

THE FORGOTTEN MARKET AND ORGANIZING FOR IT *

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In their search for markets and cries for more trade, the developing countries often neglect what is even now, and despite the obstacles to it, their own thriving mutual trade which, if properly provided for, can become the biggest and most dynamic market yet for their own produce. It is indeed in developing countries themselves where the level of consumption is low all around (as opposed to the saturated demand in the affluent countries) and where, on the other hand, there is much productive capacity to meet the need. And if we somehow see them retreat more and more into autarky because of their lagging exports to their traditional (developed countries) markets and despite the obvious advantage of intra-trade in the developing world, it is not so much because they see in autarky their golden chance to escape from want as that they see in it the only course to pursue in the face of prevailing constraints in international trade. These constraints as we shall see impede the growth of trade among developing countries, in spite of what I submit to be an enormous potential for complementarity among their economies.

It is the purpose of this paper to examine the thesis that a substantial and dynamic market can be built up for the *developing countries* by way of a general increase in the trade among them in the expectation that autarky may thus be arrested and a faster rate of growth and consumption promoted. It is submitted that the drive towards national self-sufficiency is but a symptom of the inability of the developing countries to sell more of their national specialities; that, given the marketing opportunity, the developing countries would prefer to continue producing their specialities and import their other needs rather than go into autarkic production. Exports mean purchasing power which in turn means imports, we are told; and nowhere is this more true than in the case of the developing countries.

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TABLE 1—Exports (i) Among Non-Industrial Countries; and
(ii) Between Non-Industrial and Industrial Countries

(Thousand million U.S. dollars f.o.b.)

ORIGIN	DESTINATION	NON-INDUSTRIAL COUNTRIES			INDUSTRIAL COUNTRIES		
		1953	1960	1964	1953	1960	1964
<i>Non-Industrial Countries</i>							
	Total primary products	4.78	5.88	5.54	15.73	19.01	20.81
	Total manufactures	1.28	1.61	1.62	1.70	2.67	3.51
	Total	6.18*	7.61*	7.19*	17.50*	21.77*	24.38*
	Fuels only	(2.04)	(2.62)	(2.63)	(2.46)	(4.86)	(7.71)

* Including residuals.

Source: GATT: *International Trade* (various years).

We may perhaps begin by asking whether it is in fact possible to increase the mutual trade of the developing countries by any substantial amount. We are often told to dismiss this thought on the ground that there is really little to exchange among the developing countries, to say nothing of the cumbersome trading arrangements required to bring about such an exchange. There is the all too familiar argument that, since these countries are by and large primary producers, the only natural trading opportunity they have is with the industrial countries: by way of proof, the predominance of this trade as compared with the mutual trade of the developing countries is cited. It is further pointed out that since intensified trade among the developing countries would by and large involve the employment of a large number of special payments arrangements—there being a general shortage of convertible currencies in these countries—such trade could only disrupt the drive towards currency convertibility and should therefore be discouraged.

I submit instead that this line of thinking rather confuses symptoms with causes—that the relative smallness of the mutual trade among developing countries cannot in itself be regarded as proof that it is incapable of expansion because (i) it has to make do with an unsuitable payments mechanism and an inadequate marketing system which can be corrected; (ii) it ignores the industrialization taking place in these countries, which would require the same raw materials that they produce and (iii) it does not take into account the fact that not one of these countries, even the giants among them, is or can be or need be self-sufficient in all the goods and services required in economic development.

It is not the purpose here to discuss at length how we arrive at the assumption that the mutual trade of the developing countries can be substantially increased. It will suffice to say that this is by no means insubstantial—it amounts to about one third of their exports to the developed countries—and that it has been growing at a healthy rate despite the unsuitability of the prevailing marketing mechanism. Indeed, for some time—

between 1953 and 1960—it has been growing at a much faster rate than the trade between the developing countries on the one hand and the developed countries on the other. Moreover, as witnessed from the recent experience in Latin America, it is also responsive to improvements in the marketing system.

That they have a vast capacity for increasing production is best seen in the usually easy response of production to improved prices, and by the till considerable amount of unused but arable land and untapped mineral resources in the developing world, the very substantial potentialities offered by the application of technology (irrigation, fertilizer, seed selection, production rationalization, institutional reform, etc.) and the enormous reservoir of unfulfilled labor available in these countries. Again, that there is much room for complementarity among them is best seen in the wide range of resource endowment in the developing countries and the great variety of not necessarily competing products that they produce. One only needs to look at the map to see that developing countries are found in all latitudes of the map and under all climatic conditions. Thus we have China, Korea, Mongolia and Turkey in the frigid northern fringe and Argentina, Paraguay and Chile in the southern fringe, with a whole belt of countries possessing varying climatological, topographical and ecological conditions and resource endowment in between. Ceylon, Indonesia and India are food grain importers with Burma, Thailand and Uruguay at the opposite end; the Philippines and Ghana, as well as many other underdeveloped countries, are neat-short countries, and have their own commodity surpluses to exchange, whereas Argentina, Paraguay, Yugoslavia, etc. will only be too happy to find additional markets for their meat and other exports. Moreover, many of the underdeveloped countries have their own industrialization programs—they now produce over *two-thirds*¹ of their consumption of manufactured products, and the proportion is increasing—which could use the same raw materials exported mainly to the industrialized countries at present. Indeed, developing countries need as much raw materials as capital goods to establish and operate industries. Petroleum is produced in only a handful of developing countries and is welcome almost anywhere else, whereas Egyptian and Peruvian cotton could very well be used in the fledgling textile industries in Portugal, Indonesia, Taiwan and elsewhere. Finished products may also be exchanged where feasible: likewise with services. Finally, specific commodities need not be homogeneous; hard wheat may still be imported by countries where soft wheat is in surplus. Many types of minerals, cereals, fibres, fats and oils, fruits and vegetables may be profitably exchanged between countries. The significant fact is that there is absolutely no raw material available in industrialized countries which is not at the same time obtainable in underdeveloped countries (although the opposite case is not true).

¹ GATT, *International Trade*. Geneva: 1959 (and subsequent issues).

Viewing then the abundance of labor and natural resources, the proved capacity to expand production and the possibilities of complementarity among the developing countries *against* their pitifully low levels of consumption, would it be too much to say that such countries can be developed into their own great markets by the operation of the "law of the market" (supply creating its own demand)? And knowing that the problem in developing countries is one of production being suppressed by the lack of markets, could not one of the major tasks be to investigate how the exchanges between these countries can be facilitated? This is the context in which it is proposed to develop this subject, and what essentially is being urged is the integration of the economies of the developing countries—call it "regional autarky"—as a device to inject dynamism in international trade. This is in replacement of the current trend to build around narrow national markets into which position these countries are being pushed as a result of (i) their lagging exports to the developed countries,² (ii) their inferior productivity *vis-a-vis* the developed countries which can be partially redressed by the regionalization of production; (iii) their need to industrialize even only on a national basis; and finally (iv) the inadequacy of the international payments mechanism.

If it is then accepted that increased trade among developing countries is both possible and desirable, and that by this route and for reasons already stated it would be possible to increase the consumption and the volume of international trade, we shall now discuss some of the specific measures to bring this about. The more familiar³ of these measures, along with the related arguments, need but to be restated briefly for the purposes of this paper. The less familiar ones, and here we find some of the more crucial ones, particularly those which deal with the financing of such trade, will be discussed more fully.

Attitudes must in the first case be changed because, unless we can sell the idea that there is considerable benefit to be gained by promoting trade among these countries, no constructive endeavor will take place and no machinery, however good, will bring forth the desired results. Here we are faced with complex and formidable obstacles: the entire economic indoctrination of the present generation of policy-makers has been to look up to the industrial countries as the only natural market for the products of the "non-industrial" countries. So engrossed have they become with the problems of this trade that they have failed to see the changed circumstances of the

² An increasing efficiency in the utilization of raw materials, the discovery of substitutes, and the growing ability to meet raw material requirements from local production on the part of the industrial countries, along with the low demand elasticity of raw materials, account for much of this lag. The picture would appear even more bleak when viewed against J. K. Calbraith's (in *The Affluent Society*) contention that no further substantial expansion in the production of traditional goods is likely to take place in affluent countries.

³ These are analysed in depth in the UNCTAD report "Trade Expansion and Economic Integration Among Developing Countries," Geneva, 1966 (TD/B/85).

economics of the so-called non-industrial countries which have in the meanwhile become "developing" countries and in need of the same raw materials which they have hitherto exported mainly to the industrial countries. And even when they see this new reality, they see no way of reacting fully to it to reap its fruits, given their shortage of foreign exchange, the general aversion to bilateral trade, and the absence till now of a satisfactory payments mechanism to promote multilateral exchange outside the hard currency circuit. On top of all this is the constant preaching on the evils of bilateralism and the invocations of the sanctity of free trade and full convertibility on the part of the strategically placed trade and monetary authorities. Thus we see inertia, scepticism and apathy all around. Unfortunately however, it is exactly these attitudes that have hamstrung the search for solutions to the problems of unleashing this trade. One is constantly reminded as he goes around the world of how much more expertise and resources are devoted by each of the developing countries in seeking to sell more in the mature markets of the developed countries, forgetting that they are now largely saturated or fast approaching such a state, and/or increasingly able to meet their needs from their own production. It is indeed one of the common features of contemporary international trade for particular developing countries to gain new sales only at the expense of the other developing countries. Thus, the Philippines and a few other developing countries were able to increase their sugar quota in the United States market during the early part of this decade only on account of the expulsion of Cuba from the same; Malaya, its sale of rubber on account of the Indonesian crisis; Ceylon, its tea exports—thanks to its aggressive promotion—at the expense of India, and so on. And yet, there is an enormous unfilled consumption in the developing world with the productive capacity to match it, suffering neglect and wasting away.

It is truly sad that exporters in one country would rub their hands in glee whenever a competing country gets itself into a crisis; that one's economic health would largely depend on how *badly* the others fare. There can indeed be no better reason for seeking solutions elsewhere and submit that increased trade among developing countries would confer well-being to one and all.

A familiar device to stimulate intra-regional trade is by the extension of countries to one another of preferential trade treatment among the members of a bloc so formed as exemplified by the "common market" approach or a variation of it, such as a "free trade area," and by allowing a set of countries (developing) to extend trade preferences to each other without doing the same to the other (developed) countries. Thus a common tariff well against outside trade may be built, and intra-trade restrictions dismantled among the participating countries as in the case of the European Economic Community. With the European Free Trade Area the arrange-

ment is for the member countries to continue discriminating against outside trade at an intensity they may each decide, but they must agree to dismantle all intra-trade restrictions. The effectiveness of both the EEC and the EFTA in promoting intra-trade and economic growth is of course well-known. Less familiar is the equally successful experience of the Central American Common Market and the Latin American Free Trade Area. Here, intra-regional trade increased at an annual rate of 106 per cent and 29 per cent respectively; from 88.3 million in 1950 to \$136 million in 1965 in the case of the Central American Common Market, and from \$299 million (1961) to \$365 (1965) in the LAFTA. This is in contrast to the declining trend of intra-trade, in the LAFTA before its establishment in 1961. These are very significant increases when compared to the performance of international trade as a whole. During the same period international trade increased by only 8 per cent a year.

It is the consensus that the effort has been *trade-creating* rather than *trade-diverting* in its effect; that it has not hurt the overall import position of the LAFTA countries. Admittedly, this is too short a period and too confined an experience to make an absolute case for a more general referential trading bloc among developing countries, but it is indicative of the kind of results that can be had by so grouping such countries. When this experience is seen in the context of the entire developing world, which because of the greater variety of products should provide more opportunities for exchanges than those available where participation is limited, the case for so grouping these countries becomes very attractive indeed.

For this reason, much hope is laid on the current effort towards regional economic integration and the UNCTAD proposal to allow the developing countries to set up referential trading arrangements among themselves.

The third set of measures relates to the need for better *infrastructure*. As is well-known, it is also a characteristic of the trade among developing countries, as compared to their trade with the developed countries, to have an inferior infrastructure to service it. Thus transport facilities, lines of communication, banking, insurance, trading expertise and other such requisites are generally in much poorer shape—often even non-existent—in the mutual trade of the developing countries. This has, of course, contributed to the difficulty in carrying on trade among such countries. Here it is not so much physical distance that matters; rather, it is economic distance that creates problems. Thus traders in many a developing country usually find it cheaper and easier to sell goods to a distant developed country than to its immediate neighbors because of the often prohibitive cost of marketing in the latter trade. Until recently, for instance, the only lines of communication available between some pairs of developing countries were those which existed between them and their former colonizers.

For other developing countries, the means of transport may be so far in between and irregular, besides being expensive, as to daunt even the mostrepid entrepreneur. In the field of trade information, much more is known about the trade conditions and prospects in the developed than in the developing countries. And so it goes with banking, insurance, brokerage, and so on.

All this leads to a vicious circle sort of effect: marketing facilities being poor, trading becomes expensive and hazardous, and consequently small: it is not since it is small and expensive to undertake, there is little incentive to improve the facilities. Everything indeed depends on everything else and in economic development, growth can be set off only if special stimulus is applied to the system. There is a need therefore for a concerted action among the interested countries to improve and develop a more adequate infrastructure. The work and expenditure involved are of course bound to be considerable, but so are the rewards of such an effort. One need not remind himself that none of the present trade between the developing countries and the developed ones would have started had there not been early initial investments in the field of transport and marketing facilities; nor did this trade begin with enormous trade accounts. The first 13 years (1601-13) of the now thriving British-Indian trade as then transacted by the East India Company only involved a measly total of 12 voyages in the small boats of the age. It consisted of Indian shipments of calicoes, indigo, raw cotton, silk, saltpetre and some spices. The value of Philippine exports to the U.S.A. in 1899 was a modest \$4 million compared with its 1965 value of \$349 million. As facilities were introduced and improved, trade correspondingly increased; and as trade rose, new investments to further improve facilities were stimulated. The task in this regard then would be to identify what it would take, and where it would be best, to break the vicious circle, to apply the required measures, and to encourage parallel action in related sectors. Here, the same firms now wholly or predominantly conducting trade with the developed countries can be persuaded to invest and extend their own facilities to the mutual trade of the developing countries once they recognize the opportunities.

We now come to the least familiar and, consequently, the most neglected of the many obstacles encountered in building up the mutual trade of the developing countries. This is the problem engendered by the deficiencies in the prevailing *payments mechanism* which is so made up that it would only allow trading among developing countries with considerable difficulty, despite its potentials. To explain: Most of this trade is carried along two general lines—(i) trade in hard currencies and (ii) soft currency and similar transactions, including barter. Since most hard currency trade originates from industrialized countries and because imports from these countries are in the main payable only in hard currencies, the foreign exchange earned from this trade eventually finds its way back to the in-

industrialized countries. This is so because of the priority accorded to capital goods imports, and because of the necessity often faced by trading partners to equate exports with imports. The international money generated by the trade between the developing countries on the one hand and the developed countries on the other is therefore necessarily for this particular use, and to withdraw some of this money for the purpose of servicing other trading circuits (e.g. the mutual trade of the developing countries among themselves) would be to starve this trade of its lifeblood. Hence the use of hard currencies in the trade among developing countries is greatly restricted.

There has, of course, been some resort to bilateral trading and limited multilateral payments arrangements. However their use in practice is only limited because, besides restricting trade to, at best, a limited number of countries and commodities, they require individual and comprehensive negotiations, usually costly and time-consuming, before they can be carried into fruition. Consequently, a country burdened by a sporadic surplus but unwilling to "shop" for commodities it is willing to take in exchange or to undertake comprehensive negotiations and to be encumbered with lasting obligations arising out of them, would be prevented from taking advantage of the opportunities offered by such arrangements. To the extent that hard currencies have not been a satisfactory payments medium with respect to the trade among developing countries because hard currencies receipts are necessarily linked to and limited by the trade between those countries on the one hand and the developed countries on the other, and because of the intrinsic shortcomings of bilateral trading arrangement, trade and, consequently, production among developing countries with payments difficulties has been held back from expanding as much as desirable and possible. Thus, there appears to be a compelling need for a supplementary payments mechanism to service the trade among developing countries.

We might perhaps at this point linger a bit to analyze the workings of the prevailing methods of creating international liquidity so as to increase our understanding of it in relation to the reforms we seek.

Under present arrangements, it has been possible to add to the supply of international money only through the accumulation of gold and by allowing the two reserve countries, the USA and the United Kingdom, to incur deficits in their balance of payments. This has, however, become increasingly problematical of late, and should not in any case be relied upon indefinitely for the generation of international liquidity since it dangerously depends on the accidental health of the dollar and the pound sterling and on the continuing flow of gold in central bank vaults. The accumulation of gold as a monetary reserve is even now grinding to a halt whereas the use of the dollar and the pound sterling as reserve currencies cannot last long without impairing their credibility as reserve currencies. Recourse to the resources available through the International Mone-

tary Fund is often mentioned as a solution to the liquidity problem. It should not be forgotten, however, that the need we speak of is for *net* additions to international liquidity (issue money) which must increase in step with the growing volume of international trade, and not temporary financial accommodations to cover unforeseen deficits in payments balances. This is to say nothing of the not easily attainable standards imposed by the IMF when making such accommodations. Nor are the long-term loans given by the World Bank the answer: these accommodations are designed to meet the need for development finance (credit) as distinct from international liquidity and it would be the height of financial folly to utilize such funds to feed the growing need for exchange reserves and trading currency for servicing international trade.⁴

Indeed, the distinction between development finance and international liquidity has been recognized only recently. It is common to think of the financial problems of developing countries in terms of an undiluted need for development finance, forgetting that it is also engendered by the inadequacies of the international liquidity generating system. It can in fact be said that, had the supply of international liquidity been sufficient and its form more suitable, the need of the developing countries for development finance would have been much less. This is so because prices and volume of commodity exports on which the non-industrial countries depend for their development imports would have been higher. To put it in another way, if more commodity exchange had taken place between developing countries, which would have been possible in the presence of a more suitable payments mechanism, both the volume and the prices of commodities would have been higher, the latter being possible because of the wider marketing opportunities for the available commodities.

Restricting production to induce prices to go up within the framework of commodity agreements does not of itself solve much. There are two compelling reasons for this. First, the problem at hand lies in the inadequacy of international money and the unsuitability of the prevailing payments mechanism *vis-a-vis* trade among the underconsuming countries, namely the developing countries and the centrally-planned economies. Unless a more suitable payments mechanism is available to permit the freer and fuller flow of trade among these countries and thereby exhaust the full potential of this market, it would be inappropriate to restrain or cut down production. Secondly, it does not make sense to cut

⁴This is a recognized shortcoming in the prevailing international monetary system and is the object of the prolonged painful and so far fruitless search for solutions in this field. The following words of Robert V. Roosa, a former Undersecretary of the United States Treasury, are illustrative: "In effect, the IMF now is, by analogy, a 'banking department'. What I am urging is that a new entity be established within the IMF for the distinct purpose of creating monetary reserves; in other words, the establishment of an 'issue department'" (R. Roosa, *Monetary Reform for the World Economy*. New York, Harper and Row, 1965, p. 79).

production among developing countries where under-consumption in practically all produce lines is an acute problem, however appropriate it may be to curb production among affluent countries which have achieved or are approaching superabundance. To restrict production in these circumstances is rather like advising a needy farmer to cut down his production of highly saleable produce which he has been unable to market on account of his limited means of transport instead of telling him to augment his trucking capacity.

It is wrong, therefore, to describe the financial plight of the developing countries as mainly caused by overspending and over-ambitious development plans, however valid this explanation may be, in part, some of the time. We have seen how much more they could be earning had there been a more suitable marketing mechanism and consequently more trade among them. Nothing is more fallacious than to say that these countries have reached the limits of their earning capacity and so must, for the remedies, depend solely on grants, loans and investments to finance their imports. Thus, with conventional liquidity being both unsuitable and short in relation to the expanding volume of trade, developing countries have been forced to service much of their mutual trade and their development imports with foreign loans and investments. This has resulted in larger than necessary borrowings and levels of foreign investments, the latter being imposed upon them in an effort to augment their hard currency holdings to purchase development imports *as well as*, and needlessly so, trade servicing and reserve purposes. It is one of the worst faults of the prevailing international monetary system that it has driven the developing countries to borrowing abroad and being host to more foreign investments than necessary.⁵

It is of course impossible to say precisely how much of the total fault is due to a lack of liquidity as opposed to a genuine shortage of development financing (i.e. development imports that cannot be financed by exports) in the absence of the constraints just discussed. That it accounts for much however, is beyond doubt and this can be judged by the scale at which self-sufficiency—economically illogical in the context of intra-regional possibilities, and avoidable in the presence of a more suitable payments mechanism

⁵ Here is a clue to the reluctance of the reserve countries to give up their reserve currency function because any net additions to the international monetary reserves of individual countries—and this increases as international trade expands—must (aside from newly-monetized gold, which is drying up) be financed by the acquisition of additional loans and investments from the reserve countries. The following quotations from Maxwell Stamp, a well-known central banker, well describes this situation: "There is, of course, a substantial benefit in the ability to profit from the creation of money. Governments and banks realize this. At the moment, the reserve countries derive a profit from having their currencies held by other countries or by the nationals of other countries: this is the argument for not abandoning the role of the sterling as a reserve currency". This of course applies to the dollar as well and no doubt figures in the calculations of the Group of Ten countries in proposing a Composite Reserve Unit type currency based on their currencies.

ism—is being pursued by individual developing countries. Witness for instance the effort of the Philippines to grow its own cotton, rubber, coffee and, of all things, wheat—all of which are grown and can be better produced in other developing countries which could in turn import more of the Philippine specialties like sugar and coconut products. Rare is the developing country which has taken this policy line and has not in the same breath wished that it could concentrate on lines of production it knows best and is better suited to pursue. This is reflected in the general willingness to participate in intra-regional trading arrangements (i.e. international division of labor) among such countries, and in the continuing existence of barter, in spite of its inconvenience, to exploit additional trade.

A question might be asked. Why limit intra-trade and, therefore, a new pattern of division of labor to the developing world? Why not subject all countries, the developed and the developing alike, to free trade and to one pattern of division of labor? This would seem logical if the purpose is to arrive at some optimum development matrix for the whole world. Unfortunately, however, even if the developing countries continued to restrict themselves to their role as raw material suppliers to the new industrialized countries, it would not have been possible—for reasons already stated—for the latter to absorb all that the former could produce.⁶ Moreover, how else can the developing countries, especially the densely populated ones among them, hope to employ their teeming millions if not by industrialization, since a reformed agriculture would reduce the labor force employed in this sector, hence only worsening the already bad unemployment situation in most developing countries? Furthermore, to many less developed countries, industrialization may for various reasons and constraints offer the only path to higher standards of living. Still further, if industrialization is accepted as inevitable in developing countries, it follows that they should, at least in the initial stage, opt out of the free trade circuit to protect their infant and still vulnerable industries. Finally, to pit the developing countries against the developed ones in the same competitive trading circuit would result in the former's being eventually overwhelmed and supplanted (even in their own mutual trade) because of the *faster* growing productivity and superior technological and economic resources of the developed countries. I propose to discuss this latter problem and the issues it raises in a later section.

It is not the purpose here to enter into a discussion of how much international liquidity is enough or how much more should the present supply be increased to ease the need for it. It is sufficient to state that international reserves as conventionally understood have been falling behind the volume of imports in the servicing of which they are needed.

⁶ See footnote 2 above.

TABLE 2.—Reserves as Per Cent of Imports for Different Groups of Countries, Selected Years

	ALL COUNTRIES	DEVELOPED MARKET COUNTRIES	DEVELOPING COUNTRIES
1948	83.4	99.4	70.1
1951	62.8	74.6	49.9
1954	69.6	81.8	55.0
1957	54.7	63.5	42.7
1960	52.6	61.2	39.6
1963	48.5	52.3	39.2

Source: *International Financial Statistics*, Supplement to 1964-65 issue.

Whereas in 1948 international reserves covered 83 per cent of total imports of *all* countries, they only covered 48 per cent of imports in 1963. Even more dramatic is the fall in the reserve cover of the developing countries which has fallen from 70 per cent in 1948 to 39 per cent in 1963. This would look even more unhealthy when seen against the fact that reserves, short as they already are, are unevenly distributed among the developing countries. Thus, we have a handful of developing countries (the oil exporters mainly) swimming in foreign exchanges as against the run-of-the-mill developing countries which are chronically starved for it.

On the other hand, we also know how much more vulnerable the developing countries are to the vagaries of international trade. The sixteen-year record of fluctuation in the annual exports of the developing countries reveals the striking facts that (i) a significantly larger proportion of the fluctuations experienced by the developing countries lie above the 25 per cent range as compared to the developed countries which have on the whole experienced less violent fluctuations (18 per cent of frequency in the 25 per cent and over range of fluctuations in the case of the developing countries, as opposed to the less than 1 per cent frequency with developed countries); (ii) a much larger percentage of the total number of fluctuations of the developing countries are negative; and (iii) there is a significantly greater number of negative fluctuations above 25 per cent for the developing countries.

TABLE 3.—Frequency Distribution of Annual Percentage Fluctuations, 1948-63 (Number of negative fluctuations is given in parenthesis after the total number of fluctuations)

	LESS THAN 10%	10-25%	25-50%	50-100%	100 AND OVER	TOTAL
45 developing countries	284(117)	226(85)	99(24)	25(2)	6	640(228)
11 industrial countries	97(22)	51(4)	9	6	—	163(26)

Source: *International Financial Statistics*, Supplement to 1964-65 issue.

If anything, the international reserves of the developing countries as a proportion of exports should be much higher than those of the developed countries because of their greater vulnerability to fluctuation in exports. And yet, exactly the opposite now prevails in the international monetary scene.

Is it then to be wondered at if, despite the fact that they have much to import from each other, they could not trade more, if only among themselves and between them and the centrally planned economies, given their lack of liquidity and the practical difficulties of barter and its disapproval by international monetary authorities?

One may now ask how these problems can be worked out in the face of the current monetary reform proposals. I shall not attempt here a critique of the proposals under consideration. Instead, I should like to direct the discussion toward the one basic premise of almost all the better-known proposals, and this is the assumption that world trade has a *unitary dynamics* and consequently needs only one quantum of liquidity at any given time to keep it going. Perhaps, no other premise in the discussion of the liquidity problem has contributed more to the confusion regarding the issue, and no other assumption has perhaps produced more harm for the developing countries. Thus, in monetary circles, we find those arguing that there is a liquidity shortage almost always opposed by those who just as vigorously argue that there is instead a surplus. For instance, while on the one hand the continental European countries are arguing that there is no liquidity shortage but only countries with irresponsible fiscal policies, the developing countries on the other hand know only too well the painful realities of such a shortage. It is a paradox that both positions can be right at the same time. This is because each *set* of countries has its own liquidity requirements on account of the difference in their *trade and development dynamics*.

This can be illustrated in one of the sacrosanct thoughts in contemporary economics, which is that of mixing all countries, developed and developing alike, in one competitive system, the line of thinking being that this would weed out the weak and the laggards to the benefit of all. This is dangerous thinking in a setting where the strong (developed) countries are increasingly able to meet not only their own import needs⁷ but those of the weak (developing) as well, and where the headway in technology and productivity possessed by the strong countries is far too much for the weak underdeveloped countries to overcome. It is now generally agreed that this trend will continue. This being so, the developing coun-

⁷ It would be wrong to belittle this capacity and to be complacent about the extent of its applicability. There are reports that coffee—the biggest single agricultural export of the developing world to the developed countries—has been chemically synthesized and that only political considerations have deterred the mass release of the product in the market.

tries will, if made to compete with the developed countries, find it more and more difficult to export and consequently to import under the present scheme of things. What is not often realized is that the developed and the underdeveloped countries are two sets of grossly unequal rivals, and to pit one against the other in open competition is like pitting a young undernourished boy against a professional prize-fighter.

It is quite common among economists to prescribe an all-out drive on the part of the developing countries to match the strides of their developed rivals in the technological and productivity race. There are, however, severe limits to this game⁸ as there are limits to the rate at which the child of our story can grow and gather strength. It is not difficult to imagine the resulting chaos and waste if the developing countries were to match every new product that has been synthesized in the developed countries, either with an improved natural product or an equally good synthetic product, or to keep in stride with their "planned obsolescence" pattern of consumption, or to compete with their great technological resources, not to say anything of their superior marketing and financial facilities. Indeed, the developing countries are losing out in this game, and of all things in commodities where they are supposed to have a natural advantage—food and raw materials. The developed countries have been importing less and less of these commodities from the developing countries in favor of similar imports from other developed primary producing countries. Part of the explanation has been the inability of the developing countries to match the prices of the developed primary producing countries. Between 1937 and 1950, the unit export value of the primary produce exports of the non-industrial countries *trebled*, whereas that of the industrial countries only *doubled*. Though the trend since the 1950's has been in the reverse and consequently has somewhat improved the competitive position of the developing countries, this has been made possible largely by substantial and repeated devaluation⁹—often uncalled for by domestic conditions—on their part. Even so, the value of the primary produce exports of developing

⁸ Listen for instance to the following reading from Sir Dennis Robertson: "What is to happen if Country A is not only better endowed than Country B, but if the disparity of endowment between them is continually *increasing* through the cumulative mutual interaction of capital accumulation and technological progress? It is true that at any given moment there will still be *some* distribution of function between the two countries which if it could be instantaneously attained, would be in the best interests of both. But the task of attaining it, and then of abandoning it almost immediately for a new one, may surpass the human capacity for adjustment in what is, *ex hypothesi*, the weaker country."

⁹ It is wrong to ascribe devaluation only to rapid internal inflation (so-called "financial irresponsibility") on the part of the devaluating country. There is more to it than this. Indeed, in the case of the developing countries generally, it may lay more in their inability to match the superior export terms of the developed countries which not only can sell at increasingly lower relative prices but also offer or possess superior market (credit, etc.) facilities. In such circumstances devaluation becomes a periodic necessity on the part of the weak developing countries to overcome their continuously deteriorating competitive position *vis-a-vis* the developed countries.

countries has risen much less than similar exports of the developed countries (See Table 4).

TABLE 4.—Indices of Export Value and Unit Export Value of Primary Produce
1952 = 100

YEAR	DEVELOPING COUNTRIES		DEVELOPED COUNTRIES	
	EXPORT VALUE	UNIT EXPORT VALUE	EXPORT VALUE	UNIT EXPORT VALUE
1952	100	100	100	100
1955	117	97	110	93
1960	131	90	204	90
1964	134	93	194	105

The practice of mixing up countries, developed and developing alike, in one competitive circuit can give rise to yet another problem—it will increasingly tend to channel the import demand of both groups of countries to the developed countries because of the latter's superior competitive capabilities. We have seen how this can lead to the displacement of the developing countries from the international market and thus drive them into autarky. Another repercussion is that it tends to give rise to a demand pattern which the developed countries will find increasingly difficult to meet because (i) they would become overemployed and would as a result court inflation if they accept additional orders; and/or (ii) being affluent and thus having little room for additional imports, or being able to import the same more cheaply and in better quality from other developed countries, they would find the products of the developing countries less and less acceptable as payment.

Admittedly, the first problem (i.e., overemployment and inflation) can be mitigated by importing labor into the developed countries from the developing world.¹⁰ This however has severe limitations and problems, and it is doubtful whether the developed countries can contemplate a labor migration of the kind and magnitude required to correct the situation we have visualized.

In the face of this situation, the development patterns left open to the weak countries would appear to be the following.

First, they could sit back and allow their industries to be overwhelmed and eased out of the international market; be content with "enclave" industries, all in the name of economic efficiency; and try to live with massive unemployment and a huge subsistence sector. This is,

¹⁰ The import of laborers in the Central European countries from the surrounding Mediterranean area is partly the result of this phenomenon.

of course, a return to the colonial-type economies which in present day realities will find very little sympathy in the developing countries.

Second, they might allow international competition to run its course and consequently accept being eventually eased out of international trade, making the most of it meanwhile, but build protected national markets and promote economic development at whatever cost within the same. It has been thus far the pattern of the striving of most developing countries. It is a costly path to development—and for small countries (of which there are many) just plain impossible—because of the narrowness of the resource and market base on which to build. Even so, it is still a better alternative for most developing countries than the first option.

A third one is building within the framework of a self-contained market in the developing world so as to widen the resource and market base and still avoid being overwhelmed by superior competition from the developed countries. This would require a number of institutional reforms to bring about a more suitable payments mechanism for one, and, eventually, adjustments in the operation of the *most favored nations* treatment among others. This is the emerging pattern, a product of a growing realization of the folly of pitting the weak against the strong, of the limitations of autarky, and of the vast possibilities offered by having access to international resources and markets.

All this is, of course, an oversimplification—a stylization, so to speak, of the argument and the policy options it lays open. In practice, developing countries have pursued, or are found with, varying combinations of all three patterns. The trend, however, is for the composite whole to evolve into the third pattern,¹¹ save for the occasional lapse and recoil that characterize movements of such massive proportions and complexity. While there can be an argument on how fast and how far a country can move through the process—and this would depend largely on the economic and political realities of each country—there cannot, I believe, be any doubt as to its logic and inevitability. Nor should it be allowed to go in reverse by default or design, however temporary: one shudders at the very thought of the consequences that any such setback can bring on in terms of human destitution and threats to world peace.

Clearly then, the generation of international liquidity, if it must fully meet the requirements of the developing countries, cannot be allowed to be an exclusive function of the developed countries. Neither would it suffice to make it a joint function of the two sets of countries. In truth, there is *not* one but several liquidity requirements because of the existence

¹¹ The movement does not of course stop here because as the countries gain sufficient strength and confidence they can begin to shed their protective shells and join the world economic community as full-fledged and equal partners.

of more than one trading circuit of different dynamics (including the centrally planned economies which have their own dynamics). As already argued, if things are allowed to run their present course, a situation would eventually develop whereby, on account of the superior technology and marketing and financial facilities of the developed countries, the exports of the developing countries would be gradually eased out of the international market; and increasingly deprived of international money to import, even only from each other, they would steadily drift into an even higher degree of autarky.¹² This is of course, undesirable since it would lead to considerable economic waste and monotonous consumption patterns. Thus the need to regionalize production and economic development among developing countries; and the obvious solution would be for them to integrate their economies with each other by way of their own payments mechanism and other related measures.

Is it then too much to say that any solution or set of solutions to the international liquidity problem that does not include a specially contrived and independently working payments mechanism to promote trade among developing countries can at best be incomplete? Could we not perhaps begin to think in terms of a special payments mechanism to promote trade among developing countries on a *goods-for-goods* or *purchasing-power-for-purchasing-power* basis to get around the existing payments constraint and consequently arrest the autarkic tendencies and rationalize production among these countries?

This is the general implication of the prevailing international liquidity problem in relation to the developing countries. To generate the liquidity of the kind required by the developing countries, one has to look beyond the present system and the Composite Reserve Unit type system mentioned above. We have to reject immediately the use of development finance (principally loans and investments coming from the rich countries and international financing institutions) as a substitute for international liquidity for reasons already indicated. The same applies to International

¹² This is incidentally the main objection to the Kalder *et. al.* proposal to monetize commodities. For while it internationalizes the generation of liquidity (e.g. by opening participation to all primary producers), it has the potentiality of creating the situation described above. It is pointed out that one of its features is that of stabilizing the overall price of the 25 commodity basket that is common to both the *developed* primary producing countries (USA, Canada, France and Australia are among such countries) and the *underdeveloped* primary producers. Because of the faster increasing productivity and superior marketing facilities of the developed countries, commodities prices will eventually be so set up as to slowly ease the underdeveloped countries from the international market. The same criticism applies to the Composite Reserve Unit type medium based on the currencies of the Group of Ten countries. This system would also tie up the international liquidity position of the developing countries to their (i) exports to and (ii) loans and investments from the developed countries. Since the first would be difficult to sustain in the long run, and because loans and investments should not be used as a substitute to *issue* money, the CRU proposal described above cannot be more than a palliative to the payments problems of the developing countries.

Monetary Fund accommodations. Compensatory financing arrangements can only be a palliative and so are commodity agreements. Ideally, solutions *a la* Keynes and Triffin suggest themselves. Proposals under these names envisage the automatic conversion of export receipts in what would be an international monetary unit convertible into national currencies. But then their assumption of a trading world of one dynamics and of equally matched participants makes them fall short of the need we see. Barter and limited multilateral arrangements of the type going on in the trade among developing countries—and until recently as practised by the centrally planned economies—has been and can continue to be a solution. But then to tap all the trade potential in the developing world under barter would mean the establishment of 76 bilateral trading arrangements for *each* of the 77 developing countries, or a total of 5,852¹³ and 8,010 if the 13 centrally planned countries are to be added to the barter club. Obviously therefore, for all its better-than-nothing virtue, bilateral trading would present such formidable practical difficulties as to make it unsuitable for universal use. Even so, they figure considerably in today's trade despite the technical difficulty in establishing and operating them and the frowns they provoke among monetary authorities. (There are 300 or so going bilateral arrangements between the developing countries alone). This leads us to the question: might not a wider system of multilateral clearing be a solution? This system has its attraction, and it is indeed its proved superiority over barter, in the absence of a truly international money and in the presence of several distinct trading circuits of varying dynamics, that has led to its employment in the Soviet bloc, the highly successful but now defunct European Payments Union, and the more current and equally successful payments clearing arrangements in Latin America.

This in sum is the overall implication of the prevailing payments structure on the development needs of the poor countries and it is in the context of this broad background that the proposal for a supplementary payments mechanism as outlined in an ECOSOC/ECA paper¹⁴ is urged on the developing countries as one of a set of measures to promote the mutual trade of developing countries. It envisages the "establishment of a clearing system wherein goods and services presumably unsaleable for hard currencies may be offered for sale by any country burdened by them: under the arrangement, a variety of letters of credit,¹⁵ warehouse receipts

¹³ Where 77 or n is the assumed number of developing countries and $x = n(n - 1) = 5,852$.

¹⁴ A. D. Goseco, *A Supplementary Payments Mechanism to Promote Trade Among Developing Countries—a Proposal*. United Nations Economic Commission for Africa E/CN.14/WP 2/2 Addis Ababa.

¹⁵ Expendable only in the issuing country. This might even be the preferred form of payment as against warehouse receipts and contracts to deliver in the case of national currencies whose buying power is stable because (i) of the ease of handling letters of credit and (ii) because it substitutes the usually more reliable word of the issuing bank for that of the trader. A recent example of this kind

and irrevocable contracts to deliver specific goods and services on demand (which shall from here on be referred to as 'commodity credit notes') may be offered for exchange in a clearing system, with each specific offer being accompanied by indications as to what other goods and services may be wanted in exchange. Quotations and other necessary trading procedures such as factoring, performance, bonding, and others may all be made in much the same way as they are now done in international trade. There may thus be offerings of so many dollars' worth of Brand X Burmese rice, Philippine sugar, Indian bicycles, Egyptian cotton, Argentine corned beef, Chilean nitrate fertilizer, Liberian shipping services and so forth, each of which would be quoted at so many dollars per unit as there are U.S. dollars and British pounds sterling, and so forth. From these advertised goods and services, a trader or broker may try to fit offerings with needs, arranging as he sees fit a combination of exchanges acceptable to all the offering parties brought into the deal. In one simultaneous transaction, he may then effect the exchange of many mutually wanted goods and services, titles to which (specific "commodity credit notes") would as a result change hands. *At no time is money ever exchanged—only titles to goods and services:* money would in practice only be used as a *unit of account*. It is in this important respect wherein the scheme differs from the prevailing mechanism of payments because, while it is able to dispense with the use of hard currencies, it is still capable of effecting the most economic of exchanges as can be obtained anywhere with equal facility and on comparable terms. Moreover, the 'commodity credit notes' may be allowed to circulate as long as no suitable exchanges are found. Actual delivery of a commodity may only be effected when a country in possession of the corresponding "credit notes" calls for it."

of trading operation is the drugs-for-prisoners exchange between the USA and Cuba whereby Fidel Castro insisted on covering the deal with letters of credit. This would amount to currency clearing.