WORLD ECONOMIC SURVEY 1962

1. The Developing Countries in World Trade

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I. The Developing Countries in World Trade

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FOREWORD

This report, *World Economic Survey, 1962,* is the fifteenth in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare an annual review and analysis of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of world economic conditions which may serve as a basis for recommendations in the economic field; it is also designed to meet the needs of the general public.

Each year since 1955 the *World Economic Survey* has contained a study of a particular problem in the field of economic development. Among the subjects examined have been economic growth in the first post-war decade, balance of payments problems in relation to economic growth, inflation, post-war commodity trade and policies, experience and policies relating to investment and to saving, and industrialization and economic development.

This year special interest attaches to the position of the developing countries in world trade, particularly in view of the decision by the Economic and Social Council and the General Assembly to convene a United Nations Conference on Trade and Development in 1964. (Economic and Social Council resolution 917 (XXXIV) and General Assembly resolution 1785 (XVII).)

A provisional agenda for the Conference was approved by a Preparatory Committee in February 1963 which included the following main topics:

I. Expansion of international trade and its significance for economic development;

II. International commodity problems;

III. Trade in manufactures and semi-manufactures;

IV. Improvement of the invisible trade of developing countries;

V. Implications of regional economic groupings;

VI. Financing for an expansion of international trade;

VII. Institutional arrangements, methods and machinery to implement measures relating to to the expansion of international trade;

VIII. Final Act.

In addition, each of the main topics was subdivided into specific agenda items and sub-items, and the Secretary-General of the Conference was requested to arrange for suitable documentation accordingly. In response to that request a series of papers was prepared by the United Nations Secretariat and presented to the Preparatory Committee at its second session in May-June 1963.

It has been decided to combine the most important of these papers within the framework of Part I of *World Economic Survey, 1962.* Although these papers constitute interim reports which may have to be revised in the light of discussion in the Preparatory Committee, it is hoped that their publication will make them available to a wider audience and that this will help to stimulate broad public discussion of the issues that will come before the Conference.

Part II of the *Survey,* which is issued as a separate volume, contains an examination of recent events in the world economy. Chapter 1 provides an analysis of the recent situation in the industrially advanced private enterprise economies. Chapter 2 reviews recent events in the primary producing private enterprise economies. An assessment of the economic outlook at the beginning of 1963 is given for both these groups of countries; this is based largely on replies by Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1962. Chapter 3 provides an account of recent changes in the centrally planned economies.

These studies have been prepared in the Department of Economic and Social Affairs by the Bureau of General Economic Research and Policies.

EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

A dash (—) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (−) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1959/60

In certain tables, the symbol (..) has been used to indicate that recent information was lacking at the time of writing.

Use of a hyphen (-) between dates representing years, e.g., 1959-1961, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Certain abbreviations have been used: AID for Agency for International Development [United States]; AOS for Associated Overseas States [of the European Economic Community]; CICT for Commission on International Commodity Trade; DAC for Development Assistance Committee [of the Organisation for Economic Co-operation and Development]; DIF for Development Insurance Fund; ECAFE for Economic Commission for Asia and the Far East; EDF for European Development Fund [of the European Economic Community]; EEC for European Economic Community; EFTA for European Free Trade Association; FAO for Food and Agriculture Organization of the United Nations; GATT for General Agreement on Tariffs and Trade; IBRD for International Bank for Reconstruction and Development; ICA for International Co-operation Agency [United States]; ICCICA for Interim Co-ordinating Committee for International Commodity Arrangements; IDA for International Development Association; IDB for Inter-American Development Bank; IFC for International Finance Corporation; IMF for International Monetary Fund; LAFTA for Latin America Free-trade Association; OAS for Organization of American States; OECD for Organisation for Economic Co-operation and Development; OEEC for Organisation for European Economic Co-operation; SITC for Standard International Trade Classification. "Rhodesia and Nyasaland" stands for the Federation of Rhodesia and Nyasaland.

The Republic of South Africa is so designated even where the material covers the period prior to 31 May 1961, when the country was known as the Union of South Africa.

Where statistical presentation has rendered it necessary, "Malaya" has been used to designate the Federation of Malaya and Singapore; "South Africa", the Republic of South Africa, South West Africa and the High Commission territories of Basutoland, Bechuanaland and Swaziland.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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Chapter 1

TRENDS IN WORLD TRADE AND THEIR SIGNIFICANCE FOR ECONOMIC DEVELOPMENT

Review of trends in world trade

The importance of foreign trade for economic development of the developing countries stems from the fact that in most of them export production and trade constitute a preponderant part of their total economic activity. The forces that shape the course of export trade thus automatically set up reverberations in the domestic economy. Experience has shown that even the mild dips or pauses in the pace of economic growth in the developed parts of the world have led to proportionally sharp curtailments in the export trade of the less developed countries and correspondingly in their national income or product.

Even in that small minority of the less developed countries where the share of exports in national product is not particularly large, the importance of favourable expansion in international trade remains crucial. This is because all newly developing countries are heavily dependent on imports of machinery, heavy equipment and other essential goods that are strategic to lifting the levels of productive investment for accelerated economic growth. True, in some countries industrialization has led to significant increases in the domestic supply of investment goods; but at the same time the demand for these products, too, has been expanding rapidly, with the result that the dependence on imported supplies has not diminished and in some cases has even risen.[1] Increased export earnings are thus clearly vital to pay for the expanding needs of imported supplies.

[1] *See* United Nations, *World Economic Survey, 1961* (Sales No.: 62.II.C.1), chapter 1.

Unfortunately, recent developments on this score provide little ground for satisfaction; rather, if anything, they constitute a matter of serious concern for the world community. In recent years, the export trade of the under-developed countries has not fared at all well in comparison with the trade of the advanced countries. This conclusion emerges unmistakably whether one analyses the data on export volumes or on export prices or on the relative shares of various groups of countries in world trade.

In the nineteen fifties, the volume of exports from the less developed countries rose at an annual rate of 3.6 per cent per annum as against a rate of growth in exports from the developed private enterprise economies not far short of twice as large and an expansion in the export volume of the centrally planned economies almost three times as large (*see* table 1-1). This slow rate of growth is in marked contrast to the trends in trade in the nineteenth century when vigorous export trade often acted as the main spark of economic change in the developing countries—a change that not only encompassed the over-all rate of economic growth but also the increasing monetization of subsistence economies as well as their ability to absorb innovations and new ideas from abroad.[2]

Under the momentum generated by the new programmes or plans of economic development launched in the nineteen fifties, on the other hand, the annual

[2] The point is further elaborated in the text below.

Table 1-1. World Trade, by Major Country Groups; Annual Averages 1950-1954 and 1955-1960 and Compound Rates of Growth between 1950 and 1960

(Billions of dollars)

Country group and period[a]	*Exports*		*Imports*	
	Value	*Volume*[b]	*Value*	*Volume*[b]
World				
1950-1954	75.6	74.1	75.6	74.1
1955-1960	107.2	107.2	107.2	107.2
Compound rate of growth		6.4(5.8)[c]		6.4(5.8)[c]
Developed countries				
1950-1954	47.0	46.5	48.0	47.0
1955-1960	69.6	69.6	68.1	68.1
Compound rate of growth		6.9[c]		6.9[c]
Centrally planned economies				
1950-1954	7.2	6.9[d]	6.9	6.7[d]
1955-1960	12.4	12.4[d]	12.2	12.2[d]
Compound rate of growth		10.7[c]		11.1[c]
Developing countries				
1950-1954	20.3	19.5	18.5	18.3
1955-1960	23.7	23.7	24.1	24.1
Compound rate of growth		3.6[c]		4.6[c]

Table 1-1 (*continued*)

Country group and period[a]	*Exports*		*Imports*	
	Value	*Volume*[b]	*Value*	*Volume*[b]
Unclassified trade[e]				
1950-1954	1.2	1.2	2.2	2.2
1955-1960	1.5	1.5	2.8	2.8

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of International Trade Statistics, 1959*, vol. I (Sales No.: 60.XVII.2, Vol. I) and *1960* (Sales No.: 61.XVII.9), *Statistical Yearbook, 1960* (Sales No.: 61.XVII.1) and *1961* (Sales No.: 62.XVII.1), *Monthly Bulletin of Statistics*, October 1952, June and July 1961, *Direction of International Trade*, Statistical Papers, Series T, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development; Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series IV (Paris), 1956 and 1958; and from national sources.

[a] *Developed countries*: North America, western Europe, Australia, Japan, New Zealand and South Africa; *centrally planned economies*: eastern Europe, mainland China, Mongolian People's Republic, North Korea and North Viet-Nam; *developing countries*: rest of the world. The figures exclude: (i) special category exports of the United States and (ii) inter-trade of the Mongolian People's Republic, North Korea and North Viet-Nam and their trade with mainland China.

[b] In average 1955-1960 prices.

[c] The rate of growth (r) is calculated on the basis of the following formula:

$$(1 + r)^{10} = \frac{T_{60}}{T_{50}}$$

where T_{60} and T_{50} denote the volume of trade in 1960 and 1950, respectively. The figures in parentheses refer to the volume of trade, excluding that of the centrally planned economies.

[d] Estimates based on national sources; figures may be subject to a wide range of error.

[e] The figures include unclassified trade of some developing countries (mainly dependent territories in Central and South America) as well as errors and omissions.

increase in the volume of imports of the developing countries—4.6 per cent—was significantly in excess of the 3.6 per cent annual expansion in the volume of exports. In part, of course, this reflected the increased availability of foreign loans and grants for accelerating their rate of economic advance. But it is also indicative of the growing imbalance in their external accounts which is increasingly setting a limit to their plans for economic expansion.

The lagging volume of exports is but one aspect of the critical problem encountered by the less developed countries. In recent years, the external imbalance has been considerably accentuated by a steady deterioration in the terms at which their exports are exchanged for imports.[3] As is evident from the data assembled in table 1-2, the average price of goods exported by these countries in 1960 was barely higher than the level reached a decade earlier, while the average price of their imports was significantly higher, with the result that the terms of trade had declined by 9 per cent. As a notional exercise, it is interesting to note that had the terms of trade of the less developed countries been stabilized at their 1950 level the aggregate purchasing power of their exports in terms of imports in 1960 would have been greater to the extent of $2.3 billion.

[3] For simplicity, the role of invisibles in external trade has been ignored in the present argument. Actually, as is shown in the next section of this chapter, the earnings from invisibles, too, have tended to lag and hence aggravate the imbalance.

Table 1-2. Unit Values of Exports and Imports, by Country Group, 1950-1960[a]

(1959 = 100)

Country group and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*
Developed countries											
Unit value of exports	85.9	103.0	104.0	100.0	98.0	98.0	101.0	104.0	101.0	100.0	101.0
Unit value of imports	90.7	114.4	112.4	104.1	103.1	104.1	106.2	110.3	103.1	100.0	101.0
Terms of trade	94.7	90.0	92.5	96.1	95.1	94.1	95.1	94.3	98.0	100.0	100.0
Developing countries											
Unit value of exports	100.0	125.8	114.4	106.2	108.2	108.2	107.2	107.2	103.1	100.0	101.0
Unit value of imports	91.8	108.2	110.2	103.1	99.0	100.0	102.0	105.1	102.0	100.0	101.0
Terms of trade	108.9	116.3	103.8	103.0	109.3	108.2	105.1	102.0	101.1	100.0	100.0

Source: United Nations, *Monthly Bulletin of Statistics*, January and April 1963.

[a] Data are shown with 1959 as 100 since this year serves as the base for all subsequent calculations of projected estimates. Terms of trade refer to the ratio of unit value of exports to unit value of imports.

Together, the lagging increase in their export volume and the deterioration in their terms of trade have led to a substantial decline in the share of the under-developed countries in total world trade. As is borne out by the data in table 1-3, the under-developed countries accounted for somewhat less than one-third of total world trade in 1950; but by 1960 their share had shrunk to one-fifth. During the same period, the industrially developed countries increased their already large share in the total from three-fifths to two-thirds. Significant increases were also recorded by the group of centrally planned economies; the share of these economies in the total rose from 8 per cent to 12 per cent.

Equally important are some of the underlying trends regarding regional direction of trade. Perhaps the most significant fact is that while the share of exports from the under-developed countries declined in the totals of each of the groups shown in table 1-3, including the total for intra-trade of the under-developed countries themselves, the industrially developed countries as well as the centrally planned economies have increased their respective intra-regional trade quite sharply.

Table 1-3. Distribution of World Trade, by Country Group, 1950 and 1960[a]

(Percentage of world trade in current prices)

	Importing country group				
Exporting country group	*Total world*	*Developed countries*	*Centrally planned economies*	*Developing countries*	*Unclassified trade*
Total world					
1950	100.0	100.0	100.0	100.0	100.0
1960	100.0	100.0	100.0	100.0	100.0
Developed countries					
1950	59.8	62.6	21.2	68.8	34.6
1960	66.0	72.1	20.9	75.3	55.9
Centrally planned economies					
1950	8.4	3.4	66.5	2.7	4.1
1960	12.4	3.6	71.1	4.7	5.3
Developing countries					
1950	30.0	32.2	12.3	27.3	52.5
1960	20.4	22.8	8.0	19.0	34.5
Unclassified trade					
1950	1.7	1.8	—	1.2	8.8
1960	1.3	1.5	—	1.0	4.3

Source: See table 1-1.

[a] Excluding special category exports of the United States.

The reasons for the unfavourable trends in the external trade of the under-developed countries are rooted in the basic structure of this trade itself. Thus, primary products comprising foodstuffs, agricultural raw materials, ores and fuel account for well over four-fifths of the total exports of the under-developed countries. For the industrially developed countries, on the other hand, over two-thirds of the foreign exchange earnings are contributed by exports of manufactured goods. Only for the group of centrally planned economies are the exports of primary products roughly of the same order of magnitude as those of manufactured goods (*see* table 1-4). The trading pattern of the under-developed countries is such that they export in the main primary products and import in return largely manufactured goods. For no other group does the ex-

Table 1-4. Composition of World Trade and of Trade of Major Groups of Countries, 1959[a]

	Exports		*Imports*	
Country group and item[b]	*Percentage of world total exports*	*Percentage of group's total exports*	*Percentage of world total imports*	*Percentage of group's total imports*
World				
Total	100.0	100.0	100.0	100.0
Foodstuffs	18.9	18.9	18.9	18.9
Agricultural raw materials and ores	16.7	16.7	16.7	16.7
Fuels	10.3	10.3	10.3	10.3
Manufactures, excluding machinery	32.2	32.2	32.2	32.2
Base metals	8.2	8.2	8.2	8.2
Machinery	20.8	20.8	20.8	20.8
Other	1.0	1.0	1.0	1.0
Developed countries				
Total	64.4	100.0	63.8	100.0
Foodstuffs	9.8	15.2	13.3	20.9
Agricultural raw materials and ores	8.3	12.9	12.5	19.6
Fuels	2.6	4.0	6.8	10.7
Manufactures, excluding machinery	25.6	39.8	19.8	31.0

Table 1-4 (*continued*)

Country group and item[b]	Exports: Percentage of world total exports	Exports: Percentage of group's total exports	Imports: Percentage of world total imports	Imports: Percentage of group's total imports
Developed countries (continued)				
Base metals	6.3	9.7	5.5	8.5
Machinery	17.5	27.2	10.8	17.0
Other	0.7	1.0	0.5	0.8
Centrally planned economies				
Total	12.9	100.0	13.0	100.0
Foodstuffs	2.2	16.8	1.8	13.6
Agricultural raw materials and ores	2.1	16.4	2.6	19.8
Fuels	1.4	10.6	1.0	7.4
Manufactures, excluding machinery	3.9	30.2	4.1	31.7
Base metals	0.9	7.6	1.3	10.2
Machinery	3.2	24.6	3.4	26.3
Other	0.2	1.4	0.1	1.1
Developing countries				
Total	22.7	100.0	23.2	100.0
Foodstuffs	7.0	30.7	3.8	16.5
Agricultural raw materials and ores	6.3	27.9	1.7	7.2
Fuels	6.4	28.0	2.5	10.9
Manufactures, excluding machinery	2.8	12.1	8.3	35.8
Base metals	1.0	4.5	1.5	6.4
Machinery	0.1	0.6	6.5	28.2
Other	0.2	0.7	0.3	1.4

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, March and April 1962, and *Commodity Trade Statistics*, Statistical Papers, Series D.

[a] Excluding (i) special category trade of the United States and (ii) inter-trade of the Mongolian People's Republic, North Viet-Nam and North Korea and their trade with mainland China.

[b] Foodstuffs refer to sections 0 and 1 of the Standard International Trade Classification (SITC); agricultural raw materials and ores to sections 2 and 4; fuels to section 3; manufactures excluding machinery to sections 5, 6, 8 and item 732.01 (passenger cars) of section 7; machinery to section 7, except item 732.01; "other" to items not elsewhere specified.

change of exports for imports rest on such an uneven keel; a good part of the international trade in other groups represents exchange of manufactured goods for manufactured goods.

The trading pattern of the under-developed countries has an additional feature. Not only do these countries exchange exports of primary products for imports of manufactured goods, but their trading pattern is closely linked with the structure of trade of the industrially developed countries. As is evident from the data assembled in table 1-5, throughout the nineteen fifties the overwhelming bulk of the exports from the under-

Table 1-5. Developing Countries: Commodity Exports and Imports, 1951-1960[a]

(*Billions of dollars at 1959 prices; f.o.b.*)

Item	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Exports to the rest of the world	14.0	13.5	14.9	15.2	16.3	17.6	17.7	18.3	20.0	20.9
To centrally planned economies	0.5	0.4	0.3	0.4	0.5	0.5	0.7	0.8	1.0	1.1
To developed countries	13.2	12.8	14.2	14.6	15.6	16.8	16.7	17.1	18.8	19.4
Primary products	...	...	12.6	13.0	14.1	14.7	14.3	15.5	16.5	17.3
Foodstuffs	...	...	5.4	5.4	5.6	5.9	5.9	6.2	6.2	6.3
Agricultural raw materials and ores	...	...	4.8	4.6	5.1	5.2	5.0	4.9	5.4	5.6
Fuels	...	...	2.5	3.1	3.4	3.6	3.4	4.4	4.8	5.3
Manufactured goods	...	...	1.7	1.8	2.1	2.2	2.0	1.8	2.2	2.5
Imports from the rest of the world	14.5	14.2	14.2	15.8	16.7	18.7	20.5	20.4	20.3	22.1
Primary products	...	...	3.3	3.3	3.3	3.8	4.2	4.2	4.3	5.0
Foodstuffs	...	...	2.3	1.9	2.1	2.5	2.8	2.8	2.9	3.3
Agricultural raw materials and ores	...	...	0.5	0.7	0.7	0.8	0.8	0.8	0.9	1.1
Fuels	...	...	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.7
Manufactures	...	...	11.3	12.5	13.3	14.8	16.8	15.9	15.6	16.9
Chemicals	...	...	1.1	1.4	1.5	1.6	1.8	1.8	1.9	2.1
Machinery and equipment	...	...	5.0	5.2	5.9	6.7	7.8	7.5	7.2	7.8
Other manufactures	...	...	5.1	5.9	6.0	6.6	7.2	6.6	6.5	7.0

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of International Trade Statistics*, *Monthly Bulletin of Statistics* and *Direction of International Trade*.

[a] Components do not always add up to totals due to errors and omissions and to rounding. For commodity coverage of items, *see* footnote *b* to table 1-4.

developed countries has gone to the industrially developed countries. Although the volume of exports to the centrally planned countries has more than doubled—a rate of increase significantly higher than that registered by exports to the industrially developed countries—the share of such exports in the total exports of the under-developed countries is still quite small. This provides a clue to the nature of the forces which have caused the exports of the less developed countries to lag behind exports from other countries.

In the nineteenth century, which saw the application on a large scale of the technological advances of the industrial revolution, rapid rates of industrialization and population increase, first in western Europe and later in North America, called for rapid increases in the exports of primary products from the less developed parts of the world. This would not have been possible had not improvements in the means of transport opened up a whole new range of overseas markets for primary products. This source of buoyancy, however, no longer exists in the present-day world. As is discussed at some length in chapter 2, and also in other United Nations publications,[4] the high levels of per capita income and consumption in the industrially advanced countries have transformed the whole structure of their demand for primary products. The demand for cereals and other foodstuffs has historically lagged behind the rise in incomes and the consumption of manufactured goods and of the products of service industries. There have, moreover, been significant increases in the domestic output of agricultural products in the developed countries which have added to the gravity of the problem facing the under-developed countries. Further, technological discoveries have led to spectacular growth in production of synthetic substitutes for several agricultural raw materials. It is under the combined weight of all these forces that the volume of exports from the under-developed countries has been expanding only slowly, that the prices of these exports have been deteriorating in relation to the prices of manufactured goods, and that the share of the under-developed countries in total world exports has been declining.

It is in this context that the implications of the goals set for the United Nations Development Decade have to be assessed. The General Assembly has called for an increase in the annual rate of growth of the developing countries to at least 5 per cent at the end of the decade. The following section presents a preliminary and tentative attempt to investigate the trade needs of the developing countries for meeting this target.

[4] *See* in particular United Nations, *World Economic Survey, 1958* (Sales No.: 59.II.C.1), chapter 1.

Trade needs of developing countries for their accelerated economic growth

An exercise that seeks to throw light on the future trade needs of the developing countries must by its very nature involve a series of highly tentative "projections". In this respect, the projections contained in the present section are no exception; they are provisional and subject to revision in the light of more detailed work to be undertaken as part of the work programme of the Economic Projections and Programming Centre of the Bureau of General Economic Research and Policies. It is also worth noting, as has already been stated in another United Nations document, that projections are not the same as outright forecasts of the future; they do not amount to prophecies. All projections inevitably include a large element of judgement and—also inevitably—all are subject to some margin of error.[5] The limitations inherent in projections acquire an even greater significance when the problem concerns the less developed countries. In the first place, there are innumerable shortcomings in the data currently available.[6] Furthermore, in the developing countries, where every day brings new activity on the part of governments to speed the pace of economic advance and to diversify the structure of the economy, there are bound to be policy changes with far-reaching effects on the process of development. And, inevitably, there are bound to be policy changes in other parts of the world which, through their impact on world trade and payments, will exercise considerable influence on the economic expansion of the less developed countries. It is clear, therefore, that the results of the calculations spelled out below at the request of the Preparatory Committee of the United Nations Conference on Trade and Development can be no more than of an illustrative nature.

Nevertheless, when used with proper caution, such an exercise can be extremely valuable. Within the frame of certain assumptions, it can illuminate the implications for the future course of trade of certain postulated growth rates. By comparing the prospects for exports and other receipts with the requirements for imports and other payments, it greatly enhances the understanding of the magnitude of the challenge for national and international policy implicit in the targets that have been set by the General Assembly for the Development Decade.

The principal elements of the exercise must obviously come from the experience of the past. As a first step, therefore, certain relations are derived from the available data relating to the nineteen fifties.

The total gross domestic product of the less developed countries, measured in constant 1959 prices, is estimated to have increased from $121 billion in 1950 to about $180 billion in 1959, or at the annually compounded rate of 4.65 per cent. During the same period and at the same constant prices, gross domestic fixed capital formation increased from less than $17 billion to over $28 billion.

The annual rate of growth of export quantum from the under-developed countries to the industrially advanced countries implicit in the data shown in table 1-5 was about the same as the annual rate of increase of the gross domestic product (3.7 per cent) of the latter group of countries. The responsiveness of individual commodity groups to changes in demand, however, varied widely in the nineteen fifties. The "income

[5] United Nations, "Evaluation of Long-term Economic Projections" (mimeographed document E/3379).

[6] It is, of course, true that significant achievements have been made in the past few years in the collection of data at the national level and that international organizations have contributed a good deal towards improving the comparability of concepts and the usability of statistics. Nevertheless, there are still many shortcomings in available data and many gaps which remain to be filled.

elasticity"[7] of the demand for imports from the under-developed countries into the industrially advanced countries—that is, the responsiveness of imports to changes in aggregate product—is summarized in the following table:

Income elasticity of imports of the industrially advanced countries from the developing countries[a]

Commodity group	*Income elasticity*
Foodstuffs (SITC groups 0 and 1)	0.76
Agricultural raw materials and ores (SITC groups 2 and 4)	0.60
Fuels (SITC group 3)	2.87[b]
Manufactured goods (SITC groups 5 to 8)	1.24

[a] The estimates were derived from regression of gross domestic product of the industrially developed countries on imports of each commodity group from the developing countries. The sample covers the period 1953-1960.

[b] The unusually high elasticity reflects to some extent the occurrence of non-economic disturbances. The United Nations Economic Commission for Europe has estimated in *Economic Survey of Europe in 1960* (Sales No.: 61.II.E.1) that the imports of fuels by western Europe, North America and Japan would grow at 4.3 per cent per annum between 1959 and 1980, as against an assumed growth rate of 3.1 per cent per annum of their gross national product, resulting in income elasticity of fuel imports of 1.40. Calculations discussed in subsequent paragraphs have been based on the figure of 1.40 rather than 2.87.

In the nineteen fifties, on the average, exports from the under-developed countries to the centrally planned economies amounted to 7.3 per cent of the total imports of these economies. As an approximation, for the purposes of the present hypothetical exercise, this level is assumed to remain unchanged at the end of the nineteen sixties.

Correspondingly, for imports into the under-developed countries, the relationship with their own gross domestic product is summarized in the following table:[8]

Income elasticity of imports into the developing countries from the rest of the world

Commodity group	*Income elasticity*
Foodstuffs (SITC groups 0 and 1)	1.49
Agricultural raw materials and ores (SITC groups 2 and 4)	1.65
Fuels (SITC group 3)	0.35
Chemicals (SITC group 5)	1.85
Machinery and equipment (SITC group 7, excluding 732.01 (passenger cars)	1.16[a]
Other manufactures (SITC groups 8 and 732.01)	0.82

[a] The figure denotes the percentage change in import requirements of capital goods with respect to a one per cent change in the level of gross domestic fixed capital formation.

An attempt can now be made to link the past relationships with the target of 5 per cent annual increase in gross domestic product of the developing countries at the end of the United Nations Development Decade. However tentative the result must necessarily be, it may help to assess the broad implications of the goal established by the General Assembly.

The principal results of the illustrative exercise are shown in table 1-6. To start with, it is assumed that in

[7] The term "income elasticity" denotes the percentage change of imports induced by a one per cent increase in gross domestic product.

[8] The pattern of imports into the under-developed countries has been strongly influenced by the growth of import-substituting industries. An important reason for the differences in income elasticities of individual commodity groups, in fact, stems from this factor. For a discussion of the role of import-substitution, *see* United Nations, *World Economic Survey, 1961*, chapter 1.

Table 1-6. Developing Countries: Hypothetical Projections of and Illustrative Requirements for Adjustments in the Balance of Payments Emerging from an Accelerated Rate of Growth of Output[a]

(Billions of dollars in 1959 prices and exchange rates)

Item	*1959 (observed) (I)*	*1970 (hypothetical) (II)*	*Remarks on derivation of figures in column II*
1. Gross domestic product	180	304	Assumed to grow at the historical (1950-1959) rate of 4.65 per cent per annum during 1960-1965 and to accelerate thereafter by a constant fraction each year so as to reach the United Nations Development Decade target of 5 per cent per annum in 1970.
2. Gross domestic fixed capital formation	28	52	Assumed to grow in the same relation to gross domestic product as in the period 1950-1959.
3. Commodity imports	21	41	Hypothetical level of imports unadjusted for structural changes and policy measures; calculated on the basis of the income elasticities shown in the second text table above.
a. Primary	4	9	
b. Manufactures	17	32	
4. Commodity exports	20	29	Calculated on the basis of income elasticities shown in the first text table above; the gross domestic product of the developed countries was assumed to increase at the same rate as in the period 1950-1960 (3.7 per cent per annum).
a. To developed countries:			
Primary	17	23	
Manufactures	2	4	
b. To centrally planned economies	1	2	Calculated by using as indicator the target rate of trade turnover of the Soviet Union.
5. Payments for investment income and other services (net)	4	8	Assumed to be related to total exports and imports.
6. Gap on current account	5	20	Rows 3 and 5 minus row 4.
7. Inflow of long-term capital and official donations (net)	5[b]	9	Hypothetical level derived by extrapolating past trends.
8. Initial gap in current and long-term capital account	—	11	Row 6 minus row 7.

Table 1-6 (*continued*)

Item	*1959 (observed) (I)*	*1970 (hypothetical) (II)*	*Remarks on derivation of figures in column II*
9. Illustrative adjustments through national and international policy measures, assumed and envisaged		7	
a. Decrease in commodity imports through maintenance of 1959 import ratio		3	Maintenance of the 1959 ratio of imports to gross domestic product, implying decrease in the historical elasticity of import demand for foodstuffs and manufactured goods.
b. Increase in exports resulting from income acceleration in developed countries		2	Induced by an assumed acceleration of the rate of growth of output in the developed countries so as to reach the target of 4.2 per cent per annum, and corresponding expansion of exportables in the developing countries.
c. Assumed decrease in net payments for investment income and other services		1	Assumed improvements in net income from invisibles as discussed in the text (page 9).
d. Assumed increase in inflow of net long-term capital and official donations		1	Additional 10 per cent increase in the level shown in row 7 towards fulfilling the General Assembly target level of capital inflow of one per cent of gross domestic product of the developing countries.
10. Residual gap in the balance of payments remaining to be covered through national and international policy measures additional to those in row 9 [row 8 minus row 9]		4	See text (page 9).

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat.

[a] Country coverage in this table differs slightly from preceding tables owing to limitations of data. Figures have been rounded to nearest integer.

[b] Including short-term capital.

the first half of the nineteen sixties the gross domestic product of the developing countries would increase at the same annual rate as in the nineteen fifties—namely, 4.65 per cent—but thereafter it would accelerate by a constant fraction every year so as to reach the United Nations Development Decade target of 5 per cent in 1970. The hypothetical level of gross domestic product in 1970, in other words, would be more than two-thirds larger than the actual level in 1959. It is further assumed that, in order to reach the target rate of growth, gross domestic fixed capital formation would increase at a rate implicit in the relationship observed in the nineteen fifties between gross domestic product and fixed investment. Forces would, of course, be at work which would tend to change the relationship between output and investment in individual countries in different directions; but at the level of aggregation of the present illustrative exercise, it is not unreasonable to assume that on balance these individual forces would cancel out and that for the developing countries as a whole the relationship would remain unchanged. Given this postulate, the level of gross domestic fixed capital formation would have to increase from less than 16 per cent in 1959 to over 17 per cent in 1970.

The impact of the hypothetical increases in output and investment of the developing countries on their imports can now be worked out on the basis of income elasticities shown in the text table above. The rapid growth of investment would be reflected directly in requirements of imported capital goods. The high income elasticities for other commodity groups indicate that imports of these groups, too, would rise substantially. In other words, total import requirements would increase at a rate significantly higher than that of total output. Altogether, the ratio of commodity imports to gross domestic product, if all the relations turn out to be as assumed, would increase from rather less than 12 per cent to well above 13 per cent.

The hypothetical level of exports to the industrially developed countries in 1970 has been calculated by relating the income elasticities summarized in the first text table above with the assumption that the gross domestic product of these countries would continue to increase at the same rate as in the nineteen fifties, that is, 3.7 per cent per annum. Given the differences in the magnitudes involved in the two sets of assumptions about imports and exports, the latter would obviously register a moderate increase compared with the sharp rise in the former. Moreover, since only fuels enjoy a relatively high elasticity of demand, the major gains from the expansion of trade would accrue to a handful of petroleum producing countries; trade in other primary commodities would show signs of relative stagnation.

The hypothetical level of exports to the centrally planned economies has been calculated on the assump-