which repayment should be made and the repayment terms which are often motivated by the immediate convenience of the countries exporting capital goods are taken into account, the **dimensions** of the problem of servicing which besets many developing countries become apparent.

In the light of these considerations and for the purposes of the Conference, measures should be taken along two important lines. In the first place, "... the consolidation of a number of short-term or medium-term debts and the average extension of the **repayment** period for the external debt



as a whole, would appear to be unavoidable for some countries.<sup>1</sup> However, this will simply postpone the "hour of reckoning" if the resources made available through the adjustment and extension of external debt and repayment periods were divorced from a country's economic development policy. Thus, here again springs the importance of an overall development plan which provides integrity to the receipt and disbursement of resources available to a developing country. And it is precisely in this context that the role of compensatory financing becomes increasingly important in the adjustment of external debt and in gearing the available resources to the requirements of the overall development plan according to a feasible priority order. This leads us directly to measures that should be taken along another important line, namely, that of preventing a repetition of events that created the problem of heavy servicing. Here it must be borne in mind that "the composition of a developing country's debt, so far as its type, repayment period and other characteristics are concerned, cannot be arbitrary, it must respond to the conditions and needs of each country."<sup>2</sup> In other words, the interests of the borrowing countries should be taken into account as laid out in their development plans, and not only

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1. Ibid., p. 87.

2. Ibid., p. 87.

the interests of the lending or capital exporting countries. This implies the removal of the condition often linked to the extension of external debt or aid from the industrial to developing countries, namely, that external resources thus extended should be used solely for imports of capital goods from the former.

D. PROMOTION OF TRADE BETWEEN THE SOCIALIST AND THE DEVELOPING COUNTRIES

The share of the socialist countries in world industrial production is estimated at about one-third, while their share in world trade is not of the same relative importance. This together with the accelerated rates of growth which they aim at indicate the significance of their trade potential. Consequently, "the form and manner in which that trade potential could be realized, and could help other members of the world community progressively to obtain the benefits of economic development, constitute one of the most important questions before the Conference."<sup>1</sup>

Recently, however, the exports of the Council for Mutual Economic Assistance (CMEA) countries have been increasing rapidly, as can be seen from the table on page 74.

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1. Ibid., p. 90.

Table : 3 - 1

|   | Exports of CMEA Countries |        | (\$ million)        |
|---|---------------------------|--------|---------------------|
|   | 1955                      | 1962   | Annual growth rate% |
| To CMEA countries                       | 4,750                     | 10,150 | 11.5                |
| To the rest of the world                | 1,900                     | 4,760  | 14.0                |
| To indust. private enterprise countries | 1,480                     | 2,750  | 9.3                 |
| To developing countries                 | 420                       | 1,910  | 24.0                |
| Total exports                           | 7,950                     | 15,770 | 10.4                |

Source: U.N. Statistical Office. See Report, p. 91.

Likewise, the exports of the developing countries to the CMEA countries have increased substantially during the same period as shown below:

Table : 3 - 2

|  | Exports of developing countries |        | (\$ million)          |
|--|---------------------------------|--------|-----------------------|
|  | 1955                            | 1962   | Annual growth rate(%) |
| To industrialized private enterprise countries | 17,120                          | 21,030 | 2.9                   |
| To developing countries                        | 5,840                           | 6,550  | 1.6                   |
| To CMEA countries                              | 445                             | 1,420  | 18.0                  |
| Total Exports                                  | 23,957                          | 29,630 | 3.1                   |

Source: U.N. Statistical Office. See Report, p. 91.

These encouraging trends can still be supported by other considerations. It is now well known that the CMEA countries plan for a substantial expansion in their foreign trade. Viewed from a wider perspective, such an expansion will be in fact a simultaneous outcome of their development plans. Furthermore, if these plans for stepping up national income are realized, it is estimated by the secretariat of the Economic Commission for Europe that total imports of the socialist countries will increase from \$ 15.2 billion in 1962 to about \$ 30 billion in 1970 and to \$ 50 billion in 1980. Now, if we assume that the relative share of the developing countries in these imports is maintained at its present level (i.e., roughly 10%), this means that the exports of the latter countries to the socialist world will rise from \$ 1.4 billion in 1962 to \$ 3 billion in 1970 and to more than \$ 5 billion by 1980.

The question of trade promotion between the socialist and developing countries is closely linked to that of stimulating commerce between the socialist and private-enterprise countries. Such a link is a natural consequence of the "intimately inter-related network" within which international trade usually operates. No attempt is made by Dr. Prebisch to probe into the reasons leading to the stand-still position in which trade between the socialist and private-enterprise countries has landed following the revolutions in the former countries. Suffice it to say in this respect that a cloud of misunderstanding covered the eyes of both sides from seeing the mutual

advantage which they could have derived from normal trade relations based on effective reciprocity. However, there is some evidence recently indicating the possibility of arriving at a modus vivendi in this matter, since "both sides are beginning to recognize that they must respect each other's system and try to adjust their policies so as to secure a mutually satisfactory solution."<sup>1</sup>

Finally, Dr. Prebisch considers the case of the present bilateral trade agreements among the socialist countries themselves and between them and some developing countries, and their impact on multilateralism. He makes a clear distinction between these agreements and those which prevailed during and after the great depression and which were an instrument of trade diversion rather than trade expansion. Thus, in considering the bilateral trade agreements prevailing now the Secretary-General maintains that "... while conditions are not yet fully favourable to the universal application of the multilateral trade system, as would be highly desirable, bilateral agreements are useful in so far as they serve as an instrument for promoting additional exports and cor-<sup>2</sup>relatively additional imports." And moreover "... since the idea is to open up new channels of trade through bilateral agreements rather than to move backwards from a multilateral

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1. Ibid., p. 96.

2. Ibid.

to a bilateral system," bilateralism, as applied now among socialist countries and between them and other countries, can hardly be considered a serious step away from a universal multilateral system. Yet it is essential, adds Dr. Prebisch, to create the favourable conditions which will gradually eliminate bilateral balancing of trade and expedite multilateral transactions in the world economy, since there can be no question regarding the notable advantages of the latter in the final analysis.

E. SUGGESTIONS FOR INSTITUTIONAL REFORM IN THE EXISTING MACHINERY OF WORLD TRADE

After presenting his proposals and measures for the elimination of the potential trade gap of the developing countries, Dr. Prebisch asks whether or not the existing institutional machinery of world trade is capable of concerting and implementing those solutions and measures within a unified and coherent policy for trade and development subject only to whatever modifications might become necessary in the light of experience. Here, the author recapitulates the shortcomings of existing machinery, particularly GATT, under five main headings:

- (1) GATT is not adequately universal; it has only sixty-one full members and thirteen associate and provisional members. The number of countries participating directly and indirectly in the Geneva Conference

for Trade and Development, on the other hand, totalled 122.

- (2) Coherence and unity are practically lacking in so far as the way of tackling trade and development problems at present is concerned, i.e., by GATT and other bodies.
- (3) Although GATT has been able to deal fairly adequately with trade problems among the industrial countries, it has not shown the same vigor in coping with trade problems between the developed and the developing countries, to say nothing of trade problems among the developing countries themselves.
- (4) Many of the socialist countries which regulate their trade relations through bilateral agreements have remained outside the scope of GATT, which has been mainly an instrument for expanding trade by means of the tariff system. It should be noted furthermore, that the trend to regulate trade through official<sup>agencies</sup>/(i.e., by other than the tariff system), even in non-socialist countries, has been increasing since the end of the last world war.
- (5) Finally, agreements on primary commodities are usually negotiated outside the realm of GATT without being subject to coherent action.

It is indeed basic, in Dr. Prebisch's opinion, to agree first and foremost, on a general policy to be adopted by the

Conference before trying to envisage reform in the existing trade machinery. Once a decision is made in favor of this general policy, action may be applied either to introduce certain modifications to existing international trade institutions with an eye to making them more capable of implementing the various solutions and measures, or alternatively to install a new organization armed with all the necessary powers to serve the same purpose.

Starting from the first alternative, it can be easily demonstrated that much of the void emerging from the above-mentioned shortcomings has been filled by the United Nations. This applies particularly to the first two defects. Thus, the United Nations, by virtue of its wider range of membership, has been able to perform on a more adequate scale, thereby providing "... member states, and especially the developing countries, with a broader institutional framework than GATT has so far offered." <sup>1</sup> Moreover, the United Nations has been able to provide a certain unity and cohesion to the traditionally fragmentary and scattered way of tackling problems of trade and development. No wonder then that many of the basic ideas and proposals embodied in this report were originally broached in various UN specialized agencies and commissions. Yet there is still much to be done in this field.

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1. Ibid., p. 100.



A preliminary but desirable step in this direction would be to set up an organizational scheme "... based on the holding of periodic conferences similar to the present one, where the problems of international trade would be discussed as an integral part of the general problem of development."<sup>1</sup> This means that an overall policy along this path ought to be constructed and considered periodically for revision and modification whenever necessary in the light of experience. Consequently, it would also be desirable "... to organize, in addition to the periodic conferences, a standing committee which would fulfil this continuing function of examination and revision, with a view to submitting suggestions or recommendations to the conferences or to governments, depending on the nature of urgency of the matters involved."<sup>2</sup> Among the principal tasks of this standing committee is to examine such important aspects as the potential trade gap and its elimination, import targets and their realization, the access of primary commodity exports to the industrial countries, the formation and functioning of preferences, compensatory financing and commodity agreements, the organization of trade relations between the socialist countries and the rest of the world, the attainment of targets set for imports from the developing countries and the progress of the

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1. Ibid., p. 101.

2. Ibid., p. 102.

import-substitution policy in the latter countries.

"If the idea of the conferences and the standing committee is accepted," continues Dr. Prebisch, "practical arrangements should be made to avoid, as far as possible, any unnecessary overlapping of functions, so that the discussion in these bodies would not be unnecessarily repeated in other United Nations bodies or in GATT."<sup>1</sup>

#### F. REALISM AND RENOVATION

In part III of his report Dr. Prebisch recapitulates briefly the external problems and bottlenecks that tend to obstruct economic development in the developing countries. Since these grave problems are new either because "they are new in kind" or because of "the magnitude they have acquired," it follows that the remedies proposed should converge in a new trade policy for development.

On the international level, much will depend in solving these problems on the willingness of the major developed countries to cooperate and join hands with the developing countries to achieve the immediate aim of the new trade policy, which is the bridging of the potential trade gap. The huge potential of the industrial centers in relation to development requirements can undoubtedly be of great help. Their ability to step up their own rates of growth and gear their credit, investment and trade policies to the benefit of the

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1. Ibid., p. 103.

developing countries will constitute a great step forward in the way of solving the problems of trade and development in the less advanced countries. Moreover, gold and resources which can be obtained from disarmament can play a dynamic role in the bridging of the potential trade gap.

Dr. Prebisch then places great emphasis on the necessity of combining cooperation on the international level with persistence on the part of the developing countries themselves to overcome the internal obstacles and introduce the domestic changes required to expedite economic development. He argues that "the controversy about whether internal ills are caused by external factors or whether the source of these ills should be sought exclusively in the behaviour of the country concerned has been rendered obsolete by events and is meaningless now. There are both internal and external problems to be attacked simultaneously. To emphasize the former and exclude the latter, or, vice versa, would be an aimless exercise and only divert our attention from the real solutions."<sup>1</sup>

After recapitulating briefly the measures proposed in the new trade policy and the new attitudes which they must entail, Dr. Prebisch ends his report by posing the following questions: "Will it be possible to bring about these new attitudes? Will the proposals formulated here be realistic?"

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1. Ibid., p. 117.

If realism means proposing what is feasible at a given moment, then perhaps not all that is suggested in these pages is realistic; it might be considered an illusion. But what is realistic today was not always so yesterday, and today's illusion may be tomorrow's realism."<sup>1</sup>

In any case, a broad policy of international cooperation in trade, financial resources and the propagation of technology seems unavoidable, according to Dr. Prebisch, since developing countries should not be forced into a kind of closed development with all the enormous social and economic cost involved therein. "Closed development leads to compulsion, and usually compulsion involves a political cost fraught with serious consequences." Then he adds, "Realism is ~~also fore-~~sight, and an elementary sense of foresight should induce us to read the sign of the times in the developing world."<sup>2</sup>

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1. Ibid., p. 124.

2. Ibid., p. 124.

## CHAPTER IV

### ANALYSIS OF THE PREBISCH CONTENTION

#### A. THE ECONOMICS OF PREBISCH AND ECLA IN PERSPECTIVE

##### 1. Evolution

The previous statements of the Prebisch Contention can be found mainly in a report by Dr. Raul<sup>1</sup> Prebisch when he was the Executive Secretary of the United Nations Economic Commission for Latin America (ECLA) in 1950,<sup>1</sup> and in one of his essays which appeared in the American Economic Review in 1959.<sup>2</sup> Since much of Dr. Prebisch's thought and findings in the field of trade and development matured while he was the Executive Secretary of ECLA (i.e., before he became in 1963 the Secretary-General of UNCTAD),<sup>3</sup> most of his views came to be known as the "ECLA doctrine." Any attempt to examine the Prebisch Contention (see chapter II) can be greatly facilitated by tracing the evolution of the "ECLA doctrine" from its rise in the early fifties until its UNCTAD version of 1964.

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1. United Nations, The Economic Development of Latin America and its Principal Problems, Report by the Economic Commission For Latin America, New York: 1950, (referred to hereinafter as Prebisch I).

2. Raul<sup>1</sup> Prebisch, "Commercial Policy in the Underdeveloped Countries," American Economic Review, Papers and Proceedings, Vol. XLIV, May 1959, pp. 251-73, (referred to hereinafter as Prebisch II).

3. John P. Powelson, Latin America: Today's Economic and Social Revolution, (New York: McGraw-Hill, 1964), p. 294.

The early Prebisch thesis, as well the recent one, has centered on the assertion that there has been a secular tendency for the terms of trade of peripheral countries, the traditional exporters of primary products, to deteriorate relative to those of the industrial centers, the traditional exporters of manufactured goods. One main explanation for this deterioration, which Dr. Prebisch emphasized heavily in his 1950 report, is that "the great industrial centres not only keep for themselves the benefit of the use of new techniques in their economy, but are in a favorable position to obtain a share of that deriving from the technical progress of the periphery."<sup>1</sup>

The starting point of this argument is the increase in productivity presumably taking place in the center's domestic and export industries, in the export sector of the periphery, although to a lesser extent, and finally in the domestic sectors of the latter where productivity is originally very low and increases only at a snail's space. At the center, Dr. Prebisch maintains that increases in productivity in various sectors are almost entirely matched by increases in wage payments and quite rarely by price reductions. This is due to the pressure exerted by trade unions and to the monopolistic structure of the product markets in the center. In contrast, increases in productivity in the export sector of the periphery

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1. Prebisch I, p. 14.

have resulted mainly in reductions in export prices, largely due to the prevalence of an opposite market structure and wage-price mechanism. This phenomenon explains, according to Dr. Prebisch, the secular deterioration in the terms of trade of the periphery.<sup>1</sup>

Moreover, to understand this phenomenon better, one should link it with the movement of the trade cycle which "is the characteristic form of growth of capitalist economy, and increased productivity is one of the main factors of that growth."<sup>2</sup> Thus, during the cyclical upswing, prices of primary products tend to rise more rapidly (probably due to the low elasticity of supply) than the prices of finished products, "but also they fall more in the downswing, so that in the course of the cycles the gap between prices of the two is progressively widened."<sup>3</sup> The differences in market structure and wage mechanism between the center and periphery, as stated above, largely account for this assymetry according to Dr. Prebisch. For when prices rise in the center during the upswing, part of the rising profits are mopped up by higher wages, but since wages are rigid downward, the fall in prices during the downswing is reflected in lower prices paid for raw materials and primary products imported from the periphery. According to Dr. Prebisch, this downward rigidity in wages in the periphery

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1. Ibid., pp. 8 - 14.

2. Ibid., p. 12.

3. Ibid., p. 13.

is practically absent, and if existing would simply intensify the problem since it would be accompanied by a decline in employment in the periphery as the demand for primary exports becomes sluggish in the center. The ultimate result is a transfer of the gains derived from increased productivity (or of real income) from the periphery to the center via a worrening in the terms of trade of the former.<sup>1</sup>

In his 1959 essay, Dr. Prebisch did not appeal to this particular argument, but instead shifted his emphasis to a different logic in order to arrive at the same conclusion.<sup>2</sup> Here the explanation is given in terms of productivity ratio(s) defined as "the relationship of physical productivity per man between the periphery and the centre", as well as among various activities within the economy of each.<sup>3</sup> He is again interested in showing how a part of the fruits of technological progress is transferred from the periphery to the center assuming free play of market forces. Throughout his argument, Dr. Prebisch seems to be assuming also the existence of a "full surplus man power" in the periphery which is tantamount to an unlimited supply of labor working under competitive conditions in the labor market so that there is really one wage rate vis-à-vis many productivity ratios.<sup>4</sup> Consequently, "whenever

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1. Ibid., pp. 13 - 14.

2. M. June Flanders, "Prebisch on Protectionism: an Evaluation," The Economic Journal, Vol. LXXIV, No. 294, June 1964, p. 313.

3. Prebisch II, p. 258.

4. Flanders, op.cit., p. 313.



the productivity ratio in exports is higher than in the marginal industries needed to employ the full surplus manpower, the real income corresponding to the differences in productivity will tend to be transferred abroad in the unrestricted play of market forces. This occurs either when the surplus manpower has to be employed in industrial branches where the productivity ratio is lower than in exports of primary commodities, or when the latter improves faster than does the ratio of industrial productivity. "For this means that in order to make marginal industries competitive, wages in foreign currency must decline so as to reduce the wage ratio ... and this process is accompanied by a decline in export prices."<sup>1</sup> The result is a deterioration in the terms of trade of the periphery and a concomitant transfer of real income from it to the center.

The policy implications of Dr. Prebisch's arguments as outlined above are rather obvious. They all devolve on the immediate need for protectionism in the developing countries. Moreover, the wall of protectionism "should either be high enough to expand domestic production at current wage rates in order to absorb the unemployment resulting from increased productivity in the export sector, or it should even be higher in order to prevent also the transfer of the fruits of this

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1. Prebisch II, p. 259.

higher productivity to the center."

In his UNCTAD report, Dr. Prebisch calls attention to the 60 per cent on the average of the economically active population in the developing countries that is employed in agriculture and other forms of primary production at low levels of productivity and remuneration scales. This "structural defect" exerts a constant pressure on the level of real wages in these countries and makes it "extremely difficult for this level to rise in direct proportion to productivity as the latter improves with technological progress. The increase in income generated by higher productivity in the agricultural sector thus tends to shift to other parts of the domestic market or abroad, as the case may be, provided that the shortage of available land does not absorb the increase in income by raising the rent for the benefit of landowners and provided that the play of market forces is left undisturbed."<sup>2</sup>

Although Dr. Prebisch asserts that the "structural defects" in the economics of the developing countries comprises the main explanation for the tendency in the terms of trade of primary products to worsen, he does not employ any elaborate analysis (e.g., the productivity ratio mechanism, or

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1. Werner Baer, "The Economics of Prebisch and ECLA", Economic Development and Cultural Change, Vol. X, No. 2, Jan. 1962, p. 173.

2. Prebisch, UNCTAD Report, p. 15.

differences in market structure and wage mechanism which he used in Prebisch I and II) to show how this takes place. Even before discussing the "structural defect", Dr. Prebisch dwells on the adverse impact of technology and protectionism in the advanced countries on the sluggish growth of world demand for primary products. He then proceeds to show that "owing to the slowness of the growth of demand for primary commodities, only a dwindling proportion of the increment in the economically active population in the developing countries can be absorbed in their production, and the more productivity in primary activities rises as a result of the assimilation of advanced techniques, the smaller will that proportion be. The economically active population therefore has to be shifted to industry and other activities." <sup>1</sup> Obviously, the immediate cause of the deterioration in the terms of trade is then the slow tempo of world demand for primary products. Implicit in this slowness is the assumption of low income elasticity of demand for these products.

## 2. Evaluation

In his previous writings <sup>2</sup>, Dr. Prebisch employed two elaborate mechanisms to set forth a theoretical case for the deterioration in the terms of trade of the developing countries.

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1. Ibid., p. 14.

2. In Prebisch I and II.

His recent emphasis, in his UNCTAD report, on the "structural defects" in the developing countries and on the slow growth of world demand for primary products to account for deterioration suggests that his previous elaborate mechanisms are not essential prerequisites for his conclusion.<sup>1</sup>

Thus, it has been shown that even without appealing to differences in market structure and wage-price mechanism, the Prebisch thesis can still be supported from evidence relating to the effects of higher productivity and slow growth of world demand for the periphery's exports. Accordingly, the following "minimum model" drawn out of the previous arguments by Dr. Prebisch was suggested as a sufficiently consistent and logical path leading to the same conclusion:<sup>2</sup>

"Consider two countries, P (periphery) and C (centre), which are alike with respect to rate of growth of population, rate of increase in per capita income (hence rate of increase in productivity per man and in the real wage-rate) and technological density. At the existing exchange rate and wage-rates in the two countries all of P's exports are primary products and all of C's exports are industrial goods. The only difference is that with growth in income the world demand function for C's exports is rising faster than the world demand function for P's primary exports. As a result, an ever-increasing proportion of P's incremental population must be allocated to industrial production, while in C an ever-increasing proportion of the incremental population can and will ~~be~~ be allocated to industrial production. But P's industrial output can compete (in P's home market) with imports from C only if, through changes in the exchange rate or in the wage-rate, P accepts a deterioration in its terms of trade. Thus part of the increase in productivity in P accrues to C."

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1. Flanders, op.cit., p. 322.

2. Flanders, op.cit., p. 321-322.

Apparently, M.J. Flanders, who extracted this "minimum model" from Dr. Prebisch's two arguments (in the 1950 ECLA report and 1959 article), did not, at least until the writing of her essay,<sup>1</sup> read the UNCTAD report, or otherwise she could have referred to it. In any event it can be readily shown that there is a basic resemblance between the recent UNCTAD exposition of the Prebisch thesis and the model suggested by Flanders. In fact, Dr. Prebisch, more than once in the UNCTAD document,<sup>2</sup> narrates his whole thesis in a similar tone:

"The direct and indirect effects of technological progress are responsible for the fact that world demand for primary commodities is growing so slowly, to the detriment of the developing countries ... the primary production of the developing countries should adjust to this slow tempo of demand, but structural difficulties prevent it from doing so to the extent necessary to prevent primary commodity prices from deteriorating in relation to those of manufactures."

The emphasis on structural difficulties is equivalent to the proposition in the "minimum model" that the incremental working population in P must be allocated to industrial domestic production only at the expense of a deterioration in P's terms of trade. Thus far we are left with the slow tempo of world demand for primary products which, when accompanied by higher productivity in the export sector,<sup>3</sup> seems to provide enough explanation for the whole problem. Dr. Prebisch seems

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1. Flanders' essay was published in June 1964.

2. Prebisch, UNCTAD Report, p. 129.

3. Among those who confirmed this point is A.O. Hirschman in "Discussion of Professor Haberler's Paper", Economic Development For Latin America, op.cit., p. 306.

to acknowledge this, at least implicitly, when he states that "the tendency of the terms of trade of primary products to deteriorate occurs in the case of the highly industrialized countries too, largely as a result of technological progress<sup>1</sup> and in spite of their economic strength.

Hence, "... the heart of the 'Prebisch thesis' ... stems from the assumption of different income elasticities of demand, not from alleged differences in market structure and the wage-price mechanism."<sup>2</sup> Before probing into the implications of this conclusion, it might be helpful to examine briefly the statistical and empirical aspects of the movement in the terms of trade and the trend in world demand for primary products.

## B. THE STATISTICAL BASE OF THE TERMS OF TRADE ARGUMENT

### 1. General Survey

The hypothesis regarding the secular deterioration in the terms of trade of primary products and developing countries is based on the annual index of the United Kingdom's commodity terms of trade over the period 1876 - 1938. Commodity terms of trade reflect the ratio of export and import price indexes,  $\frac{P_x}{P_m}$ . Various indexes by Werner Schlotte, the United Nations, A.H. Inlah, C.P. Kindleberger and W.A. Lewis were constructed

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1. Prebisch, UNCTAD Report, p. 12.
  2. Flanders, op. cit., p. 322.

on the basis of the British data over the same period.<sup>1</sup> Although the inferences obtained from these statistical studies were not always consistent, the proponents of the hypothesis under consideration found in them sufficient evidence to show that "from the latter part of the nineteenth century to the eve of the second world war, there was a secular downward trend in the prices of primary goods relative to the prices of manufactured goods. On an average, a given quantity of primary exports would pay, at the end of this period, for only 60 per cent of the quantity of manufactured goods which it could buy at the beginning of the period."<sup>2</sup>

According to G. Haberler,<sup>3</sup> there are at least two basic objections to the use of the British data and the studies derived from them in trying to demonstrate any secular deterioration in the terms of trade of primary products. First, there is no allowance in the British index for changes in the quantity of the products and for the introduction of new products. It is common knowledge that the quantity of industrial production undergoes significant and continuous improvements, let alone the emergence of a vast number of new manufactured goods not heard of 30 or 40 years ago. On the other hand, primary products remain more or less unchanged in quality. As

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1. Meier, op. cit., p. 55.

2. United Nations, Department of Economic Affairs, Relative Prices of Exports and Imports of Underdeveloped Countries, New York: 1949, p. 72.

3. Haberler, op. cit., pp. 281-82.

a result of this assymetry, a bias is introduced into the index, thereby reducing its reliability as an accurate measure of the real changes in the terms of trade.

Secondly, the British terms of trade cannot be regarded as representative of other industrial countries' terms of trade. Hence it becomes rather difficult to generalize, on a global basis, by simply appealing to the British index of export and import prices over the long period under consideration.

Aside from the statistical weaknesses just mentioned, it is further argued that the reliance of the secular deterioration hypothesis on changes in commodity terms of trade ( $\frac{px}{pm}$ ) only obscures the intricate relationship between economic welfare and changes in the terms of trade thus interpreted. Although in most cases, commodity terms of trade give a clue to the direction of the change in welfare, better indicators, in certain cases, may be sought in other related concepts such as single factorial, double factorial and income terms of trade. The first refers to the average price of factors exported (in the form of exported goods) in terms of imported commodities, the second introduces into the commodity terms of trade the effect of changes in productivity in a country's exports and imports, and the third relates volume changes in trade to price changes ( $\frac{Px Qx}{Pm}$ )<sup>1</sup>.

After stating all their objections, the opponents of the

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1. Ibid., pp. 275-279. Jacob Viner in his Studies in the Theory of International Trade, (New York: Harper and Brothers, 1937), pp. 555-65, presents a comprehensive treatment of these concepts.



secular deterioration hypothesis conclude that "the proponents of the secular deterioration in the terms of trade for primary products have not been able to prove that such a change has actually taken place."<sup>1</sup>

In the midst of this hot controversy between the proponents and opponents of the hypothesis under consideration, a compromise opinion has been voiced by some economists who, although not necessarily associated with the secular implication of the hypothesis, do feel, however, that there is an indication towards a decline in the terms of trade of primary producers and developing countries. Thus although statistical data on the movement of prices is subject to various interpretations and differences in opinion, J.P. Powelson in one of his latest books claims that "it is probable that the long-run terms of trade are moving against less developed countries."<sup>2</sup> Likewise, W. Baer argues that "even if some of the doubts expressed concerning the validity of the long-run downward tendency of the terms of trade are correct, it seems fairly clear that over long and crucial periods of time in the twentieth century the terms of trade have been declining for many peripheral areas."<sup>3</sup> C.P. Kindleberger made much the same point when he concluded in one of his fairly sophisticated statistical studies that "the views of Singer and Prebisch on the

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1. Ibid., p. 282.

2. Powelson op. cit., p. 124.

2. Baer, op. cit., p. 179.

terms of trade of underdeveloped countries thus derive support from a more thorough statistical investigation."<sup>1</sup>

In the light of this general background now surrounding the terms of trade argument, we turn to examine Dr. Prebisch's own interpretation of the statistical data on the terms of trade of primary products and developing countries over the period 1950 - 1961 as presented in his UNCTAD report.

2. The Magnitude and Distribution of the Deterioration, 1950 - 1961

In discussing the adverse effects of the deterioration of the terms of trade between 1950 and 1961, Dr. Prebisch concludes that the magnitude of this deterioration was 26 per cent for primary commodities (excluding<sup>petroleum</sup> / in relation to manufactures. On the other hand, the deterioration in the terms of trade of developing countries (excluding petroleum) was estimated by Dr. Prebisch, after allowing for the fact that some developing countries import primary commodities and export<sup>2</sup> manufactures, at about 17 per cent over the same period.

As can be seen from Table 4 - 1 below the deterioration in the terms of trade of primary commodity exporters (including petroleum) amounted to 14 per cent, while that for the

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1. Charles P. Kindleberger, "The Terms of Trade and Economic Development", The Review of Economics and Statistics, supplement, Feb. 1958, p. 85.

2. Prebisch, UNCTAD Report, pp. 18 - 19.

developing countries (including petroleum) was 11 per cent over the same period. Presumably, the difference between Dr. Prebisch's estimates and the figures in the table is attributable to the exclusion of petroleum.

Table 4 - 1. Market Economics: Terms of Trade, by Major Regions  
( 1960 = 100 )

| <u>Year</u> | <u>Ind. com. exporters</u> | <u>Primary com. exporters</u> | <u>Developed econ.</u> | <u>Developing econ.</u> |
|-------------|----------------------------|-------------------------------|------------------------|-------------------------|
| 1950        | 90                         | 114                           | 93                     | 109                     |
| 1951        | 86                         | 120                           | 89                     | 116                     |
| 1952        | 91                         | 105                           | 92                     | 104                     |
| 1953        | 93                         | 107                           | 95                     | 104                     |
| 1954        | 92                         | 113                           | 94                     | 110                     |
| 1955        | 93                         | 109                           | 94                     | 109                     |
| 1956        | 93                         | 106                           | 94                     | 105                     |
| 1957        | 93                         | 103                           | 94                     | 101                     |
| 1958        | 98                         | 100                           | 98                     | 101                     |
| 1959        | 99                         | 101                           | 99                     | 100                     |
| 1960        | 100                        | 100                           | 100                    | 100                     |
| 1961        | 101                        | 98                            | 101                    | 98                      |
| 1962        | 103                        | 97                            | 103                    | 96                      |

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Source : UNCTAD, Review of Trends in World Trade, part II, op. cit., p. 34.

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Dr. Prebisch does not specify why he excludes petroleum

from his estimates. Whatever the reason may be, it should be noted that the exclusion of this primary product accounted for a difference of 46 per cent in the deterioration for primary products and 35 per cent in the deterioration for the developing countries. In other words, the deterioration is much less when petroleum is included.

Table 4 - 2. Market Economics, Terms of Trade of Primary Producers by Regions  
( 1960 = 100 )

| Year | <u>Australia,<br/>Newzealand<br/>and South<br/>Africa</u> | <u>Latin<br/>American<br/>Republics</u> | <u>Africa</u> | <u>Far East</u> | <u>West Asia</u> |
|------|---|---|---------------|-----------------|------------------|
| 1950 | 153   | 124                                     | 101           | 102             | 103              |
| 1951 | 151   | 125                                     | 117           | 115             | 96               |
| 1952 | 117   | 115                                     | 104           | 99              | 93               |
| 1953 | 130   | 118                                     | 99            | 94              | 99               |
| 1954 | 123   | 130                                     | 110           | 96              | 102              |
| 1955 | 116   | 120                                     | 108           | 100             | 104              |
| 1956 | 115   | 116                                     | 106           | 96              | 103              |
| 1957 | 116   | 109                                     | 100           | 91              | 104              |
| 1958 | 96  | 104                                     | 103           | 92              | 109              |
| 1959 | 103   | 99                                      | 101           | 99              | 104              |
| 1960 | 100   | 100                                     | 100           | 100             | 100              |
| 1961 | 98  | 100                                     | 95            | 96              | 99               |
| 1962 | 99  | 98                                      | 91            | 94              | 98               |

% Contribution to total

world exports (1955-61)

|   |    |   |    |   |    |
|---|----|---|----|---|----|
| 7 | 16 | 9 | 12 | 8 | 1) |
|---|----|---|----|---|----|

Source : UNCTAD, Review of Trends ..., Ibid., pp. 35 - 36.

1)

The remainder comes from other developed market economics (45%) and from other developing economics (3%).

As can be seen from Table 4 - 2, the sharpest deterioration took place in the terms of trade of three developed primary exporting countries. Australia, Newzealand and South Africa. Between 1955 and 1961, those three countries supplied about 13 per cent of total primary exports by developed market economies and some seven per cent of world total exports of these products.<sup>1</sup> It should be expected that more or less similar declines occurred in the terms of trade of other net primary exporting developed countries at least due to sharp increases in productivity. However, no separate figures on the terms of trade of these countries are available. This is rather surprising in view of the fact that, over the period 1955 - 1961, the developed market economies supplied about 52 per cent of total world primary exports.<sup>2</sup>

As shown in table 4 - 2, the Latin American Countries were another important contributor to the global deterioration in the terms of trade of primary products. Between 1955 and 1961, Latin America exported about 16 per cent of total world exports of primary products (from market economies) and 35 per cent of total primary exports from developing market economies.<sup>3</sup> Over the same period, 81 per cent of total Latin<sup>4</sup>

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1. "Review of Trends ..." Ibid., pp. 46 - 50 (Table 25).

2. Ibid.

3. Ibid.

4. IMF, International Financial Statistics, supplement 1964-65, pp. 7 - 8.

American exports came from eight countries only (Argentina, Colombia, Brazil, Mexico, Netherlands Antilles, Cuba, Chile, Venezuela), one of which, Venezuela, is a major exporter of petroleum which is exported at relatively stable prices. If we recall that the number of the developing countries attending the UNCTAD<sup>1</sup> reached 77, we can immediately appreciate the caution and reserve that should accompany any generalization on the secular deterioration in all the developing countries! terms of trade and particularly on the alleged detrimental impact of this deterioration on their economic development. It should be noted furthermore that "while the terms of trade for developing countries are less favorable now than in the early fifties — when the Korean War and a coffee boom boosted average primary prices, — they are considerably<sup>more</sup> favorable than in 1938 and not much different from the 'normal' prewar year of 1928."<sup>2</sup> Dr. Prebisch himself also mentions that half of the loss since 1953 has been regained through the firmness of primary commodity prices during 1961 and 1962 and their recovery since then, although this should not invalidate, according to him, the secular drift towards deterioration.

It may be recalled also that Dr. Prebisch, after analyzing the various implications of the UN Development Decade,

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1. Tadashi Kawata, "UNCTAD and Japan" The Developing Economies, Vol. II, No. 3, Sept. 1964, p. 290.

2. "Trade Policies for Developing Countries, "Monthly Economic Letter", First National City Bank, New York, April 1964, p. 44.

came to the conclusion that the trade gap of the developing countries may reach some \$ 20 billion by 1970, if present trends in world trade continue unchecked. In projecting the rates of growth of exports and imports of the developing countries which must accompany their growth at the postulated rate of five per cent/<sup>per</sup>annum and allow them at the same time to maintain balance of payments equilibrium, the Secretary-General explicitly allows for changes in the terms of trade. If this allowance is based on his own interpretation of the movement in the terms of trade, then the magnitude of the trade gap is likely to be overestimated.

The above remarks are not meant to deny that there has actually been some deterioration in the terms of trade of primary products of some developing countries. There is no denying furthermore that certain developing countries other than the Latin American seven might have suffered, more or less, from such deterioration. However, it must be emphasized that, in trying to arrive at any generalization regarding the secular movement in the terms of trade and its impact on the development of the less advanced countries, much will depend on the manipulation and interpretation of the statistical data. In addition other considerations similar to those raised by the opponents of secular deterioration must be taken into account, especially the intricate relationship between economic welfare and changes in the terms of trade. This implies that the

magnitude and distribution of the deterioration in the terms of trade of the developing countries, being still undetermined on a fairly and generally acceptable basis, can hardly be expected to provide a strong case in support of a final generalization regarding the alleged detrimental impact of the prevalent trade pattern on the development of the periphery. In addition, the argument on the deterioration in the terms of trade, when advanced to characterize, in general, the adverse trade conditions of the developing countries, may conceal the great divergencies in the price movement of different commodities. Thus "sugar one of the more important tropical products, has recently reached its best relative value in the last 100 years or so, while in the case of sisal, to quote another example, producers are already apprehensive that the rise will result in the replacement of the product by some new plastic material."<sup>1</sup>

### 3. The Demand for Primary Products : Empirical Evidence

According to T.W. Schultz, "the term primary products has come to mean those commodities or materials which are entering the economy for the first time and which have undergone little or no processing - other than that required to obtain them in their original form and to prepare them for marketing."<sup>2</sup> The term embraces raw materials, e.g., farm

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1. UNCTAD, Notes on the United Nations Conference on Trade and Development, paper by Thomas Balagh, Geneva, Jan. 1964, p. 10.

2. Theodore W. Schultz, "Economic Prospects of Primary Products," Economic Development for Latin America, H.S. Ellis (ed.), 1961, op.cit p. 309.



products both food and non-food, fishery, wild life and forest products, minerals both metallic and non-metallic, construction materials, and mineral fuels e.g., coal, crude petroleum, natural gas and gasoline.

After examining available data on the consumption of raw materials in the United States, Schultz concludes that the declining importance of these products relative to total in-<sup>1</sup>put and out-put in the U.S. economy is clear. He then attributes this declining importance mainly to the relatively low income elasticity of demand for these products, which drops to 0.25 or less for farm products entering into food. However, there are reasons to believe that the income elasticity of demand for food in the developing countries is much higher and may range between 0.7 and 1.0 as in Latin America for ins-<sup>2</sup>tance, although good statistical estimates are not at hand. On the basis of this and other statistical comparisons between the U.S. and Latin America, Schultz claims that the demand for primary products in the highly advanced countries is increasing much less rapidly than increases in gross national product or real income and a little more rapidly than population growth. In the developing countries, on the other hand the demand prospects for primary products are much more promising because of high income elasticity of demand and rapid population growth.

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1. Ibid., pp. 310 - 11.

2. Ibid., pp. 315 - 16.

On the supply side, there seems to be no particular difficulty as far as the production of most primary products is concerned. There is evidence, however, to indicate the possibility of a lower input mix in the production of primary production due to increased application of knowledge. Finally, Schultz inclines to the view that the prices of primary products are likely to hold the same position over the two coming decades in relation to other prices at wholesale as they were doing at the end of the fifties. In any case, he "cannot give any comfort either to those who wish to see the prices of primary products rise or to those who see them headed down."<sup>1</sup>

### C. TRADE AND INTERNATIONAL INEQUALITIES

Primary exporting countries, whether developed or developing, seem to be facing a slowly growing world demand for their exports relative to their rapidly growing demand for imports. This demand situation together with productivity increases in the export sector is likely to cause a deterioration in their terms of trade. Whilst there is evidence to show that some deterioration has actually occurred in the terms of trade of primary exporting countries, it is not certain that the share of the developing countries in this deterioration has been primarily responsible for crippling their

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1. Ibid., p. 324.

efforts to achieve a self-sustaining economic growth. In any case, the developing countries once faced a better world demand situation for their exports during the "old order" as Dr. Prebisch implied at the beginning of his report. Even then, and with relatively favourable terms of trade, they could not achieve rapid economic development. The upshot of all the foregoing remarks is that "the improvement of the terms of trade is not the best way of securing international equality."<sup>1</sup> This implies that such an improvement taken by itself can hardly be expected to help the developing countries achieve a break-through into self-sustaining growth.

Nevertheless, the trade problems of the developing countries still deserve special attention and need to be tackled within an effective framework of international co-operation. The reason lies in their inability, with their feeble economic set-up, to effect a quick switch-over in order to gear their primary production to the slow tempo of world demand. This line of thought has occupied a central position in the Prebisch contention. Fortunately, the international response has so far been favorable in this direction.<sup>2</sup> As a result, the ideas strongly emphasized by Dr. Prebisch regarding implicit or real reciprocity, the elimination of all trade barriers

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1. Balogh, op. cit., p. 2.

2. "Trade Policies for Developing Countries", Monthly Economic Letter, op. cit., pp. 44 - 45.

in the face of exports from the periphery, the abolition of partial preferences and the necessity of granting general preferences to all developing countries instead, the feasibility of forming regional grouping among developing countries and the need for relaxing excessive agricultural protectionism in the industrially advanced countries are all gaining broader support and wider acceptance. The "Kennedy round" negotiations are also expected to play an important role in bringing all these trade concessions for the benefit of the developing countries into reality.

1. The Role of GATT in Relation to Trade and Development

The recent progress that took place under the influence of GATT in the field of trade and development deserves particular mention. At a special session between November 17 and 26, 1964, the Contracting Parties of the General Agreement on Tariffs and Trade (GATT) included in the General Agreement a chapter on Trade and Development in pursuance of a decision taken at the Meeting of Ministers in May 1963. At that Meeting the Ministers "recognized the need for an adequate legal and institutional framework to enable the Contracting Parties to discharge their responsibilities in connection with the work of expanding the trade of less developed countries."<sup>1</sup> The new chapter which now comprises part IV of the

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1. "A New Chapter For GATT", International Financial News Survey, IMF, Vol. XVI, No. 50, Dec. 18, 1964, p. 461.

Agreement includes the following important provisions:

(1) The developed contracting parties shall to the fullest extent possible accord high priority to the reduction and elimination of barriers to products of particular export interest to less developed contracting parties including customs, duties and other discriminatory restrictions. They shall also refrain from introducing or increasing customs duties or non-tariff import barriers and from imposing new fiscal measures which hamper or would hamper the growth of consumption of primary products exported by less developed contracting parties.

(2) The contracting less developed countries agree to take appropriate action to implement the provisions of part IV of the Agreement for the benefit of other less developed countries.

(3) The contracting parties agree to collaborate in analyzing development plans for the less developed countries with a view to promote the latter's export potential and facilitate their access to markets for their industrial exports. They also agree to collaborate with governments and financial organizations to facilitate their access to financial assistance for economic development.

The contracting parties also adopted a statement by the chairman in which they seek appropriate solutions to problems of agricultural trade in the course of the "Kennedy round" and affirm that agricultural products are covered by the general provisions of part IV.

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1. Ibid., pp. 461 - 62.

As to the granting of preferences by industrialized countries for the manufactured and semi-manufactured products of developing countries, the contracting parties showed a broad measure of agreement. Yet there were considerable divergencies of opinion among them as to the terms, conditions and procedures that would govern preferential arrangements.<sup>1</sup> But this they promised to reconsider as early as possible.

## 2. Trade or Aid?

It is essential to keep in mind that the principal concern of the UNCTAD was to examine and analyze the reasons for the apparent inability of the developing countries to achieve a minimum annual growth rate of five per cent by 1970: the target of the present UN Development Decade. Another basic preoccupation of the Conference, furthermore, was the creation of a favorable trade atmosphere that would facilitate development and not thwart it. It follows that the ultimate goal of the Conference was in fact to find ways and means by which existing international economic inequalities could be reduced as quickly and effectively as possible. Seen in this light, Dr. Prebisch's emphasis on the relatively adverse trade situation of the developing countries (particularly as reflected by deteriorating terms of trade) and his insistence on explaining their failure to accelerate the rate of their growth

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1.. UNCTAD, The Role of GATT in Relation to Trade and Development, paper prepared by the GATT Secretariat, Geneva, April 1964, pp. 2-3.

mainly in the light of this adverse trade situation present an incomplete diagnosis for the diverse and complicated problems circumscribing the developing world today. "Admittedly within certain limits trade questions can be divorced from total redistribution from the rich to the poor areas; but we are not here talking about marginal variations in specific trade either in volume or in value, but of grasso modo changes in the balance of payments sufficiently big so as to affect the rate of development and economic health of the poorer developing countries. At this level obviously a sharp division<sup>1</sup> between trade and aid can no longer be made."

It should be noted, moreover, that the trade problems of the developing countries are, to a great extent, the symptom and not the cause of their unhealthy economic structure. This has been fully and repeatedly recognized by Dr. Prebisch. The causes of domestic ills are again not purely economic but social as well. It follows that "trade, and especially an induced improvement in the terms of trade, is no alternative to a well<sup>2</sup> conceived programme of aid combined with internal reform."

The foregoing remarks apply also to the oft-repeated attempt in the Prebisch Contention to express the problems facing the developing countries in terms of a trade gap. Admittedly such an attempt may again serve certain purposes. Yet from the

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1. Balogh, op. cit., p. 3.

2. Ibid., p. 8.

overall view-point of the Conference "the trade gap should be regarded, not so much as an arithmetical statement, but as a figure of speech broadly suggesting the scale and the challenge of the problem of development."<sup>1</sup>

D. DOMESTIC OBSTACLES AND INDUSTRIALIZATION IN THE PERIPHERY

In discussing the process of industrialization in the developing countries, Dr. Prebisch again tackles the problems involved mainly from the viewpoint of international trade. He distinguishes sharply between outward — looking and inward-looking industrialization. The first characterized the early industrial growth of the now developed countries, and was directed by and large to their benefit since it proceeded under an environment of expanding world trade. The second prevailed in the developing countries when they tried to industrialize after the great depression. Protectionism everywhere and lack of external markets compelled industrialization in the developing countries to turn inward and proceed at a high cost as a simple substitution process. As a result, it failed to cater to the overall needs of the developing countries. Above all it failed to expand their industrial exports and help them overcome their precarious trade situation.

Admittedly, it is useful and suggestive to examine the

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1. "Address to UNGTAD" by US Under-Secretary of State George W. Ball, March 25, 1964, Unpublished Text, p. 20.



process of industrialization in the developing countries in the light of world trade conditions. Equally important is the attempt to highlight the external bottlenecks obstructing export-oriented industrialization in these countries. However, in view of <sup>the</sup> increasing significance of the exports of manufactures in the eyes of the developing countries that have begun recently to focus, and rightly so, on the real possibilities in this direction, it becomes rather important to recognize more adequately the domestic obstacles to be overcome.<sup>1</sup>

Apart from some internal fiscal and monetary measures which tend sometimes to retard the expansion of manufactured exports, there are three main factors which were and still are responsible, to a great extent, for the inability of the developing countries to make headway in this field.<sup>2</sup>

The first factor stems from the problem of ignorance on the part of most entrepreneurs in the developing countries regarding export opportunities abroad. Those entrepreneurs who have been drawn from commercial groups possess commercial experience, mostly the handling of imported products, and some intimate knowledge of the domestic market which they exploit by directing their capital to domestic production whenever

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1. UNCTAD, Problems and Prospects in the Export of Manufactured Goods from the Less Developed Countries, Paper by Raymond Vernon, Dec. 1963, p. 3.

2. Ibid., p. 9.

their commercial interests are threatened.<sup>1</sup> As a result they rarely know anything about the prospects and problems of marketing manufactured products abroad. Thus "confronted with an opportunity at home about which they knew something and possible opportunities abroad about which they knew nothing, the entrepreneurs in the less developed countries would turn first to the domestic market; and they would be expected to make this choice even if exports were a possibility from the very first."<sup>2</sup> This problem of ignorance is not very pressing in the case of primary exports where the producer is a part of a vertically integrated operation on the top of which there is a trade organization presumably taking care of the marketing phase. But in the case of manufactured exports, the problem of ignorance is much more critical since the producer is also at the center of the marketing operation.

The second hurdle inhibiting the exportation of manufactures from the developing countries is related to the element of risk. "Contrary to the easy assumption sometimes made in economic theory, entrepreneurs in fact are not necessarily willing to accept larger risk for the chance of greater gain."<sup>3</sup> This is particularly true of entrepreneurs in the

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1. Ibid., p. 9. and see also Yusif A. Sayigh, Entrepreneurs of Lebanon, (Cambridge; Harvard University P'fess, 1962), p. 79.

2. Vernon, op. cit., p. 10.

3. Ibid., p. 13.

less developed countries, who by being relectant to take any risk beyond their traditionally narrow range of relevant risk-yield choices, usually shy away from embarking on worthwhile export-oriented projects which might not bring returns in the not too distant future.

The third difficulty circumscribing exports of manufactures from the periphery is the "need to gamble on a large-scale marketing operation or none at all."<sup>1</sup> The problem of high domestic costs and small scale operations that characterize industrialization in the periphery, to which Dr. Prebisch often refers and relates to the limited access to the markets of advanced countries, is closely linked with this complicated issue. Real difficulties which emanate from the cost structure of the developing countries are involved here and greater access to markets abroad simply may not be enough. It is noted in this connection that "while not much of a systematic character is known about the structure of cost curves for producers in the less developed areas, as compared with their competitors in the more advanced countries, the presumption is strong that economies of scale are exhausted at lower volumes in the environment of the less developed countries."<sup>2</sup> Various reasons account for this presumption, among

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1. Ibid., p. 14.

2. Ibid., p. 15, and see also Y.A. Sayigh, op. cit., p. 63.

which are the short span of managerial control and the absence of trained foremen and supervisors.

The foregoing remarks serve to supplement Dr. Prebisch's suggestive diagnosis of the industrialization process in the developing countries, and especially his emphasis on the desirability of abolishing import restrictions in the advanced countries to exports of manufactures from the periphery. The importance of these remarks in clearing the way for effective industrialization in the developing countries stems from the recent trend towards the reduction of most import barriers in the advanced countries. Thus "one can say that the general level of tariffs prevailing in 1963 in the field of manufactured products probably is on the order of one-half the level that existed in 1948."<sup>1</sup> Moreover, as regards the trade policy of the EEC, "there is no doubt that the average protective incidence of import restriction in the EEC on manufactured products is far less than it was in the constituent countries ten or fifteen years earlier."<sup>2</sup>

Although many of the reductions in import barriers have been effected on a horse-trade basis, i.e., largely among the industrial countries themselves and to the promotion of their inter-trade relations, the developing countries can still take

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1. Ibid., p. 17.

2. Ibid., p. 20.

advantage of these existing opportunities for trade in manufactures because of the most favored-nation clause. Preferential treatment can obviously be of great help in this respect, provided that the developing countries have the will and the concomitant ability to overcome domestic barriers that tend to hamper their exports of manufactures. In other words, they have to develop what Dr. Prebisch calls their "export-mindedness."

## CHAPTER V

### ANALYSIS OF THE PREBISCH PROPOSALS

One of the main conclusions of the previous chapter is that there is no final evidence as yet to reveal a causal relationship between the developing countries' relatively precarious trade position and their ability to develop rapidly. This is not to say, however, that there is no relationship whatsoever. Further, the fact that the economic structure of most developing countries, being still defective and unable to adjust to the slow growth of world demand for primary products, makes the external and internal economic problems of these countries subject to particular attention. Thus, "the high income importing countries, their governments and public opinion, have become increasingly aware of the seriousness of the trade problems of the low income countries, and they do want to help. They are also becoming increasingly aware of the 'indivisibility' of problems of trade, aid and economic growth."<sup>1</sup>

Yet in agreeing to collaborate in alleviating the problems of primary export earnings of the developing countries, the high-income countries are likely to oppose trade policy measures which aim at changing fundamentally the adverse trends

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1. UNCTAD, International Commodity Arrangements and Policies, paper by Gerda Blau, Geneva, March 1964, p. 46.

in world trade as seen from the viewpoint of the former countries. In other words, the willingness of the advanced countries to cooperate is "more or less based on the acceptance of some degree of continuity of existing trends and policies, as part of the facts of life."<sup>1</sup> Added to this is the point that the joint bargaining power of the less developed primary exporting countries is not sufficiently strong -- except perhaps for a few commodities -- to enable them to act on their own and effect fundamental changes in world trade policies.

We turn now to examine the problems and prospects of the Prebisch Proposals in the light of these considerations.

The Prebisch Proposals as outlined in chapter III consist mainly of the following solutions for the problems of trade and development in the less advanced countries:

A. Measures aiming at increasing primary commodity exports from the developing countries. Three conditions should be met here. First, prices must be set at relatively high levels to cushion the impact of the deterioration in the terms of trade. Second, the supported prices of primary exports must be accompanied by quantitative targets for their entry into the industrial countries' markets over a certain number of years. Third, the disposal of agricultural surpluses on non-commercial terms should not be effected at the expense

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1. Ibid., p. 49.

of export or development opportunities in the developing countries. Accordingly, international commodity agreements are suggested as a means for achieving these ends.

B. Measures designed to guarantee the purchasing power of the developing countries' exports by compensating them for past and future losses resulting from the deterioration in the terms of trade. Resort to these measures should be made whenever the inception of commodity agreements is found difficult due to political or other reasons. Moreover, compensatory financing should be distinguished from the normal flow of aid and loans to the developing countries. The set of measures here also recognizes the need for reducing the burden of debt repayment and servicing on the developing countries.

C. Measures to stimulate the industrial exports of the developing countries through quantitative import targets (as for primary exports), relaxation and removal of trade barriers to these exports and preferential treatment granted by the advanced countries.

D. Measures to promote trade between the socialist countries and the developing world in particular, and between the socialist countries and market economies in general.

E. Suggestions for introducing institutional reform into existing world trade organizations, mostly GATT, with a view to making them more responsive to the new trade policy for development.



A. PROBLEMS AND PROSPECTS OF INTERNATIONAL COMMODITY AGREEMENTS

1. Past Record

The justification of international commodity agreements, as expressed in the Havana Charter, is "to prevent or moderate pronounced fluctuations in the price of a primary commodity with a view to achieving a reasonable degree of stability on a basis of such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-run equilibrium between the forces of supply and demand."<sup>1</sup> Thus, international commodity agreements can be devised to serve one or a combination of the following objectives.<sup>2</sup>

1. To raise or uphold export earnings through arrangements among producers to restrict output or exports or both.

2. To promote economic stability by ironing out undue fluctuations in the price or quantity of the traded commodity.

3. To mitigate the difficulties arising from the need for a long-run adjustment in cases of basic disequilibria between production and consumption under conditions of inelastic supply and demand.

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1. Article 57 (C).

2. Blau, op. cit., p. 6.

4. To ensure greater access to markets in developed countries by counteracting the adverse impact of their protectionist and preferential policies upon the developing countries' exports.

Recently, concern with stabilization of international commodity markets has been increasing under the control of various organizations and groups largely inspired by the provisions of the Havana Charter.<sup>1</sup> The function of these groups is to examine the consumption, production and trade situation of certain primary commodities. Today, "in the aggregate (excluding petroleum), about one-third of all primary commodity imports of all the industrial countries -- and about one-half of the exports coming from the developing countries -- are subjects of study or action by one or another of these international bodies."<sup>2</sup>

The purpose of a study group is to decide in principle on measures to be taken in case an international commodity agreement is found desirable and feasible. In this particular field, all the operational problems in price fixing and market organization have to be faced and solved to the satisfaction of all parties concerned before ratifying the agreement.

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1. UNCTAD, Inter-Governmental Commodity Agreements, document prepared by the Interim Co-ordinating Committee For International Commodity Arrangements (ICCIICA), Geneva, Feb. 1964, p.20.

2. UNCTAD, Stabilization of International Commodity Markets, paper by the Bureau of General Economic Research and Policies (BGERP), Geneva, March 1964, p. 32.

Past experience has undoubtedly been helpful in this connection. However, it should be emphasized that "the problem, while of essentially the same basic nature in all commodity markets, tends to have features unique to each commodity, reflecting not only the nature of the commodity but also the historical development of production-consumption patterns and the commercial institutions around which the trade has evolved."<sup>1</sup>

Yet this recognition of primary commodity problems has been followed only to a limited extent by practical measures. Looking at the past-war experience, it is possible to distinguish three standard operational types of international commodity agreements:<sup>2</sup>

The first is the multilateral contract agreement which contains an obligation on exporting and importing countries to sell and buy at certain guaranteed quantities at stipulated maximum and minimum prices in case the free market price exceeds or falls below the stipulated prices. In order to be effective, this type of agreement should cover as much as possible of the trade of the participants. Further, the difference between the ceiling and the floor prices should not be very wide.<sup>3</sup>

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1. Ibid., p. 32.

2. Blau, op. cit., pp. 10 - 12.

3. Ibid., p. 10.

The only example of this multilateral agreement is the International Wheat Agreement, which was originally signed in 1949 for a period of four years. The maximum price was set at \$ 1.80 per bushel and the minimum price was stipulated to fall progressively from \$ 1.50 per bushel in the first year to \$ 1.20 in the fourth year. However, prices during the four-year period were above the stipulated maximum and importing participants availed themselves of the right to buy specified quantities at the maximum price. "As it turned, out therefore, the 1949 agreement operated entirely in the interests of the importers."<sup>1</sup>

When it was renegotiated in 1953, the major exporters were thus able to secure a higher price range (\$ 2.05 and 1.55), but at the expense of the withdrawal of Britain. Soon afterwards several other participants withdrew and total trade covered by the second agreement shrank to 25% as against 65% of world trade in wheat in the first agreement. In 1959 and 1962, when the agreement was negotiated for the third and fourth times, the idea of guaranteed quantities was given up. Instead, importing countries undertook to buy a minimum percentage of their requirements from exporting participants as long as prices moved within a given range without, however, being obliged to buy guaranteed quantities at the minimum

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1. Ibid., p. 10.

price.<sup>1</sup> In return, the exporters agreed to sell at the maximum price, when called upon, an annual average of the importers' purchases over the past four years. As a result, a greater percentage of world trade in wheat was brought under the agreement but only at the expense of eliminating some former rights and obligations.

The second type is the international buffer stock agreement, which aims at stabilizing prices "by an obligation to buy when the world price falls below a certain minimum and to sell when the price rises above a certain maximum (combined perhaps with a discretionary right to buy or sell between these limits)."<sup>2</sup> The only example of this type of agreement is the International Tin Agreement, which provides for a contingent export control in addition to a buffer stock.

At the beginning of the agreement, tin experienced a production -- consumption relationship that was more or less favorable to producers. Less than two years after the inception of the buffer stock in 1956, the price of tin fell sharply, however, and the buffer stock manager used all his cash resources without being able to stabilize it. Subsequently, the world price was held up by export control as specified in the agreement. The control amounted to 41% and 36% of the total exports by participants over the first and second years

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1. Ibid.,

2. Ibid., p. 11.

of export restriction respectively. Nevertheless, the price collapsed further towards the end of 1958 but recovered rapidly in 1959, aided by an agreement with the U.S.S.R.

The third type is the export-restriction agreement, which seeks price stabilization by means of restricting exports, but without explicit price provisions. Obviously, for this type of restriction to be effective, output should be regulated by individual producing countries. This type of agreement depends, like the others on bringing under control as many as possible of the important sources of supply. Another important requirement is to persuade importing countries to discriminate against non-participant exporters, which is in certain cases even more difficult than persuading the large exporters to join the agreement. Last but not least comes the necessity of reaching an agreement on the setting and distribution of export quotas.<sup>1</sup>

The two important examples of this type of agreement are the International Sugar Agreement, negotiated in 1953, and the International Coffee Agreement, which came into force recently, in 1963.<sup>2</sup> The first operated smoothly until 1956 when the Suez Crisis coupled with a rise in demand pushed the price up and made all quotas and limitations inoperative until the end of 1957. In recent years the terms of the agreement

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1. Ibid., p. 11.

2. However, The Coffee Agreement has not been notified yet by the United States.

were impaired by the change in the pattern of trade following the cessation of arrangements between the United States and Cuba. "Since January 1962, all operative provisions have been suspended owing to the inability of participating governments to agree on the distribution of quotas."<sup>1</sup>

The coffee agreement came into force in 1963 for a period of five years with a wide participation: 99% of world exports and 95% of world imports. Regulation is being carried out with percentage adjustment in basic export quotas. Yet the coffee agreement does not operate on the basis of a price range, although the Council agreed that "the general level of coffee prices does not decline below the general level of such prices in 1962." It is hard to review the record of this agreement since it has come into force fairly recently.<sup>2</sup>

## 2. Limitations

While the stabilization of primary commodity prices is generally desirable for developing countries in certain cases, it is not particularly so in the case of an important group of primary products, namely, the temperate zone foodstuffs<sup>3</sup> such as wheat and similar cereals, meat and dairy produce. The reason is that for this group of primary products, the main exporters are wealthy developed countries, e.g., U.S., Canada,

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1. Ibid., p. 12.

2. Ibid., p. 12.

3. UNCTAD, International Commodity Agreements, paper by J.E. Meade, Geneva, December 1963, p. 4.

Australia and Newzealand, while many developing poor countries are net importers. Hence "it would be a tragic mistake to regard the maintenance of the prices of temperate-zone foodstuffs as a way of helping the poor at the expense of the rich; the position is already the reverse and in a ~~same~~ commercial world will become increasingly so."<sup>1</sup>

When stabilization is feasible, however, international commodity agreements are likely to encounter two major sets of limitations. The first relates to the price range and the second to the control of exports and output either by buffer stock arrangements or by direct restriction schemes.

As to the price range, although ironing out short-term and random fluctuations in the prices of primary products is generally considered desirable for consumers and producers alike, the ironing out in practice cannot be achieved without reaching a meeting of minds on what would be the norm or the central range from which deviation may originate. Historically, the difficulty inherent in determining the appropriate price range "has been one of the main stumbling blocks in the way of both setting up and operating commodity agreements."<sup>2</sup>

The difficulty of determining the price range would be aggravated if the need to interfere with the long-run trend in the prices of primary exports is taken into consideration.

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1. Ibid., p. 4.

2. BGERP, op. cit., p. 34.



According to Dr. Prebisch, this interference can be justified on the grounds that existing world prices of most of these products do not reflect true market forces except perhaps in a narrow residual sense. This is largely due to the domestically planned and subsidized primary production in most developed countries.<sup>1</sup>

Consequently, any attempt to determine an acceptable price range of a primary commodity should be based, in effect, on "the organization of markets" which "... would involve planning world production of the primary commodity concerned... To organize the market, primary production would have to be planned on a world scale. This seems a very ambitious target in view of the fact that the planning could probably not be restricted to one commodity."<sup>2</sup>

In discussing international commodity agreements, Dr. Prebisch explicitly states that "the international prices of primary commodities would, in general, have to be supported at levels higher than those which would prevail in the absence of international regulation."<sup>3</sup> In general, there are two methods for raising the price of primary exports in the international market without resorting to output and/or export control.<sup>4</sup> The first consists of an export tax on the commodity

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1. Prebisch, UNCTAD report, op. cit., p. 44.

2. UNCTAD, The Organization of International Markets for Primary Commodities, paper by Mrs. M.J.,t Hooft-Welvaars, Geneva, February 1964, p. 42

3. Prebisch, UNCTAD report, op. cit., p. 44

4. Welvaars, op. cit., p. 48.

in question to be imposed by developing country exporters, and the second of an import tax to be levied on the commodity by the developed country importers. The exporting countries would naturally want the proceeds of such an import tax to be handed over to them.

In both cases, it can be shown that the rise in price will increase total export proceeds only if the demand curve is inelastic. Even in the few cases of very low elasticity of demand -- as for example in the case of primary commodities exclusively produced in the developing countries with no close substitutes and which range only between a sixth and a fifth of their total exports -- the ultimate incidence of the export or import tax will depend on the elasticity of supply. Since the presumption is strong that in many developing countries the elasticity of supply is low (mostly due to the lack of alternative production), the favorable effect of the export tax or the import levy is thus likely to be nullified at least<sup>1</sup> in the absence of appropriate control over supply. There is still another aspect of the problem of price determination in commodity agreements. As stated in the beginning of this chapter, the developed countries expressed their desire to cooperate in solving the commodity problems of the developing countries provided that fundamental changes in existing trade policies are not seriously contemplated. From this angle, it

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1. Ibid., pp. 42 - 52.

seems at least to some of the industrial developed countries that "abolition of protection of domestic producers in industrial countries does not seem possible or even desirable, but a manner of effecting protection might be adopted that would result in resources being withdrawn from primary production to the extent necessary to keep the degree of self-sufficiency constant."<sup>1</sup>

Accordingly, the problem of over-supply in primary commodities produced and exported by developing countries is likely to persist pro tanto with the continuation of existing trends in world trade and national policies. Hence it seems that "individual exporting countries will have to resort increasingly to production control. Such control is already being practised; perhaps it would be more rational and more effective to do it on a world-wide scale."<sup>2</sup>

This leads us directly to the second set of limitations which is likely to emerge in attempting to stabilize and uphold prices of primary products by means of export and/or output control. As stated above, this control can be achieved by buffer stock arrangements, by direct restriction schemes or by a combination of both.

A buffer stock arrangement aims at stabilizing primary commodity prices by assigning certain financial resources "to

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1. Ibid., p. 70. The countries referred to are the EEC countries.

2. Ibid., p. 42.

buy up the commodity for storage when its price is abnormally low and for resale later when its price is abnormally high." <sup>1</sup> The International Tin Agreement discussed above is a buffer stock arrangement. In general, there are three <sup>2</sup> limitations to commodity agreements based on buffer stocks.

(1) Sufficient foresight is needed to ensure that buying and resale are done when present prices are in fact either low or high relatively to future prices. "Such foresight <sup>3</sup> is by no means easy."

(2) Buffer stocks can operate successfully only in the case of storable commodities and where the cost of storage is not excessive.

(3) Such schemes can, at best, mitigate short-run fluctuations in the prices of primary products, but in no way prevent the damaging effects of a persistent downward trend in prices. In fact, they might intensify these effects since an increasing amount of the commodity is likely to accumulate in such a case only to be sold at still lower prices in the future.

"The buffer-stock system does have the virtue, however, of operating without production or marketing control, a matter

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1. Meade, op. cit., p. 6.

2. Ibid., pp. 6, 7.

3. Ibid., p. 6.

of great administrative importance."<sup>1</sup>

The second method, or the restriction scheme, endeavors to control the supply of a primary product by means of production and export quotas agreed upon by the producing and exporting countries. In this way, exporters can ensure higher and more stable prices and probably greater income, since the demand at least in the short-run is likely to have low elasticity with respect to price. In the absence of other alternatives, "such an arrangement may often be better than doing nothing, particularly in an emergency situation in which the price of a product on which many economies largely depend would otherwise totally collapse."<sup>2</sup> However, restriction schemes<sup>3</sup> are still subject to the following drawbacks:

1. As would be expected, the temptation to refuse joining the scheme may become exceedingly attractive for any individual producing country. If this danger is surmounted by an agreement with the main importing countries to buy only or largely from the exporting countries within the scheme, a further difficulty might be created. For when outside producers try to sell at lower prices, importing countries would be tempted to stay outside the scheme, particularly if they

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1. Joseph D. Coppock, International Economic Instability, (New York: McGraw-Hill, 1962), p. 146.

2. Meade, op. cit., p. 7.

3. Ibid., pp. 7-9.

depend largely on imports of the primary product under consideration. Needless to say, when one country gets out, others are tempted or even forced to follow suit. Hence a restriction scheme might be blown up either way whenever the incentive of not joining becomes attractive.

(2) While a restriction scheme may prove successful in raising the price of the product in the short-run because of low elasticity of demand, it might lead to undesirable consequences in the long-run, in which the price elasticity of demand is likely to be higher. Thus, if the higher price persists, it might lead to the invention of a synthetic substitute or to the use of an alternative material. Also, suppliers outside the scheme tend to expand output.

(3) Restriction schemes may prove to be a shelter for inefficiency or a shield for marginal producers within each exporting country. The reason is that quotas and licensing to curtail output will, more often than not, be distributed on the basis of past performance. This will block the way for the efficient producer who might have otherwise expanded at the expense of the stagnant.<sup>1</sup>

### 3. Scope and Objectives

The foregoing remarks are not meant to dismiss any possibility of negotiating and concluding international commodity

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1. Ibid., p. 9.

agreements whenever such an action seems to be desirable and feasible. However, the difficulties noted above do suggest the magnitude of the challenge to be faced. Further, "these difficulties may be surmountable, but they are real."<sup>1</sup> Hence arises the necessity of a commodity-by-commodity approach and the need for a study group "as an important step towards the calling of a conference to negotiate an agreement."<sup>2</sup>

Subsequently, the objectives which can be served by commodity agreements should be adequately recognized:

"In particular, it must be recognized that commodity agreements cannot be successful in securing outlets on reasonable terms, particularly over longer periods, unless they also succeed in bringing world production and consumption into balance. This naturally cannot be a matter solely of provisions relating to the international market as such but requires a close correspondence with arrangements for the improved co-ordination of rational policies. The main objective of commodity agreements should, therefore, be looked upon as an orderly method through which patterns of production, trade and demand can best be adjusted to each other over a longer period, by means which are likely to assist in securing the requirements of accelerating growth."<sup>3</sup>

## B. COMPENSATORY FINANCING

### 1. Evaluation

Compensatory financing in the Prebisch Proposals is aimed at countering the deterioration in the terms of trade

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1. Coppock, op. cit., p. 154.
  2. ICGICA, op. cit., p. 6.
  3. Blau, op. cit., p. 19.

of primary exports in case commodity agreements are found difficult to conclude. It should be distinguished from the normal stream of resources made available to the developing countries in the form of aid or loans. Compensation schemes should be so designed as to offset not only future but also past losses arising from the deterioration in the terms of trade, and to mitigate not only short-term fluctuations but also the long-run downward trend in prices.

To begin with, compensatory measures which aim at transferring back resources from importers to developing primary exporters to offset "past" losses from worsening terms of trade are likely to create more problems than they can solve.<sup>1</sup> Since without a previously determined or agreed upon normal price range and normal volume of trade over specified periods, it would be extremely difficult to assess in a fairly acceptable way, the damage solely caused by worsening terms of trade as against that caused by other factors which might contribute to the overall precarious trade position of a developing country. In particular "a trade gap may reflect the inflationary strains created by over-ambitious or misconceived development programs."<sup>2</sup> It is more practicable therefore, to direct compensatory financing so as to safeguard the export proceeds of

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1. "Trade Policies For Developing Countries" Monthly Economic Letter, op. cit., p. 44.

2. Ibid., p. 44.



the developing primary exporters against possible fluctuations in price that are likely to arise after the inception of an agreed upon compensatory scheme.

Recently some United Nations experts gave serious thought to the idea of creating a compensation scheme based on a central fund which they called the Development Insurance Fund.<sup>1</sup> The Fund would be financed by contributions paid by all member countries and would be subject to claims made by some of them in specified cases. The borrowing members would be required to pay back automatically to the Fund in stated circumstances. Claims can be made in a given year by a member country if its export proceeds in that year fall below the average proceeds of the three preceding years; provided that the short-fall exceeds a five per cent minimum decline in export proceeds for which no compensation is payable. Claims on the Fund would cover a given proportion, say fifty per cent, of the short-fall thus defined.

The experts considered two alternative types of compensatory payments. Under the first, compensation is paid in the form of cash settlement for which there will be no repayment in the future. Under the second, compensation payments assume the character of a contingent loan that has to be paid if the export proceeds of the subsequent five years are high

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1. U.N. International Compensation for Fluctuations in Commodity Trade, Report by a group of Experts, New York: 1961, pp. 39-51.

enough to allow it. The experts also contemplated the possibility of adopting a combination of the two alternatives.

On the other hand, contributions to the Fund can be made as a given percentage of the national income of the high-income countries graduated on the basis of per capita income. The low-income primary exporting countries would be required to contribute by assigning to the Fund a given percentage of their export proceeds.

"The merit of this scheme is that it gives a certain insurance against hardship to the beneficiaries in return for their contributions, in much the same way as that in which citizens of the modern state receive benefits in exchange for contributions in cases of sickness, unemployment etc." The adoption of this universal insurance scheme however, "would not in itself deal with the causes of underlying problems, but would give partial protection to underdeveloped countries against the effects of short-term fluctuations and also (Though to a very much less extent) against an unfavourable trend of commodity prices, not only in relation to any particular commodity but to commodities in general."<sup>1</sup>

Another type of compensatory financing was suggested by J.E. Meade in the course<sup>2</sup> of the UNCTAD. Meade considers

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1. Blau, op. cit., p. 18.

2. Meade, op. cit., pp. 10 - 11.

a case in which one country (Urbania) imports a primary product, which he calls following Keynes (Commod), exported by another country (Ruritania). The governments of the two countries may then "agree upon a sliding scale whereby as the world price of Commod falls further and further below a certain figure the Government of Urbania will pay an increasing sum of money to the Government of Ruritania, and as the world price of Commod rises further and further above a certain figure the Government of Ruritania will pay an increasing sum of money to the Government of Urbania."<sup>1</sup>

There are certain ways of agreeing on the sliding scale; one of which is to agree on a normal volume of trade in Commod between the two countries as well as on a standard price. The scheme does not necessarily lead to full compensation but may provide for, say one half of the fluctuations in the price at the normal volume of trade between the participating countries.

The main advantage of this scheme is that it deals directly with the distributional effects of price changes in primary exports without influencing directly world trends of supply and demand, since it leaves it "open to national governments to intervene or not to intervene in their national markets as they think fit."<sup>2</sup> Further, direct compensation in ~~this~~ form

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1. Ibid., p. 10.

2. Ibid., p. 15.

is not incompatible with buffer stocks or restriction schemes which might aim at affecting the supply of the primary product in order to counter an adverse trend in the price.

By and large, compensatory financing can be "employed as a device for the granting of aid by one country (or group of countries) to another country (or group of countries) on a principle which tailors the amount of the aid to the needs of the developing country (or countries) and to the ability to pay of the country (or countries) providing the aid." Another advantage of compensatory financing is that it would allow world trade in primary products to be conducted on the most economical and efficient lines without involving the imposition of serious obstacles to the economic welfare and development of the primary producing countries.<sup>1</sup>

Hence it seems that "compensatory finance is much more feasible on an international basis" than commodity agreements.<sup>2</sup>

## 2. The Burden of Servicing

Dr. Prebisch dwells in some detail on the problem of debt servicing and repayment in the developing countries. Notwithstanding the desirability of the increased flow of public and publicly guaranteed debt to the developing countries in recent years, an adequate solution to the problems of high interest rates,

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1. Ibid., p. 16.

2. Coppock, op. cit., p. 147.

short repayment periods and tying of debt should be sought in the interest of the developing recipient countries. The last of these problems, i.e., the tying of foreign assistance, is perhaps the most annoying, because it has obvious disadvantages to the recipient countries as compared with untied assistance.

First, aid-tying by insulating the export industries of the donor countries from competition may raise the price paid by the recipient country for its imports and may lower the quality of imports from the viewpoint of the latter.<sup>1</sup> Second, the availability of foreign assistance tied to procurement in the donor country may play havoc with the development plans of the developing recipient country, as explained by Dr. Prebisch.

"It is widely recognized that, from the viewpoint of economic policy, with relatively fixed exchange rates among major countries, tying foreign assistance to procurement within the donor country is appropriate only (a) when the donor is running a deficit in its international payments, or anticipates a deficit in the near future, and (b) when the donor has unutilized productive capacity."<sup>2</sup> Further, if in the case of unused capacity not in the whole economy but in particular industries for which the demand abroad is deficient because of a permanent shift away from the products of these industries

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1. UNCTAD, External Assistance and the Balance of Payments of Donor Countries, paper prepared by Richard N. Cooper, Geneva, March 1964, p. 31.

2. Ibid., p. 32.

or to more competitive foreign suppliers, then aid-tying would not help much.

In recent years there has been an undesirable general move towards aid-tying among the major donor countries. The obvious reason is that "if some donors tie their aid effectively while others do not, the donors which do not may experience a deterioration in their payments position." Hence, a general untying of aid can better be achieved on a multilateral basis." However, with an international payments system in which adjustment to payments imbalances among major industrial countries is accomplished only with considerable difficulty, there is something to be said for a deliberate move by countries in balance of payments surplus to untie their aid first, with the explicit objective of reducing the payments surpluses as well as improving the quality of the aid.<sup>1</sup>

Owing to the importance of all forms of aid and loans in alleviating the development problems of the less advanced countries, it would only be logical to urge the industrial wealthy countries to increase and facilitate the flow of foreign assistance to the developing countries. The untying of aid with a view to gearing it to the development requirements of the developing recipients is but one step forward/although an essential one -- in this direction. Increasing attention ought

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1. Ibid., p. 33.

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1. Ibid., p. 33.

to be given by the industrial countries to Dr. Prebisch's various proposals regarding the necessity of:

(1) extending the average repayment period of external debt to some developing countries in addition to increasing the flow of aid and loans in general.

(2) reducing the burden of debt servicing on the developing countries as a whole.<sup>1</sup> This might be an important source of aid in the future.

Finally, the desirability of formulating realistic development plans on the part of the developing countries themselves is no less important in utilizing foreign assistance to the greatest extent possible for the purposes of rapid economic development.

### C. EXPORTS OF MANUFACTURES

#### 1. Labor and Technological Density

Dr. Prebisch's emphasis on "technological density" as a key factor in comparing industrial production in the developed countries with that in the developing countries is undoubtedly suggestive. Differences in "technological density," in the sense of available techniques and skills, can then be employed to justify the development of a more beneficial and generally acceptable division of labor in the world economy. As a result, the subsequent promotion of industrial exports

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1. Prebisch, UNCTAD Report, op. cit., pp. 84 - 87.



from the periphery will be subject to technological possibilities and not merely to the supply of capital.<sup>1</sup>

To illustrate his point, Dr. Prebisch compares the relatively low average wage in the industries of the United States where the volume of imports was greatest with the relatively high average wage in the ten leading export industries. Then he concludes that in such cases, economically speaking, the United States, and all industrial countries in the same position, should concentrate on export industries by shifting labor away from import industries where the developing countries have been playing an important role.

The problem of reallocating resources, especially labor in the advanced countries, with a view to encouraging labor-intensive manufactured imports from the less developed countries becomes particularly difficult if the regions affected by import competition are areas of unemployment and low wages. The reason is that the labor-intensive industries of the developed countries tend in the course of time to be pushed particularly to these areas in order to escape the pressure of increasing labor cost.<sup>2</sup> "Unhappily, therefore the less developed countries sometimes find themselves in competition with the poorest, least mobile, least adaptable regions of the rich

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1. Ibid., p. 59.

2. Martin Segal, Wages in the Metropolis, (Cambridge, Mass., Harvard University Press, 1960), p. 104.

nations.<sup>1</sup>"

However, the performance of the advanced countries regarding this competition has not seriously impaired the efforts of some developing countries to diversify and expand their "low-wage" exports of manufactured products, and "there is no reason to assume that the future performance of the advanced countries in this regard will be much different from their past performance."<sup>2</sup>

## 2. Removal of Trade Barriers and Preferential Treatment

In chapter IV, we discussed the progress that is being made on the international level towards the understanding of trade and development problems in the developing countries. Reference was likewise made to the advance so far scored in adopting measures which aim at reducing trade barriers to enable the developing countries to solve some of their export trade problems in primary products and manufactures.

As regards preferences, it was pointed out in chapter IV that the attitude of the Contracting Parties of GATT was, on the whole, favorable, but disagreement took place among members with respect to the terms, conditions and procedures that would govern preferential treatment. Thus, it would be desirable to examine some of the problems involved in the granting of

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1. Vernon, op. cit., p. 27.

2. Ibid.

general non-selective preferences by the industrial countries in favor of all products from the less developed areas in line with Dr. Prebisch's proposals in this connection.

Non-selective preferences are presumably justified "on very much the same grounds as foreign aid would be justified: as a partial compensation for past 'exploitation'; as an obligation of rich countries toward poor countries; or as a measure of self-interest on the part of the advanced countries, with a long-run payment to all nations in the form of increased world stability.

"The trouble with justifications of this sort as a basis for trade policy is that they eliminate the last shred of economic justification for a given line of policy, substituting only political norms in their place. The existing economic criteria provide reasonably stable indications of the direction to be sought. The political criteria, wholly detached from an economic anchor, can generate policies which shift with the winds. In the end, political criteria can justify adverse discrimination by any advanced country displeased with its less developed trading partner, just as readily as they justify preferences."<sup>1</sup>

But this criticism should not undermine the economic case for selective preferences granted for given periods to the developing countries. The case here, like that for special measures of protection, rests essentially on the infant-industry argument. "There is a basis, therefore, for justifying a selective preference for the exports of the less developed nations applicable to those products for which the infant-industry argument is relevant and for so long as the relevancy exists."<sup>2</sup> It is essential nevertheless to avoid unnecessary generalizations which would include (in the non-selective list

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1. Ibid., p. 28.

2. Ibid., p. 28.

of preferences) industries in the developing countries that do not fall in the realm of the infant-industry argument.

Finally, among the obstacles which the inception of preferential treatment must overcome is the need for solving adequately the problem of partial preferences already in existence between some industrial countries and some of their less developed trading partners. Likewise, the knotty procedural difficulties involved in identifying infant industries and in determining the relevant duration of the preference pose another practical problem.

"Solutions to all these problems can probably be found. But the probabilities of eventual solid achievement in this field depend in part on an early recognition of the formidable obstacles."<sup>1</sup>

#### D. TRADE WITH THE SOCIALIST COUNTRIES

The low level of trade between the developing countries and centrally-planned economies is not mainly caused by differences of view on what would be an acceptable norm of trade rules and practices between the two.<sup>2</sup> Thus, despite the recent expansion in trade between the two groups of countries, there

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1. Ibid., p. 29.

2. UNCTAD, Trade Problems Between Countries Having Different Economic and Social Systems, paper prepared by the Secretariat of the UN Economic Commission for Europe (ECE), Geneva, March 1964, p. 73.

are two main reasons for the relatively depressed trade relations between the two. In the first place, the type of products exported by the developing countries has not been on the whole required by the current planning decisions on resource allocation and foreign trade in the socialist countries. Secondly, these are the unavoidable difficulties inherent in the building of new trade flows and external economic relations where such flows and relations have no place in traditional business contacts. Of particular importance here is "the need in many cases to balance payments bilaterally (or to settle deficits in one direction or the other in convertible currencies that are scarce to both parties)."<sup>1</sup>

There is much to be said in favor of Dr. Prebisch's point regarding the prospects of trade expansion between the developing and the socialist countries on the basis of the latter's current and future development plans and the expected concomitant rise in their national income. The prospects of an overall trade expansion can be particularly enhanced "if international trading conditions are favourable, if economic policies in the centrally — planned economies develop in the direction of increasing realization of the potential benefits of international division of labour, and if adequate<sup>2</sup> efforts are made in the developing countries themselves."

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1. Ibid., p. 73.

2. Ibid., p. 74.

All these conditions have been fully recognized by Dr. Prebisch. The Secretary-General also urges the socialist countries to make their development plans known and set their import targets from the developing countries in order to enable the latter countries to set their own development targets. There remain, however, two important considerations which may enhance further the expansion of trade between the socialist<sup>1</sup> and the developing countries.

(1) The extent to which the socialist countries will be willing and able to expand their imports from the developing countries and not demand from them full reciprocity depends primarily on the willingness of the developed market economies to increase their trade effectively with the socialist countries and their desire to improve their trade relations with the developing countries without demanding full reciprocity. In other words both the developed market economies and the socialist countries "might recognize the need of the developing countries to make the best use of their trading opportunities even if this involves some discrimination on their part." Furthermore, "it may be hoped that neither the Governments of developed market economies nor those of the centrally planned economies will discourage efforts by groupings of developing countries to co-operate in planning their

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1. Ibid., pp. 74 - 75.

industrialization and mutual trade."<sup>1</sup>

(2) At present, almost all trade between the socialist and developing countries is balanced either on the basis of convertible currency settlement or via bilateral payments agreements. In order to improve on these prevalent ways of settlement, it has been suggested that an extension of the present multilateral payments scheme now in operation among the CMEA countries to cover trade relations with some or all of the developing countries stands as a promising possibility. Thus, "if arrangements could be made ensuring that both each CMEA country and each developing country had only to be concerned with its balance of payments with the opposite group as a whole, the mutually beneficial expansion of trade might be greatly facilitated."<sup>2</sup>

#### E. GATT AND INSTITUTIONAL REFORM

Much of what could be said here in relation to the GATT has already been mentioned in section C of Chapter IV. There it was pointed out that a good deal of attention has been given recently by the Contracting Parties to the development and trade problems of the less developed countries. As a result, a new chapter on trade and development was added to the General Agreement of the GATT in line with the Action Programme already

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1.. Ibid., p. 74.

2. Ibid., p. 77.

adopted by the Ministers at their Meeting in May 1963.

In addition to the recognition of major trade and development problems of the developing countries that has taken place on the theoretical level, some progress has likewise been achieved in practice with a view to seeking advantageous solutions to these problems. In particular "a strong appeal was made to contracting parties to exercise the necessary political will and give the additional impetus and directives required for the implementation of the Action Programme."<sup>1</sup> It may be recalled that Dr. Prebisch laid particular emphasis on the importance of this Action Programme and its implementation.<sup>2</sup>

In September 1963, an Action Committee was formed whose major function is to initiate and coordinate "further positive measures to help developing economies to strengthen their production potential and export capacity."<sup>3</sup> The Committee has met on several occasions and discussed the progress taking place in the elimination of barriers to exports of the less-developed countries. The Action Committee considered, however, that certain problems in the trade of the developing countries could be more usefully tackled during the Kennedy Round negotiations. "The major industrialized countries re-emphasized that they considered that one of the major objectives of the

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1. GATT Secretariat, op. cit., p. 4.

2. Prebisch, UNCTAD Report, op. cit., p. 28.

3. GATT, op. cit., p. 5.



negotiations should be the attainment of a significant contribution to the trade of the less-developed countries.<sup>1</sup>"

As to the institutional framework of GATT, the Contracting Parties have now approved the findings and recommendations of a Group of Experts that was convened in February 1964 with the aim of establishing and operating an international trade information and trade advisory service.<sup>2</sup> Accordingly, it has been decided:

- "1. to establish a trade information and trade promotion advisory service within the GATT.
2. to concentrate during the initial phase of operations on the following work:
  - (a) establishment of a 'documents centre' and operation of 'clearing house' for trade information;
  - (b) provision of a 'correspondence - answering service';
  - (c) publication of a 'Register of Sources of Trade Information';
  - (d) resumption of publication of the 'International Trade News Bulletin', in a form designed to meet the special needs of the less-developed countries;
  - (e) preparation of a manual on efficient means for establishing and operating export promotion services;

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1. Ibid., p. 7.

2. Ibid., p. 4.

(f) arranging for, and, as appropriate, provision of training facilities for courses in export promotion and promotion techniques.<sup>1</sup>"

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1. Ibid., pp. 4 - 5.

## CHAPTER VI

### CONCLUSION

#### A. THE NEW TRADE POLICY FOR DEVELOPMENT: AN APPRAISAL

A brief denouement of the story remains to be written. The developing countries are anxious to develop rapidly and catch up with the developed rich countries as soon as possible. In their efforts to do so they tend to depend heavily on their trade relations with the developed countries, since access to foreign exchange, imports of capital equipment and a flow of technical know-how are obviously crucial factors in the acceleration of the development process. However, being largely dependent on primary commodities in their export trade, the developing countries have become subject to certain difficulties in their economic relations with the rest of the world.

First, they are facing a slowly growing world demand for their primary exports relative to their own rapidly growing demand for imports of manufactures. Among the reasons for the relative sluggishness of world demand for primary products are the low income elasticity of demand for these products and the low rates of population growth in the developed countries. The low level of trade among the developing countries themselves is another factor. In addition, technological progress leads to enlarged production in the primary exporting countries on the one hand, and to the development of substitutes and synthetics in the developed importing countries on the other.

Finally, the policy of agricultural and mineral protectionism followed by some developed countries contributes further to the slow tempo of demand for primary products of the developing countries.

Secondly, the developing countries are particularly annoyed in their foreign trade relations because, owing to their weak undiversified economic set-up, they are unable to effect a quick "switch-over" to other products and adjust to the sagging world demand for primary exports. As a result, they are likely to experience a deterioration in their terms of trade. In addition, they also have to worry about the more conspicuous cyclical fluctuations in the foreign exchange receipts from their primary exports, which tend to have an adverse impact on their development programs.

Thirdly, the above world trade situation applies to trade in primary products in general. This means that many developed primary exporting countries are subject to the same disadvantages arising from trade in these commodities under the prevailing world trends. The difference, however, is that the developed primary exporting countries can adjust more easily to these trends because of their diversified economic base. Yet their ability to adjust in this way does not prevent their terms of trade from worsening.

While there is empirical evidence to show a low income elasticity of demand for primary products in the high-income countries, thus indicating the occurrence of some deterioration

in the terms of trade of all primary exporting countries, be they developed or developing, it can hardly be concluded from such evidence that international trade has so far operated to the detriment of growth in the developing countries. There is a difference between saying that the developing countries are experiencing some difficulties in their trade relations with the developed countries (which might as well be pure balance of payments troubles) and between stating that these difficulties or troubles have crippled the efforts of the former countries to develop rapidly. Seen in that perspective, the case for a conflict between the gains from growth and the gains from trade seems to be weak. All countries must have gained from international trade, although some of them feel that they could have gained more under different trends in world trade. This feeling can hardly stand as an economic justification for a conflict between the gains from growth and the gains from trade, i.e., a transfer of income from the developing to the developed countries which impaired the development efforts of the former countries.

Yet this in no way minimizes the significance of the contribution made by Dr. Prebisch in his UNCTAD report. His endeavor to set forth a case for a "New Trade Policy for Development" is an attempt to probe into an economic field which was "characterized by a disconcerting unwillingness to view the trade and aid problems as an integral part of the

underdeveloped economy's domestic growth effort."<sup>1</sup> It follows that "to the extent that the Prebisch analysis has some validity it is not a challenge to the theory of international trade. It probes into an area of analysis where the classical theory had little to contribute, i.e., the<sup>2</sup> relation between trading countries in a dynamic setting."

Despite his recognition of the need to tackle both the external and internal factors retarding the development process in the developing countries, Dr. Prebisch seems to imply throughout his report that the solution of the problems of development in general depends largely on changing the prevalent trends in world trade to the benefit of the developing countries. Apart from the difficulties inherent in any attempt to introduce basic changes into these trends, it is still doubtful whether an induced improvement in the terms of trade of the primary exporting less developed countries can help much in the overall and ambitious target of expediting economic development in all the poor parts of the world. Concern with development in this global fashion can hardly be expected to justify a demarcation line between such an induced improvement in the developing countries' trade situation (which would in fact be tantamount to aided trade) and development aid to these countries

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1. Guslof Ranis, "Trade, Aid and What?" KyKLOS, Vol. XVII, 1964, Fasc. 2, p. 179.

2. Baer, "The Economics of Prebisch and ECLA", Economic Development and Cultural Change, op. cit., p. 180.

in general.

If follows that there is, in fact, a need for a "New International Policy for Development" in general and not simply for a "New Trade Policy for Development." For there is no doubt that the basic remedy for all the problems considered by Dr. Prebisch lies in the economic development of the developing countries themselves. Indeed, without this basic remedy, which by definition implies a diversification in the economic base of the developing countries, the problems of trade in these countries are likely to persist.

Fortunately, the developed countries are beginning to recognize and appreciate the intricate relationship between the trade problems of the developing countries and their development problems. The developed countries' attitude in this sphere should thus be expected to open new horizons for a more effective framework of international economic cooperation. This possible framework would be conditioned, however, by the reluctance of the developed countries to accept fundamental changes in the prevalent trends of world trade which might entail major modifications in national economic policies. On the other hand, it seems that the bargaining power of the developing countries is not sufficient to allow them to effect these changes on their own. Viewed from this angle, that part of the Prebisch Proposals which endeavors to solve the problems of the developing countries by re-organizing world markets in primary products is, on the whole, unlikely to be

accepted by the major industrial countries.

Hence, it seems that there is more room for "policy measures which are, more or less, based on the acceptance, as part of the facts of life, of the status quo, as to the extent to which market forces are being allowed (or not being allowed) to work themselves out in high-income markets and which endeavor... to react to this status quo in different ways with a view to improving the position of exporters." Policy measures of this sort may develop in due course into a Program of International Adjustment Assistance.

Some elements of this program might be as follows:

1. A substantial increase in the international efforts required to assist the developing countries in planning and implementing their national programs for development in the light of other countries' plans and with complete knowledge of market problems in the rest of the world.

2. There would be a need for relating, by means of a new set of principles, such comprehensive programming with all forms of trade and aid. A key concept in devising this new set of principles would be a developing country's "absorptive capacity," defined as a "measurable auxiliary concept for

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1. Blau, op. cit., p. 42.

2. Ibid., pp. 49-52.

3. See also Jan Tinbergen, Shaping the World Economy, (New York: Twentieth Century Fund, 1962), p. 128.



indicating the size of total aid required." The new set of principles may also embrace a sort of international consensus on what would constitute aid vis-à-vis aided trade in the light of the recipient country's capacity to repay. On the basis of this new set of principles, it would become possible to decide whether or not the developing country concerned would be regarded as having a prima facie case for more international assistance in some form or another.

3. All other possible solutions for the commodity problem of the developing countries, such as commodity agreements, compensatory financing etc., can then be introduced as possible forms of international adjustment assistance. In any event, the feasibility of each of these solutions should be determined on the basis of objective criteria that are internationally acknowledged.

This tentative Program of International Adjustment Assistance serves to indicate the importance of a comprehensive approach to the problems of trade and development. It suggests above all the need for a concerted attack proceeding on all fronts to solve the internal and external problems of the developing countries. This in turn implies that separate efforts, no matter how numerous and versatile they may be, if not operating within a framework of planned international cooperation, can hardly be effective in dealing with the trade

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1. Blau, op. cit., p. 50.

and development problems of the developing world. The idea behind the Program points further to the necessity of a positive contribution on the part of the rich developed countries. If this contribution cannot materialize in the form of a basic change in existing trends in world trade for understandable reasons, it may as well come along in the form of more aid, be it financial, technical or otherwise. Although an increased flow of assistance from the rich to the poor may have no immediate justification, economically speaking, it may help in reducing the bitter reactions on the part of many developing countries with respect to policy measures that rest solely on a "do it yourself" basis. These bitter reactions were expressed frankly in the course of the UNCTAD when some developing countries' representatives burst out "... you in the West say that we must work more and then we will become rich. But we are working hard and are getting poorer<sup>1</sup>."

It is obvious, however, that neither an increasing flow of aid nor aided trade can be regarded as substitutes for the domestic expedients required for the acceleration of the development process by the developing countries themselves. Any form of aid can at best supplement these domestic expedients but never displace them; a fact fully recognized by Dr. Prebisch.

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1. Tadashi Kawala, "UNCTAD and Japan", The Developing Economics, op. cit., p. 292.

B. THE SIGNIFICANCE OF THE UNCTAD

In the light of the above examination of the Prebisch Contention and Proposals, it would seem reasonable to ask: Where does the real significance of the United Nations Conference on Trade and Development then lie? To answer this question it is not sufficient to review the resolutions and principles which were endorsed in the Final Act of the Conference.<sup>1</sup> The real significance of the Conference should rather be judged by the tangible signs of progress thus far reached as well as by the intangible advance thus far realized in the sense of creating more potential sources of success in international trade and development policy in the future.

Some of the tangible signs of progress achieved by the UNCTAD<sup>2</sup> are the following:

1. Certain developed countries agreed to increase their contributions to the International Development Association (IDA), to the Special Fund and to the Expanded Programme of Technical Assistance for 1965.
2. The Western developed countries in general expressed their willingness to support an increase in the UN budget to

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1. See chapter I for a summary of these principles.

2. Statement by Edward Heath, Head of the British Delegation to UNCTAD, Proceedings of the UNCTAD, Vol. II, June 16, New York: 1964, pp. 537 - 539.

enable the UN to expand its activities in the field of industrial development.

3. Most developed countries revealed their interest in and support for the regional development programs of the developing countries.

4. There was a sort of general consensus among the developed countries, mostly within GATT, to lower all kinds of trade barriers to the developing countries' exports of primary commodities and manufactures without demanding full reciprocity. More vigorous action in this important sphere is still to come in connection with the Kennedy round negotiations.

5. The unity which characterized the developing countries' stand in the Conference outweighed the differences between them and was in itself a remarkable achievement. Thus, with this rather unexpected cohesion the developing countries were able to put forth their case with greater force. Further, this sense of solidarity proved helpful in showing the developing countries how to accept a modus vivendi between their rightful aspirations and what is practicable.

In addition to these tangible signs of success, there is the important role played by the UNCTAD in shaping international thinking and policy on problems of trade and development with an eye to the future. It is true that the discussions

of the Conference "revealed the difficulties of drafting a set of principles acceptable to so many countries with different economic systems."<sup>1</sup> Further, it is not surprising that a broader measure of agreement could not be achieved within the time available for the Conference. The major developed countries still find themselves unable to accept all the principles endorsed in the Final Act of the Conference, although they agreed that work on the drafting of principles should continue.

Despite all these difficulties the UNCTAD was able to secure a foothold in international thinking on trade and development which will undoubtedly help in mobilizing and channelling future international efforts and policies in this sphere in the "right" direction. The exchange of ideas, the meeting of minds and the insight gained by participants into each other's problems "will influence thinking and policy on trade and development no less than the passing of resolutions."<sup>2</sup> Seen in that perspective, a good deal of the success of the Conference should be judged by whether or not international policies on trade and development will be increasingly designed to benefit the developing countries. There is little doubt that the UNCTAD was successful in this sense.

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1. Ibid., 538.

2. Ibid., 539.

Last but not least comes the significance of the UNCTAD on the institutional plane. There it was recommended that the Conference be reconvened at intervals of not more than three years, as an organ of the UN General Assembly. The idea of setting up a Standing Committee and a Trade and Development Board occupied a predominant position in the Final Act of the Conference. The principal functions of these future Conferences and related bodies would be to formulate policies and principles on international trade and related problems of economic development and to make proposals for putting them into effect.

Thus, in addition to securing a foothold in international thinking on trade and development, the UNCTAD was successful in creating the institutional framework within which international action and concern about trade and development can be coordinated and maintained.

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